GROWTH AND CRISIS,
Social Structure of Accumulation
Theory and Analysis

Edited by:

Terrence McDonough

Michael Reich

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Ollscoil na hÉireann, Gaillimh

E-Book:

Growth and Crisis,

Social Structure of Accumulation Theory and Analysis

Edited by:

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Social Sciences Research Centre (SSRC) & Centre for Innovation & Structural Change
National University of Ireland, Galway
Galway, December 2006

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ABSTRACT

This volumes was assembled from papers prepared for the First International Conference on Social Structure of Accumulation Theory and Analysis held in the J.E. Cairnes Graduate School of Business and Public Policy between the 2nd and 4th of November, 2006.

Conference details and digital videos of the papers that have been delivered are available online on our official blog at http://ssagalway.blogspot.com/.

This e-book contains 21 chapters divided into eight parts:

1. Social Structure of Accumulation
2. Theory
3. Finance and Regulation
4. Brazil
5. Globalization, China and Crisis
6. Property and Its Limits
7. India
8. United States and Labour

This e-book is published also by the Centre for Innovation & Structural Change (CISC) at the J.E. Cairnes Graduate School of Business & Public Policy at the National University of Ireland, Galway (NUIG) under its Working Paper Series.

First Published 2006

Accessed Date: 11th December 2006 (11/12/2006)

Growth and Crisis: Social Structure of Accumulation: Theory and Analysis

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Dr. Hawa Diawara's research study deals with the role of finance in the dynamic of accumulation regime by analyzing the interactions between the monetary policy, the stock holder fictive valuation of capital, the dynamic of labour market and the economic instability. The aim of this research is to reveal the patrimonial effects of monetary policy and to update the social relationships and private interests that hide behind the "veil" of money. She bases on different heterodox approaches (Theory of Regulation, Theory of Marx and post-Keynesian's approach) which underline the role of the State and the institutions in a way fundamentally opposed to the neoclassic perspective.

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(Photograph by Randa Shaath available online at http://weekly.ahram.org.eg/2003/668/profile.htm)

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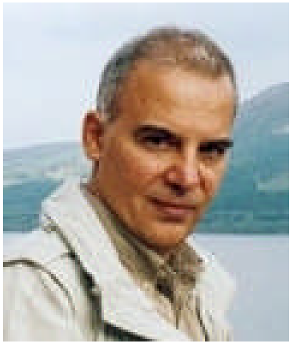

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"My disciplinary background is in development economics and sociology with social statistics. I did a PhD in India using a village level fieldwork method. We now call this triangulation. Interviews showed me things that 'hard data' of the survey-data kind will never reveal. I am also very impressed at how knowing different languages gives me certain insights that couldn't be reached from within an English language context. I am committed to listening at field level whilst also using large data sets, such as the Indian National Sample Survey, to study large-scale structural relations. These relations are historically and institutionally embedded but ever-changing. I hope to meet other SSA researchers and to probe the edges of the SSA theoretical framework".

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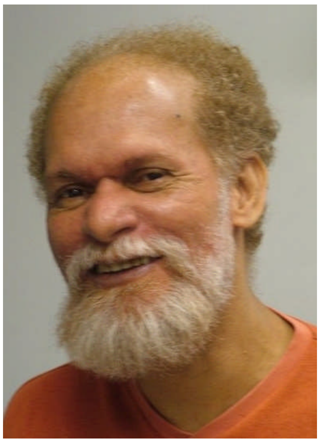

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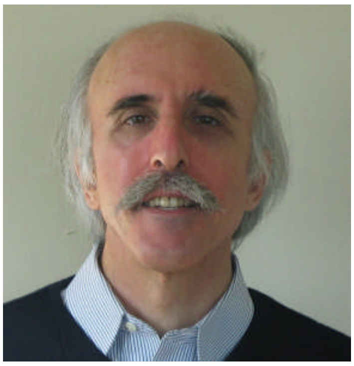

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Acknowledgements,

We are honoured to present you this e-book, which contains papers presented at the first conference dedicated exclusively to Social Structure of Accumulation Theory and Analysis, held in the Cairnes Graduate School of Business and Public Policy between the 2nd and the 4th of November, 2006.

The academic committee composed of Terrence McDonough at NUIG, Michael Reich at the University of California, Berkeley, and David Kotz at the University of Massachusetts, Amherst have put together the conference programme. Conference details and digital videos of the papers that have been deliverd are available online on our official blog at http://ssagalway.blogspot.com/.

This international conference was financially sponsored by the National University of Ireland, Galway. Conference dinner and conference organisation were sponsored by the Social Sciences Research Centre (SSRC). Coffee breaks were sponsored by the Department of Economics. Lunches were funded by the Faculty of Commerce and the Faculty of Arts. Computer Services sponsored internet access for participants. The Centre of Innovation & Structural Change (CISC) through funding provided by the Irish Research Council for the Humanities and the Social Sciences (**IRCHSS**) contributed conference materials and publication. And the Vice-Presidency of Research and its Millennium Fund partially contributed to the travel expenses of Prof. David M. Kotz; Prof. William K. Tabb; Prof. John Asimakopoulos; Prof. Hidenburgo Francisco Pires, and Dr. Ravi Raman.

Terrence McDonough
Conference Chair

Galway, Ireland
December 2006

PART ONE: SOCIAL STRUCTURE OF ACCUMMULATION

1. SSA THEORY: THE STATE OF THE ART , *Terrence McDonough*[5]

In 1994 Cambridge University Press published *Social Structures of Accumulation: The Political Economy of Growth and Crisis* edited by David M. Kotz, Terrence McDonough and Michael Reich (1994). The purpose of the volume was to represent in a single place the state of Social Structure of Accumulation (SSA) theory at that time. A considerable literature had developed in several directions but no group or individual had sought to draw it all together. In this context an edited volume seemed the appropriate vehicle. In this article I will seek to summarize developments within the SSA perspective since the publication of that volume.

I will first overview the literature produced since about 1994. This overview will define the main lines of the research. It will not be exhaustive and some references will be saved until the two subsequent sections. It will start with David Gordon's last contributions before his death in 1996. In addition there have been a number of contributions from the academic discipline of sociology including the founding of a "spatialization" school extending the work of Gordon, Edwards and Reich's original *Segmented Work, Divided Workers.* There have also been a number of works extending the geographic reach of the SSA framework to new areas most prominently developing countries including South Africa, South Korea, India, Greece and the Caribbean. In addition, several authors have applied the SSA framework to the history and analysis of specific instititutions. Following this section we will assess the theoretical contributions made by these works in the last ten years or so. Finally we will conclude with a discussion of the debate over whether or not there is presently a new SSA in the making.

An Overview of the Last Decade

David Gordon's Final Years

Any consideration of the SSA framework in the last 10 years or so must begin with the continuing work of David Gordon before his untimely death. These contributions were primarily in the area of building econometric models that drew on the insights of SSA analysis to provide an alternative representation of the dynamics of the US economy in the postwar period. These efforts bore fruit in several areas. Gordon and long-time collaborators Sam Bowles and Tom Weisskopf, extended and deepened their analysis of the relationship of capitalist power, profits and investment (Gordon et al 1998 [1994]). Gordon (1994) then incorporated this work in building a comprehensive macromodel of the US economy in the postwar period. Gordon (1997) also applied his modeling skills to the question of locating the transition between differing regimes of labour control and discipline during the 1930's and forties.

Gordon, Weisskopf, and Bowles use an SSA inspired model in which investment depends primary on expected profitablity and expected profitability depends substantially on

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an index of underlying capitalist power to explain the trajectory of accumulation in the postwar period. Their work shows that the stagnation of investment in the 1970s and 1980s was explained by a decline in underlying capitalist power and a monetarist 'cold bath' aimed at restoring that power:

> *We have applied this approach to the postwar United States, providing evidence that the sustained sluggishness of US aggregate investment since the mid-1960s has resulted from both the erosion of the social structure of accumulation (SSA) which initially fostered postwar prosperity and from the high indirect costs of the conservative economic policies which sought to revive the economy in the 1980s* (Gordon et al 1998 [1994] p. 254).

David Gordon had long sought to operationalize the SSA analysis of postwar growth and decline in the United States through constructing a macro-model which might both illustrate and test the dynamic features of the analysis over time. Much of the prelimary work was carried out in collaboration with Sam Bowles and Tom Weisskopf. Nevertheless the culmination of this work was carried on alone in the end. He sometimes referred to this work as David's Folly (Boushey and Pressman 1997) and planned to call the full operational model the LAPSUS model after the dictionary definition of lapse as "to fall into error, heresy, or sin" (Gordon 1994 p.160).

Gordon was planning a book comparing several heterodox macro models with more conventional neoclassical approaches. In Gordon (1994) he published a portion of this work in advance comparing four non-orthodox models. One of the models was Post Keynesian in emphasis, another a Kaleckian variant of the Post Keynesian and a third model was Marxian. The fourth was the above-mentioned LAPSUS model which he described as social structuralist after the SSA approach. This model was consistent with the SSA framework in combining both Marxian and Keynesian insights. It included a profit squeeze argument hypothesizing that profits decline at high levels of capacity utilization due to increases in working class bargaining power. Finally Gordon included a measure of capitalist power drawn from his joint work with Bowles and Weisskopf as a key exogenous variable determining the level of the profit rate. As he emphasized himself, Gordon was not interested in using such a model to engage in *ex ante* forecasting. Rather he sought to compare the accuracy of the dynamic interrelationships that characterized the various models. He was undoubtedly gratified that the social structural model performed well.

Gordon's (1994) modeling abilities were also applied in 1994 to locating the period of transition between regimes of labour control, a crucial component of production relations and hence of their respective social structures of accumulation. Gordon was able to model both the capital-labour accord of the postwar SSA and the drive system which had characterized the earlier pre-war monopoly SSA. Using rolling regressions, each model accounted well for changes in productivity growth in their respective periods and a gap opened up between them in the 1930's in which neither model performed well:

> *"The transition between these two productivity systems, as far as such quantitative narratives can take us, appears to provide a resonant illustration of the historical process of institutional restructuring. With all due respect for Alfred Marshall, history does indeed "take leaps."* (Gordon 1994 p. 154)

Enter Sociology

Interestingly, with the exceptions described above early in the last ten year period, the detailed application of the SSA framework to issues arising in the US economy both during the postwar SSA and its subsequent crisis and possible transition to a new SSA has taken place outside of the field of economics proper and within the academic discipline of sociology. This is perhaps not surprising. As a predominantly American school SSA theory has found a very cold welcome within the Anglo-Saxon academic tradition of economics.

Within the field of sociology, SSA theory has acquired its first 'school' in the emergence of a literature on "spatialization" as a new form of labour control which is one of the important underlying institutional factors conditioning the construction of a new SSA in the United States. Working from Gordon, Edwards and Reich's identification of three historical periods in the structure of work and the organization of labour markets as proletarianization, homogenization and segmentation, Grant and Wallace (1994) identify a fourth period as spatialization. This process of spatialization centers on employers' use of threats of relocation and actual relocations as a key form of labour control strategy from the 1970s. This observation immediately links the mobility of capital to the question of labour control in a restructured capitalism. This new stategy of labour discipline became viable at this time due to "the increased fragmentation of work tasks into simpler components and a highly integrated division of labour that allows different work tasks to be performed in different locations." This is also made possible by advances in telecommunications and transportation which allow capitalists to "coordinate and control diverse pools of labour in far-flung corners of the US and the world." (Grant and Wallace 1994 p. 37) To these factors Brady and Wallace (2000 p. 95) add geopolitical arrangements which facilitate economic liberalization and globalization like NAFTA and the WTO. In effect corporations are reorganizing the labour process at least partially by changing the labour, moving from markets with high-cost inflexible and militant labour to locations with low-cost flexible and acquiescent labour.

From this new strategy of labour discipline stem many of the problems that confront the US labour movement including "plant closings, robotization, outsourcing of production, whipsawing, union busting, union contract concessions, illegal immigrant labor, and the *maquilladoras* of the Rio Grande valley (Grant and Wallace 1994 p. 38)." Grant and Wallace reason that by the very nature of this strategy it should have differential impacts on different spatial locations. In this new SSA the local state becomes a critical economic location because states must compete with one another to create the impression of a favourable business climate to either attract or keep increasingly mobile capital. In these circumstances manufacturing growth will tend to be found in states with relatively low wages, poorly organized and acquiescent labour, ungenerous income transfer programmes, and solid fiscal situations that enable them to socialize many of the costs of production.

Within this same perspective Grant (1995) looks at the role of the New Federalism in the United States in supporting spatialization by devolving responsibility for labour regulation, welfare provision, taxation, and economic development policies to the states. Grant finds this development has boosted corporate profits but at the cost of transferring a fiscal crisis to the states which is not conducive to the survival of individual businesses. Grant (1996) examines these same issues in light of rates of new business formation. Grant and Hutchinson (1996) deepen the analysis by looking at state development policies in more detail and distinguishing between effects on domestic capital investment decisions and those of multinational corporations. Brady and Wallace (2000) contend that in a spatialization context foreign direct investment in a region reduces the organizational capacity of workers, curbs labour dissent and damages the economic standing of the working class.

The spatialization perspective has also made a contribution to another area extensively investigated within the SSA framework in the work of Grant and Martinez (1997) on differential crime rates. They hypothesize that within the "frame" of the capital-labour accord employers' utilization of unfair labour practices will serve to delegitimize property relations and hence increase crime rates. Conversely the availability of union organizations and strike activity to pursue the redress of grievances should lower crime rates. These hypotheses are confirmed by the data. Several other authors in the field of criminology have employed SSA analysis. A series of articles by Carlson and Michalowski (1997; Michalowski and Carlson 1999; 2000) examine the relationship between changes in the SSA and changes in phases within the SSA for the strength and direction of the relationships between unemployment and crime and imprisonment. Barlow and Barlow (1995) through an examination of US federal criminal justice legislation find that mechanisms of social control intensify during the contraction phase of the SSA. This extends an earlier study by Barlow et al (1993) which traces changes in social control strategies over the course of U.S. capitalist history. The authors find that innovations in social control institutions cluster primarily in the contraction period which follows SSA disintegration.

SSAs Outside the United States

One of the major critiques of SSA theory is that it has drawn its source material too narrowly from the United States experience. Nevertheless the area of its application has steadily if somewhat slowly expanded. Hamilton (1994) models real wage, prices and productivity for specifically Caribbean-type economies. In the process she identifies several distinct characteristics of such economies. Applying the model to the Jamaican economy between 1972 and 1987 she finds support for the proposition that SSA-style social relationships are important determinants of real wage, price and productivity growth and that state intervention is a significant determinant of these factors in Caribbean economies.

Jeong (1997) identifies a distinct state-capitalist SSA in South Korea dating from 1961. This SSA underpins South Korea's postwar expansion. Jeong argues that this SSA underwent decomposition in the late 1980s. James Heintz (2002) answers earlier criticisms of the application of SSA analysis to the postwar period in South Africa through a detailed description of the institutions of the apartheid state. His analysis deepens previous studies through the inclusion of a systematic investigation of the impact of institutional and political stability on fixed capital accumulation in South Africa. Mihail (1993; 1995) uses a framework drawn from the work of Bowles, Gordon and Weisskopf to model the rise and demise of the postwar SSA in Greece. He identifies the state-controlled labour movement, a result of ultra-conservative domination of post-civil war governments, and its supercession by a more militant labour movement after the restoration of democracy in 1974 as a key element in the success and failure of Greek accumulation.

Finally Harris-White's (2003) publication of *India Working* marks a kind of milestone for SSA analysis. It is only the second book-length publication by someone other than the founders of the approach and the first book-length treatment to deal with an area outside of the United States. It breaks new ground on a number of fronts. First in studying India it deals with an area outside of the First World. Within India it specifically targets what Harris-White refers to as the India of the 88 percent. This is the proportion of the population that lives outside of the major metropolitan cities in small towns and rural areas. So the SSA framework is not only applied to the Third World but to specifically peripheral areas within a Third World economy. Partially because of the nature of its subject the book deals much more explicitly than previous efforts with less formal institutions and their impact on the accumulation process. Harris-White extensively uses the methodologies of field economics and economic anthropology. Lastly the book is not at all concerned with tracing dynamics over time but seeks to create a finely grained picture of institutional relations at a point in time. We will return to this issue below.

Specific Institutions within the SSA

It has always been an essential insight of the SSA framework that the history of specific institutions has to be understood within the dynamic process of SSA formation and disintegration. Indeed, the framework was first fully developed in *Segmented Work, Divided Workers* in order to provide an historical context to the analysis of changing shopfloor relations. Martin Wolfson's (1994) chapter on financial institutions in the 1994 volume was also an example of this kind of work. This has been carried forward by Harland Prechel (2000) in his *Big Business and the State: Historical Transitions and Corporate Transformation, 1880s-1990s*.

This work is concerned with transformations in the basic form of the corporation and as well as change in the management strategies practiced within the corporation. Prechel argues that basic transformation in the corporate form are undertaken when corporations find it difficult to access sufficient capital to meet the challenges they face.[6] Challenges become more acute and capital becomes more difficult to obtain in the crisis period following the decay of an SSA. In these circumstances corporations seek to reorganize and the capitalist class mobilizes political support for facilitating changes in state regulation. Corporations also often change the accounting terms for the information on which individual decisions are based.

Within this framework Prechel identifies three periods of SSA decay and exploration as arenas within which to look for relatively rapid corporate transformation. The 1870s to the late 1890s saw the emergence of the holding company form. In the 1920s to the 1930s corporations moved to the multidivisional form. Financial return on investment became the criterion of internal success. The third period, from the 1970s to 1990, was characterized by firms restructuring their divisions as subsidiaries and the emergence of the multilayered subsidiary form. Abandoning aggregate financial controls corporations sought to make decisions based on disaggregated data concerning costs and quality.

In their textbook, *The Economics of the Modern Construction Firm*, Stephen Gruneberg and Graham J. Ive (2000) undertake an SSA based analysis of the U.K. housing industry under the rubric of the social structure of housing provision. Daniel Saros (2004) in his Notre Dame University PhD dissertation details a case study of the iron and steel industry in the Progressive Era in the United States. He is particularly concerned to understand the

6 Prechel refers to this as capital dependence theory.

nature of an example of adversarial labour relations in an otherwise regulated institutional structure.

Several treatments have had as their primary purpose the investigation of the question of whether a new SSA has been or is under construction in the present period. We will discuss these contributions in the final section of this paper.

The Current State of SSA Theory

There has been little innovation or development of the basic concepts of Social Structure of Accumulation theory in the past ten years. Indeed the theoretical scope of the framework has somewhat narrowed in the past ten years. Kotz et al (1994b) identified several related theories evolving in parallel and exercising an influence on SSA theory. These included a number of developments within broadly orthodox microeconomic theory. By 1997, Reich (1997) was arguing that the wing of the theory most concerned with these issues had departed from the original intent of the theory. Reich sought to reemphasize the qualitative and institutional nature of SSA theory. He identifies the original theoretical perspective as emerging from Marxian insights concerning class conflict over production, distribution, and politics and from Marxian and Keynesian macroeconomics. He contends strongly that “hypotheses concerning periodization or the relative causal or the endogenous character that we attach to various political and economic forces should emerge from the institutional analysis, not simply from econometric inquiries (p. 2).” Subsequent work within SSA theory has generally taken this position as its starting point.

There are several somewhat overlapping reasons for this development. It appears that Gordon’s death has had the indirect effect of distancing both Weisskopf and Bowles from the mainstream of the subsequent development of the SSA framework. These two scholars were the most interested in introducing concepts from outside the initial Marxian and Keynesian inspiration. Weisskopf has concentrated his work on studying the transition process in the former Soviet Union. Contrary to Coban’s (2002 [1995]) prediction, Samuel Bowles’ interest in alternative microeconomic theories has become increasingly divorced from the SSA framework.

The fact that the majority of work within the framework is now being done within disciplines other than economics is also important. While still concerned with agency, sociology is much less obsessed with micro founding macro and meso level behavior than economics. While American sociology is hardly a bastion of progressive thinking, it is far less conservative than the often openly reactionary political character of that nation’s economics profession. Pressures to disguise or dilute the Marxian character of the framework have consequently eased.

Inquiries into the historical background to the SSA approach have given it a much more explicitly Marxian pedigree. It has its origins in the work of Hilferding, and Bukharin on finance capital and the world economy. This was interpreted by Lenin as a theory of imperialism, the highest stage of capitalism. This analysis was preserved and elaborated upon by the American Monopoly Capital school led by Paul Sweezy. It was the elaboration of a distinct postwar structure of institutions supporting the profit rate and capital accumulation by Gordon and then Gordon, Edwards and Reich that elevated this perspective to a general theory of stages of capitalism or SSAs (see McDonough 1995, 1999). The identification of

Marxian and Keynesian origins for SSA theory is perfectly consistent with an intellectual origin within the Monopoly Capital school.

Finally the scarcity of conceptual innovation can partially be put down to a certain scarcity of resources. The SSA framework has so far failed to find institutional support and its elaboration has been left to the thoroughly converted. This is of course a bad thing, but it is not all bad. After all it was a prolonged period of lean times that preserved the architectural integrity of the many beautiful Tuscan hill towns. In comparing the Regulation School with the SSA approach Kotz (1994) concluded that the Regulation theory was the more materialist and closer to its Marxian roots. That situation has now been reversed.

As for theoretical innovation within Marxism the very flexibility of the SSA approach has militated against the necessity of innovation. Harriss-White (2003 p.14) summarizes this characteristic of the approach:

> At the core of this ambitious intellectual agenda is the question of how such a continually changing set of institutional structures ensures or undermines stability by shaping both class conflicts and conflicts between competing concentrations of capital… A great range of mechanisms relate accumulation to its institutional matrix…No general hypothesis is advanced about the relative importance of the different elements of the structural matrix, there is no privileged list of 'crucial' institutions or forces.

This flexibility allows for the application of specific arguments to specific locational or historical circumstances without the elaboration of new and universal concepts. This is often criticized as a theoretical weakness but it is also a potential strength. The framework has proven flexible enough to provide a guide to the analysis of a wide range of situations and institutions.

An exception to this general observation is Victor Lippit's (2005) discussion in his *Capitalism*. Invoking the concept of overdetermination, Lippit contends that the structural integrity of an SSA is created and sustained by the interrelationships among its component parts. Taking issue with the current author, Lippit argues that both the length of the period of expansion conditioned by an SSA and the length of the subsequent crisis period is not contingent but rather will tend to be long. This is because the sustaining interrelationships within an SSA supported as they are by institutional inertia will tend to change only slowly. Successful expansion creates beneficiaries who actively seek the continued stability of the SSA. Similarly the complex interrelationship which will characterize the next SSA can only be assembled over an extended period of time.

Lippit (2004 pp. 27-8) is more concerned than previous authors to explicitly define what he means by the concept of institutions:

> We can think of an institution in two principal ways. The first is essentially as an organization, like the World Bank or a university. The broader sense of an institution refers to the habits, customs and expectations that prevail in a particular society. While both senses of the term are used in SSA analysis, it is this second usage that is emphasized. The second usage, moreover, can be employed narrowly or broadly, and it is the broader form that is usually more helpful. A union for example, is an institution in the first sense. Collective bargaining would be an example of an

> institution in the second sense, employed narrowly. A national system of labor relations would also be an example of an institution in the second sense, but one employed broadly.

This definition serves to make the concept of institution clearer and to emphasize the contribution of the tradition of American institutionalist economics to the SSA framework.

With the above noted exceptions, what innovations there have been involve the application of the concept at different geographical and temporal scales. The framework has been applied over several intervals of time shorter than the 'long swing'. In addition it has been applied to spaces at the subnational and global level.

Hamilton (1994) finds the approach still useful in analyzing a fifteen year period of Jamaican economic history. Much of the work within the spatialization school is done over a similar time frame. Harriss-White (2003) uses the framework synchronically taking a kind of cross section of Indian society at a point in time, or as she puts it herself "statically, as a way of imposing an analytically useful order on the immense complexity of the Indian economy, rather than with a view to developing any thesis about its historical evolution through eras or stages (p. 239)."

Michalowski and Carlson (2000) place great emphasis on distinguishing between phases *within* social structures of accumulation. Following terminology used by Gordon, Edwards, and Reich, they carefully periodize much of the US twentieth century in the following way, "(a) Exploration 1 from 1933 to 1947, (b) Consolidation 1 from 1948 to 1966, (c) Decay from 1967 to 1979, (d) Exploration 2 from 1980 to 1992, and (e) Consolidation 2 from 1993 to the present (p. 276-7)." They argue that "each of these SSA phases consists of a distinct set of qualitative social relations between labor and the state that impact the strength and direction of relationships between measures of economic marginalization and patterns of crime and punishment (p. 277)." Consequently these types of factors "cannot be analyzed linearly across SSA phases because the sociological meaning of these variables may differ according to the qualitative character of each SSA phase (p. 277)."

Michelle Naples (1996) undertakes a detailed analysis of labour relations within the coal industry in the postwar period. One of her concerns in this context is to trace the impact of the construction and decay of the SSA on these labour relations at specific points in time. She draws several predictive generalizations from the SSA framework and investigates their possible expression in the postwar history of the coal industry. Among the hypotheses for which she finds evidence include the phase linked generalizations that

> G1 Institutional innovation, change, and challenges to the meta-rules will be most widespread during the late expansion and into the long-wave crisis.. . .
>
> G3 Difference and challenges to the worldview are not tolerated under the newly hegemonic SSA in the early expansion.. . .
>
> G7 Labor relations in one sector are not static. The logic of the new rules is applied on an extended scale so that the full system of national union/rank-and-file/management relations only becomes fleshed out over time. . . . (Naples 1996 pp. 112-3)

As well as being applied to differing timescales, the SSA framework has been applied at differing spatial scales as well. The spatialization school has placed special emphasis on the manner in which the impact of the existence and construction of an SSA produces differential results at more local levels in explainable ways. Much of their work takes state-level government within the US federal system as the appropriate spatial unit. Perrucci (1994) undertakes a related analysis of the "Midwest Corridor," six contiguous U.S. states that have been the locations for Japanese inward investment in the auto industry. Perrucci identifies the emergence of an SSA based on "embedded corporatism."

Lobao et al (1999) examine the effects of elements of the national SSA at the even lower level of counties within states. Specifically they look at the effect of core manufacturing employment and state support of citizen income on levels of income inequality within localities. They find that national level arrangements are reflected in local level relationships in 1970 but that national changes are less strongly evidenced in localities in 1990 due both to inertia and the complex way in which local institutions may adjust to changes in the larger institutional context. Arena (2003) uses the SSA framework as the backdrop to a discussion of the dynamics of class conflict within the Black Urban Regime in the single city of New Orleans, Louisiana.

While it has been most commonly applied at the national level, the SSA framework has been unclear whether or not it can be applied to larger, more global scales. The founders of the framework have frequently claimed no applicability beyond the United States for their particular institutional analyses. Kotz et al (1994b p.4) argue that the SSAs in other countries in the postwar period are distinct. Nevertheless the SSA school has often been lumped with longwave and regulationist theories which do make international claims. Gordon (1988) does apply the framework to "the global economy". The analyses of other countries discussed above confirm Kotz et al's warning. The SSAs identified for Caribbean-type economies, South Korea, South Africa, Greece and the India of the 88 percent are all quite distinct from that described for the United States in the postwar period. Whether these strictures will have to be maintained in analyzing any new SSA emerging in the current period constitute part of the debate about the possible construction of a new SSA.

Is a New SSA Consolidating?

There is no consensus within the current SSA literature as to whether the current period is witnessing the consolidation of a new SSA. Indeed the arguments are quite polarized on this question. Several authors beginning with Houston (1992) argue that the contours of a new SSA have become starkly visible (the spatialization authors; Lippit 1997; Reich 1997; Michalowski and Carlson 2000; Went 2002; McDonough 2003). This new SSA is characterized by multiple institutional transformations over the period from 1973 to the present day. Each author puts forward a somewhat different list with different emphases but the overall pattern is quite similar in each case.

It is argued that there has been a qualitative increase in the globalization of economic activity. This globalization is not only one of trade but also significantly a globalization of production and investment. The global intensification of financial transfers has combined with the expansion of transnational investment and improved communication structures to give birth for the first time to a transnational, global capitalist class. This has been greatly facilitated by the widespread repeal of capital controls. Because of the dispersal of the production process across the face of the globe, because they face a global capitalist class and because they can be drawn into competition with one another through the hyper-mobility of capital, the working class too is increasingly transnational. This transnationalization of class relations is the essence of globalization from a distinctly Marxian perspective.[7]

The increasing unity of capital is expressed in highly contradictory ways. The dissolution of economic boundaries increasingly throws different, previously national capitals in competition with one another. At the same time different capitals are involved in various kinds of networks, joint ventures and collaborative activity. A merger wave has increased the size of corporations and their capacity to exploit global opportunities. The mobility of finance capital places capitalist discipline on the policies of previously economically sovereign nations. Capital is able to roam the world in search of the most profitable location in relation to labour, resources and markets. A host of international institutions have emerged whose purpose is the organization and acceleration of cross border activities, including the WTO, NAFTA, the EU, APEC, MERCOSUR, etc.

This process of globalization has perhaps its most important impact in strengthening capital in relation to labour. The spatial restructuring of production and work allows capital to control labour through outsourcing, moving, and threatening to move. The drawing together of a global working class has created a working class that is divided by geography, language, culture, degree of organization and living standards to an unprecedented degree. The increasing use of contingent labour has seen new forms of labour segmentation emerging within countries. A vicious and relentless attack has been carried out against unions. Real wages have stagnated across the developed world and levels of inequality are rising.

Corporations have restructured, downsized and reengineered. Systems of lean production, modeled on Japanese manufacturing techniques have been introduced. Team production has attempted to harness workers' knowledge of the shopfloor in order to increase productivity. Flexible production has replaced mass production in some industries bringing with it attendant insecurity for labour.

These changes have been facilitated by technological developments. Improvements in communication and transportation technologies have made it possible to organize production and control labour at a distance. Information technology has been applied to intensify the monitoring of labour output.

The state has been extensively reorganized. Overall there has been a turn to smaller government consistent with the neoliberal vision of the desirability of unfettered markets. Fiscal policy goals have shifted from balancing inflation and unemployment to acting on an overwhelming concern with price stability. Levels of taxation have been lowered in line with the shrinking of areas of government responsibility. Capital has especially benefited from cuts in taxation. Many central state responsibilities have been shifted to the regions while at the same time localities have been encouraged to compete for inward investment.

Deregulation has dominated government policy towards business. Privatization of government services has opened new opportunities for private profit while at the same time public sector unionization has been rolled back. Frequently the quality and availability of

7 Theorizing the rise of a transnational capitalist class in a social structure of accumulation context has been central to the work of William Robinson (2004).

public services has suffered. The social safety net has been cutback. Criminal justice is increasingly based on repression and punitive forms of social control. The promotion of international competitiveness has become touchstone by which all government policy is measured.

Supranational state organizations like the EU, the WTO and NATO have assumed increasing importance. The IMF and the World Bank have imposed the neoliberal agenda on borrowing countries predominantly in the Third World. At the same time, the United States has succeeded in reimposing its international dominance. The two successive Gulf Wars have reestablished American military dominance. Increasingly sophisticated military technologies linked to overwhelming air superiority have opened up the possibility of domestically acceptable military strategies of imperial domination. Finally, the fall of the Berlin Wall and the restoration of capitalism in China have extended capitalist economic organization to virtually the entire world for the first time.

The worldwide dominance of capitalist social relations has had a profound ideological impact. The Thatcherite mantra of There Is No Alternative has taken on a global resonance. Neoliberal ideology has become dominant in elite policy-making circles and gained a foothold in popular consciousness. Racism and aggressive nationalism have intensified across the globe but especially in the United States.

The advocates of the new SSA perspective refer to a range of evidence in support of the thesis. The cold bath of monetarism has succeeded in reining in inflation. Both the profit share and the profit rate have recently seen increases. There are initial indications that the rate of accumulation is beginning to pick up. Nevertheless they generally rely on the sheer volume and weight of institutional change which has consolidated in recent years to support their argument. There is a considerable diversity of labels proposed for this new and emerging SSA. A spatialization SSA is advocated by the spatialization school in that it emphasizes innovations in the method and scope of labour control. Michalowski and Carlson (2000) refer to the cybertech SSA focussing on the consequences of technological innovation. Went (2002) simply sees globalization as the new stage of capitalism. McDonough (2003) prefers global neoliberalism.

This distinction in terminology is not entirely without significance. The spatialization school, Lippit, and Michalowski and Carlson confine the scope of the SSA discussed to the United States. Went and McDonough however speak of the SSA in much broader terms and are not explicit about what geographical limits if any it might have. Is it possible to reconcile this with the general consensus that SSAs are primarily national in character as confirmed by much of the work done within the tradition in the last ten years? It is if it is observed that this kind of transcendence of national boundaries is precisely one of the defining characteristics of the emergence of the new SSA. Consequently to speak of a current SSA which is larger than one national territory or region of the world is not to engage in theoretical innovation. It is rather an argument that the nature of the current SSA has necessitated a transnational extension of the boundaries of the new social structure.

This does not require any revision of the national analyses set in the postwar period. In this (and earlier) periods the social structures which conditioned accumulation took predominantly national form. This conclusion stems directly from the insight that the economy was embedded in political, ideological, and cultural institutions that differed sometimes substantially from country to country. Jaffee (2001 p. 239) observes that the SSA should be considered to vary "not only over time but also across geographic units." No one contended that for instance the United States and Japan shared a single identical SSA. Went and McDonough argue implicitly that this condition has changed with the emergence of globalization. From an historical materialist perspective this should not be surprising. It should be expected that the argued emergence of a transnational capitalist class (and by extension transnational working class) should be accompanied by changes in the functioning of capitalism of a profound order.

This said it is almost certainly an exaggeration to say that the new SSA even if referred to as one of globalization is literally and effectively functioning on a global basis. American military writ for instance does not extend as far as Chechnya or Tibet. Much of sub-Saharan Africa has the character of a frontier area beyond effective inclusion by international powers. While "shock therapy" has introduced neoliberalism and a democratic formalism to the countries of the former Eastern Europe, China is still pursuing a uniquely Chinese developmental path even though socialism plus Chinese characteristics appears to equal capitalism. These observations imply that identification of the borders of the new SSA if it exists is still an unresolved theoretical question. Are SSAs still confined within essentially national boundaries or have they transcended them? If SSAs are now transnational does the SSA described as global neoliberalism still have limits and if so exactly what are they? These questions are still to be addressed in the literature.

It is important to observe at this point that the proposition that a new SSA is consolidating has not gone without challenge. There is still considerable skepticism about the health and staying power of the new institutional arrangement. Phil O'Hara (2000a; 2000b; 2002; 2003) has argued vigorously that current institutional changes do not add up to an SSA. Rather on the contrary "they tend to deepen the extent of structural long-wave instability and crisis tendencies (O'Hara 2000a p. 285)." O'Hara pursues this argument on several fronts. Some of the institutions, for instance the movement toward deregulation of business and flexible production, have not been sufficiently consolidated or extensively implemented. Others most notably the deregulated financial system are themselves sources of considerable instability. Indeed the dominance of finance capital can be said to be draining resources and hence profits from the productive sectors of the economy through increased speculative activity. Still others combine to present the capitalist economy with new contradictions. This is especially the case in relation to demand. O'Hara contends that the intensification of international competition has led to substantial overcapacity. When combined with the success of the new labour relations institutions in constraining the power of labour and hence working class incomes severe chronic problems of insufficient demand have been created. As a result the current period is more correctly viewed as one of continuing crisis of the postwar SSA rather than the opening of a new social structure of accumulation.

In a pair of articles Kotz (2003) and Wolfson (2003) agree with O'Hara that the current institutional structure will not lead to a new period of expansion. They use this observation, however, as the foundation of a somewhat different analysis. Wolfson (2003 p. 260) argues that neoliberalism is "neither a crisis of the old SSA nor a new SSA. …the old SSA is gone." The key problem with neoliberalism according to both Wolfson and Kotz is that it is unlikely to lead to a period of stable growth because of anarchic competition and problems of demand and realization.

Nevertheless, according to Kotz (2003 p. 263) neoliberalism is "a new, coherent set of institutions that impinge on the process of capital acccumulation." It cannot be an SSA, however, because it has not yet promoted sufficient growth, nor is it likely to. Kotz resolves the problem of the existence of a coherent set of institutions in the absence of strong growth by postulating the existence of two kinds of Institutional Structure (IS). A Liberal Institutional Structure (LIS) is characterized by limited state regulation, aggressive dominance of capital over labour, high levels of competition and liberal, free market ideology. A Regulationist Institution Structure (RIS) is characterized, by contrast, by an interventionist state, an element of cooperation and compromise between capital and labour, co-respective behavior by corporations, and a recognition of the positive role of government and other non-market institutions. While both institutional structures foster the effective appropriation of surplus value, only an RIS promotes accumulation and growth. Thus only an RIS can lay claim to being a true Social Structure of Accumulation. Kotz further hypothesizes that there is a tendency for Liberal Institutional Structures to alternate with Regulated Institutional Structures because the crises created by the one type can be partially resolved through the construction and introduction of the other type of institutional structure. Kotz and Wolfson argue therefore that long swings in growth and stagnation are not caused by the existence of SSAs and their subsequent periods of crisis but rather by the alternation of accumulation promoting RISs and non-accumulation promoting LISs.

It would be hard to deny the reality of some of the crisis tendencies identified by O'Hara, Wolfson and Kotz. This is especially the case in relation to the arguments concerning financial instability and the existence of a tendency to overproduction or underconsumption. It is possible to argue, however, that their impact could be delayed long enough so as not to forestall a long period of expansion. Much of the discussion of the implications of these tendencies for long run growth seems to implicitly assume that an institutional framework can only be said to be in place if it does not carry serious crisis tendencies immanent within it. It is true in general that crisis tendencies in past institutional frameworks have tended to come to the fore only after a long period of expansion. This would be true of the crisis of excessive competition that ended the expansion at the end of the nineteenth century. It would also be true of the exhaustion of Fordism. On the other hand, however, the monopoly structure put into place at the turn of the twentieth century could be said to be carrying a tendency to underconsumption from its birth. This tendency originated in its suppression of working class living standards, monopolistic and oligopolistic domination of investment markets, and the imperial carving up of international markets. Further as Lenin argued this particular social structure carried within it a tendency towards radical international instability, a tendency which eventuated in a World War which was (at least from a North American point of view) only midway through its tenure. With this example in mind, we can see that the secure identification of crisis tendencies does not necessarily disqualify an institutional framework from underpinning a long period of expansion.

It may also be the case that the deep stagnation in Japan and the serial financial collapses in Asia in the 1990's have already thrown their worst at an international economy which at least for the moment has proven flexible enough to cope with them. At the very least the rebound from these events has shown that the economy is not necessarily unable to contain these negative financial forces. As to the second possible source of crisis, a tendency to underconsumption can be provisionally overcome in many ways. The continued expansion since the early 1990's demonstrates at least some initial success in this area. Careful study is needed to identify the actual sources of demand. Rampant consumerism, relatively easy credit and expanding debt, the U.S. government deficit, and the opening up of new areas of the globe for investment stand out as candidates. Whether a new SSA has been consolidated remains an open question within the literature.

Nevertheless the overall tendency is to see a new SSA in place. Indeed the work of Minqi Li (2004, 2005) within the SSA framework has implicitly assumed that the new neoliberal SSA is in place and gone on to analyze the potential contradictions which may bring about its decay. In his view the problems of inadequate demand will play a central role. The decline in the power of labour has damaged the capacity for consumer spending. This in turn encourages speculative financial activity as an alternative to investing and creating real investment demand. Neoliberal suspicion of the state and unwillingness to risk higher taxation has inhibited expansion of government demand. This has left the U.S. current account deficit as the major prop of world demand. The deficit is sustained by massive borrowing and debt which cannot be sustained in the medium let alone the long run.

Li also identifies "green" concerns as some of the prime areas of threat to the continuation of the current SSA. The globalization of growth and consumerist life styles could lead to the rapid depletion of oil reserves after production reaches a peak. A centrally planned economy could perhaps cope with a running down of cheap energy supplies but the fall in productivity and the sudden increase in energy prices can only bring depression to an unplanned market economy. The current neoliberalism only makes this prospect worse through the hollowing out of state capacity for intervention. Even in the absence of a peak in physical supplies of oil, the prospect of global warming may demand a reduction in energy consumption with similar consequences. Rising seas, desertification, and falling water reserves among other problems could also put pressure on the system, draining surpluses available for capitalist investment.

Conclusion

The last decade has seen the culmination of the joint work of Gordon with Bowles and Weisskopf in econometrically analyzing the decline of the postwar SSA. It also saw the provisional conclusion of an attempt by Gordon to create a social structuralist macro model of the US economy, work which would undoubtedly have been refined and deepened had it not been for Gordon's premature death. It has also seen the diffusion of the SSA perspective into American sociological studies most particularly and perhaps not surprisingly in the fields of labour control and the social control mechanisms studied by criminologists. In this context the notion of a phase within a social structure of accumulation has been further developed and investigated. At the same time as SSAs have been studied over shorter time scales, the impact of SSAs on more local structures has also been investigated. SSA analysis has been extended to new geographic areas, most prominently outside the developed countries to South Africa, South Korea, the Caribbean and India. New institutional histories have been produced. A lively debate has been conducted over whether emerging neoliberal institutions can be characterized as the consolidation of a new SSA in the 21st century.

On a theoretical level, the Social Structure of Accumulation framework has largely returned to its roots in the American Monopoly Capital school of Marxism. While this has recreated a certain theoretical coherence, several issues remain unresolved. The biggest unresolved issue is the nature of the current period. Is it an extension of the crisis period, a new SSA, or something different, perhaps a Liberal Institutional Structure (LIS)? While this is partly an empirical disagreement, an underlying theoretical question is being posed. How rapid and consistent must accumulation be to qualify a particular institutional structure as a specifically social structure of *accumulation*? A related question is the degree to which all the inherent crisis tendencies of capitalism must be seen to be securely moderated over the medium to long term.

The identification of subnational structures which influence the business climate of particular localities and the postulation of the emergence of a transnational SSA in global neoliberalism raises the question of how institutional structures relate to one another on different geographical scales. In the postwar period different national capitalisms shared a common international environment which partially conditioned accumulation in each of them. Nevertheless, concrete analysis has shown that their overall SSAs differed from each other. Different national SSAs sharing certain common international institutions is one possible model of this relationship. On the other hand the spatialization school analyzes regional variation within an emerging spatialized SSA in the United States. Indeed the particular character of the new SSA conditions and even demands regional variations at least at particular stages of its development. Consequently differing local institutions and business climates can be seen to be nested within an overarching national SSA. This nesting of local variation within a singular overarching SSA is a second model of the geographical relationship of differing local structures. The question immediately arises as to whether differing national manifestations within the context of global neoliberalism can be seen in this way.

A third set of theoretical questions has also been tentatively posed. The return to Marxian roots has been accompanied by a recent interest in the application within the SSA framework of the Gramscian concept of hegemony (Harris-White 2003; Arena 2003). Grant and Martinez (1997) argue that changes in institutional structure between SSAs and phases within SSAs alter the interpretive frames through which people understand the injustice of a situation, their own efficacy within the situation and the nature of their opponents. These forays raise the question of the nature of the institutions that make up the SSA. The SSA framework has generally emphasized the differing character of the institutions that make up successive SSAs and the differing ways in which they condition the profit rate and the accumulation process. This tendency has preserved the flexibility of the approach in dealing with new areas and new eras. Nevertheless it has left several questions unanswered. Are there some relations between institutions that are relatively invariant across SSAs in different times and places? Are their certain principles of institutional construction, consistent with the Marxian dynamics of class conflict and capitalist competition, for instance the need to strive for hegemony, which are more specific than the need for general state support of the accumulation process? Symmetrically, are there common principles of institutional decay which are more specific than the working out of the Marxian contradictions and crisis tendencies?

While the SSA framework may not exhibit the same volume of work as certain related schools, activity over the past decade or so indicates that the approach is certainly still alive, evolving in its outlook and still posing empirical and theoretical challenges for itself.

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2. INSTITUTIONAL STRUCTURE OR SOCIAL STRUCTURE OF ACCUMULATION, *David M. Kotz*[8]

Introduction

The SSA theory was first developed at the end of the 1970s and beginning of the 1980s, by such authors as David Gordon, Michael Reich, Thomas Weisskopf, Richard Edwards, and Samuel Bowles. The SSA theory asserts that smooth and rapid capital accumulation requires a well-functioning set of institutions that support it, called the SSA. Once constructed, an SSA sets off a long period of relatively rapid capital accumulation. Over time the combined system of SSA and capital accumulation process develops contradictions that undermine both the SSA and rapid accumulation. As the SSA collapses (or loses its ability to promote rapid accumulation) and stagnation sets in, a search begins for a new SSA. This is held to explain a historical pattern of long swings in capital accumulation.

Just at the time the SSA theory was itself being constructed, a new, neoliberal institutional structure (IS) was being built in much of the capitalist world, particularly in the UK and USA. The neoliberal IS, which has now persisted for more than 25 years, is clearly a structure that has conditioned the process of capital accumulation. However, the evidence suggests that it has not promoted rapid capital accumulation, either relative to the previous SSA or even relative to the period of crisis of the previous SSA during 1973-79 (see table 1). This suggests that some rethinking of the concept of an SSA is called for.

This paper argues that a strong case was never made for an SSA that is focused on promoting capital accumulation that is rapid. The SSA theory can be reformulated as a theory of the formation of successive institutional structures in which the focus is on the support that an IS provides for the circuit of capital, and the appropriation of surplus value that is its object, rather than support for rapid accumulation. Such a reformulation has the advantages of greater coherence, persuasiveness, and consistency with the historical record.

Section 2 of this paper considers the explanation of the SSA theory found in what is perhaps the most influential statement of that theory, Gordon et. al. (1982). Section 3 analyzes the relation between institutions and capitalist reproduction, putting forward the concept of an IS. Section 4 argues that IS's come in two varieties, liberal and regulated, and considers the reasons for the emergence of each type. Section 5 offers concluding comments.

The Origin of the Concept of an SSA

Chapter 2 of Gordon et. al. (1982) presents the SSA theory. In that chapter, the authors begin their analysis by implicitly defining capital accumulation in the following way:

The process of capital accumulation contains three major steps. Capitalists, in business to make profits, begin by investing their funds (money capital) in the raw materials, labor power, machinery, buildings, and other commodities needed for production. Next, they organize the labor process... Finally, by selling the products of labor, capitalists reconvert their property back to money capital (p. 23).

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This account combines two different Marxist concepts, that of the circuit of capital and that of capital accumulation. In this combining of two different concepts lies one of the roots of the problematic aspect of the SSA theory.

The circuit of capital is traditionally defined as the process symbolized by M-C-C-M'. In the first step of the circuit of capital, M-C, the capitalist uses money to purchase means of production and labor power. The second step, C-C', is not an exchange but the production (or labor) process, in which new commodities are produced and surplus value is created. The third step, C'-M', represents the sale of the produced commodities for money. However, the money received by the capitalist in exchange for the final commodities is initially not money capital, as Gordon et. al. (1982) state, but money revenue, which "replaces" the value of the means of production and labor power purchased by the capitalist and also contains surplus value. The money revenue is transformed into money capital only if the capitalist throws it back into another circuit of capital by using it to again purchase means of production and labor power. As will be pointed out below, the key question for the SSA theory has to do with the conditions necessary for money revenue to be converted into capital.

Capital accumulation is normally defined in the Marxist literature as the use of surplus value to purchase additional means of production and labor power, thus enlarging the capital. In relation to the circuit of capital, capital accumulation means that the part of the money revenue representing the original money capital (M) plus at least a part of the money revenue representing surplus value (M-M') are converted into capital by being used to purchase means of production and labor power. As the quotation above shows, in their initial implicit definition of capital accumulation, Gordon et. al. (1982) combine the circuit of capital (by describing its three steps) and capital accumulation (by stating that the money received is money capital which implies that all of M' is thrown back into the circuit of capital)[9].

Two pages later Gordon et. al. (1982) give an explicit definition of accumulation: "We understand the capital accumulation process to be the microeconomic activity of profit making and reinvestment (p. 25)." This latter definition is closer to the traditional Marxist concept of accumulation. However, it is the former implicit definition of capital accumulation, which includes the circuit of capital, that Gordon et. al. (1982) make use of to develop the concept of an SSA. They provide an account of the various ways that each step in the circuit of capital depends on the existence of supportive institutions. For example, the first step M-C depends on "systems of natural resource supply, intermediate goods supply, and labor supply," with the latter involving such social institutions as families and schools necessary to reproduce the labor force (p. 24). Based on their implicit definition of accumulation as the circuit of capital, they proceed to define this set of institutions as a "social structure of accumulation."

After Gordon et. al. (1982) make a persuasive case that each step in the circuit of capital requires supportive institutions, which are collectively named the SSA, they state the following: "We further propose that a social structure of accumulation alternately stimulates and constrains the pace of capital accumulation (pp. 25-6, italics added)." That is, after a long qualitative discussion of the ways in which institutions support the circuit of capital, they introduce a quantitative argument that an SSA affect the rate of accumulation -- and here they

[9] In Marxian theory, capital is value in the process of self-expansion. Upon receiving the money revenue M, the capitalist can consume the entire value, or put it under her mattress. The revenue M becomes capital only if it continues the process of self-expansion of value by being thrown back into the circuit of capital.

shift to the traditional Marxist meaning of capital accumulation as the expansion of capital through reinvestment of surplus value. They then turn to a discussion of the ways in which a well-working SSA will encourage productive investment, or real accumulation, by capitalists, and they argue that this provides the best explanation of long swings in capital accumulation which, they argue in an appendix, characterize capitalist history.

As the analysis proceeds, it focuses more and more on the quantitative dimension, as in the following passage: "The restoration of the possibility of rapid capital accumulation during an economic crisis depends on the construction of a new institutional structure (p. 32, italics added)." At the end of the chapter, in the start of the Appendix, they state that "Because this proposition [the long-swing hypothesis] plays such an important role in our analytic framework, we review in this appendix some of the evidence that leads us at least provisionally to accept the existence of long swings (pp. 41-2)." Thus, partly through an inconsistent use of the concept "capital accumulation," Gordon et. al. (1982) turn from a persuasive account of the dependence of the circuit of capital on a supportive institutional structure to a quantitative argument that this supportive institutional structure is focused on producing a rapid rate of capital accumulation.

Gordon et. al. (1982) was written by three coauthors who had somewhat different specializations and main interests. The late David Gordon was interested in macroeconomics and in long swings in particular[10]. Richard Edwards is an economic historian with a special interest in the labor process. Michael Reich is a labor economist. One could read the development of the SSA concept in Gordon et. al. (1982) described above as a kind of compromise, which often is necessary in coauthored works, among the interests and views of the three coauthors.

Whatever the origin of the concept of an SSA that emerged from Gordon et. al. (1982), one can argue that the leap from analysis of the necessary supportive role of institutions for the circuit of capital, to the claim that institutions are constructed to accelerate the rate of capital accumulation, was a leap not well supported with either arguments or evidence. While a reasonable case is made in that work that the institutional framework of a capitalist system can have a large impact on the rate of accumulation, no strong case is made that the aim of increasing the rate of accumulation is the central goal that guides the construction of a new institutional structure. Neither is a good case made for the expectation that, apart from the aims of participants, each new long-enduring institutional structure will necessarily in fact promote a rapid rate of accumulation.

Institutions and Capitalism

It is just as reasonable to argue that institutions play a central role in explaining why capital accumulation is relatively rapid in certain periods as it is to assert that institutions support the circuit of capital and appropriation of surplus value. However, the SSA theory claims more than just that institutions are an important determinant of the rate of capital accumulation. It states that each new IS supports rapid capital accumulation. There is a missing critical linking argument to connect these two claims. That is the argument that a need for rapid capital accumulation guides the process of institutional formation and change. To clarify this, consider the following logical sequence:

[10] See Gordon (1978) which was the first published writing in the SSA school.

1. The need for rapid capital accumulation guides the process of creation of each new IS.

2. There exists a set of possible IS's that would promote rapid accumulation.

3. Therefore, each new IS is favorable for rapid capital accumulation.

Statement #2 is reformulation of the claim that rapid accumulation occurs if and only if there is a supportive IS. While that is a reasonable claim, without statement #1 being true, statement #3 does not follow. However, it is not clear why statement #1 should be true.

The Marxist view of the individual capitalist is of an actor that aims for the maximum possible appropriation of surplus value. To appropriate surplus value at all, each step of the circuit of capital must be supported by appropriate institutions. Hence, one would expect the individual capitalist to favor institutions that support each step in the circuit of capital. Furthermore, institutions which support a high rate of profit, or a higher one than has prevailed previously, would gain the support of the individual capitalist.

Institutions normally cannot be created by the individual capitalist. Institutions, which are social in nature, require some kind of common action for their creation and maintenance. The competitive, individualistic aspect of capitalism make cooperation among capitalists for any purpose difficult and somewhat unstable. However, history shows that capitalists are able, at least at certain times, to cooperate in creating institutions that will protect their core interests. Often they do this in alliance with other groups and classes, since larger numbers may be required to create institutions than the capitalists can muster from among themselves. Particularly if a condition arises in which institutions are failing to effectively support the circuit of capital, in which appropriation of surplus value has become difficult, in which the average rate of profit has fallen, and in which such a condition has persisted for some time, one would expect the capitalist class, or at least a large part of it, to be able to overcome the centrifugal forces generated by capitalism to work together to create institutions that will protect their core interests, which have not been served by existing institutions.

Marxism asserts that, over time, contradictions tend to bring change. An IS that works well at first to protect core capitalist interests will, over time, stop effectively doing so. In the resulting crisis, based on the foregoing argument, we would expect capitalists to eventually be able to construct, possibly with allies, a new IS that does protect their core interests.

Our main claim is that promoting rapid accumulation in the system as a whole is not a core interest of the individual capitalist, nor is it normally the basis on which capitalists will overcome the difficulties of cooperation to restructure social institutions. Rapid accumulation is favorable for the political stability of capitalism, since it provides a rapidly growing level of real output which can serve to ameliorate the condition of the working class and other oppressed groups, as well as providing over time the maximum surplus value that can be used to respond to whatever threat capital might face. However, capitalism is a competitive system which normally does not place such far-sighted goals at the center of capitalists' field of vision. Normally, the prospect of being able to engage in the circuit of capital, and within that circuit to appropriate as large an amount of surplus value as possible, relative to capital invested, is what drives capital.

Capitalism does indeed display a powerful accumulation drive. That drive is one of its central features. It is doubtful whether capitalism could survive without the accumulation of capital -- it would be torn apart by conflict without an "expanding pie." However, the rate at which accumulation proceeds in the system as a whole, even given the rate of profit, is highly variable. Surplus value has many uses besides accumulation. And there is no "minimum accumulation rate" required for the reproduction of capitalism.

Consider the individual capitalist. As Gordon et. al. (1982, ch. 2) note, before the individual capitalist will plough profits back into new productive investments, there must be an ability to make a reasonably determinate calculation of what the rate of profit on such investments will be, as well as the prospect that such a deteminate rate of return will be acceptably high. The alternative is to hold the surplus value in another form, typically through some type of financial investment rather than real investment, while awaiting more favorable conditions for deciding to make a real investment. At times capitalists can make high rates of return through financial and speculative investments when the expected return to productive investment is either very uncertain or low. Such a situation would not impel them to transform institutions to produce a shift from speculative/financial investments to productive investments.

This understanding of institutional creation under capitalism can explain why periodically a new IS arises in history. Each new IS supports the circuit of capital and the appropriation of surplus value. But each new IS may or may not bring a "rapid" rate of capital accumulation. The historical link between the SSA theory and the theory of long swings should be severed. Doing so would improve the logic and persuasiveness of the theory. Of no less importance, it would enable the SSA theory to provide a basis for explaining the rise of the neoliberal IS under which we have lived for more than a quarter-century.

Liberal and Regulationist Institutional Structures

IS's have come in two varieties in capitalist history. One type is a liberal institutional structure (LIS) and the other a regulationist institutional structure (RIS). These two different types of IS differ along four dimensions: state-economy relations, capital-labor relations, capital-capital relations, and the character of the dominant ideology. In a LIS, the state plays a limited role in regulating economic activity, capital is on the offensive in its relation with labor and brooks no compromises, inter-capitalist competition is of the cutthroat sort, and the dominant ideology glorifies the free market. By contrast, in a RIS the state actively intervenes in economic activity, capital-labor relations are marked by an element of cooperation and compromise, inter-capitalist rivalry is co-respective and muted, and the dominant ideology warns of the dangers of unregulated market activity and heralds the contribution that government can make to economic progress.

The difference between the interventionist state of a RIS and the Laissez-Faire state of a LIS should not be exaggerated. Capitalist economic activity cannot go on without a supporting state role. After all, property is a creature of the state. However, there is a large scope for variation in the extent to which the state becomes actively involved in economic processes in a capitalist system.

A LIS has significant benefits for the capitalist class. Under a LIS, wages are driven down and the extent of inequality of income and wealth greatly increases. By contrast, in the post World War II RIS in the USA, real wages rose steadily and income and wealth inequality decreased slightly by most measures. Empirical evidence suggests that, despite the advantage of a LIS for the profit share and for the wealth of individual capitalists, LIS's are inferior for the rate of long-run capital accumulation and economic stability (Kotz, 2003). A RIS appears to be better suited to capitalism's historical mission of rapidly developing the forces of production. Nevertheless, LIS's periodically appear in capitalist history. How can the appearance of both types of IS be explained?

Some analysts have suggested that capitalism alternates between more and less regulated forms because the excesses and contradictions of each phase sets the stage for transition to the next, opposite phase (Polanyi, 1968). The view that LIS's and RIS's naturally alternate with one another is consistent with the US historical experience. However, in my view this explanation, while having some validity, misses an important part of the reasons for the development of LIS's and RIS's.

The inherently competitive character of capitalism continually tends to pit individual capitalists against one another. A LIS provides maximum freedom for capitalists to compete. It also weakens the working class and facilitates increasing the rate of exploitation. While a RIS may have long-run advantages for capital accumulation and the stability of the system, it is difficult for the capitalist class, or any powerful segment of it, to cooperate sufficiently to create and maintain the institutions of a RIS. To do so requires that they suppress their tendency to immediately grab whatever they can from each other and from the working class. The historical record suggests that only certain historical conditions make the emergence of a RIS possible, by overcoming capitalist resistence to regulation of their normally competitive, individualistic behavior. When the historical developments that had prompted the emergence of a RIS have passed away, a capitalist system will tend to revert to a LIS.

Four kinds of historical developments have, in the past, led to the emergence of a RIS. One involves late capitalist developers. In countries that developed capitalism late, a RIS has served as a means to use state power to hasten capitalist development to the point where it was possible to compete with the established capitalist system(s). This applies to the experience of Germany and Japan in the nineteenth century and Turkey and South Korea in the twentieth, as well as China since its transition to a market economy began after 1978.

The second historical factor promoting a RIS has been the emergence of a major political threat to the capitalist class. The Progressive Era RIS in the US, during 1900-16, stemmed partly from the growing anti-monopoly and socialist movements of that period. The post World War II RIS was partly a response to even more serious political threats, from a rival "state socialist" system after World War II and from growing socialist and communist movements. In each case, a major section of big capital decided that regulated capitalism was preferable to the possibility of no capitalism at all.

The third historical factor promoting a RIS has been a severe economic crisis. The Great Depression of the 1930s was so threatening to the survival of capitalism that it made the capitalist class willing to allow a high degree of state regulation, which they understood would promote economic stability.

The fourth historical factor promoting a RIS has been a sharp attenuation of competition at certain historical moments due to political-economic developments. The Great Merger Wave of 1898-1903 in the US, together with the emergence of bank control of large nonfinancial enterprises, suddenly created an oligopolistic market structure with controlling agents oriented toward cooperation. This created a new segment of the capitalist class -- the new finance capitalists and their allies in affiliated nonfinancial corporations -- that faced only limited competition and recognized the long-run benefits of a RIS for profitability and economic stability. After World War II, the US had a relatively stable oligopolistic structure in parts of the economy which produced a segment of big capital that appreciated the long-run benefits of a RIS.

Despite the advantages for capital accumulation and economic stability of a RIS, it appears that such formations only arise when powerful historical factors promote them. There have been relatively few effective developmental states. In each such case, some group or class in the country concerned was able to overcome the powerful competitive forces in capitalism that resist central regulation. This role has been performed by a segment of a former feudal ruling class (Japan), by military officers (Turkey and Korea), and by Communist Party officials (China).

RIS's in mature capitalist countries have been constructed and led by a variety of groups and classes. Typically there is an alliance between a section of big capital and a part of the working class, as in the New Deal coalition in the US. Individual capitalists seem to be ill-fitted for leading such a coalition. In both the Progressive Era and post-World War II RIS periods in the U.S., a member of the extended Roosevelt family (Theodore in the first RIS and Franklin in the second) played a critical political role -- a family whose wealth came from landowning and commerce predating the rise of capitalism in the US.

It appears that, once the specific historical factors that originally gave rise to a RIS have ceased to operate, the stage is set for a shift to a LIS. The anti-monopoly and socialist movements that prompted the Progressive Era RIS declined during World War I, and the US shifted to a LIS soon thereafter, lasting through the 1920s -- despite the continuing presence of a relatively oligopolistic economic structure. It took a Great Depression, the rise of a serious challenge from state socialism, and growing socialist and communist movements around the world before a new RIS was put in place. In the 1980s a LIS emerged again as increasing global economic integration undercut the previous oligopolistic structure of US industry (Kotz, 2002), the Great Depression receded into the past, the workers' movement rapidly declined in strength, and (at the end of the decade) the threat from the alternative state socialist system disappeared. The latest LIS, commonly referred to by the name neoliberalism, still prevails today.

No IS lasts forever under capitalism. Presumably the contemporary neoliberal IS will at some point enter a period of crisis due to its own internal contradictions[11]. What will replace it, in the USA, other countries, and the world economy, cannot be foretold in advance.

Concluding Comments

The argument presented in this paper does not question the usefulness of the SSA theory for analyzing institutional change over time or for explaining institutional differences among countries. It does not even exclude the possibility of using the SSA theory to explain differences in the rate of capital accumulation between different periods of capitalist history. By incorporating the idea that an IS can take two different forms, a RIS or a LIS, the ability of the theory to explain different rates of accumulation in different periods would be strengthened. What the argument in this paper does question is the SSA theory's claim that

[11] Kotz (2006) presents an argument that the neoliberal structure appears to be approaching such a crisis.

every long-lasting IS in capitalism has as its central feature the promotion of a rapid rate of capital accumulation.

The analysis in this paper suggests that, for theoretical clarity, it might be desirable to replace the term "social structure of accumulation" by the term "institutional structure." However, history matters, and at times it trumps, considerations of theoretical clarity. In addition, the term IS is a relatively awkward one, with an inconvenient acronym as well. So it would probably be better to keep the established term "SSA," which has become the recognized name for a theoretical approach that has inspired a good deal of insightful economic analysis, while reinterpreting it to mean a set of institutions that forms a framework that supports the circuit of capital, the appropriation of surplus value, and the capital accumulation process. Retaining the term SSA would not be inconsistent with the elimination from the SSA theory of any connotation that each SSA is constructed with the aim of producing rapid capital accumulation.

To adopt this somewhat altered concept of an SSA would not only clarify the SSA theory, it would also put to rest the debate over whether neoliberalism is or is not an SSA. Under the concept of an SSA proposed in this paper, neoliberalism clearly does qualify as an SSA, despite its failure to promote a rate of capital accumulation as high as that achieved during the former regulated capitalist SSA

Table 1. Growth Rates of Real Gross Domestic Product for Selected Countries[12]

(Annual average percentage rate of growth)

Country	1950-73	1973-79	1979-2000
France	5.0	2.8	2.1
Germany	6.0	2.4	2.1
Italy	5.6	3.5	2.0
Japan	9.2	3.5	2.7
UK	3.0	1.5	2.3
USA	4.0	3.0	3.1

Sources: OECD, 2000; US Bureau of Economic Analysis, 2000; Maddison, 1995, p. 83; World Bank World Development Indicators 2005.

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[12] In table 1 the period 1950-73 is covers that of regulated capitalism, 1973-79 is the period of crisis of regulated capitalism and efforts to construct a new institutional structure, and 1979-2000 is the neoliberal era. The last period was carried only through 2000 since that was the last business cycle peak year.

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3. CHANGES IN CAPITALISM SINCE THE REAGAN ERA: THE NEW SOCIAL STRUCTURE OF ACCUMULATION, *Michael Reich*

SSA Theory

- SSAs go through three phases- Exploration, Consolidation and Decay.
- Decay phase of old SSA overlaps with exploration of new institutions and political contestation over shape of a new SSA.
- Institutional change occurs unevenly because of vested interests and because successful set of institutions must have some coherence with each other.
- A successful ensemble of institutions generates stability and improved economic outcomes for least some of the groups that are included in the dominant coalition.

Main institutions that make up a Social Structure of Accumulation

- Capital-labor relations, including organization of work, labor-management relations, and sources of labor supply.
- Capital-capital relations, including forms of competition and corporate governance.
- Financial institutions
- Government role
- International relations and institutions
- Dominant political coalition

Social Structures of Accumulation (based on Gordon, Edwards and Reich 1982)

SSA and Long Swing Phase	Institutional Phase	Time Line
Competitive Capitalism		**Mid1840s to mid1890s**
(Initial proletarianization)		
B	**Exploration**	**1820 - 1844**
A	**Consolidation**	**1844 - 1873**
B	**Decay**	**1873 - 1896**
Monopolistically Competitive Capitalism (Homogenization of labor		**Late 1890s to World War II**
B	**Exploration**	**1873 - 1896**
A	**Consolidation**	**1896 - 1929**
B	**Decay**	**1929 - 1941**

Notes: A connotes phase of more rapid growth; B connotes phase of slower growth.

Consolidation era is initiated by the victory and then dominance of one political coalition over another, i.e., a critical realignment election.

SSA and Long Swing Phase	Institutional Phase	Time Line
Government-Led Capitalism		***WW II to mid1980s*** **(Segmentation of labor)**
B	**Exploration**	**1929 - 1941**
A	**Consolidation**	**1941 - 1971**
B	**Decay**	**1971 - 1984**
Deregulated Capitalism		***1980s to ?***
(Labor flexibility)		
B	**Exploration**	**1971 - 1984**
A	**Consolidation**	**1984 - 2006?**
B	**Decay**	**2006? -**

Institutions of the Deregulated Capitalism SSA: Consolidation after the 1984 election

Capital-labor relations

- Decline of private sector unions
- Productivity growth (since 1997) without wage growth, except among highly-educated and top 1 per cent.
- New technology and work organization based on IT and labor flexibility.
- Resegmented labor– expanded low-wage labor segment
- Institutionalized through low minimum wage rates, temporary labor contracts (Europe) and growth of immigration (IRCA 1986).

Capital-capital relations

- Breakup of stable postwar oligopolies, result of deregulation, globalization, technological change, hostile takeovers.
- New governance relations: “financial managerialism”
- New norms for CEO pay.

Finance

- New financial instruments, REITs, options, etc. and other new tools for managing risk: selling pooled loans as securities, derivatives to reduce interest rate risk, hedge funds.
- Housing: Floating rate and reverse mortgages extends boom.
- Reversal of Glass-Steagall restrictions and greater role of large banks in IPOs, private equity funds, corporate restructuring.

- Expansion of finance without creation of a separate financier or rentier class.

Government

- Reduced role of fiscal policy; reducing large deficits limit social agenda.
- Greater role for monetary policy and central bank.
- Growing role of money in campaign finance.
- Deregulation in transportation and communication

International relations

- End of Soviet system; U.S. the only military super-power.
- Liberalization of trade, capital flows and greater role of private financial institutions: trade openness and "financial globalization."
- Plaza Accord of 1985, Bretton Woods II and sustained capital inflows to U.S., especially from Asia.
- Greater changes in domestic institutions of US and UK than in Euro area and Japan, in contrast to similarities in the postwar era.
- Major transition in China to industrial market economy.

Dominant political coalitions of this SSA

- *Reagan Era:* Conservative/Right (Republicans) plus the Center (Reagan Democrats)
- *Clinton era:* Centrist/Rubinomics brings in a section of corporate Republicans
- *Bush Era:* Right (business wing of Republican Party plus the Far Right (fundamentalist wing)

Quantitative indices of the new SSA

The next set of graphics provides quantitative indices that support the institutional analysis.

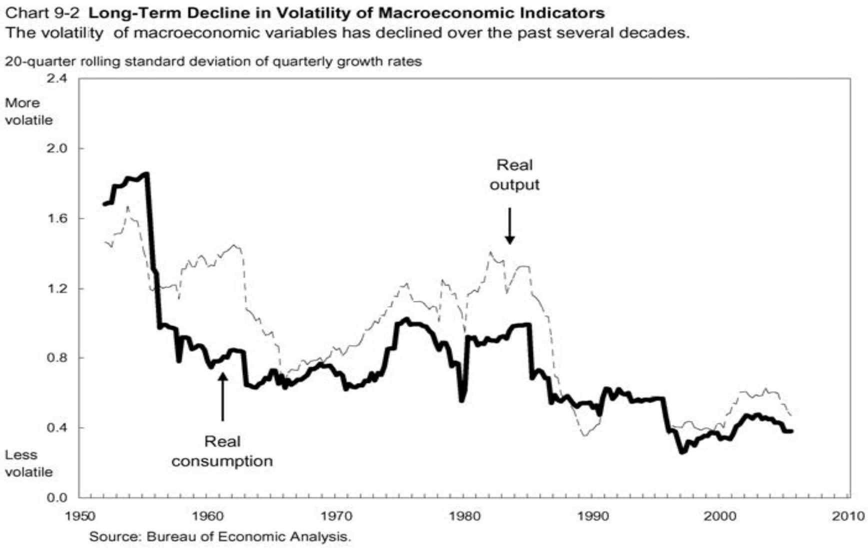
- Decline in volatility of GDP and consumption
- Decline in labor share and rise of income inequality (in U.S., but not in continental Europe or Japan).
- Timing of profit rate recovery, greater role of finance and international linkages.
- Increased financial openness of world economy.
- Wages trends in China suggest continuing industrial growth are compatible with wages below levels in Mexico et al.

They also contain some surprising patterns.

- Wealth concentration is not increasing, despite increased income inequality, suggesting higher consumption rates among the very rich.

- Savings rates have declined only among highest income group, also signaling a shift in behavior of the very rich.
- Corporate cash balances since 2000 have risen sharply,suggesting that investment remains weak despite rising profits.

Graphic 1: Long-Term Decline in Volatility of Macroeconomic Indicators



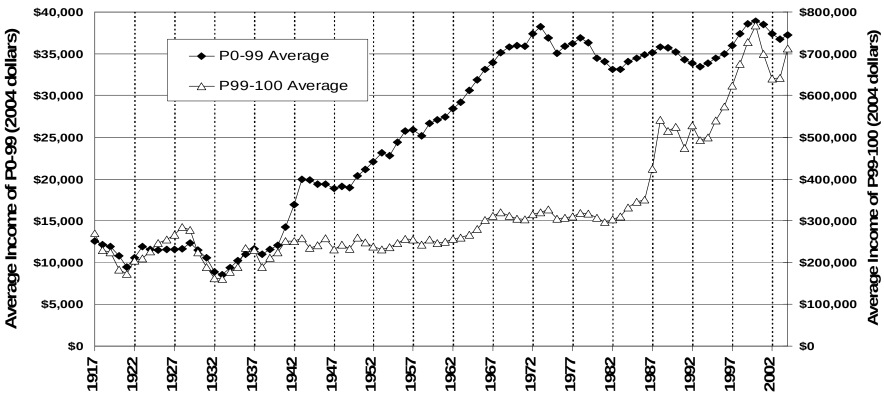
Source: Economic Report of the President 2006, ch. 9.

Graphic 2: Labor shares 1981-2005 (Business sector)

	1981-1990	1991-2000	2002	2005
Euro area	**72.3**	**68.9**	**67.1**	**66.2**
France	**73.6**	**67.9**	**66.9**	**66.0**
Germany	**69.5**	**68.1**	**66.9**	**65.5**
Italy	**70.7**	**66.1**	**64.2**	**64.2**
Spain	**69.8**	**69.8**	**65.6**	**64.9**
UK	**73.4**	**73.5**	**74.2**	**74.3**
USA	**68.6**	**67.4**	**66.6**	**66.1**

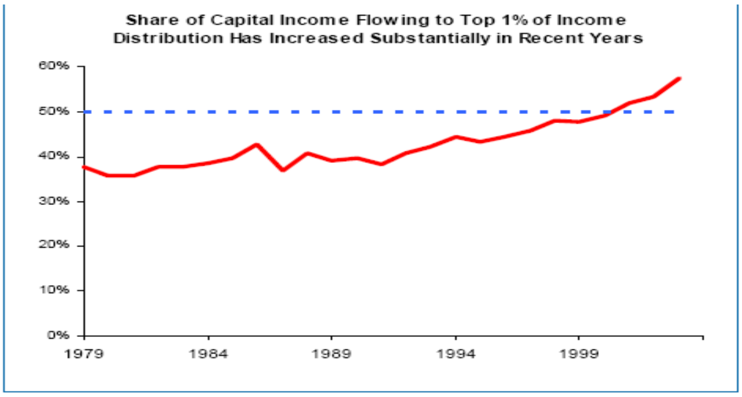
Source: Eurostat data, cited in Olivier Blanchard, A Macroeconomic Survey of Europe, November 2005.

Graphic 3: Average Incomes of Top One Percent and Everyone Else, 1917-2004



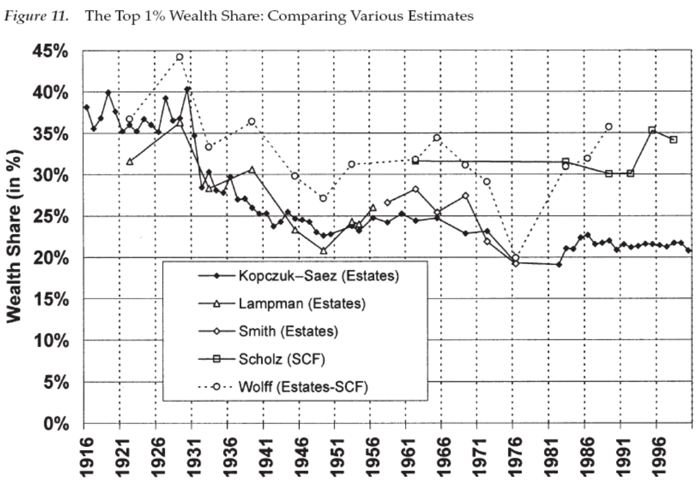
Source: Thomas Piketty and Emmanuel Saez, "Income Inequality in the United States 1913-98, *Quarterly Journal of Economics*, 2003, as updated on www.econ.berkeley.edu/saez

Graphic 4: Share of Capital Income Going to Top 1% of Income Distribution



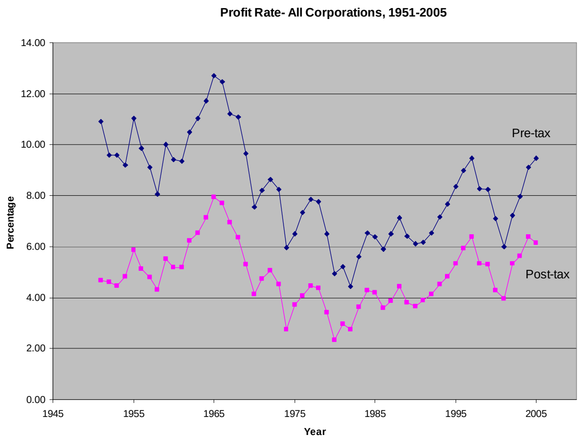
Source: Center on Budget and Public Priorities

Graphic 5: Top One Percent Wealth Share, 1916-2000, various estimates



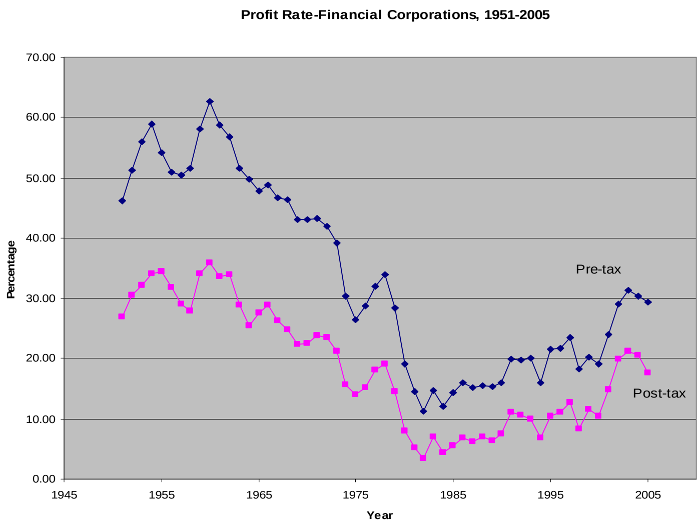
Source: Kopczuk and Saez, *National Tax Journal*, 2004

Graphic 6: Profit Rate - All Corporations, 1951-2005

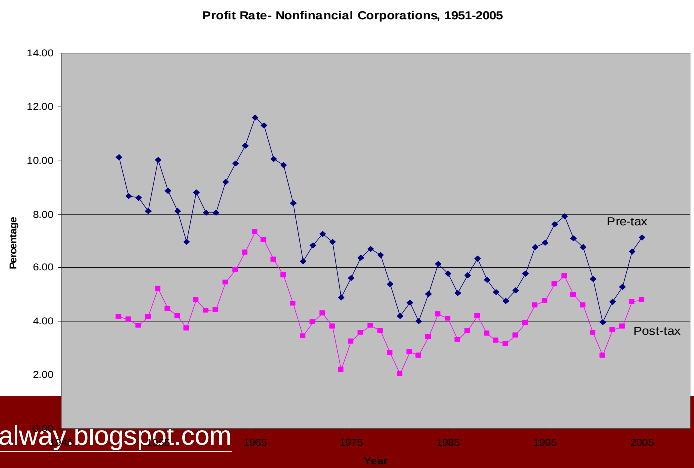


Notes: graphics 6–10 and 12-13 are computed by the author from the U.S. National Income and Product Accounts, downloadable from the U.S. Bureau of Economic Analysis.

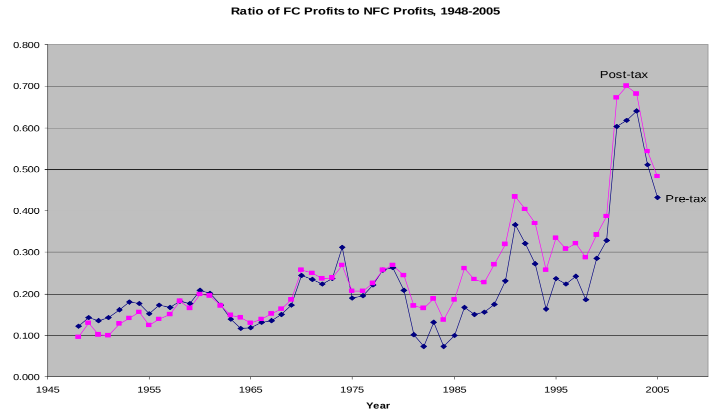
Graphic 7: Profit Rate - Financial Corporations, 1951-2005



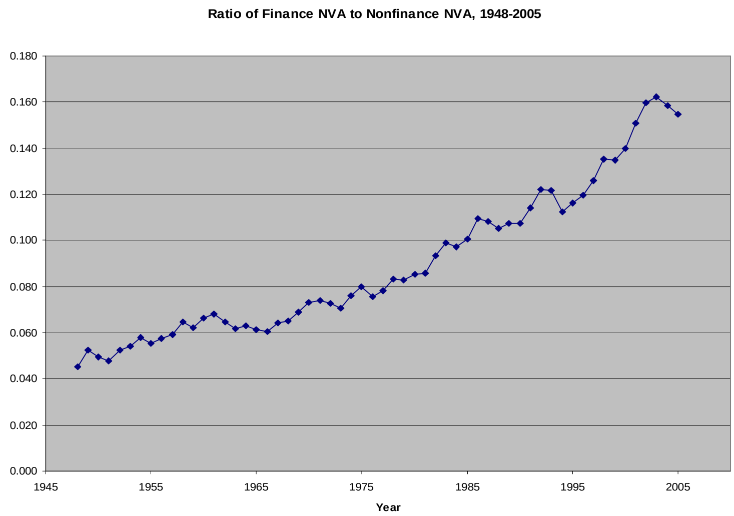
Graphic 8: Profit Rate – Nonfinancial Corporations, 1951-2005



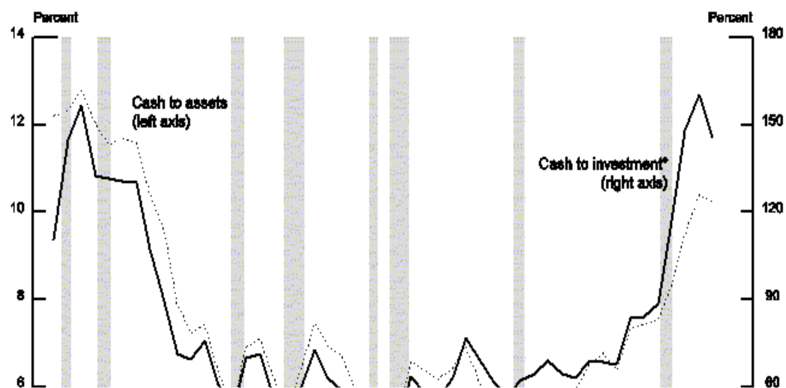
Graphic 9: Ratio of FC Profits to NFC Profits 1948-2005



Graphic 10: Ratio of Finance NVA to Nonfinance NVA, 1948 - 2005

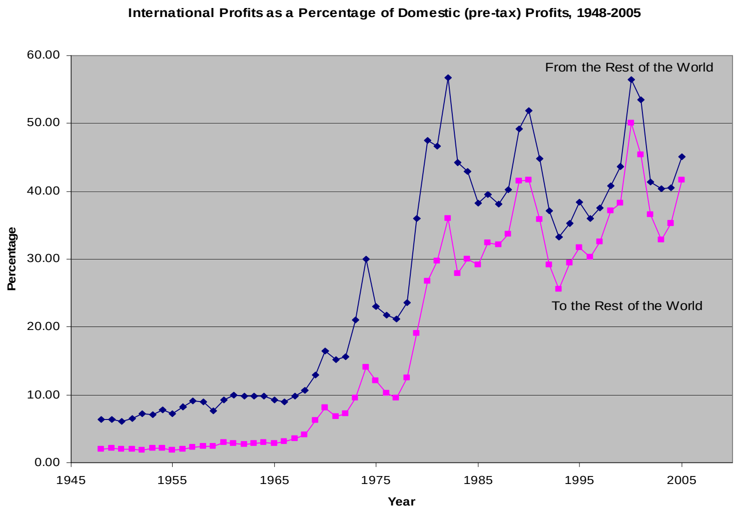


Graphic 11: Cash Balances at Non-Financial Corporations, 1967 to 2005

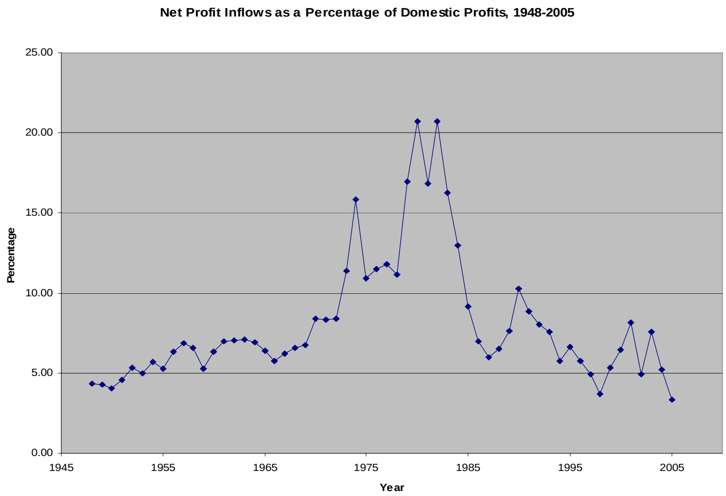


Source: Economic Report of the President in 2006

Graphic 12: International Profits as Percentage of Domestic (pre-tax) Profits, 1948- 2005



Graphic 13: Net Profit Inflows as Percentage of Domestic Profits, 1948-2005

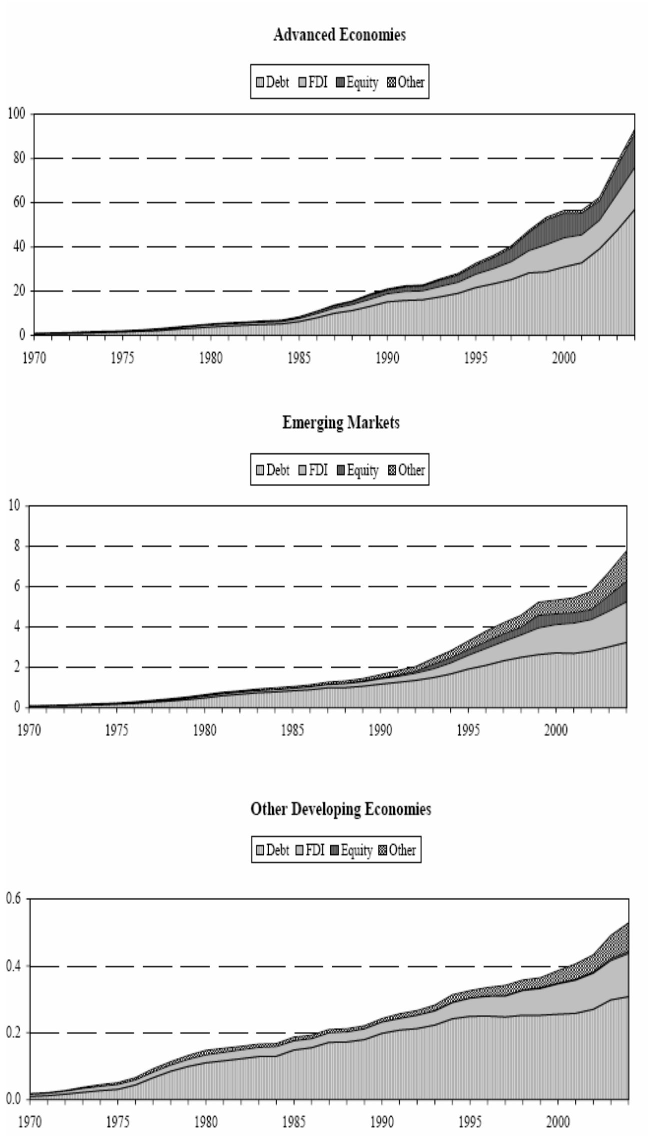


Graphic 14: Cross-Border Flows as Measures of Global Integration, Industrial and Developing Economies, 1994-2004

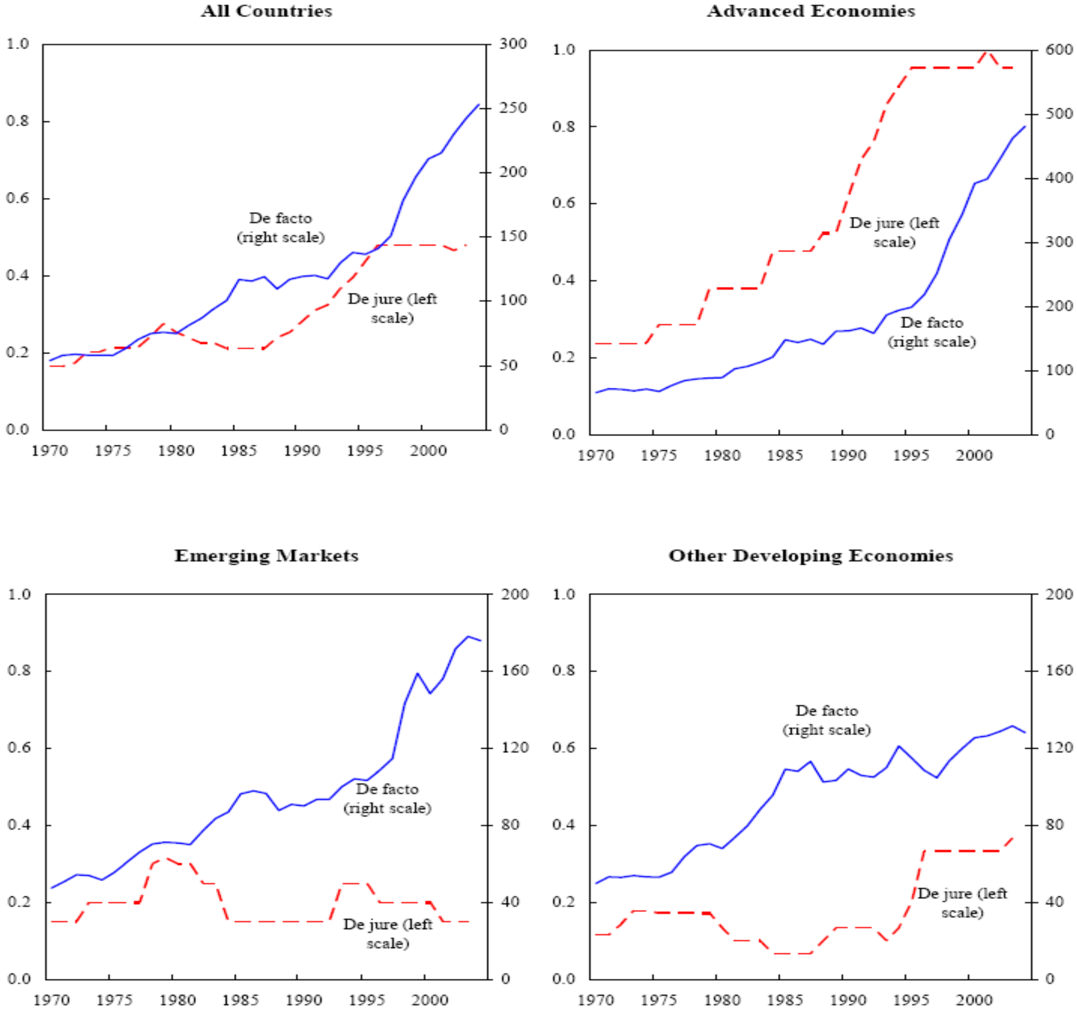
	Industrial	**Developing**
Exports		
1994	3,665	1,653
2004	6,903	4,373
Direct Investment		
1994	148	104
2004	392	286
Portfolio Investment		
1994	296	119
2004	2,186	134

Billions of U.S. dollars
Source: IMF International Financial Statistics

Graphic 15: Gross International Financial Assets and Liabilities, 1970-2004 (trillions of U.S. dollars)



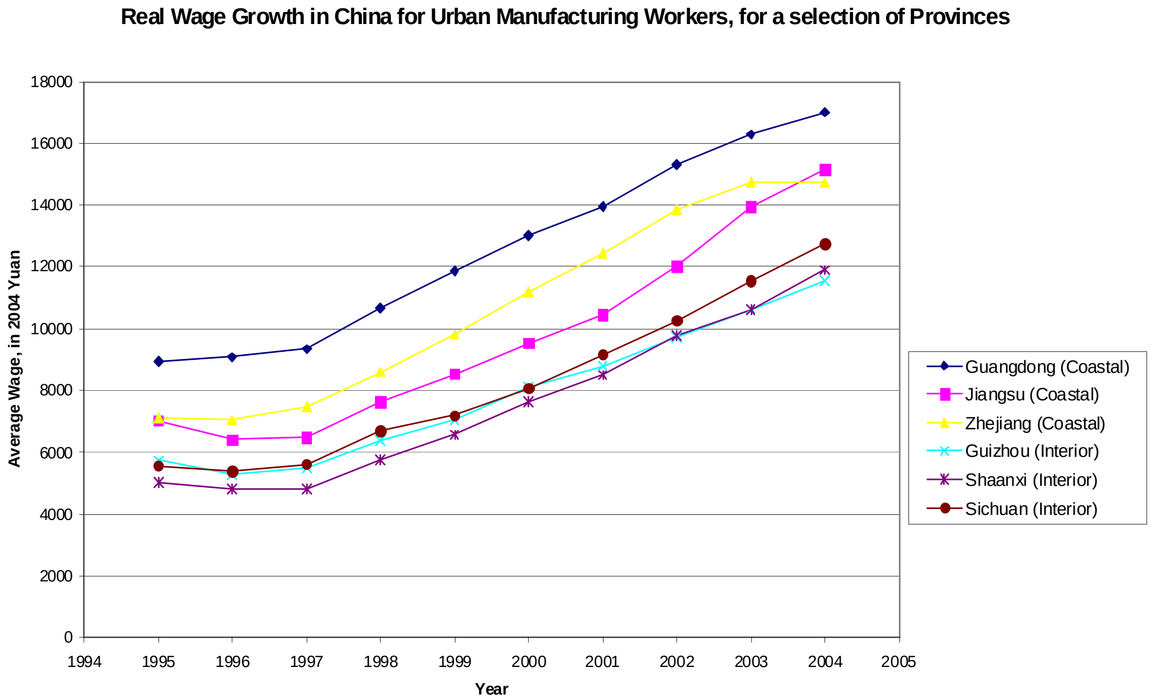
Graphic 16: Evolution of International Financial Integration, 1970-2004



Notes: This figure shows unweighted cross-country averages, within each group, of two measures of capital account openness. The de jure measure is based on the IMF 0-1 capital account restrictiveness classification, with 1 representing countries that have open capital accounts. The de facto measure is based on the ratio of gross stocks of foreign assets and liabilities to GDP, with the raw data taken from Lane and Milesi-Ferretti (2006). See the Data Appendix for a listing of countries in each group.

Source for graphics 15 and 16: Kose, M. Ayhan, Prasad, Eswar S., Rogoff, Kenneth S. and Wei, Shang-Jin 2006. "Financial Globalization: A Reappraisal." NBER Working Paper No. 12484.

Graphic 17: Real Wage Growth in China for Urban Manufacturing Workers for a selection of Provinces



Source: Nominal data from various years of the China Statistical Yearbook, Average Wage of Staff and Workers, in Manufacturing. Real wage data are calculated using Urban Consumer's Price Indices, Table 9-1 of 2005 China Statistical Yearbook. Not all urban manufacturing workers are included; for example, wage data for some workers in certain private and family-owned enterprises are not included in the Statistical Yearbook; for details, see p.89 of "Manufacturing Employment and Compensation in China", by Judith Banister, available at www.bls.gov/fls/chinareport.pdf . The selection of provinces was suggested by Carl Riskin.

Graphic 18: Annual Labour Compensation, Manufacturing, Selected Provinces, China, 2002

	In Yuan	
	Urban	TVEs
National	17,152	7,442
Guangdong	23,005	9,013
Jiangsu	18,042	8,794
Shanghai	33,770	12,894
Zhejiang	20,663	11,003

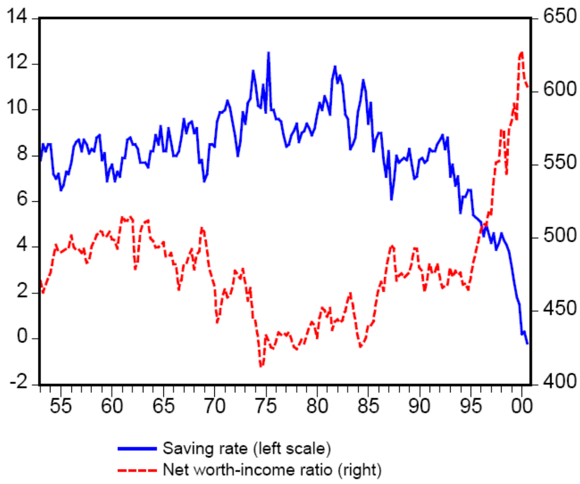
In 2002 the 101 million manufacturing workers in China received an average of $0.65 per hour, using current exchange rates.

Of these:

- 30 million worked inside city boundaries at an average of $.91 per hour.
- 71 million worked outside cities (in TVEs) at an average of $0.41.
- Purchasing power (PPP) wages are much higher, for example as much as $3.86 in the cities of Guangdong Province and $5.66 per hour inside the municipality of Shanghai.

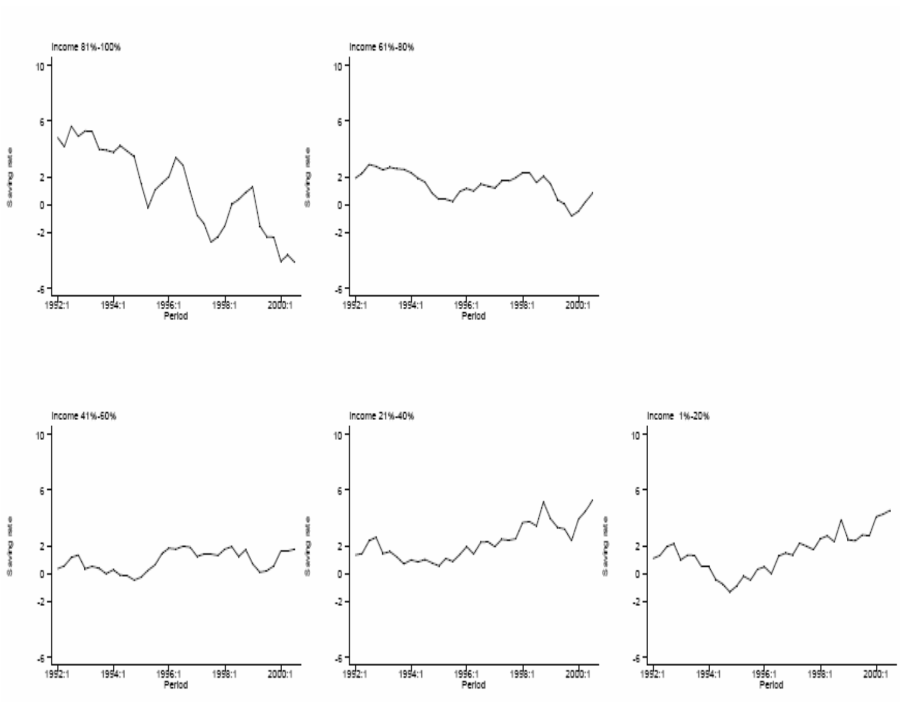
Source: Calculated from data provided in Judith Banister 2005. www.bls.gov.

Graphic 19: Personal Saving Rate and the Ratio of Net Worth to Disposable Income 1953:Q1 – 2000 Q3



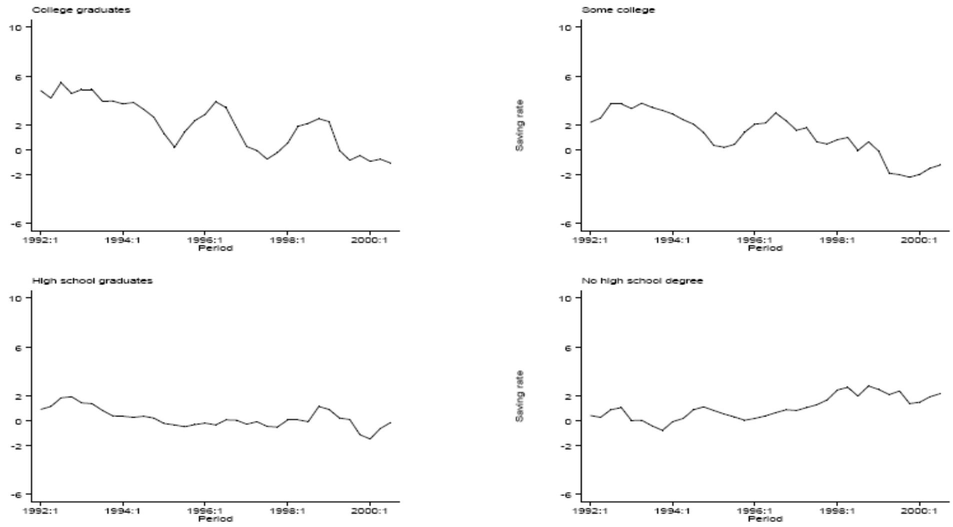
Source: Federal Reserve Board

Graphic 20: Savings Rate by Income Quintile, Excluding Defined Pension Plans and Nonprofits Organisations 1992Q1-2000 Q3



Source: Federal Reserve Board data

Graphic 21: Saving Rates by Education Category: Excluding Defined Benefit Pension Plans and Nonprofits (1992Q1 – 2000 Q3)



Source for graphics 20 and 21: Dean M. Maki and Michael G. Palumbo 2001. "Disentangling the Wealth Effect: A Cohort Analysis of Household Saving in the 1990s." Federal Reserve Board, Economics Discussion Paper 2001-21

Deregulated Capitalism SSA: Ongoing Strengths and Weaknesses

Strengths of current SSA

- Consumption by super-rich supports consumption demand.
- Surge in U.S. productivity growth (but without wage growth).
- Challenges from unions or new immigrant groups remain weak.
- Business confidence of finance in U.S. stronger than in Euro area or Japan. EU and Japan more vulnerable on oil than U.S.
- New forms of finance improve risk-return tradeoffs and stimulate growth.
- U.S. military hegemony.
- Financial globalization has been relatively stable since 1998.

Economic Weaknesses

- Large fiscal deficits in coming decade from the Bush tax cuts.
- Unregulated hedge funds, with $1.3 trillion in assets, have unknown overall fragility.
- Weakness of investment relative to profits.
- Long-term decline in skill base, productivity edge and public infrastructure.
- Consumption boom based on spending of super-rich-- could be unstable and inhibits savings and investment.
- Growth of unsocialized health and pension costs.
- Large current account deficit and potential rapid decline of the dollar.

Political Challenges

- Future rise of China as a geopolitical power.
- The war in Iraq and further conflicts with oil-rich nations.
- Sustainability of the Bush political coalition: history as a guide

Political coalition dynamics and decay of SSAs

In previous SSAs, newly dominant political coalitions, whether conservative or liberal, included the center. Over time they tend to tilt and try to govern without the center, leading to decay of SSA.

Historical examples and contemporary parralel:

- 1896-1932: Center-right coalition of industry and urban workers and professionals against agrarian interests. Gave way to an unchecked industry-finance alliance against workers and farmers, which then led to Great Depression.

- 1932-1968: Governing alliance a liberal-center coalition of some business, labor and Southern Democrats. Gave way by the early 1970s to a liberal-left (moderate Democrats and McGovern Democrats) coalition that did not hold and collapsed by 1980.

- 1980-2006(?): Governing alliance was a right-center coalition (Republicans plus Reagan Democrats) in Reagan era (especially after 1984) and continues to be dominant in Clinton years. Gives way in Bush era to right-far right coalition which over-reaches.

Preliminary Conclusions about the New SSA

- Reagan era did constitute a period of consolidation of a new SSA, based on the "end of the age of big government."

- Deregulated capitalism SSA has been enormously successful for the top one percent in the U.S.-- their post-tax real incomes have tripled.

- Living standards in U.S. declined for the bottom 40 percent, stagnated for the next forty percent, increased somewhat among top fifth. Living standards for all but the top five percent are at increased risk in the Bush era.

- Economic fluctuations are smaller in both up and down directions, indicating a period of stability with relative weakness of investment and growth.

- This SSA, while still strong, is showing economic and political signs of decay.

PART TWO: THEORY

4. SOCIAL STRUCTURE OF ACCUMULATION THEORY, *Victor Lippit*[13].

SSA theory and its origins

Social Structure of Accumulation (SSA) theory seeks to explain the long waves--averaging about fifty or sixty years for a complete cycle--that have characterized capitalist economic growth, and the distinct stages of capitalism that have marked each long upswing. Thus in the United States, the upswing early in the twentieth century was marked by industrial consolidation, mass production, and the introduction of "scientific management"; the one following World War II was marked by the growth of the state, U.S. leadership in the world economy, limited competition, and tacit "accords" between capital and labor on the one hand, and between capital and the citizenry on the other. This second SSA is among those analyzed in greater detail below as a means of supporting and clarifying the theoretical argument presented here.

The focus of SSA theory is on the institutional arrangements that help to sustain long wave upswings. Institutions can be thought of in a narrow sense as organizations (like universities or the World Bank), or in a broader sense as made up of customs, habits and expectations. In this sense, they are typically country or culture-specific.[14] A further division can be made within the broader sense, which might refer to something rather specific like collective bargaining on the one hand, or more broadly to the entire system of labor relations that exists within a country. Although these broader senses are generally most useful in SSA analysis, the discussion here will refer to institutions in all three senses.

Sometimes the SSA literature refers to things like "*Pax Americana*" or "U.S. hegemony" in the postwar SSA (Gordon, Weisskopf and Bowles, 1996: 233). U.S. hegemony is not strictly an institution in any of the senses described above, but it can be thought of as encompassing a set of institutions ranging from the nature of the relations between the U.S. and other countries (based on a set of mutual expectations and patterns of behavior) to an international monetary system based on the U.S. dollar, which became the principal reserve currency throughout the world.

Capitalists or enterprises require attractive profit rates to invest, but they must also have a high degree of confidence in their expected investment outcomes, a confidence that can be ensured only by a set of institutions that is both stable and favorable. The set of institutions that favors investment is the "social structure of accumulation," or SSA. The concept of the social structure of accumulation is laid out clearly by its originators, David Gordon, Richard Edwards and Michael Reich (1982):

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14 Several efforts have been made to treat SSAs as global phenomena, parallel to treatments of the capitalist world economy (CWE). Although the CWE is quite useful for certain purposes, focusing as it does on the linkages among economic activities that are geographically disparate, the core conception of an SSA does not permit such treatment. Since institutions vary widely among capitalist countries—the "lifetime" employment system in Japan, for example, contrasts markedly with the easy dismissal of employees in the United States—it is not meaningful to speak of a global or international SSA.

We understand the capital accumulation process to be the microeconomic activity of profit-seeking and reinvestment. This activity is carried on by individual capitalists (or firms) employing specific workforces and operating within a given institutional environment. We wish to separate that process from its environment....

The inner boundary of the social structure of accumulation, then, divides the capital accumulation process itself (the profit-making activities of individual capitalists) from the institutional (social, political, legal, cultural and market) context within which it occurs.

In the other direction we specify the outer boundary so that the social structure of accumulation is not simply a shorthand for "the rest of society." We do not deny that *any* aspect or relationship in society potentially and perhaps actually impinges to *some* degree upon the accumulation process; nonetheless, it is not unreasonable to distinguish between those institutions that directly and demonstrably condition capital accumulation and those that touch it only tangentially. Thus, for example, the financial system bears a direct relation whereas the character of sports activity does not. (p. 25)

Two distinct lines of theoretical inquiry have merged to form the basis of Social Structure of Accumulation (SSA) theory. On the one hand, Marx and neoMarxian theorists have sought to ascertain the core contradictions in capitalism that ultimately drive systemic change. On the other hand, various theorists have sought an explanation for the long cycles or waves that have characterized capitalist economic growth in the past. Within this second group, we may note especially the work of Kondratieff (1935) and Schumpeter (1939). Kondratieff saw long cycles in the U.S. as tied to the replacement needs for long-lived capital goods, while Schumpeter focused on the clustering of innovations leading to an investment boom, with activity then tapering off until a new cluster of innovations was produced.

The neoMarxian literature is richer and more complex than that focusing on long cycles, even though much of the earlier neoMarxian work followed Marx down a blind alley in presupposing an imminent collapse of capitalism and in seeking to specify the central contradictions (such as the falling rate of profit or underconsumption) that would bring about that final collapse (Weisskopf, 1996). While it was developed largely by people working within this theoretical tradition, SSA theory breaks with it by focusing on the recuperative power of capitalism--its ability to revive and renew itself following prolonged periods of relative stagnation or crisis. This perspective enables SSA theory to account for the distinct stages of capitalism, as well as for the long cycles that have accompanied its development. Thus, for example, contemporary American capitalism differs dramatically from the system that prevailed half a century ago.

The two lines of theoretical inquiry that merged to form SSA theory were first brought together in the work of David Gordon. His 1978 essay, "Up and Down the Long Roller Coaster," examines the quantitative evidence for long cycles in the U.S. since the beginning of the nineteenth century, ties the long cycles to institutional structures that support (or fail to support) the accumulation process, and links them logically to Marxian theories of contradiction and crisis. A subsequent essay (1980) then led into the "definitive" early presentation of SSA theory in *Segmented Work, Divided Workers* (1982), a work co-authored with Richard Edwards and Michael Reich. The most comprehensive subsequent study of SSA theory is *Social Structures of Accumulation: The Political Economy of Growth and Crisis* (1994), edited by David Kotz, Terrence McDonough and Michael Reich. It provides a rich spread of essays (including one by Gordon) assessing the state of SSA theory and the questions the theory has raised. While a number of essays addressing SSA questions have appeared before and after the publication of this latter book, its breadth and sophistication make it a logical reference point for many of the theoretical issues I address below. With slight variations, the questions I address are the ones raised by David Kotz in his thoughtful essay "Interpreting the social structure of accumulation theory" (chapter 3 in Kotz, McDonough and Reich 1994).

These questions are as follows. (1) What gives an SSA its structural integrity--what makes it more than a laundry list of institutions that impinge on the accumulation process? Can we speak of core institutions in an SSA or a core organizing principle? (2) Why do SSAs collapse? What is the role of class struggle in this process? (3) Why do SSAs take a long time to establish, and why do they tend to endure for extended periods? (4) What is the relation of SSA theory to concepts of overdetermination and historical contingency, both of which suggest that institutions alone cannot account for rapid accumulation and the accompanying long-wave upswings?

To address these questions purely in the abstract is not possible. For this reason, I turn first to brief accounts of two SSAs: the postwar SSAs in the U.S. and Japan. These accounts should help to clarify the theoretical discussion by applying it to specific institutional frameworks. After returning to the theoretical issues, I turn to a third SSA, the current one in the United States,[15] to provide additional empirical materials that in turn make it possible to deepen the theoretical discussion.

It should be noted at the outset that there is no way to "prove" the importance (or even existence) of SSAs using the deductive reasoning that is so common in economic theory. In hypothesizing the role of SSAs (using *inductive* reasoning) there are two central issues to be addressed: (1) Does positing the existence of SSAs make it possible to tell a more convincing story about the economic history of capitalist countries, including especially the long cycles and distinct stages of development that have been manifest within each country? and (2) Does SSA theory help us to understand current conditions and dynamics within each capitalist country, as well as the forces shaping their economic futures? I believe that the argument to follow provides a resounding affirmative response to both questions.

The postwar SSA in the United States

For an extended period following World War II, the United States enjoyed strong growth in investment, productivity and real wages. David Gordon, Thomas Weisskopf and Samuel Bowles (1996; hereafter GWB) attribute this "golden age" to the formation of an SSA whose subsequent collapse ushered in an era of sluggish growth and real-wage stagnation. Between 1948 and 1973, the rate of growth of productivity averaged 2.8% per year, but it then fell sharply to an average of 1.4% per year between 1973 and 1995 (Baumol and Blinder 2006, 134). Between 1973 and 1995, real average hourly earnings fell by 13% and median family income rose by only 4% (Business Week, 12/16/96, pp. 31-32). Between 1995 and 2004, productivity growth again kicked into high gear, averaging 3.0% (Baumol and Blinder,

15 A more complete account of this third SSA appears in my essay, "The Reconstruction of a Social Structure of Accumulation in the United States," Review of Radical political Economy, vol. 29, no. 3, 1997, pp. 11-21. Reprinted in Bob Jessop, ed., Regulation Theory and the Crisis of Capitalism, vol. 4, Cheltenham, UK: Edward Elgar, 2001.

op. cit.). Although SSAs can never be dated with great precision since institutions are always in the process of formation and decay, this pattern of widely disparate productivity growth rates is consistent with the presence of a postwar SSA that lasted roughly a quarter of a century, followed by its collapse and the formation of a new SSA from the mid-1990s.

According to GWB, the core institutions accounting for the earlier period of prosperity consisted of (1) a capital-labor accord under which labor ceded management control of enterprise operations in exchange for rising real wages and job security; (2) Pax Americana, a world marked by U.S. hegemony, with a strong dollar limiting the cost of imported raw materials to American firms and facilitating their overseas expansion; (3) a capital-citizen accord in which social security, Medicare and other accoutrements of the welfare state were accepted by business in exchange for minimal public intervention in the corporate pursuit of profit; and (4) muted intercapitalist rivalry, made possible by oligopoly at home and the weakness of foreign economies that were still recovering from wartime devastation. The capital-citizen accord implied a vastly expanded role for the state in the economy, which, together with the increased defense spending that accompanied the Cold War, assured the maintenance of aggregate demand.

Although GWB do not include it in their analysis, a subsequent essay by Martin Wolfson (1994) points to the key role of (5) the financial system in the postwar SSA. A brief discussion of these five components follows, a discussion that is extended to indicate their relation to the theoretical issues that have been raised.

The capital-labor accord addressed one of the central contradictions in capitalist economies. As GWB put it, capital can be "too strong" or "too weak" relative to labor. If capital is too strong, wages will be kept down, but that in turn threatens the maintenance of aggregate demand, leading to a potential crisis of underconsumption. Profits will be high in production, but sales will be curtailed by limited purchasing power, discouraging new investment. On the other hand, if capital is too weak, high wages will limit profitability by raising production costs; this too will discourage new investment. A capital-labor accord is one way of assuring balance, maintaining profits in production at a satisfactory level while aggregate demand is also sustained. By facilitating labor-saving technological change (under the accord, labor focuses on the security and benefits of current workers rather than of prospective ones), it also creates scope for profit-enhancing innovation.

Pax Americana was largely an outgrowth of World War II. With much of the industrial capacity of Japan and Western Europe destroyed during the War, the U.S. economy emerged with great strength relative to its potential competitors. In addition, the fixed exchange rates agreed to at Bretton Woods in 1944 assured the strength of the U.S. dollar, and facilitated its emergence as the dominant reserve currency. This made it possible for the U.S. to obtain raw materials and intermediate goods cheaply abroad, and facilitated the spread of foreign direct investment by U.S. firms.

The capital-citizen accord actually had its roots in some of the New Deal policies of the 1930s when, for example, the social security system was initiated. The problem which this accord addresses was highlighted by the Great Depression, which demonstrated that an unregulated capitalism does not necessarily assure that the most basic needs of the population for employment, old-age security and so forth will be met. Like some other institutional supports for the postwar SSA, the capital-citizen accord evolved gradually over time, supported by the Full Employment Act of 1946, under which the state assumed responsibility for macroeconomic management to sustain full employment, and subsequent extensions to the welfare state such as Medicare (signed into law in 1965). Meeting the basic needs of citizens helped secure the general acceptance of capitalism and the pursuit of profit. As the capital-citizen accord indicates, the creation and evolution of institutions is an ongoing process, so an SSA may incorporate institutions previously established or new ones that are created subsequently.16

Limited competition, both domestic and international, was a natural accompaniment of the oligopolistic market structure that came to prevail in most major industries in the postwar period and the weakened state of industrialized economies abroad. This component of the postwar SSA is actually composed of two discrete elements, one of which (oligopoly) is clearly institutional and one of which is actually a matter of historical contingency (the inability of industrialized economies to compete vigorously in the U.S. market for an extended period of postwar reconstruction). It should also be noted that it overlaps with the "U.S. hegemony" component. The role of historical contingency will be addressed more fully in the theoretical discussion which follows, but at this point it should be noted that the overlapping of SSA components is not unusual and in fact helps to account for the unique integrity of each SSA. This too will be elaborated in the theoretical discussion below.

Martin Wolfson (1994, 133-134)) argues that "the financial component of the postwar social structure of accumulation contributed to strong economic growth in the United States in three important ways: by promoting stability, by enhancing profitability, and by managing class conflicts." Wolfson places special emphasis on the financial reforms of the 1930s, including the separation of commercial and investment banking, the prohibition of interest payments on demand deposits and the placing of ceiling interest rates on time deposits, the introduction of federal insurance of deposits, and the strengthening of government supervision and regulation of the financial sector. Although many of these reforms were reversed in the 1980s and 90s, that in itself does not negate the role they played in the prosperity of the postwar era. It is not at all unusual to find that institutions that play a positive role in one period do not do so in another, when changes take place in external conditions and with the other institutions with which they interact.

International financial institutions also came to play an important role in the postwar SSA. In 1944, the Bretton Woods agreement created the basis for an international financial system that also enhanced the environment for postwar investment by establishing the U.S. dollar as a reserve currency and by supporting the expansion of international trade. It is of interest to note that these institutional changes came prior to the postwar "golden age," but having them in place helped to secure a stable financial environment with low interest rates that contributed strongly to the postwar expansion.

Japan's postwar SSA

From 1955 to 1970, the Japanese economy grew at an average rate of 9.7% per year, and the growth rate continued to average between 4 and 5% over the next two decades (Hirata

16 Various business groups in East Asia provide another example of an institution supporting an SSA during one period but proving an obstacle to SSA formation in another. The chaebol in South Korea and the keiretsu in Japan supported their postwar SSAs in numerous ways. The chaebol, for example, given their support by the military regimes, made possible a high degree of leverage and thus the rapid expansion of investment. When South Korea democratized, however, and the relations between business and government changed, high levels of chaebol debt exposed the entire economy to severe financial risk, a risk that materialized in the Asian financial crisis of 1997.

1995, 41). Following the collapse of the stock market and real estate bubbles at the end of 1989, however, the growth rate of GDP fell off sharply to about 1.3%. Once again the historical pattern is consistent with a postwar SSA, in this case lasting about 35 years, followed by collapse. The set of institutions that composed Japan's postwar SSA is quite distinctive, and the ways in which the institutions involved were both mutually supportive and able to contribute to high rates of accumulation and economic growth is evident. The principal institutions included:

(1) The close relationship between corporations and the state, often referred to as "Japan Incorporated."

(2) The keiretsu system of business groups, typically organized around a leading bank and marked by cross-shareholdings.

(3) The "lifetime" employment (at that time until age 55) and seniority systems in the labor market.

(4) The family system.

(5) The educational system and career patterns.

The family system involved a rigid division of labor between husband and wife. Women were expected to drop out of the labor market when they had children. The wives were responsible for taking care of the household and the education of the children. The husbands were free to work for their companies until late at night under this arrangement. The children, meanwhile, were being prepared for success in a brutally competitive educational system. Going to a good college and receiving favorable letters of recommendation was critical, for a lifetime job (after a two-year trial period) would typically be found right after college or high school. The meritocratic educational system, then, combined with the family system to create the next generation of dedicated employees.

The very top students at the national universities could aspire to careers in government service, careers that combined the highest social respect with the power to affect deeply the companies under their ministry's purview. Following retirement in their early fifties, most would become advisors or senior executives at these same firms, or assume leading managerial roles at public institutions. Others would go into politics and seek to become senators in the Diet. Under the marriage-arrangement system, wealthy families with daughters would seek to marry them off to government officials, seeing this as the most secure and prestigious future. The family money would then make possible a political career, which required a great deal of it.

Everyone knew that the young bureaucrats working in government ministries had to be among the very top students, that they had a great deal of power, and that their futures were very bright. Under the Japanese system, each ministry would tend to support and protect the firms in the industries for which it was responsible, supporting their growth and organizing cartels to reduce capacity in an orderly fashion when overcapacity threatened. When the officials reached retirement they would start a second career as senator or official in the firms they had just been supervising. Meanwhile, their places in the ministries would be taken over by the younger officials they had previously mentored. Thus the system known as "Japan Incorporated" involved a seamless web of mutually supportive institutions, with government and corporations closely tied, but in a way that allowed for full contributions from the education, family and lifetime employment systems.

The keiretsu system of business groups also played a key role in the successful formation of Japan's postwar SSA. The various member companies could support the other members of the group in various ways. Thus, for example, banks could be counted on to provide loans and trading companies to find markets or supplies abroad. The keiretsu relationships were cemented by interlocking shareholdings. In addition to facilitating strong economic growth, they contributed to the social standing and security that those who were successful in the educational system could expect, which in turn provided ample motivation to sustain the prevailing family system. Although this description of Japan's postwar SSA is quite brief, it should help to the clarify the way in which the different institutions that compose a given SSA function in a mutually supportive fashion, enhancing its stability and helping it to endure.

The structural integrity of an SSA

When we speak of a social structure of accumulation, we imply a linkage among the various institutions that comprise a specific SSA. Moreover, when we speak of the collapse of an SSA, that implies the collapse of the entire structure rather than simply the collapse of some of its individual components. This in turn suggests as well that the various institutions must be linked together in some fashion. The question to be addressed, then, is what accounts for the structural integrity of an SSA?

There are two principal approaches to this question in the SSA literature. David Kotz (1994, 65-67) argues that a core set of institutions is established early in an SSA, a core that then interacts with and shapes the formation of the other institutions that come to constitute the full SSA:

This core of institutions must be sufficient to significantly stabilize class conflicts and competition, and to assure long-term markets. For the early twentieth-century in the US, the following institutions might have made up the core: monopoly/finance capital, repression of trade unions, and an aggressively imperialist policy. The core institutions of the post World War II expansion in the US might have been peaceful collective bargaining, militarization of the economy, and US ascent to a dominant position in the world. (p. 65)

Terrence McDonough (1994) seeks to explain the structural integrity of SSAs in terms of either a single institution or an event that can serve as the "unifying principle" of the newly emerging SSA. Thus he finds the early-twentieth century SSA in the U.S. to be based on the oligopolization of the economy that occurred in the span of a few years around the turn of the century, while World War II served as the basis for the postwar SSA. There is some similarity between the approaches of Kotz and McDonough in that both focus on a limited set of institutions or events that occur early in the formation of an SSA and contribute significantly to the formation and shaping of the other institutions that come to constitute the full SSA. There are, however, significant differences as well. While Kotz focuses on a set of institutions as the organizing principle, McDonough finds that some exogenous factor--e.g. World War II--can play a comparable role. Further, in focusing on a set of core institutions that shape subsequent institutional development, Kotz can explain the relation between the core and the "peripheral" institutions, but still cannot account for the structural integrity among the institutions that constitute the initial core. By focusing on a single organizing principle, McDonough is able to avoid this problem.

By focusing on a single organizing principle, however, McDonough distracts attention from a potentially much more robust approach that he himself cites. Referring to Gordon's 1980 article, McDonough (1994: 76-77) writes:

What is it that integrates an SSA into a coherent whole? I believe the most promising direction in which to look for the answer to this question was proposed by Gordon in one of the earliest expositions of the SSA framework. In this early article, Gordon (1980) proposes that "the interdependencies among the individual institutions create a combined social structure with a unified internal structure of its own—a composite whole, in effect, whose intrinsic structure amounts to more than the sum of the individual institutional relationships" (p. 17). For Gordon this unified internal structure is the reason that "changes in any one constituent institution are very likely to reverberate throughout the entire structure, creating instability in all of the other constituent institutions" (p. 17). This integral structure is thus at the heart of the SSA framework…(and) it is likely the relationships (among) these institutions must be unique to each SSA and hence historically contingent.

Gordon's formulation is very close to the principles of overdetermination in its focus on the mutual interaction among the various institutions composing any given SSA. Perhaps the main difference is that Gordon appears to present each institution as an independent entity which is then subject to change when another institution, an external entity, changes. The idea of overdetermination suggests that institutions are never entirely disparate entities, that each is shaped by and incorporates elements of the other institutions and social forces with which it interacts. This distinction actually strengthens Gordon's argument since it is not simply a matter of external changes influencing each institution in that the "external" institutions at least in part have been internalized.

The theoretical approaches of Kotz and McDonough are both inspired by attempts to address deficiencies they perceive in the basic presentation of SSA theory in Gordon, Edwards and Reich's Segmented Work, Divided Workers. Gordon, Edwards and Reich (GER) do not attempt to privilege any set of core institutions, and readily admit that exogenous forces--they mention World War II specifically (p. 31)--may be very important in determining the formation of an SSA. By failing to follow up fully Gordon's earlier discussion concerning the question of what accounts for the structural integrity of an SSA, however, and by presenting a listing of apparently disparate institutions in the SSAs they analyze, GER have left open the question that Kotz and McDonough attempt to address. In searching for a core organizing principal or a set of core institutions, however, Kotz and McDonough turn away from the more promising direction that Gordon himself indicated in the quotation from McDonough above. In considering the question of what accounts for the structural integrity of an SSA, it is possible to build on Gordon's suggestion concerning the mutual interactions among institutions, considering this in the light of the concept of overdetermination as expounded by Resnick and Wolff in Knowledge and Class (1987, chapter 2).

In their study, Resnick and Wolff follow Althusser's development of the Marxian insight that social processes, including economic ones, are mutually determinative. In discussing the work of Althusser, Resnick and Wolff write:

Each distinct social process is the site constituted by the interaction of all the other social processes, each contains "within itself" the very different and conflicting qualities, influences, moments, and directions of all those other social processes that constitute it. In this sense, argues Althusser, each social process is the site of, or "contains," the complex contradictoriness inseparable from overdetermination. Each social process exists, for Althusser's Marxism, only as a particular, unique concentration of contradictions in its environment. (p. 88)

Although the concept of overdetermination as developed by Resnick and Wolff focuses on the manner in which each social process is "overdetermined" by the other social processes with which it interacts, their conceptual framework can be extended readily to the interaction among institutions, that between institutions and social processes, and that between institutions and "exogenous" events or conditions. That is to say, there is an ongoing process of institutional formation and institutional change which is brought about by the interaction among (1) the internal contradictions of any specified institution, (2) the other institutions that coexist with it, (3) exogenous events, and (4) the full range of social processes. All of these elements mutually (over)determine one another. And just as "essentialism" (privileging the economic, for example, over the other forces that account for social processes) must be rejected in accounting for causation, any attempt to privilege a "core" set of institutions--or a core institution or event--as responsible for the structural integrity of a given SSA appears questionable.

In accounting for the structural integrity of any given SSA, then, it is critical to avoid conceptualizing institutions in isolation, and to recognize the multiplicity of forces serving to create and sustain each institution, forces that include other institutions, the full array of social processes and exogenous events (historical contingency). In considering the forces that may ultimately undermine each institution and ultimately the entire structure of which it is a part, the interaction of these same factors must be recognized as playing a role, together with the internal contradictions that tend to arise in all institutions.

Approaching the structural integrity of SSAs in this way is much closer to the spirit of the initial work of Gordon and of GER, who do not attempt to assign priority to any particular institution and who explicitly recognize that "'exogenous' forces may be very important," citing, as I have noted, the impact of World War II on the postwar SSA (1982, 31). GER do not attempt, however, to analyze the manner in which the institutions that constitute the SSAs they address, the exogenous events with which the the SSAs interact, and the various social processes overdetermine one another. Such an analysis can help to deepen our understanding of the structural integrity of SSAs and why they tend to endure for an extended period of time. Further, when the role of internal contradictions is considered together with these interactions, the forces contributing to the eventual collapse of all SSAs become more transparent.

Overdetermination and the postwar SSA in the United States

Although it is not possible here to provide a comprehensive example of the manner in which overdetermination can account for the structural integrity of a given SSA, the approach can be applied in admittedly cursory fashion to the postwar SSA in the United States to demonstrate the logic of the argument. I have already specified five institutions as constituting the postwar SSA in the United States (the four indicated by Gordon, Weisskopf and Bowles, and a fifth provided by Wolfson): the capital-labor accord, Pax Americana, the capital-citizen accord, muted intercapitalist competition, and the favorable financial framework. The discussion that follows attempts to indicate some of the ways in which these institutions interacted with one another, and how they contributed to shaping one another in the process. These interactions, often mediated by exogenous events and ongoing social processes, can help to account for the structural integrity of the SSA that emerged.

The capital-labor accord can be thought of as an agreement to divide the "spoils" available in a favorable economic environment. There is of course a cost to business in providing rising real wages, job security and a variety of benefits. The readiness of business to "buy" labor peace was enhanced by the favorable economic climate provided by the other elements that constituted the postwar SSA. The strong dollar and low raw material prices associated with U.S. hegemony, the macroeconomic stability ensured by the larger role of government and the absence of political challenges to profit-seeking (both part of the capital-citizen accord), muted competition (both domestic and international), and low, stable interest rates all contributed to the creation of an environment in which corporate profitability could be quite high if labor peace was secured. Without these complementary conditions, it is doubtful that capital would have embraced the capital-labor accord so readily.

One need only look at the new SSA that was formed in the U.S. during the 1980s and 90s for a counterfactual example. Faced with intense competition, much of it international in origin, U.S. firms were forced to focus on cost reduction to sustain and enhance their profitability. Since labor costs are the single largest cost for firms (constituting, on average, about two-thirds of total costs), it was quite natural for them to do everything possible to keep these costs down, with real wages and job security sacrificed as a consequence. Under these conditions, a capital-labor accord of the type that characterized the postwar SSA was inconceivable. Since the new SSA remains in force in 2006 (despite the 2001 recession), the intensified split between capital and labor—discussed more fully below--remains the rule.

Pax Americana was of course a matter of historical contingency, dependent on the destruction experienced by the leading potential competitor countries during World War II. Nevertheless, it is important to note that the stable international order with which it was associated created a highly favorable environment for export-led economic recovery and growth in Japan, Germany and the rest of Europe, with fixed exchange rates increasingly undervaluing their currencies and making them more competitive as their economies recovered. The Asian tigers (South Korea, Taiwan, Hong Kong and Singapore) were of course also able to flourish in this environment. Pax Americana was to the mutual benefit of all active participants in the world economy, contributing to the recovery of Europe and Japan while creating development opportunities for those less-developed countries capable of shaping their institutions appropriately (especially so as to facilitate rapid export growth).

Thus growth abroad increased U.S. markets and investment opportunities while also proving advantageous to the other participants in the capitalist world economy (CWE). At the same time, however, by the late 1960s it reached a point where substantial foreign competition for American firms emerged, and where the Bretton Woods regime of fixed exchange rates had become unsustainable. Initially, then, the long-term postwar expansion of the world economy increased markets and investment opportunities for U.S. firms. By the late 1960s, however, it increasingly undermined the postwar SSA by increasing competition and making the Bretton Woods regime of fixed exchange rates unsustainable. This provides a clear example of the development of an internal contradiction contributing to the collapse of a key institution and ultimately of the SSA of which it formed a key part.

The capital-citizen accord must also be understood in the light of historical contingency and the other institutions that constituted the postwar SSA. Social security had already been initiated in the 1930s, both a policy response to the poverty and insecurity engendered by the Great Depression, and an effort to forestall more radical change. The GI Bill (formally called the Servicemen's Readjustment Act of 1944) and then the Marshall Plan (1948) helped to sustain aggregate demand in the immediate postwar years, after which the emergence of the Cold War fulfilled the same function. The suburbanization of America and the general prosperity of the 1950s created an environment in which the realization of individual aspirations appeared eminently compatible with the profit-seeking of corporations. There were not many people ready to challenge the notion that "…what was good for the country (the U.S.) was good for General Motors and vice versa."17

The breakdown of the capital-citizen accord starting in the mid to late 1960s reflects changes in the institutions with which it interacted, its own internal contradictions, and historical contingency. The strongly rising production and consumption of the postwar era was carried out for the most part with little thought to environmental consequences. At some point it was inevitable that the deteriorating quality of the air, land and water would impinge on the popular consciousness and lead to efforts to regulate and limit corporate activity. At the same time, during the 1960s, the widespread participation of young people especially in the movements for racial equality and against the Vietnam War contributed to the creation of a more activist generation, and ultimately led to legislation that greatly increased the regulation of business, increasing business costs and decreasing profitability. By 1992, according to a Washington University report cited in The Economist (12/13/97: 52), firms with fewer than 20 employees spent an average of $5,784 per employee to meet federal regulations, with firms employing more than 500 spending about half that amount.

The era of limited competition was also unsustainable. The reconstruction of Europe and Japan initially expanded export and investment opportunities for U.S. business, but once recovery abroad had taken place, strong growth in foreign competition was inevitable. The fixed exchange rates of the Bretton Woods accord, moreover, left the U.S. dollar increasingly overvalued; the stability they initially imparted to international commerce turned into a competitive force highly inimical to U.S. business.

At home, the very dynamism of capitalism turned the period of muted competition into a brief interlude. Supermarkets readily replaced local grocery stores, but once these had been eliminated they had to compete with one another for market share. Discount stores grew up to compete with established department stores and other retailers (including supermarkets), aluminum began to take markets away from steel, plastic from glass, and so forth.

Oligopolistic market structures, when they are stable, will ordinarily discourage price competition (which is apt to hurt all parties) and naturally give rise to phenomena like price leadership when overt collusion to fix prices is not feasible. Oligopolistic market structures tend to become unstable, however, when foreign enterprises enter the market and when technological change makes it possible for new competitors to emerge from other industries, as when aluminum replaces steel or plastics replace glass in a range of industries. When new sources of competition emerge, firms are forced to become much more concerned with reducing production costs. As U.S. firms increasingly found themselves in this situation in

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17 Statement by Charles Wilson, former President of General Motors, during his confirmation hearings as Secretary of Defense under President Eisenhower.

the 1970s and 80s, the high costs of labor and the rising costs of regulation became increasingly intolerable. Under such circumstances, there was no way in which the capital-labor and capital-citizen accords could be sustained. In other words, muted competition, a key component of the postwar SSA, was necessary for two of the other core components to become established and to persist.

The financial institutions that played such a great part in the postwar golden age—and the low and stable interest rates associated with them--were also unsustainable when the other institutions and the external environment changed. The financial legislation of the 1930s and the Bretton Woods agreement of 1944 had created the national and international basis respectively for the low rates. With the economic recovery abroad forcing a move from fixed to floating exchange rates and a sharp decline in the value of the dollar, inflationary pressures grew strongly from the late sixties, abetted by the Vietnam War and the spikes in the price of energy associated with the rise of OPEC in 1973 and the Iranian revolution in 1979. The stagflation of the 1970s in turn gave rise to Federal Reserve Bank efforts to control inflation by deliberately increasing short-term interest rates in the early 1980s, while double-digit inflation rates led to 30-year Treasury bond rates in excess of 14%. Sharply rising interest rates also contributed to a sharp increase in financial crises among U.S. corporations.

Although the components of America's postwar SSA can be differentiated, then, it is clear that they were mutually reinforcing. The capital-labor and capital-citizen accords brought labor peace and minimized regulatory threats, enabling U.S. corporations to benefit from the expanding global economy that Pax Americana helped to create. Low interest rates and limited competition at home and abroad had the same effect.

In addition to the mutual reinforcement provided by the different components of the postwar SSA, the role of economic theory as ideology must also be acknowledged. Keynesianism provided the intellectual glue for America's "golden age," bringing with it widespread acceptance of a major role for government in the economy. Like everything else, of course, this acceptance was overdetermined, with the rise of the Cold War playing a major role. Even aside from military spending, however, the government took a major role in the economy through social security, the G.I. bill, the interstate highway program and other infrastructure spending. The increase in and stabilization of aggregate demand to which government spending contributed also played a leading role in the postwar SSA.18

This brief review should help to make it clear that the set of institutions that sustained postwar prosperity was interdependent, with each institution overdetermined by the others with which it interacted, the prevailing ideology and by exogenous events. The postwar social structure of accumulation, then, constituted a structure precisely because of this process of overdetermination, and the collapse of the entire structure can readily be understood in terms of the interaction among (1) changes in the other SSA institutions, (2) the development of internal contradictions in several of its components, and (3) the impact of exogenous events. According to the logic of this argument, then, we do not have to posit a core institution, event or set of institutions to understand the logic underlying the structural integrity of an SSA.

18 While Keynesian ideology took the leading role in supporting the various elements that made up the postwar SSA, every SSA tends to generate its own economic and social ideology, an ideology that interacts with those elements in a way that supports them and contributes to their evolution.

Why SSAs require many years to construct and why they endure many years

According to the argument just presented, the emergence of each institution in an SSA is shaped by a multiplicity of factors. Although the American family is not one of the SSA institutions, the changes that took place within it over the course of the twentieth century illustrate both the diverse nature of the forces at work and the reasons for which changes that take place can do so only over an extended period of time. During the better part of the twentieth century, a gender division of labor prevailed among “middle-class” married couples, with the husband serving as the "breadwinner" and the wife responsible for taking care of the household and child-rearing. When women did participate in the paid labor force, it was normally before marriage, when no husband was present, or when the husband was unable to earn enough to support the family. From the 1960s especially, however, it became increasingly common for both husband and wife to participate in the paid labor force. This reflected a wide range of forces: the movement for equality between the sexes, the fact that "middle-class" living standards could no longer be maintained by one salary, technological changes that reduced the time required for housekeeping and its physical burden, institutional changes such as the spread of "fast-food" restaurants, the increasing frequency of divorce making it clear to women that they could not afford to be wholly dependent financially, and so forth. By the end of the century, the nature of the family and the roles expected within it had changed dramatically.

This example suggests both that institutions in the broader sense of established customs and habits are overdetermined, and that changes in them are apt to come very slowly, both because expected patterns of behavior become deeply ingrained and because the forces that overdetermine them change slowly over time. There is also, it should be noted, a feedback effect. As more women enter the labor force and have less time for household tasks, and as single-parent households become increasingly prevalent, the demand for fast food and the number of restaurants providing it increases, supermarkets and restaurants increasingly provide items like prepared salads and entire meals for take-out, and so forth.

This example of the changing nature of the family in twentieth-century America and of the roles expected within it could be extended indefinitely, but the point it is intended to demonstrate should already be clear. Institutions by their nature are slow to form and slow to change. Moreover, other institutions in society may impede change. Thus, for example, young professionals are typically expected to display their dedication to their institutions and profession as a condition for advancement. Physicians doing residencies, junior executives working for large corporations and law firm associates, among others, are expected to put in extremely long hours if they hope to establish their professional credentials and be promoted. Thus even men who acknowledge their equal responsibility for childrearing and taking care of the household may find themselves torn by their participation in institutions (in the narrow sense) with competing demands, further slowing the pace of institutional change (in the broad sense).

An understanding of the tensions engendered by competing loyalties further contributes to our understanding of why new institutions are slow to form and tend to endure for prolonged periods once formed. Struggles among competing interests typically accompany the processes of institutional formation and change, and these struggles are apt to be prolonged and marked by partial victories rather than by decisive ones. Enterprise managements tend to believe that demanding less of their employees will cause their labor costs to rise and their profitability to be harmed, so they tend to resist changes that would accommodate the new family structure characterized by two breadwinners. Legislation like the Family and Medical Leave Act (1995) may be passed despite such resistance, but the accommodation of the new family structure this represents remains quite limited in practice.

Despite the solid reasons for expecting institutional change to be a prolonged process, some authors remain unconvinced that SSAs can explain long waves. Terrence McDonough (1994), for example, argues that SSA theory "is more adequate as a theory of stages of capitalism than of specifically long waves" (p. 72), and that there is no reason why the period of expansion initiated by an SSA is necessarily long (p. 78). He finds "unsatisfying" the argument presented by Gordon, Edwards and Reich (1982) that institutions by their very nature are durable (p. 75). While McDonough is certainly correct in agreeing with GER that each SSA represents a distinct stage in the development of capitalism, his dismissal of the argument that institutions by their very nature are durable appears questionable in the light of the discussion above. Although he is clearly correct in arguing that there is no reason why the period of expansion associated with the establishment of an SSA is necessarily long—the length of a given SSA expansion will be governed by the intensity of its internal contradictions and the impact of exogenous events—we can normally expect an established SSA to persist over a more or less extended period.

If institutions are thought of as habits and customs--and the associated patterns of behavior that people expect of others and of themselves--then of course they will be slow to change. If a specific set of institutions emerges at a particular historical juncture that encourages rapid accumulation, that set of institutions will tend to endure for a prolonged period, and thus will be associated with a prolonged period of relative prosperity. There are numerous reasons for which such institutions tend to be especially long-lived. All institutions tend to be prolonged through mutual expectations. In Japan, for example, when people meet or are introduced they bow, whereas in the United States they shake hands. Not bowing or extending one's hand is regarded as impolite, so people tend to perpetuate the respective institutions without giving it a second thought. Over time, however, institutions can and do change. On social occasions, people in the U.S. often greet one another with a hug or a kiss on the cheek; this institutional change has been going on for decades in the U.S., but it is still far from complete and tends to exclude business greetings.

SSA institutions have additional supports. Most importantly, every SSA creates broad groups of beneficiaries. In America's postwar SSA, for example, labor received rising real wages, pension and medical benefits, and seniority rights that protected long-term workers from lay-offs. Companies benefited from labor peace, managerial rights to introduce more productive equipment, and high profit rates. Those who benefit from the existing SSA characteristically seek to sustain it and oppose public policy initiatives or any other changes that could undermine it. Moreover, the dominant ideology that characterizes each SSA—Keynesianism in the postwar U.S.—provides support to its component institutions. Thus the capital-citizen accord required a major role for government in assuring the lives of senior citizens and in taking responsibility for a wide range of social problems. This made it difficult to cut back dramatically on the role of government in the economy.

For all of these reasons, SSAs tend to be long-lived. They do not, however, endure indefinitely. Change is the inevitable result of internal contradictions emerging within the institutions, changes taking place in the full range of social processes, changes in historically contingent exogenous circumstances, and the overdetermination that characterizes the relations among institutions and between a given set of institutions and exogenous conditions.

There is no specific time period for which an SSA will last, as its durability will depend on the strength of the individual institutions and the overall structure, as well as the counteracting strength of the forces that ultimately undermine it. Although SSAs tend to be durable, therefore, the periods for which they remain in place may vary widely.

If we consider the postwar SSA and its subsequent collapse starting around 1970, we can readily apply these principles to account for both the period of prosperity and the period of subsequent stagnation being relatively prolonged. Fractious labor relations harm business profits and make them less certain. Once the capital-labor accord was established in the postwar period, both sides developed a vested interest in its maintenance. With labor expecting job security and rising real wages, any unilateral effort by business to eliminate job security or wage increases would have met fierce resistance, and there was no reason for business to enter into such a struggle as long as it was able to maintain high profitability. With inflation heating up from the late 1960s, however, and with foreign competition beginning to intensify, business firms found themselves unable to meet the demands of labor while sustaining profitability. In this context, class struggles began to intensify and the capital-labor accord collapsed.19

Pax Americana was favorable to U.S. business interests, but the era of fixed exchange rates and the widespread use of the U.S. dollar as a reserve currency also facilitated the postwar recovery of the other industrialized nations and the emergence of the Asian tigers, which adopted domestic institutions that helped them benefit from the stable international order provided by U.S. hegemony (perhaps most notable among these is the establishment of government authority to direct low-interest loans to export-oriented firms). Once the more rapidly growing countries abroad reached the point where they could provide a competitive threat to U.S. firms, however, U.S. hegemony and the regime of fixed exchange rates could no longer be preserved. The point that requires emphasis here is that given the length of time required for the industrialized economies to recover and for the exports of the emerging countries to reach a critical mass, and given the size of the U.S. economy--which could absorb rising imports for an extended period before domestic enterprises were broadly threatened--any challenge to U.S. hegemony could emerge only over a matter of decades.

The capital-citizen accord was also something that was not subject to collapse in a short period of time. Overdetermined by the general prosperity of the golden age, the capital-labor accord, U.S. hegemony, and the other institutions that constituted the postwar SSA, the capital-citizen accord remained strongly entrenched for most of the golden age. As the supporting conditions weakened, however, and as environmental consciousness grew apace with evidence of environmental deterioration, suspiciousness of business and social activism (spurred by the racial equality and anti-Vietnam War movements of the 1960s), conditions were set in place for growing regulation of business activity, conditions that could only weaken profitability and increase uncertainty.20 Changes of this type are inevitably spread over a prolonged period of time.

Finally, to grasp the forces prolonging periods of prosperity and the subsequent periods of relative stagnation, it is important to recognize the broad impact of such periods on

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19 A more complete account of these struggles appears in my essay "Class struggles and the reinvention of American capitalism in the second half of the twentieth century," Review of Radical Political Economics, vol. 36, no. 3 (Summer 2004), pp. 336-343.

20 For a discussion of the rise of regulation from 1969, see my book, Capitalism (London: Routledge, 2005), pp. 57-59.

social relations. Lengthy periods of prosperity create many beneficiaries, including various social classes and other groups. Capital enjoys rising profits, labor enjoys rising wages, marginalized social groups enjoy rising employment opportunities, rising tax receipts enhance the capacity of government to provide social services benefiting different groups, and so forth. The many beneficiaries of an SSA have a vested interest in its continuation and thus have a strong motive to act to preserve it.

Despite this, internal contradictions and exogenous changes prevent SSAs from being sustained indefinitely. When an SSA collapses, the social consensus that helped sustain it is fragmented as well, and a period of intense social conflicts ensues. These conflicts include, but are not limited to, class conflicts. In seeking to restore and enhance profitability, firms seek to lay off workers and limit the wages of those who remain; workers attempt to resist this. But at the same time, in a more competitive labor environment, measures like affirmative action are increasingly challenged by those who claim to be victims of "reverse discrimination." Opportunities for women are apt to be more circumscribed, and the longer hours expected for professional success have a disproportionate impact on women, given their family responsibilities. Limited tax receipts intensify competition among potential beneficiaries: should taxes be used to shore up social security, improve education or help farmers? Or should tax reductions be implemented to benefit homeowners, those in high marginal brackets or taxpayers in general? Such conflicts are intensified during periods of general stagnation and sluggish growth. They cannot be solved easily or quickly. Moreover, numerous elements of the institutions that comprised the previous SSA inevitably remain, together with their beneficiaries and the thought processes they engender. In the 1970s and ‘80s, for example, U.S. workers perceived it as “unjust” that their real wages were not rising and unions tended to cling to bargaining tactics that were no longer viable in an era of intense global competition. Thus the establishment of a new SSA can only follow a more or less prolonged period of social conflict, during which time a new set of institutions marking a new stage in capitalist development can be established.

The foregoing discussion should help to clarify the reasons for which SSAs require many years to construct and why they endure many years. If institutions are thought of primarily as habits, customs and expectations--which properly they should be--then institutional change must require an extended period of time to come about. Although specific SSAs can vary widely in length, then, SSA theory can provide an explanation for the long waves that have characterized the history of capitalist development, as well as for capitalism's distinct stages.

The role of class conflict in SSA formation and collapse

David Kotz (1994: 55) argues that the stabilization of class conflict and competition is at the core of SSA formation. Class conflict is of course one of the main social struggles that characterize capitalist society, and we can see its impact in the example provided above, with firms seeking to extract the maximum value from the labor power they hire conflicting with the need of workers to meet simultaneously their own needs and the other social demands placed upon them. Privileging class conflict to the exclusion of other social conflicts, however, limits our understanding of the nature of an SSA and of the time required to form one.

Gender and racial conflicts provide obvious examples of other struggles that impact SSA formation. We should also keep in mind that society is the site of numerous other struggles, all of which impinge necessarily on its institutional structure and SSA formation.

Social security and Medicare, for example, involve transfers from those presently working to the elderly, and the exploding costs of these entitlements have increased taxes on those who are working for the benefit of those who are retired (they also involve a potential shift in resources from other dependents in society such as young children). Unless substantial changes are made in these entitlement programs, tax rates can be expected to grow substantially over the course of the twenty-first century. The struggle between those who are retired (or near retirement), those who are working and (indirectly) young children is not a class conflict, but it clearly affects the process of SSA formation by raising business costs and taxes, thereby reducing profitability and the resources available for accumulation.

Another example of nonclass struggle playing a role in SSA formation (or dissolution) is provided by the role of environmental movements. Environmental regulations can influence business costs and revenues in a wide range of industries--and indeed in industry in general--when they mandate treatment of factory wastes, limit logging, increase compliance paperwork and so forth. Environmental issues may also play a role in other nonclass conflicts, such as that between urban and agricultural interests over the use of water. Thus, for example, industrial development in the city of San Diego has been constrained by the high cost of water, which is well over ten times the cost paid by agricultural users in much of California.21

Just like class struggles, intergenerational, environmental and other nonclass struggles play out over decades and are marked by partial victories for either side. When a resolution to class and nonclass struggles is reached that permits satisfactory profitability and predictability, SSA formation is enhanced. Such resolutions may involve compromise agreements (as in the capital-labor accord), or they may involve victory for one side--as long as the outcome favors accumulation by making investment both profitable and predictable.

The new SSA in the U.S. was formed during the 1980s and 90s, and dates from around 1995. As the discussion below of this SSA will demonstrate, it is possible for capital to crush labor in their ongoing struggles and still retain favorable conditions for accumulation as long as the exogenous conditions are suitable. During the 1980s and 90s, strong growth in some of the less developed countries and the growing participation of formerly communist countries in the capitalist world economy created rapidly expanding markets for U.S. companies. This meant that the demand for their products and services became less dependent on the level of domestic demand, so that stagnant real wages at home became consistent with the increasing profitability of investment.

When considering the reasons for which SSAs collapse, both class and nonclass struggles play major roles. As the discussion of the collapse of the postwar SSA in the U.S. shows, however, historical contingency (such as the rise of OPEC) and the emergence of internal contradictions within the institutions that constitute the SSA can be of comparable importance. In the case of Japan, growth based on government-supported export prowess was ultimately undermined by the inevitable floating of the yen and then its appreciation. In understanding the processes of SSA formation and collapse, then, it is helpful to recognize

21“Many California farmers still pay the government $2 to $20 per acre-foot for water, which represents as little as 10 percent of the full cost of the water, although some farmers are paying more as contracts are revised (e.g., $35 per acre-foot). For new projects built or proposed by the Bureau of Reclamation, water costs are between $250 and $500 per acre-foot” (National Resources Defense Council 2004, 5). In southern California, water costs are higher than in other parts of the state, and those in San Diego are among the highest in southern California.

that nonclass as well as class struggles play a role, and to recognize the manner in which both processes are overdetermined.

The formation of a new SSA in the U.S. in the 1980s and 90s

While it is always somewhat arbitrary to provide a fixed date for the start and ending of an SSA expansion, a result of the ongoing changes in social institutions and external conditions, the new SSA in the U.S. can be thought of as starting around 1995, with important social struggles and institutional changes during the 1980s and 90s leading up to it. I have argued elsewhere (Lippit 1997) that there is clear evidence that a new SSA was formed in the United States during the 1980s and 90s. I would like here to review this argument briefly from the standpoint of the theoretical positions elaborated above. This review is meant to demonstrate (1) the manner in which the various institutions that make up the SSA are overdetermined by the other institutions with which they interact, as well as by exogenous circumstances (historical contingency), accounting for the structural integrity of the new SSA; (2) the role of class and nonclass struggles in the formation of the new SSA; and (3) the reasons for which the process of SSA formation is necessarily prolonged, and for which the new SSA can be expected to endure for a prolonged period of time, creating a new long wave upswing.

The elements of the new SSA are as follows:

1. The strengthening of capital relative to labor.
2. A change in financial institutions favorable to investment.
3. Deregulation.
4. Institutional changes in the nature of the corporation marked by restructuring, downsizing and reengineering, as well as by ongoing reforms in corporate governance[22].
5. Smaller government.
6. An increase in international agreements to facilitate international trade and investment.
7. Capital markets favorable to small, entrepreneurial companies.

After briefly elaborating the nature of and evidence for each of these component elements of the new SSA, I will return to a discussion of the manner in which the new SSA illuminates the theoretical points at issue. First, however, the argument that a new SSA has indeed been formed must be defended in light of the economic weakness that followed the collapse of the U.S. stock market bubble in 2000 and the recession that took place in 2001.

Historically, business cycles in the U.S. have lasted about five and a half years, with SSA cycles roughly ten times that length. Business cycles continue to occur within SSAs, then, but they tend to be less frequent and milder than when they take place during periods of SSA collapse. During the latter periods, economic crises are apt to be more severe and recessions may turn into depressions. During the 1990s, by contrast, the U.S. experienced its longest peacetime expansion in history. When recession finally did arrive in 2001, it

22 Corporate governance was not included in the initial article. I am indebted to Michael Reich for his essay pointing to its significance, “Social Structure of Accumulation theory: Retrospect and Prospect,” Review of Radical Political Economics, vol. 29, no. 3 (Summer 1997), pp. 1-10. Since his article appeared, issues of corporate governance have been at the forefront of business news, especially since the collapse of Enron and WorldCom at the start of the 21st century.

remained relatively mild, with unemployment reaching a peak of only 5.7% of the labor force in 2001 (in a lagged response to the recession it did rise as high as 6.3% in 2003; Bureau of Labor Statistics website, www.bls.gov) despite a stock market collapse (beginning in March 2000) unequaled since the Great Depression. The strong institutional support an SSA provides the economy, then, does not disappear during periods of economic weakness, but serves to contain the duration and magnitude of that weakness.

The following review of the new SSA in the U.S. should help to clarify the very concept of an SSA as a set of institutions supporting accumulation, as well as to provide an empirical basis for elaborating the theoretical argument presented here. The discussion is keyed to the seven core elements identified above.

1. The strengthening of capital relative to labor.

A key element in the postwar SSA was the capital-labor accord, which represented a rough balance of power between the two sides. In the new SSA, capital has achieved a position of supremacy in the renewed struggles between the two sides. The very possibility of this outcome has been strongly influenced by two exogenous factors in particular: globalization and the information technology revolution.

Globalization weakens the bargaining power of labor by increasing the possibilities for outsourcing or moving production overseas. Moreover, by enhancing the importance of overseas markets, it makes firms less dependent on domestic demand, thus overcoming the macroeconomic contradiction that would otherwise be posed by sluggish growth in domestic real wages. At the same time, the ongoing revolution in information technology reduces the demand for low-skilled labor in production even while production of the capital equipment itself has limited labor requirements. Semiconductors, for example, are at the core of this technological revolution, and their production is divided between highly capital-intensive plants, some now costing over two billion dollars each, and labor-intensive final stages that are characteristically completed in low-labor-cost countries in Southeast Asia.

The story of labor's weakened position in the U.S., represented symbolically by President Reagan's firing of the air traffic controllers in 1981 and the collapse of the bitter Caterpillar strike in 1994-95, is amply supported by the evidence.23 Union membership in the private sector fell from 16.5% of the labor force in 1983 to 9.0% in 2000 (Bureau of the Census 1996, 436; 2001, 411), the number of workers involved in major strikes fell from an annual average of 1,145 thousand between 1975 and 1979 to 293 thousand between 1996 and 2000 (Bureau of the Census 2001, 410), real wages remained stagnant between the mid-1970s and the mid-1990s, and corporate profits as a share of national income rose from 7.5% in 1980 to 10.6% in 2000 and 11.2% in 2004 (Bureau of the Census 1996, 449; 2001, 422 & 501; Economic Report of the President 2006, 313), a phenomenon reflected in the extraordinary bull market in common stocks that occurred between 1982 and 2000. Even after the end of the bull market, in the first decade of the 21st century, profit rates for American corporations reached profit levels not seen since the 1960s (Economic Report of the President 2006, 313).

23 See my essay cited in note vi.

2. The change in financial institutions favorable to investment.

Under the two chairmen of the Federal Reserve Bank during the 1980s and 90s, the focus of Federal Reserve policy turned almost exclusively to controlling inflation, a response in large measure to the double-digit inflation that emerged at the end of the 1970s. Whereas previously interest rate policy had pursued dual goals, sustaining economic activity as well as limiting inflation, the new focus on inflation created a prolonged period of disinflation throughout the 1980s and 90s, bringing down interest rates in its wake. The federal funds rate (the key short-term rate controlled directly by the Fed) fell from an annual average of 11.21% between 1981 and 1985 to 5.46% between 1996 and 2000 (Bureau of the Census 1996, 520; 2001, 737). The lower interest rates contributed to the increase in corporate profitability, while the lower inflation they reflected--the consumer price index fell from an annual average increase of 8.9% in the 1976-80 period to 2.5% in the 1996-2000 period (Bureau of the Census 1996, 483-484; 2001, 453)--created an environment that encouraged investment by enhancing the predictability of investment outcomes.

While the formal structure of the Fed did not change, the change in its behavior is tantamount to the creation of a new institution. With business firms increasingly confident that the Fed would keep inflation under control, their ability to plan long-term investments was greatly enhanced. Moreover, with the Fed having established its credentials as an inflation-fighter, long term interest rates have remained modest (the 10-year government note is at 4.6% at the time of this writing in September 2006), keeping corporate financing costs quite low. Early indications are that the 2006 appointment of Ben Bernanke to succeed Alan Greenspan as Fed Chair will result in continuation of the Fed's anti-inflation focus.

3. Deregulation.

Toward the end of the postwar period of prosperity, the public became increasingly conscious of the negative externalities of business activities. The increase in environmental concerns was perhaps preeminent, but other social movements from consumer protection to gender and racial equality all played a part in the increasing regulation imposed on business from the late 1960s. However worthy its objectives, regulation imposes additional costs on business, decreasing profitability and discouraging investment; as I have noted above (p. 13), small firms spent an average of $5,784 per employee to comply with federal regulations in the early 1990s. The movement toward deregulation actually began in the late 1970s with the abolition of the Civil Aeronautics Board (which had set airline fares for interstate travel and limited competition), but it gathered speed during the Reagan era. Deregulation lowers business costs, but it is often also associated with an increase in investment opportunities, as well as with competitive pressures that drive increased investment. The changes in the telecommunications industry provide a ready example of the spur to investment that a move from regulated monopolies to competition can provide.[24]

4. Institutional changes in the nature of the corporation.

During the 1980s and 90s, increases in competition (both domestic and international) provided a severe challenge to corporate profitability and even survival. Under these

24 The reconfiguration of the U.S. telecommunications industry was facilitated in the quarter century following 1981 (the break-up of the old AT&T), by falling and then low interest rates, and by the weakness of labor relative to capital that facilitated employee layoffs.

circumstances, the movements toward corporate restructuring, reengineering and downsizing came to be regarded as imperative. Management theories that had favored the rise of conglomerates were discarded as companies sought to focus on their core competencies, while the intensity of competition also forced companies to rethink in a fundamental way the manner in which they carried out their production activities. The result is that U.S. companies have became much more efficient and much more competitive in global markets, providing a spur to investment. This remained true despite the constraint on exports initially posed by the strong dollar (which has reversed course and generally been weakening since 2003) and the weakness in overseas economies during the early years of the twenty-first century; without the increased competitiveness, the impact on the U.S. economy would have been much greater.

Changes in corporate governance have also played a major role in the new SSA. Initially, the emphasis was on aligning management and shareholder interests, especially through the granting of extensive stock options to senior managers. The power to grant stock options was abused, however, and both boards of directors and outside auditors became too closely linked to senior management to protect the interests of shareholders. During 2002, in the aftermath of the stock market collapse, widespread improprieties in corporate behavior and governance came to light. The collapse of such leading firms as Enron and WorldCom were widely covered in the press and created strong pressure for corporate governance reform. The Sarbanes-Oxley Act of 2002 required corporate CEOs to personally assume responsibility for the accuracy of their companies' financial statements and a new oversight board was created within the SEC. Institutional investors took the lead in seeking corporate governance reform, including pressuring corporations to have a majority of their board members independent. With regard to the current SSA, the point of interest here is the relatively vigorous response that appeared in response to the weaknesses in corporate governance that were revealed. An SSA is more likely to remain healthy and endure when strengthened by vigorous responses to external changes or exposed institutional deficiencies.

5. Smaller government.

Government spending as a share of national income has not in fact changed significantly during the 1980s and 90s, although the federal share did decline in the 1990s, following the end of the Cold War. It is significant, however, that discretionary spending has been slashed at the federal level, and that state and local governments have been under severe political pressure to restrain spending. Large tax cuts in 2002 promise to continue spending restraint at the federal level, and the stock market collapse and recession following 2000-2001 curtailed state and local revenues sharply, followed by severe cuts in state and local services. By checking increases in government spending, the prevailing sentiment for smaller government has contributed to a combination of tax reductions and smaller tax increases when increases are unavoidable. Low taxes cut business costs, encouraging investment. Since public investment is often complementary to private investment, however, whether in infrastructure or education, smaller government may well have contradictory long-run effects that ultimately undermine the current SSA.

6. An increase in international agreements to facilitate international trade and investment.

From broad, multilateral agreements like the World Trade Organization to regional agreements like NAFTA and APEC, the U.S. has participated in ongoing efforts to liberalize international trade and investment. Such agreements spur investment by opening up markets abroad, by encouraging foreign direct investment in the U.S., and by strengthening the position of capital relative to labor, which cannot press its demands for improved wages and benefits too strongly for fear of seeing production moved abroad or an increase in foreign outsourcing.

In constant 2000 dollars, real exports rose from $323.5 billion in 1980 to $1,120.3 billion in 2004, with real imports rising from $310.9 billion to $1,704.0 billion in the same interval; exports plus imports as a share of (real) gross domestic product rose from 12.3% to 26.0% in this period (Bureau of the Census 2005, 443). At the time of this writing (September 2006), however, the "Doha" round of negotiations in the WTO appears to have virtually collapsed. This is a reminder that even when a given SSA appears firmly in place, the various institutions that compose it are subject to ongoing social struggles and exogenous developments that may ultimately contribute to its collapse. Although the industrialized countries would be the main beneficiaries of a new trade-expanding agreement, powerful agricultural interests in both Europe and the United States have thus far refused to make sufficient concessions to make a deal feasible. Once again a nonclass struggle—here between agricultural interests on the one side and industrial and service corporations, their employees and consumers (potential beneficiaries of lower agricultural and general import prices) on the other—is one of the numerous ongoing struggles that help determine the duration of each and every SSA.

Capital markets favorable to small, entrepreneurial companies.

The existence of a strong venture capital industry in the U.S. and the ease with which relatively new firms can "go public," with their shares listed on the Nasdaq exchange, helps to create an institutional environment conducive to entrepreneurship and investment. U.S. companies have long enjoyed an advantage over their European and Japanese counterparts in this respect, but the revolutions in information technology and biotechnology in particular have imbued this advantage with a new significance. From 1992 through June 1996, 3,000 U.S. companies became public with initial offerings that raised more than $150 billion, whereas from 1990 through June 1996 fewer than 150 European companies became public (*Wall Street Journal*, 9/20/96, p. A14). From the standpoint of SSA analysis, we may regard these technological revolutions as exogenous factors that serve to strengthen existing institutions and transform their role.

By the late 1990s, it was apparent that a new SSA had been formed in the U.S., with the strong rise in investment providing an important part of the evidence. Table 1 below shows the year-over-year increases in nonresidential fixed investment (in real terms) between 1992 and 2005.

Table 1: Percentage increases in nonresidential fixed investment, 1992-2005

Year	Inv. increase	Year	Inv. increase	Year	Inv. increase
1992	3.2%	1997	12.1%	2002	-9.2%
1993	8.7%	1998	11.1%	2003	1.3%
1994	9.2%	1999	9.2%	2004	9.4%
1995	10.5%	2000	8.7%	2005	8.5% (preliminary)
1996	9.3%	2001	-4.2%		

Source: *Economic Report of the President 2006*. Wash. D.C.: US Government Printing Office.

The fall-off in investment in 2001-2 reflects the recession of 2001. Aside from this cyclical decrease, these figures stand in marked contrast to the investment increases at the end of the 1980s, when the annual increase for 1987-89 (non-recession years) stood at -1.1%, 4.4% and 4.0% (Bureau of the Census 1996, 445).

This brief review of the new SSA in the United States can serve as the basis for further illustrating the theoretical assertions concerning the nature of SSAs that have been presented above.

SSA theory in the light of the newly-constructed SSA in the U.S.

I have argued above that the structural integrity of SSAs must be understood in terms of the concept of overdetermination, with each component institution overdetermined by its interaction with exogenous forces (historical contingency), the full range of social processes and the other institutions that compose the SSA. I have also argued that with class and nonclass struggles playing a key role in the formation, durability and ultimate collapse of each SSA, the entire cycle is necessarily played out over a prolonged period of time, enabling SSA theory to account for the long waves that have characterized capitalist economic growth. Analyzing the process of forming a new SSA in the U.S. during the 1980s and 90s can help to demonstrate the validity of these assertions.

With the collapse of the capital-labor accord that marked the postwar SSA, a collapse related to sharply higher competitive pressures faced by American business in the 1970s and 80s, American workers found their real wages stagnant for some two decades into the mid-90s (as noted above). Under "ordinary" circumstances, the failure of real wages to grow can lead to a crisis of underconsumption, for even though profits in production are high, it is difficult for firms to sustain real sales growth. Increasing globalization, however, tended to remove this macroeconomic constraint, since the growth of markets abroad could substitute for the sluggishness of domestic demand. At the same time, the growing awareness of labor that production could be outsourced or moved abroad to lower-wage countries forced it to mute its wage demands. These trends were further reinforced over time by the continuing growth in competition associated with globalization and technological change.

Chrysler was saved from bankruptcy only by a government bail-out at the start of the 1980s, while IBM, the premier growth company of the postwar era, was able to survive only through a drastic downsizing a decade later. Throughout corporate America, competitiveness and even survival required corporate restructuring and thoroughgoing reconsideration of the manner in which production and ancillary activities were carried out. This brought about a change in the nature of the corporation and in the expectations of employees. The increased strength of capital vis-à-vis labor, then, was tied to (overdetermined by) globalization, the change in the nature of the corporation, the increased competition associated with deregulation, technological change, and a host of other social processes and institutions.

The changed behavior of the Fed to focus almost exclusively on constraining inflation grew out of the stagflation experience of the 1970s and the double-digit inflation that emerged at the end of the decade. In one sense, then, it can be seen as a response to the collapse of the previous SSA and the long-wave downturn that ensued. The disinflationary policies of the

1980s and 90s, however, can also be tied to contemporary developments. Ongoing globalization and the rise in competition associated with it required a policy change that could enhance the competitiveness of American firms if more severe crises were to be avoided. At the same time, these same forces diminished inflationary pressures, making it possible for the Fed to maintain its anti-inflationary stance even while lowering interest rates gradually over time. Disinflation, with a concomitant, if lagged, decline in interest rates, helped to reduce business costs and enhance competitiveness.

I have already indicated that deregulation is tied to the issues of competitiveness and globalization. I have used the word "tied" intentionally, since causality moves in both directions. Deregulation increases competititiveness, for example, while the competitive environment increases the pressures for deregulation. Deregulation is also tied to the enhanced strength of capital vis-à-vis labor. One consequence of regulation in the past, for example, was to limit price and nonprice competition in fields like transportation, telecommunications and electric utilities. If firms were not strong enough to enhance their profitability by restructuring and dismissing unneeded workers, deregulation could well have been disastrous for the entrenched firms in these fields.[25] Deregulation opened up many more new opportunities for profitable investment than would have been possible if labor were strong enough to protect jobs and increase real wages.

Both deregulation and the change in Fed behavior were also influenced by the change in the intellectual climate that accompanied the stagflation of the 1970s. This change in climate can be thought of as yet another exogenous factor that overdetermined these institutional changes. During the 1960s and 1970s, Keynesian influence was widespread in public policy. Keynesian theory, however, with its focus on aggregate demand, cannot provide a satisfactory explanation of stagflation. In the 1980s, supply-side economics came to exert a strong influence on public policy. For all its shortcomings--supply-side economics underlay the substantial budget deficits of the 1980s by assuming that tax cuts would generate a much larger increase in aggregate supply than in fact they did--supply-side economics contributed to the intellectual environment within which deregulation and disinflationary monetary policy could flourish. The prevailing opinion shifted from the "golden age" view that emphasized the role of government in sustaining aggregate demand to one that emphasized creating favorable conditions for an increase in aggregate supply to emerge in the private sector. Just as Keynesian ideology underpinned America’s postwar SSA, supply-side ideology plays a comparable role in helping to sustain the current SSA.

Deregulation and a mandate for disinflationary monetary policy were not the only consequences of the shift in intellectual climate. The commitment to smaller government was of course also associated with it. The higher taxes associated with a more forceful role for government spending in sustaining aggregate demand could now be challenged as inimical to supply-side doctrine. This provided intellectual support for the populist movement against taxes and government expenditures, a movement that emerged out of the stagflation of the

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25 An instructive counter-example is provided by the privatization of France Telecom, France’s leading telecommunications provider. Since the firm was initially fully owned by the state, some two-thirds of its workers have jobs guaranteed for life. As new technologies make an increasing proportion of such jobs unnecessary, the company’s bloated cost structure makes it difficult to protect itself against domestic competition or to expand as it would like into other parts of Europe. The company has approached its problem in an innovative fashion, helping employees who wish to do so to start their own businesses (but it will take them back if they fail within the first three years). Although the program has been a success to date with about one thousand employees helped to switch careers, and other major French companies have similar plans, the proportion of workers involved remains quite small (Wall Street Journal, 8/14/06:A1) and overstaffing continues to leave the firm at a competitive disadvantage. With a considerably more flexible labor market, firms in the United States are much better situated to take advantage of deregulation by restructuring their operations.

1970s. The 1980s' tax cuts that ensued favored those with high incomes and capital in particular relative to labor, which saw payroll taxes rise and payroll tax exemptions maintained for incomes above moderate levels; the growing strength of capital vis-à-vis labor was clearly reflected in this outcome.

The changes in the nature of the corporation were also tied to the growing power of capital. I have already noted how this facilitated the corporate movement toward restructuring and downsizing. Another dimension to this process is reflected in the contribution of the financial markets. Falling interest rates facilitated the growth in leveraged buy-outs. These buy-outs typically led to financial windfalls for the acquiring firms or individuals, often at the expense of their workers as jobs were slashed to free-up resources to service debt; that is, capital benefited at the expense of labor. In an especially great irony, "overfunded" corporate pension plans of the acquired firms were often raided to pay down debt and increase the profits of the acquiring capitalists.

The increase in agreements to facilitate international trade and investment reflected the shift in the sources of enterprise profit growth from U.S. hegemony and muted competition that characterized the postwar SSA to realizing the profit potentialities afforded by growing overseas markets and the international outsourcing of production inputs, the latter of which, not incidentally, weakened the bargaining power of labor. Deregulation, falling interest rates and corporate restructuring all played a part in enabling U.S. firms to increase their competitiveness and realize the advantages of a more liberal international order.

Capital markets favorable to small, entrepreneurial companies already existed prior to the new SSA, but came to assume a special significance as the focus of technological change shifted to information technology and biotechnology. Since new firms in these fields especially depend on research and development before they have products ready to market, the existence of a large network of venture capital firms and the possibilities for initial public offerings on the Nasdaq market give them a competitive advantage relative to comparable firms in the other industrialized countries.

The nature of technological change is most closely tied to this component of the new SSA. Although technological change is treated here essentially as an exogenous factor, this is admittedly a simplification, for technological change is also tied to the other institutional factors noted, influenced by them and influencing them in its turn. The historic bull market in common stocks that took place between 1982 and 2000 reflected the improving profit prospects of U.S. firms, which in turn were tied to the growing strength of capital vis-à-vis labor. The increase in stock market valuations increased the availability of venture-capital funds and facilitated initial public offerings, helping to finance research and development--and the introduction of new technologies. The increase in stock market valuations reflected falling interest rates, a consequence of Fed behavior, as well as rising profit rates. Globalization and the increase in international agreements increased the market potential of new firms both directly and indirectly--indirectly because larger firms found themselves under pressure to enhance their competitiveness with computer-related and other technology that is often provided by newer firms. The reengineering process, which often involves firms focusing on their core competencies and outsourcing a growing share of their needs for intermediate goods and services, also tended to open market possibilities for smaller, entrepreneurial firms. In sum, the various components of the new SSA interacted in mutually supportive fashion.

Conclusion

My main objective here has been to address several key theoretical questions concerning the nature of social structures of accumulation. Since these questions cannot be addressed solely in the abstract, I have used extensive examples from the postwar SSAs in the U.S. and Japan, and from the new SSA that was formed in the U.S. during the 1980s and 90s. In concluding, I would like to reexamine briefly the theoretical questions in the light of these examples.

The first question posed concerns the manner in which we can account for the structural integrity of SSAs. Answers presented in the literature include the hypothesis that SSAs start with a core set of institutions which then shape subsequent institutional development, and one that asserts that each SSA is based on a key institution or event that gives the fully-elaborated SSA its character and structure. I have suggested that both of these positions are unsatisfactory, and that the concept of overdetermination provides a more satisfactory rationale for the structural integrity of SSAs.

That is to say, each institution that composes a given SSA is overdetermined by the other institutional components of the SSA in question, and in turn contributes to overdetermining them. The discussion of America's new SSA in particular should help to clarify the nature of these interactions. The process of overdetermination, however, is not limited to the impact of other institutions. Exogenous developments--I have emphasized here the role of globalization and technological change--also play a role in the process of overdetermination, as do the full range of social processes and struggles that characterize any given social formation. An SSA derives its structural integrity from this process of overdetermination.

A given SSA is simply a particular institutional structure--a constellation of institutions, as it were--that favors investment. Since each component institution is overdetermined, it will be influenced by all the forces contributing to this overdetermination, as well as by any internal contradictions that it engenders. Thus, for example, U.S. hegemony and muted competition were key elements of the postwar SSA, but the worldwide recovery to which they contributed made them unsustainable, a clear example of an internal contradiction contributing to the collapse of an SSA. SSA collapse, however, is also the product of exogenous developments, the outcome of social processes and struggles, both class and nonclass, and changes in other institutions.

Thus, for example, the Vietnam War and the rise of OPEC can be thought of as basically exogenous events that contributed to undermining the postwar SSA, in large measure by helping to usher in the era of stagflation in the 1970s.[26] In addition, after 1963, the 1960s witnessed a rise in social struggles, first over civil rights and then over the Vietnam War. Social struggles increased in a variety of arenas, reflected in the environmental movement (as the negative environmental consequences of the postwar expansion became increasingly manifest, another example of an internal contradiction undermining an SSA) and in the workplace, as workers sought to maintain the growth in real wages to which they had become accustomed while firms, seeing their profits threatened by the stagflationary environment, became more resistant to labor's demands.

The capital-citizen accord collapsed as environmental and other regulations became increasingly common. As one consequence of this, for example, nuclear power plant

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26 In the last analysis, nothing is completely exogenous. Both the Vietnam War and the rise of OPEC, for example, were tied to American foreign policy. Treating these events as essentially exogenous, therefore, is simply a device for making the analysis more manageable.

construction projects were delayed interminably and often cancelled, damaging utilities directly and raising energy costs for user firms at the very time that rising fossil fuel costs were having the same effect. Faced with rising costs and increased competition, firms found themselves unable or unwilling to sustain their commitments to the capital-labor accord. Thus the collapse of the entire structure that constituted the postwar SSA can be tied to the overdetermining influences of internal contradictions, changes in other institutions, the impact of class and nonclass struggles, and changes in exogenous conditions (historical contingency).

The long periods required to establish new SSAs and the long duration of SSAs once established can readily be understood in this context. By their very nature, new institutions--that is, new habits, customs and expectations--cannot be established overnight. They emerge through a process of class and nonclass struggles, and are overdetermined by changes in other institutions, social processes and exogenous events. Those who do not consider themselves beneficiaries of the new institutions carry out ongoing struggles to stall, divert and transform them. Consider, for example the domination of capital over labor that marks the new SSA, which stands in sharp contrast to the capital-labor accord of the postwar SSA.

Key moments in the progressive weakening of labor, as noted above, were marked by President Reagan's firing of the air traffic controllers in 1981 and the collapse of the Caterpillar strike in 1994-95, when replacement workers were brought in. The key issue for the United Automobile Workers (UAW) in the Caterpillar strike was "pattern bargaining": the union had reached a settlement with John Deere and Co., which also makes farm and construction equipment, and felt that Caterpillar should adhere to the same general terms. Caterpillar, however, focuses on construction equipment, and considered Komatsu of Japan to be its chief rival. Caterpillar's corporate strategy was to use the U.S. as its main production base for sales on the world market. Caterpillar felt that giving in to union demands would make it uncompetitive on world markets.

Between the failure of these two key strikes, the proportion of private-sector workers who are union members fell sharply, while the steep reduction in the number of labor-days lost to strikes reflected the changed expectations and reduced militancy of unionized workers. As the Caterpillar strike itself shows, however, the ascendancy of capital was achieved only in the context of ongoing struggles, with labor often attaining partial victories. Thus, for example, General Motors had far higher production costs per vehicle than Ford and Chrysler during much of the 1980s and 90s, reducing its competitiveness, but the UAW was able to prevent it from reducing employment and increasing outsourcing as rapidly as it wished. In the late 1990s, moreover, the unions remained strong enough to bring political pressure to bear to frustrate the Clinton administration’s attempts to gain "fast track" authority to negotiate new trade agreements.

During the 1980s and 90s, the declining power of unions was intensified by the increased globalization process, which strengthened the restructuring resolve of companies threatened with foreign competition and determined to take advantage of the new market opportunities opening up abroad. At the same time, the disinflationary commitment of the Fed led to very high interest rates in the early 1980s, which drove the value of the dollar up sharply to its peak in 1985, further reducing the competitiveness of U.S. firms--many of which found their very survival in question--and strengthening their determination to reduce labor costs. Also during this period, ongoing technological change was reducing the labor requirements per unit of output in the traditional high-wage industries, so that by the mid-1990s there were as many people employed in the (nonunionized) chicken processing industry (about 220,000 workers) as in the (heavily unionized) steel industry (*Wall Street Journal*, 12/1/94: A1). It was in this context that the class struggles between capital and labor were carried out; naturally the process of forming a new SSA requires an extended period of time.

In Japan, both class and nonclass struggles continue to impede the formation of a new SSA (although reforms since 2003 especially may mark the beginning of the formation of a new SSA). The slow progress of reform in Japan comes despite the widespread acknowledgment of the need for change. The beneficiaries of the previous SSA are characteristically hostile to changes that would undermine their status, security or income. The bureaucracy, for example, strongly resists any reduction in its authority, and is supported by many politicians who themselves have emerged from the bureaucracy. The bureaucracy is also supported by the many firms that fear--often with good reason--the advent of a more competitive market economy. In the labor market too, reforms face the opposition of vested interests. The older members of the labor force are the current beneficiaries of Japan's "lifetime" employment and seniority systems. It is quite natural for them to resist efforts to make the labor market more flexible. Over time, however, as many older workers retire, the overstaffing and mismatch of job skills that characterized the Japanese economy in the 1990s has diminished, making modest labor market reforms more feasible.

In the financial realm, the legacy of the collapse of Japan's postwar SSA was a greatly weakened banking and financial system which could be restored to health only at great cost, and the question of who would bear this cost--the taxpayers, the enterprises themselves or members of their *keiretsu* business groups—required a lengthy period to sort out. In addition, consolidation of the financial services industry is difficult to accomplish and is still under way. Thus the intense struggles to create a new institutional structure continue to require a prolonged period of time before they can be resolved.

Once a new SSA is established, it tends to endure because many beneficiaries are created in a period of prolonged prosperity, and because habits and customs tend by their very nature to be enduring. The system of "lifetime employment" in Japan, for example, emerged early in the twentieth century when the larger firms sought to reduce the costs imposed by the rapid turnover of skilled workers. By reducing training and recruitment costs, and by increasing the commitment of employees to their firms, the system proved beneficial to both capital and labor for an extended period. By the 1990s, however, many firms were finding their flexibility hindered by the lifetime employment system and the seniority-based promotion system that had grown up to accompany it. The problems were intensified by the fact that while there were many young, newly-hired and lowly-paid workers in the period of rapid growth from 1955 to 1970, by the 1990s the aging structure of the labor force tended to raise labor costs disproportionately. Nevertheless, "lifetime employment" was viewed as a commitment by both capital and labor--and indeed by society as a whole--and thus firms did not feel themselves free to change their behavior at will.

To choose a very different example of the tendency of institutions to persist, and thus of SSAs once formed to endure, one could consider the example of (U.S.) capital markets favorable to small, entrepreneurial firms. A large part of venture capital is provided by people who have themselves been successful with start-up firms and then sold out. The success of many new firms--in information technology especially, but also in other industries--increased the readiness of investors to provide capital, either at the venture capital stage or when stocks became publicly traded; that is, success tends to breed success. This process, of course, reached an excess as the stock market bubble peaked at the turn of the century. The market's collapse, however, did not in itself indicate the collapse of the new SSA, nor did it indicate that the U.S. economy was destined to repeat the experience of the Great Depression or that of

Japan following its market collapse. At the time of this writing (September 2006) this seems highly unlikely, since the other elements of the new SSA are, by and large, still functioning effectively and since reform in areas like corporate governance remains vigorous.

The endurance of the new SSA in the U.S. is also promoted by the ability of the institutions that characterize it to generate supportive changes in other institutions. Thus under the new SSA, the demand for and wages of people with selected skills tend to increase. Educational programs and practices (e.g., computers in elementary school classrooms) tend to change accordingly, as do career expectations. Another example of a "successful" institution creating its own constituency can be found in the changed behavior of the Fed. The disinflationary policies followed by the Fed ultimately contributed to bringing down interest rates, benefiting corporations, homeowners and others. When a new Chairman or even Board members are proposed for the Fed, they are now unable to gain Senate approval unless they are considered to have strong anti-inflationary credentials. Through interactions like these, we can readily see how successful SSAs can be self-perpetuating, generating long-wave upswings in capitalist economies that may well last for decades.

The understanding of SSAs provided here is thus anti-essentialist. Each SSA--and the institutions that constitute it--is overdetermined by the broad array of extant institutions, social processes and struggles, and exogenous forces/historical contingency. SSAs tend to endure for prolonged periods of time because they tend to generate favorable changes in related institutions, because success tends to generate supporting constituencies, and because institutions are by their very nature slow to change. Ultimately, however, all SSAs do collapse, as internal contradictions emerge and as the social forces and institutions that overdetermine them change. When collapse occurs, a prolonged period of struggles, both class and nonclass, is required before a new SSA can be constituted. The long waves of expansion and stagnation that capitalist economies experience can thus be understood as an expression of SSA formation and collapse, with each SSA constituting a distinct phase in capitalist development.

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5. CLASS, CRISIS, AND THE THEORY OF A SOCIAL STRUCTURE OF ACCUMULATION, *Martin H. Wolfson*[27]

The free-market model, or neoliberalism, is dominant in the United States and in the global economy. Using the social structure of accumulation (SSA) theory to understand neoliberalism poses somewhat of a challenge, because neoliberalism does not fit neatly into the categories created by SSA theory.

By most accounts, the postwar social structure of accumulation (SSA) in the United States was in crisis in the 1970s. Neoliberalism is not a continuation of that crisis, because it is a settled institutional structure that has been in existence since at least the early 1980s. On the other hand, it is difficult to call neoliberalism a new SSA because economic growth under neoliberalism has been subpar, contrary to the expectation of strong economic growth from a new social structure of accumulation.

Trying to understand neoliberalism using SSA theory leads to a reconceptualization of the theory, building upon the class contradictions between capital and labor. The central idea is that the temporary stabilization of these class contradictions leads to the creation of long-lasting institutional structures. These structures, seen in the context of Polanyi's Adouble movement, are characterized either by regulation or the free market, depending on whether labor can challenge capital's power, or whether capital dominates labor. An additional hypothesis is that regulated institutional structures tend to develop profit-squeeze crises, while free-market institutional structures are plagued by underconsumption crises.

The next section summarizes the relevant elements of SSA theory The following three sections develop the alternative theory, using the concepts of class contractions, Polanyi's double movement, and capitalist crises. The fifth section reinterprets the post-World War II economy in the United States using the alternative theory, and the concluding section summarizes the reconceptualization of SSA theory.

SSA Theory

Early formulations of SSA theory emphasized the stability provided by an institutional structure. Gordon, Edwards, and Reich (1982: 23) say that "Without a stable and favorable external environment, capitalist investment in production will not proceed. We refer to this external environment as the social structure of accumulation. . . . The social structure of accumulation consists of all the institutions that impinge upon the accumulation process". As Kotz (1994a: 91) notes, however, Ait is difficult to find the principle of integration of the various institutions, except that they are all good for accumulation in some way, and each tends to reinforce the others.

Nonetheless, the stability of the institutional structure encourages capitalist investment and economic growth. But eventually the institutions cease to contribute to growth: either growth destabilizes the institutions, or else the institutions provide a barrier to further growth. The economy, however, Aretain[s] the same social structure of accumulation once it has

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begun to display diminishing returns (Gordon, Edwards, and Reich, 1982: 34; emphasis in original). It is only a restructuring of institutions that can overcome the crisis: Awe can define an economic crisis as a period of economic instability that requires institutional reconstruction for renewed stability and growth (Gordon, Edwards, and Reich, 1982: 30). In all, each SSA constitutes a specific stage of capitalism, with periods of growth and crisis each lasting approximately 25 years.

Later formulations of the theory focused more on ways that the institutional structure enhanced capitalist power: AThe institutional structure of the postwar social structure of accumulation in the United States was consolidated in such a way as to enhance the political-economic power of the capitalist class (Bowles, Gordon, and Weisskopf, 1990: 167). Capitalist power leads to profits: Aprofits are made possible . . . by the power of the capitalist class over other economic actors ; profits, in turn, are necessary for growth: Acapital accumulation . . . is fundamentally conditioned by the level and stability of capitalist profitability (Gordon, Weisskopf, and Bowles, 1987: 44).

There are difficulties in applying either formulation of SSA theory to the current neoliberal regime, although events in the postwar U.S. economy up through the 1970s can readily be explained. In the late 1960s, with a strongly growing economy and an international environmental that limited corporate price increases (due to competitive pressures in the context of a fixed value of the dollar), labor was powerful enough to raise wages and decrease corporate profits. From the point of view of the earlier formulation, this eroded the capital-labor institutional relationship and thus the postwar SSA; from the latter point of view, it was a direct challenge to the corporate power that formed the basis of the SSA. A period of crisis emerged in the 1970s. Corporations and unions fought over the distribution of income, and the wage-price spiral of the 1970s was evidence of the inability of either party to gain the upper hand. Although the institutions of the postwar SSA had not been displaced, they were no longer functioning to promote either stability, profitability, or economic growth. The postwar SSA was in crisis.

However, by the early 1980s, both corporate power and a new institutional structure were well on their way to being restored. Restrictive monetary policy had increased unemployment, and the rising dollar had encouraged the movement of production abroad. The new Reagan Administration had promoted permanent replacement workers, a general hostility toward unions, market deregulation, tax cuts for the wealthy, and the rollback of protective labor regulations. In the creation of the free market economy in the U.S., and the neoliberal economy worldwide, power had shifted decisively from labor to capital.

Moreover, neoliberalism is certainly a new institutional structure, in the sense that the rules for how economic actors behave have been clearly and definitively rewritten. Corporations know that there will be little interference from the government regarding their labor or environmental policies or their location decisions. Banks and other financial institutions know that regulatory walls no longer restrain their attempts to integrate financial services. Institutional investors, now free of capital controls, know that they can roam the globe in search of the highest return.

From the perspective of the earlier formulation, the new institutional structure should have brought both stability and economic growth. From the perspective of the later formulation, greater corporate power should have brought higher profitability and economic growth. However, growth rates of GDP in the neoliberal era have remained significantly lower than those during the postwar SSA. Without growth, it is hard to call the neoliberal years a new SSA.

So why didn't the new institutional structure and enhanced corporate power promote economic growth and a new SSA? Bowles, Gordon, and Weisskopf (1989) have an insightful explanation: the Acosts of keeping people down limited profitability, and thus economic growth. Although corporate power shifted income from labor to capital, the campaign to do so implied increasing unemployment and maintaining relatively low levels of capacity utilization (see also Crotty, 2000). An idle capital stock reduced the rate of profit, as measured by profits per unit of invested capital. Although this analysis provides a reasonable explanation for why economic growth has been sluggish, it still leaves us with questions about how to fit the neoliberal era into the SSA framework.

Nor is it clear how to look for a new SSA. What specific institutional structures need to be created in order to usher in a new SSA? The elements of the postwar SSA, according to Bowles, Gordon, and Weisskopf, are the capital-labor accord, pax Americana, the capital-citizen accord, and inter-capitalist rivalry. But we are cautioned that these four institutional structures Aapply concretely *only* to the postwar United States (Gordon, Weisskopf, and Bowles, 1987: 57; emphasis in original). They are not necessarily the basis for a new SSA. In order to understand where to look for the institutional structures that would constitute a new SSA, we need a more general approach.

The theory of a social structure of accumulation is enormously important in understanding capitalist development. But in order to understand the neoliberal era, and to gain understanding about how a new SSA might be created in the 21st century, some modifications to SSA theory are needed. I suggest these below, under the following headings: class contradictions, Polanyi's Adouble movement, and capitalist crises.

Class Contradictions

The rationale that Bowles, Gordon, and Weisskopf provide for their choice of the four postwar institutional structures involves a battlefield analogy. Profits are seen as Athe spoils of a three-front war fought by capital in its dealing with workers, foreign buyers and sellers, and the state (or indirectly with the citizenry) (Gordon, and Weisskopf, and Bowles, 1987: 46). Inter-capitalist competition is relevant because it affects the ability of capital to wage war.

This perspective sees the postwar institutional structures as the outcome of conflicts over corporate profits. Similarly, Gordon, Edwards, and Reich (1982, 31) argue that the emergence of Aa successful new social structure . . . will reflect the alignment of class forces (and other social influences) that produce it. David Kotz (1994a: 55) points out that A[w]hat the social structure of accumulation does is to stabilize class conflict and channel it in directions that are not unduly disruptive of accumulation. These are important insights. I argue, somewhat more generally, that *all* the stable institutional structures of a capitalist society, including those characterized by neoliberalism, represent the (temporary) stabilization of the central contradictions of capitalism.

What, then, are these contradictions? The first is the fundamental contradiction in capitalist society, that between capital and labor. The others include contradictions within capital and within labor (representing conflicts and the struggle for unity within each group), and the international dimensions of these contradictions. By contradiction I mean a dialectical relationship between two groups, which may or may not be an antagonistic conflict. The two groups in a contradiction are always in struggle with one another, although there can be a temporary equilibrium, a temporary stabilization of the struggle.

There are advantages of analyzing a social structure of accumulation from this perspective. It provides a more systematic way to understand the development of a new SSA; the stabilization of these contradictions should form the basis for each SSA. It also provides a role for important contradictions that have not had a prominent place in traditional analysis of the postwar SSA. These include struggles for unity within the working class, such as those involving race and gender, and those between workers in the developed countries and those in developing countries. These also include contradictions involving financial capital: between financial and nonfinancial capital and within financial capital.

However, it is not obvious how this perspective addresses the issue of economic growth, and thus the issue of a social structure of accumulation. It leads most directly to a theory of different institutional structures. In other words, the free market environment of neoliberalism represents a new institutional structure reflecting the temporary stabilization of the main contradictions in U.S. capitalism. Similarly, the postwar SSA represented a different stabilization of these contradictions, and thus a different institutional structure. But can we say anything more about the nature of these structures, and their relationship to an SSA?

Polanyi's Double Movement

Polanyi's theory of the Adouble movement represents part of the answer. In *The Great Transformation* (Polanyi, 2001), originally published in 1944, Karl Polanyi argued that the movement to create a laissez-faire economy, to separate the market economy from the rest of society, would inevitably be opposed by an opposite movement. This opposite movement is a reaction to the excesses of the free market, to the poverty, social disintegration, and instabilities that the free market inevitably creates. It is a movement to Aembed the market economy within the broader society, to regulate the market economy and rein in the power of capital. It clearly represents at least a partial victory for labor and its allies. On the other hand, the free market economy represents the dominance of capital over labor.

It is instructive to compare Polanyi's regulated and free market economies to the postwar and neoliberal institutional structures. The postwar structure was built upon the principle that the free market economy needed to be regulated, and the power of the working-class movement and union organization in the 1930s played an important role in its creation. For example, in response to the collapse of the free market economy of the 1920s and the massive unemployment of the Depression, the labor market was regulated by the creation of the CIO and labor legislation to endorse collective bargaining and improve conditions of work (the Wagner Act and the Fair Labor Standards Act). In response to the collapse of the banking system in the early 1930s, financial institutions were regulated with passage of banking legislation, such as the Glass-Steagall Act that separated commercial and investment banking. In response to the devastation and collapse of the world economy, the international monetary system was regulated with the agreements at Bretton Woods.

In contrast, the more recent neoliberal structure represents the resurgence of the power of capital and the dismantling of many of the regulatory advances of the postwar economy. Labor union strength has greatly diminished and protective labor legislation has been eroded. Glass-Steagall and Bretton Woods are both gone. The free market agenda of privatization, liberalization, and deregulation has been aggressively pushed on the rest of the world.

I take it as a working hypothesis that the stabilization of the contradictions of capitalism has a certain coherence, which is represented either by the principle of the free market or the principle of regulation. Moreover, that coherence is shaped in large part by the stabilization of the fundamental contradiction between capital and labor. In other words, if labor is strong enough to regulate its interactions with capital, it is likely that financial markets will be regulated as well; if capital can dominate labor and force workers to compete with each other, it is likely that financial markets also will be subject to heightened competition.

Capitalist Crises

But capital can be too Astrong, as Gordon, Weisskopf, and Bowles (1987: 43) point out. Capital can shift the balance of power and the distribution of income so much in its favor that aggregate demand declines. As a result, the economy can be plagued by problems of underconsumption. Also, capital can be too Aweak. Due to increased power by labor and others, profits can fall, leading to a profit squeeze crisis and a decline in investment and economic growth.

At the end of the postwar SSA, in the late 1960s, the strongly growing economy further enhanced labor's power. And as Gordon, Weisskopf, and Bowles (1987, 49-50) point out, capital's power and profits were also challenged by international competitors and domestic movements for occupational safety and health, environmental protection, and consumer product safety, among others. A profit squeeze crisis was the result. After a decade of inconclusive struggle in the 1970s, capital was finally able to get the upper hand in the early 1980s. But, as noted earlier, the need to restrain aggregate demand to defeat labor led to a chronic underconsumption problem.

I take it as another working hypothesis that free market periods are characterized by underconsumption problems, since they involve the domination of labor by capital and the transfer of income from labor to capital, and that the end of regulated periods are characterized by profit squeeze crises, as labor further consolidates the power it has.

A likely stabilization of the profit-squeeze crisis may be a reaction by capital to restore its power. And since free market periods are characterized by underconsumption, a likely resolution of this crisis may be a reaction by labor to restore its power (which, under capitalism, would be a sharing of power with capital), which could shift the distribution of income in its favor and address the underconsumption problem. Although there is nothing logically necessary about either of these conclusions, and more detailed historical investigation is necessary, it does seem that there has been a tendency for U.S. history to be characterized by an alternation between free market and regulated periods (Kotz and Wolfson, 2004).

Reinterpreting the Postwar Economy

What, then, does the above analysis mean for neoliberalism? I conclude that neoliberalism is neither a crisis of the old SSA nor a new SSA. It is a new institutional structure that represents the dominance of capital over labor. It is not a crisis of the old SSA because the old SSA is gone. It is not a new SSA because it has not restored economic growth. Moreover, it is plagued by chronic underconsumption problems.

The decade of the 1970s was a period of struggle in which neither capital nor labor was able to gain a decisive advantage. It was a crisis of the old SSA.

The regulated economy of the postwar period was an institutional structure that represented a balance of power between capital and labor. It avoided the twin problems of underconsumption and profit-squeeze crises (at least before the late 1960s), and was able to achieve economic growth. It was, indeed, a social structure of accumulation.

It is important to note that the postwar SSA did not represent the dominance of labor over capital. (Such dominance by labor would have the power to challenge the very institutions of capitalism.) The reforms of the postwar period were, in fact, supported by capital. It supported reforms to stave off more radical outcomes in the turbulent times of the 1930s. It supported the regulation of labor markets to bring order and stability to the oligopolistic industries of the postwar period. It supported the stimulation of aggregate demand in order to promote sales for its products.

Moreover, capital manipulated the reforms to its advantage. It bargained collectively with labor unions in the postwar period, but traded that recognition for union acceptance of management control of decision-making. It stimulated aggregate demand, but forced the stimulation through the funnel of business tax cuts that benefitted the corporate bottom line.

As noted by Bowles, Gordon, and Weisskopf (1987, p. 50): AAn expanded role for the state in providing for citizens' needs was suitably circumscribed by the capitalist principle of profitability as the ultimate criterion guiding public policy. This was certainly true of the reforms of the postwar period, but the conclusion to be drawn is not that the postwar SSA represented an increase in the power of capital. It is that the postwar SSA demonstrated increased power for labor in the context of a capitalist economy. Both capital and labor used the machinery of the state to craft a regulated institutional structure that represented their balance of power.

Likewise, the state has been used in the neoliberal era to enforce the relevant power relations. A Afree market era does not mean that the state withdraws from the economy, in order to let the market work more freely. It means that the state creates institutional structures to implement the domination of capital over labor. It actively rolls back protective labor legislation, adjusts the tax code to benefit corporations and the wealthy, protects corporations (like the pharmaceutical industry) from lawsuits, pressures other countries to eliminate capital controls and other barriers to foreign investment, and uses diplomatic and military power abroad to protect that investment.

Capitalists have a decided advantage in a capitalist economy: they own the capital. As a result, they also have more income and wealth. They can use their privileged position toinfluence the state to their advantage, both when they share power with labor and when they dominate labor.

Before concluding this section, we should note the existence of the so-called ANew Economy. Do the strong growth rates (before the 2001 recession) that have accompanied the emergence of the New Economy since 1995 indicate that we are entering a new SSA? I would argue that this is not the case, for two reasons. First, the basic free-market institutional structures have not changed since 1995, and second, the 1995-2000 growth spurt was based on relatively temporary and unsustainable developments (Kotz and Wolfson, 2004).

Reinterpreting SSA Theory

To conclude, I briefly summarize the possible modifications of SSA theory that are implied by the above analysis:

1) Relatively long-lasting institutional structures under capitalism represent the temporary stabilization of capitalism's class contractions.
2) These structures have a coherence, represented either by regulation or the free market.
3) The coherence is shaped by the stabilization of the capital-labor contradiction. In a capitalist economy, the free market is due to the dominance of capital over labor, whereas a regulated structure results from a balance of power between labor and capital.
4) The regulated structure, because it avoids both the problems of underconsumption and profit-squeeze, experiences economic growth. It is the social structure of accumulation.
5) There is a tendency for free market periods to lead to regulated periods, and vice versa.
6) Therefore, a regulated institutional structure (new SSA) should be on the agenda, due in part to a reaction by labor to redress the free market's inequality and social dislocation, and to a need for capital to consolidate the results of its competitive shakeout under a regulated economy.

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6. Meta-Theory: Critical Realism and Social Structures of Accumulation Theory. *Brian O'Boyle*[28]

"If Marxism without detailed social scientific and historical work is empty, then such work without Marxism (or some such theory) is blind" (Bhaskar, 1998, p.44).

"We need hard intellectual work (informed by critical realism) and dedicated political practice to make socialism the reason of our time" (Bhaskar, 1989, p.10).

"the task suggested by critical realism is to develop a Marxist-informed social science which recognises the ubiquitous importance of capitalism but is also sensitive to its relationship with other structures" (Lovering, 1990, p.48).

Introduction

Although Marx began his career in philosophy, he quickly abandoned it as overly speculative, concentrating instead on more practical historiographical research. Thus, while deeply versed in Western philosophy Marx was primarily a substantive theorist and consequently his methodological position though often profound, remained underelaborated, scattered and partly implicit. Of particular significance is that Marx never theorised his ontological position or more specifically never managed to clearly outline the distinction between the'object in reality' (ontology) and the'object in knowledge'(epistemology) (Bhaskar 1991).29 And this has led to the deleterious result that subsequent Marxists have generally neglected ontological enquiry altogether, while often leaning toward subjective problems such as class consciousness and alienation.30 Indeed it is telling, that even Althusser who made his reputation as the formost defender of Marxist philosophy rarely managed to venture beyond the realms of epistemology.

Critical Realism as elaborated by Roy Bhaskar among others since the 1970's seeks to redress this ontological deficiency by making a categorical distinction between an 'intransitive' domain, which is real and exists independently of our cognition and a 'transitive' one consisting of socially produced knowledge. Moreover as the transitive dimension is concerned with elaborating knowledge of the real, it is clear that ontological enquiry is both prior to and has primacy over epistemology.31 Once this is appreciated it allows the recovery of Marx's realism and in fact Bhaskar's own position is heavily indebted to the scientific realism implicit in Capital. However, Bhaskar has broken new ground by developing the coherence of classical Marxist philosophy to a point were critical realism can effectively "provide the absent methodological fulcrum of Marx's work" (Bhaskar, 1991, p143). While clearly a valuable contribution in its own right this also illuminates the implicit ontological presuppositions of the SSA approach, which as a neo-Marxian account of capitalist accumulation has not only followed Marx in affirming the predominance of underlying structures, but also in failing to adequately elaborate its own methodological

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[29] Bhaskar does nevertheless concede that Marx was groping towards this in the *Grundrisse.*
[30] Lucacs, Satre and virtually all of the Frankfurt school exemplify this trend within Marxism.
[31] In stressing the primacy of being over thought critical realism is affirming the Marxist position on the impotence of purely speculative philosophy.

position. Therefore, the principal focus of this chapter will be to underpin the SSA approach with an explicit critical realist methodology and once this is achieved, to contribute to a number of debates both within Marxism and within critical realism itself.

The chapter develops as follows: section one outlines the broad contours of Bhaskar's philosophy of science which is composed of a transcendental realist account of the natural world and a critical naturalist account of social science.32 Section two will engage with a relatively autonomous CR project to outline the contribution made by Tony Lawson amongst others in elucidating the common ontological positions of (most) heterodox schools within economics. Section three will attempt to synthesise the first two sections by looking at the influence of both heterodoxy and CR for SSA theory . Section four extends the analysis of critical realism by broadening the focus from philosophy of science in the transitive domain to emancipatory projects in the intransitive one.Finally section five will elucidate the relationship between Marxism and critical realism contending that as long as the connection is adequately conceived there exists a reciprocally beneficial relationship for the achievement of their common aims.

Section one

Critical Realist Philosophy of Science

Critical realism is an open research programme in the philosophy of science, originally elaborated in 'A Realist Theory of Science' (1975) as an immanent critique of positivist natural science.33As such, Bhaskar begins by accepting the ubiquity and importance of scientific activity and then asks the transcendental question-what must the world be like in order to sustain the reality of successful experimentation and the successful application of the resulting knowledge outside of experimental control? As Holland (2005) relays, the problem for positivism is that-following the Humean theory of causality-it asserts that the aim of science is to record naturally occurring constant conjunctions of events in the empirical domain. However, given the openness of the natural environment, it seems that the strict event regularities of the type required are rarely apparent, and as such the history of science has been one of attempting to artificially produce the required conditions by closing an open system. Moreover, as Bhaskar points out, scientific activity is significant precisely because there is a disjuncture between ordinary knowledge gleaned from experience and the scientific knowedge discovered in experimenatal conditions. Finally there is the further anomaly (from a positivist perspective) that the results of these experiments can be applied even when the conditions of control have been relaxed.34

Transcendental Realism offers a solution to this problem by positing a multi-layered conception of reality in which the positivist ontology of events and experiences is augmented to include a causally efficacious layer of underlying structures and generative mechanisms. Whilst causally significant these structures are generally unobservable and it follows that the

[32] Transcendental realism uphold the principle that there is a real world independent of our cognition of it and in contrast to empirical realism this is not exhausted by events and our experiences of them but also includes causally efficacious underlying structures. While critical naturalism is an attempt by Bhaskar to apply this transcendental realism to the social realm.

[33] Although it has subsequently become a critique of positivsm as the dominant ideology in capitalist cultures see Collier (1994, p. 101-04).

[34] This follows from the fact that the "constant conjunction view of laws leaves the question of what governs events outside of empirical situations not only unanswered but completely unadressed" (Lawson, 1994, p267).

proper task of science is not the identification of strict event regularities of the type whenever x then y, but the uncovering of underlying structures responsible for these events. Moreover, in an open system where events are generally overdetermined by a myriad of often countervaling influences, a structure or power may not be manifest, and as such the three levels of reality35 will almost always be unsynchronised or 'out of phase' with each other. If this is the case then experimental activity can now be understood as an attempt to bring the levels of reality 'into phase' through the isolation of a particular causal mechanism. And the successful application of the resultant knowledge stems from the fact that the structures and mechanisms are 'intransitive'36 and are consequently operative as tendencies even if they are not always empirically observable. In short then, by conducting a transcendental enquiry into the possibility of science Bhaskar has revealed that the natural world must be structured, stratified37 and differentiated. But what about the social domain? On further reflection it turns out that the major tenets of his ontological analysis do carry over into the social realm if only in a qualified way, such that "the social sciences can be sciences in the same sense as the experimental sciences…but in ways which are different" (Bhaskar, 1993, p.155).38

In the Possibility of Naturalism (1979), Bhaskar argues for a (limited) naturalistic social science that is capable of supplanting the many dualisms he believes are characteristic of the human sciences.39 The existence of human intentional action40 provides the entry point and a further transcendental exercise reveals that social structures are both drawn upon (and thus prior to) and ultimately transformed by (and thus dependent on) human agency. Thus, Bhaskar's 'transformational model of social activity' (TMSA) avoids the twin dangers of voluntarism and determinism by providing an account of agency and structure which is based on mutual interdependence and the irreducibility of either agency or structure to the other.41 Moreover, by advancing a thesis based on the pervasiveness of human intentionality Bhaskar also makes the case for the open nature of the social realm. This flows from the fact that intentionality presupposes choice under some description and that choice if it is to be real must imply that one might have acted differently. Thus the social realm is rendered open and historically contingent and the resulting social structures are only ever relatively intransitive.

This in turn points to one of the reasons for a limited naturalism in the social realm as "social structures unlike natural structures do not exist independently of the agents conceptions of what they are doing in their activity" (Bhaskar, 1979, p38). Rather agents in

[35] The three levels are the empirical (experience and impression), the actual (actual events and states of affairs) and the real (structures, powers, mechanisms and tendencies).

[36] Causal mechanisms are intransitive if they exist, endure and act independently of the process of their identification. See Lawson (1997, p25).

[37] Stratification refers to the fact that the structures and mechanisms are ordered in a certain was so that there is a stratification or layering of society and consequently that there are multiple levels of causal mechanisms as oppossed to the one level posited within empirical realism.

[38] There are in fact ontological, epistemological, relational and critical limits to naturalism see Hartwig and Sharp (1999) p. 19 for a useful summary.

[39] In Norris (1999) Bhaskar lists these dualisms as principally between positivism and hermeneutics, but also between collectivism and individualism, structure and agency, reason and cause, mind and body and fact and value. Lawson (1997) adds voluntarism and determinism.

[40] As experimental activity is impossible in the social sciences, human intentional action functions as the entry point as it is a widely accepted (an thus relatively unproblematic) criteria for phenomena regarded as social.

[41] The TMSA model is related to Giddens model of structuration in that Giddens posits the duality of structure ie. structures as both condition and consequence of action. While Bhaskar adds the duality of praxis in that the dual feature of action is both motivated production and unmotivated structural reproduction. However as Joseph (1998) explains social structures have emergent properties and so can not be reduced to particular practices and rules as in Giddens' approach.

their daily activity are continually (often tacitly) reproducing and occasionally transforming structures in an intrinsically dynamic process. Yet these structures are nevertheless real42, and although unobservable can be seen to be causally efficacious in the facilitation and constraining of observable human agency. Moreover, as Lawson contends "it is a general feature of experience: that there is a systematic disparity across individuals regarding the practices which are, and apparently can be, followed" (1997, p.163). Bhaskar following Marx, argues that this is due to the persistent relations into which individuals enter (or are placed), and that this facilitaes the sublation of another traditional dualism-between individualism and collectivism-in favour of a relational conception of society in which a matrix of internal relationships43 are constitutive of an essentially organic social system.

To sum up then, it has been found that the objects of enquiry for both the natural and social sciences are the underlying structures and generative mechanisms which are at least partially determinate of events in the empirical realm. And if this is the case, the conclusion which must be drawn is that reality is both stratified and differentiated and is best conceived of as an open and dynamic process. Moreover, it follows from the (TMSA) that the structures of interest in the social realm are only ever relatively intransitive (ultimately susceptible to transformation) and although susceptible to scientific investigation are inevitably geographically and historically situated. Finally, we saw that the numerous (often countervailing) causal mechanisms operating in the natural and social realms dictates that the constant conjunctions on which the positivist account of science depends will rarely if ever occur.

Critical Realist Knowledge Generation44

Given that the social world is intrinsically open and that strict event regularities are generally delimited to closed environments, the question arises as to exactly what type of scientific endeavour is envisaged under critical realism? One of the characteristics of an open social environment is that aleatory (or radical) uncertainty abounds45 and appreciating this fact implies that explanatory power must be the arbiter of theory selection as accurate forecasting is beyond our theoretical abilities. Indeed as one commentator has wryly remarked "it is a poor sort of memory that only works backwards" (McCloskey, 1986, p.67).Yet clearly theory building presupposes at least some order and would be completely redundant in a social realm of random, disparate and unique events. Therefore in as much as theory building can proceed it is worth quoting Lawson at length on the matter,

[42] Bhaskar points out that the although social structures are in some sense dependent on human conceptions there is a real difference between social structure as a concept and the real social structures themselves. For example class as a social structure would still be real and causally efficacious even in the absence of an adequate conception of it. Failing to adequately distinguish the two is the root cause of the problems within hermeneutics.

[43] Two objects are said to be internally related if "they are what they are by virtue of the reationship in which they stand to one another" (Lawson, 1997, p.164). Examples include landlord and tenant, teacher and student, parent and child etc. While the most important relationship in a capitalist society is the one between the capitalist and the proletarian it is also useful to remember that each of these categories are what they are by virtue of the relationship in which they stand to a third referent, namely the means of production.

[44] As the conditions for experimentation are absent in the social domain this section outlines how knowledge can be generated in their absence.

[45] "Aleatory uncertainty refers to a factual uncertainty (…). Epistemic uncertainty refers to an uncertainty existing because the mind has its opinions (…) and because it cannot comprehend more than a limited sphere" (Dequech, 2004, p.366). In this sense aleatory is akin to real or ontological uncertainty which exists independently of the agents cognitive abilities.

"The fundamental point here is that it is not the case that the only conceivable alternative to well controlled experimentation…is a totally unsystematic, incoherent, random flux. Over restricted regions of time-space certain mechanisms may come to dominate others and/or shine through….Although the social world is open, dynamic and changing, certain mechanisms may, over restricted regions of time-space, be reproduced continuously and come to be (occasionally) apparent in their effects at the level of actual phenomena, giving rise to rough and ready generalities or partial regularities" (Lawson, 1997, p.204).

Thus, partial regularities or demi-regs for short[46] are occasionally apparent at the actual level and it is the job of scientist to identify these and to attempt to account for them by moving retroductively from the surface level at which the phenomena was identified to the underlying causal mechanisms. In the initial phase of investigation, identification of the requisite demi-regs generally turns on the contrast between different groups or sets of data which prima facie should be expected to give broadly similar results, but actually reveal systematic differences. Once this is achieved the retroductive analysis can begin and a process of abstraction may take place in which the object of interest is momentarily individuated for closer analysis. This obviously entails abstracting away from those elements which are deemed inessential (for that particular epistemological exercise). However, in light of an overdetermined reality, epistemological limitations are acknowledged, and the knowledge which results from exploratory analysis is deemed to be both partial and revisable. Indeed the use of the retroductive method almost certainly ensures the corrigibility of knowledge as it involves a continual process of revision in light of the findings at deeper levels of reality. Effectively then the 'transitive' realm of knowledge is both fallible and relative. Yet in no way does this imply a nihilistic post modernism in which 'anything goes'. Rather, the realist orientation suggests that while our knowledge is always imperfect, there is a real world independent of our cognition, and consequently our theoretical propositions must stand or fall by virtue of the way the world is. As Bhaskar relays,

> *"There is no conflict between seeing our scientific views as being about objectively given real worlds, and understanding our beliefs about them as subject to all kinds of historical and other determinations. At the same time there will be a right and wrong of the matter in any one discursive domain, which defines the possibility of judgemental rationalism in the normative aspect of science"*. (Norris, 1999, p6 emphasis added).

This then allows for the possibility that historical and pragmatic considerations will play a role in the selection of theory (thus assimilating some insights of the strong programme of social constructivism) without having to relinquish the aspiration to ground our knowledge in ontological reality. And in the process succeeds in sublating another traditional dualism in the social sciences (between absolutism and relativism or modernism/postmodernism), in favour of an open and fallible research programme grounded in a search to uncover an independent reality.

[46] "A demi-regularity, or demi-reg for short is precisely a partial event regularity which prima facie indicates the occasional but less than universal, actualization of a mechanism or tendency, over a definite region of space-time" (Lawson, 1997, p204).

Section two

Critical Realism and Heterodox Economics

Over the last number of years a distinctive realist programme has been developed at Cambridge, which uses key insights from Bhaskarian philosophy of science to institute an orthodox/heterodox divide within economics. In particular, those involved in 'critical realism in economics' (CRE)47 have argued that in contrast to its rivals, neoclassical theory has relied far too uncritically on closed system modelling and that this has left the discipline in a serious state of disrepair.48 Moreover, they contend that these difficulties are irreparable given the centrality of mainstream formalism, and that as such there is little option but to seek an alternative that is both ontologically informed and socially relevant. Indeed, this is deemed all the more pressing in light of the mainstream's dominant academic position so that in addition to offering a methodological critique, the CRE project has also attempted to develop an alternative. Thus 'critical reralism in economics' is both critically explanatory and developmentally constructive (Lawson 1999a) and it is important to separate out these contributions so as to evaluate each on its merits. With this in mind the next section will concentrate on the constructive element which has been generally positive, while a later chapter will question the validity of Lawson's explanatory critique.

Situating the CRE project.

While the CRE project draws on insights from Bhaskarian philosophy of science, its members are predominantly economists with the common purpose of using critical realism to contribute to debates within economics. Thus, Lawson reveals the writings of Keynes, Marx, Hayek49 and Veblen (among others) have influenced the development of the programme, maintaining that "they have done rather more than this. In one form or another they already express many of the central tenets of the basic thesis (Lawson, 1997, p.xiii). While Fleetwood reiterates this point and goes further in declaring the CRE project "an autonomous programme and contribution in its own right (Fleetwood, 1999, p128), which "goes beyond the insights of philosophy of science, whilst remaining rooted in the writings of economists" (ibid). Thus there is a keen sense of identity within the project and this is not without its significance as by situating itself within heterodoxy CRE becomes part of a longstanding tradition that is both critical of the mainstream (and hence outside it) and constructively prescriptive. So the pertinent question becomes can the project contribute anything extra? It turns out that the answer is both yes and no and as such this section will elucidate the positive contribution which involves CRE's ability to underlabour for a more relevant economics.

[47] Tony Lawson is perhaps the best known representative of CRE while other members include, Steve Fleetwood, Clive Lawson, Paul Lewis, Stephen Pratten, and Jochen Runde. See Lawson (1997) for the definitive position of CRE and Fleetwood (1999) for development and debate.

[48] This can be most clearly seen in the numerous inconsistencies that plaque the mainstream and its general inability to produce meaningful social scientific knowledge (see esp. Lawson 1997 chapters 7-11).

[49] While Keynes, Marx, and Veblen can be comfortably accomodated within a critical realist framework Hayek with his avowal of methodological individualism seems to sit rather awkwardly with the others and is included it seems to me to make the critique of the mainstream more palatable for right-wing dissenters.

CRE contributions.

Heterodoxy has consistently criticized the mainstream for combining ‘heroic assumptions' and axiomatic-deductive methods on the basis that this leads to a formalised straight jacket unable to accommodate social complexity. As such the CRE critique of formalism is hardly novel, however where it does contribute is in determining the underlying causality as an uncritical reliance on positivist epistemology and empirical realist ontology. Thus, although ontological enquiry is rarely apparent within mainstream methodology, a neglect of ontology still presupposes one (albeit implicilty), and in the case of the orthodox project it is empirical realism that is ultimately drawn upon50. Indeed as Lawson explains, it is the latter which renders the use of closed systems modelling intelligible, as the implied ubiquity of constant conjunctions facilitates a scientific endeavour consisting in the identification of event regularities of the type whenever x then y. However, while this may be a valid conception of proper scientific method a priori, Bhaskar (1975) has conclusively shown that the event regularities on which it depends are virtually non-existent in the social (or indeed the natural) world and as such the mainstream project in its current guise is largely redundant.

In effect then, Lawson et al have been able to utilise Bhaskarian philosophy of science to illustrate the unscientific nature of orthodox ‘scienctific’ practices and accordingly to highlight its inadequacies. However, while this is important, the principal aim of the project is to argue for a more relevant alternative and with this in mind Lawson et al also apply philosophical insights to the situation within heterodoxy. In particular, CRE has attempted to assist substantive economic enquiry by ‘underlabouring’ in the Lockean sense of “clearing the ground a little and removing some of the rubbish that lies in the way to knowledge” (Locke, 1979 (1690) xiii). Thus as Lawson explains “while philosophy of science or methodology has been shown to carry the potential to intervene… in the practices of sciences, it cannot do the job of science. It can underlabour for science in clearing up inconsistencies and confusions…But that is as far as it goes” (Lawson, 1997, p60 emphasis added). Hence the meta-theoretical nature of CRE and the constant disavowal of substantive claims in favour of a facilitatory role, wherein disparate or implicit heterodox methodology is reinterpreted in terms of the critical realist TMSA.

As outlined earlier the TMSA is a model of struture and agency which recognises their mutual interdependence without reducing one to the other. So that the model can comfortably accomodate the mutual implication of real intentional agency (in the sense that actors could have done otherwise) and the ubiquity of antecedently existing social structures, which condition this activity. In addition, we saw that the TMSA entails a transformational model of social change which sublates the positions of voluntarism and reification and draws our attention to the importance of structural reproduction. Finally we saw that the latter is a product of human activity which itself is determined by social relations. Thus, we are furnished with an open, relational and structured ontology which is sharply delineated from the closed and atomised world of empirical realism, and this allows CRE to institue a heterodox/orthodox divide within economics, whereby critcal realism is constituive of (most) heterodox economics while the mainstream relies on its empirical rival.

[50] Empirical realism is an ontological position which maintains that the only objects of scientific investigation are the objects of actual or possible experience. Thus as Bhaskar points out “it fails to recognise that there are enduring structures and generative mechanisms underlying and producing observable phenomena and events” (Bhaskar, 1998, p.2).

Moreover, by recasting this methodology in a common (critical realist) terminology CRE also helps to attenuate misunderstanding and develop a pretext for meaningful engagement within heterodoxy. Indeed, this is important in light of the fact that the disparate heterodox traditions have frequently spoken past each other due to misunderstandings that can be accentuated by differences in terminology (Dugger and Sherman, 1994). As such hostility can develop or persist, and the hegemony of the mainstream remains uncontested, therefore CRE has attempted to attenuate misunderstanding by rooting these common methodological presuppositions in a critical realist terminology. Thus for example, the post-Keynesian preoccupation with uncertainty can be made intelligible by the open nature of the social system while the (old) Institutional insistence on evolutionary process can be understood as a consequence of structural reproduction and transformation. Moreover, the significance of relationality and underlying structures for the Marxian tradition can also be accomodated so that it starts to become apparent that each in their own way have been implicitly commited to something like the open, structured and dynamic account of ontology elaborated within critical realism.

Finally, once this common ontology is retreived and the terminology has been standardised, the CRE project is in a position to outline the specific implications for heterodoxy as a set of competing traditions within the transitive domain. In particular, Lawson argues that the reality of overdetermination in the intransitive domain leaves transitive theoretical productions necessarily partial and revisable. And as such, heterodoxy can be fruitfully reinterpreted as a complimentary division of substantive labour wherein each tradition emphasises certain aspects of reality while deemphasising others.51 More specifically, the reality of ensembles of structures implies a whole myriad of struturata52 which are interrelated in so many ways that no theoretical production could expect to sufficiently apprehend the complexity of the intransitive domain. Given this, each tradition will have relative strengths within the common goal of explaining reality, which could allow for a more fruitful conception of heterodox traditions as complements rather than substitutes. Moreover, (if recognised) this would also develop a pretext for meaningful if critical engagement on substantive issues and possibly a more singular voice in opposing the mainstream. Indeed this has already begun to occur with post-Keynesians like Arestis (1996) and Institutionalists like Hodgson (1989) affirming the substantive connections between their respective traditions (as well as their critical realist underpinning), while Dugger and Sherman have jointly written numerous articles highlighting the similarities between what they define as a critical Marxism and a radical Institutionalism.53 Moreover, the links between Marxism and post-Keynesianism have been so well established that Arestis has commented that "post-Keynesian economics reflects the classical tradition and Marx as much as it does Keynes" (Arestis, 1996, p.112) while both Davidson (1981) and Dow (1991) have referred to the strong Marxian influence on post-Keynesian development in their respective genealogies. 54 As such, there are clearly numerous substantive connections already developed within

[51] Lawson actually argues for a division within a division of labour given the fact that economics is already a division of labour within a single social science. However he is also aware that "the materials and principles of social reality are the same across economics, sociology politics, anthropology , human geography and all other disciplines concerned with the study of social life. Hence…there is no legitimate basis for distinguishing a separate science of economics. (Lawson, 2005, p.17).

[52] According to Joseph (1998) struturata are "that which is strutured rather than the struture itself" (Joseph, 1998, p.98). In this sense they are akin to the institutions which emerge as a result of the underlying strutures.

[53] See in particular 1994 and 1997.

[54] It has long since been appreciated that there are a number of traditions situated under the umbrella of post-Keynesianism and that at least one of these was strongly influenced by Marxian crisis theory. Of this tradition the perhaps best known representatives are Michael Kalecki and Hyman Mynsky.

economic heterodoxy and the importance of CRE may be to help in their justification and solidification through the development of a common and explicit underlying methodology.

In summary then, the CRE project has contributed positively to economics through its systematisation of the deficiencies within mainstream methodology as well as by fostering links between disparate non-mainstream schools on the basis of a shared if implicit methodology. In addition, they have also attempted to increase the substantive contact within heterodoxy through a standarisation of the methodological terminology and a suggestion for a complimentary division of labour. Indeed, the latter may turn out to be a contribution of growing importance, as the combination of neoclassical hegemony and a complete refusal to engage with its rivals has meant that the illegitimate closure of the social world has been supplemented with a quasi-closure in the academy; wherein formalisim is interpreted as core economics and everything else is systematically removed from university curricula. This then should help to convince those of us in the economic backwaters that opposition to the maintream is of paramount importance and must be facilitated by a more tolerant environment for all those traditions that are authentically commited to uncovering the nature of economic reality.55

However, without denying the benefits of greater unity it is also important to recognise that this eclectic approach also entails a judgemental rationalism wherein one theory can be chosen on the grounds that it contains greater explanatory power. And in the case of economics it is clearly Marxism which "explains more of the same phenomena under its own description" (Collier, 1994, p.91) than any of its rivals.56 Thus whilst there is no doubt that economists working within the post-Keynesian and Institutionalist traditions have provided valuable insights that must be appreciated,57 neither can match the Marxian framework for depth or explanatory power.

Yet what of the classical Marxian contention that historical materialism is the only valid social scientific endeavour as it alone eschewes the bourgeois division of labour as an ideological defence of the status quo? While partly correct this does not dictate that particular economic theories are incapable of generating meaningful results or that historical materialism is itself infallible.58 Indeed, Marx himself relied so heavily on the classical economists that without them he would have been left in the dark (Nielsen, 2002) and given that the present heterodox traditions represent a continuation or rearticulation of the classical project it is reasonable to assume that there are insights to be gained from a critical engagement with their work. Thus as Nielsen suggests "Marxists can surely learn from non-Marxist heterodox economists just as Marx learned from the classical political economists"

[55] Lawson asserts (and I tend to agree) that the pursuit of relevant economics and a tolerant economic enviroment go together. Thus he writes "these two aspects go together of course: a more open and intellectual forum, where competition at the level of ideas is encouraged, interaction is premised upon mutual respect for others…appears more likely to lead to relevance. Moreover he contrast this with a mainstream that has "notoriously…responded to its perpetual failings and persistent inconsistencies primarily by attempting to gag all alternatives (Lawson ,1999, p10-11).

[56] This claim is made on the basis that Marxism explains most phenomena explained by its rivals in addition to a significant set of phenomena which they are unable to account for. Thus, Marxism as a science of social formations integrates its analysis of capitalism into a broader research programme designated as historical materialism. Moreover, Marxism can account for non-economic factors such as imperialism and ideology whereas its rivals generally delimit their analysis to one socio-economic formation-capitalism.

[57] For example the post-Keynesian treatment of money as a social relation develops Marx's own exposition, while the Institutional insistence on a plurality of institutional structures is also important and must be incorporated into social analysis.

[58] Hence the adherence to epistemological relativism.

(Nielsen, 2002, p735). And as such, all dogma must be rejected in favour of a more open and progressive agenda that affirms the central tenets of Marxian analysis whilst also being prepared to engage with other traditions. Moreover, while this has been lacking in much of the classical Marxian oeuvre it is a position that is both characteristic of SSA theory and constitutive of its relative advantage.

Section Three

Heterodoxy and the SSA Approach

Social Structures of Accumulation theory (SSA) is a neo-Marxian59 account of capitalist accumulation in which the basic categories of Marxian analysis (such as historical materialism, exploitation and crises) are adhered to but are usefully supplemented with insights from other intellectual traditions. Thus for example,while the analysis begins in the Marxian reproductive schemas with an affirmation of the centrality of capitalist accumulation. It quickly incorporates the post-Keynesian insistence on the uncertainty of investment and the attendant need for a conventions based resolution to the conflict inherent in capitalist reproduction. Indeed as Gordon explains, it is actually the persistence of social uncertainty that renders the SSA's essential nature intelligible as without its stabilising influence, capitalists may be unable to engage in proximate forecasting and may therefore choose to forgo future investment.60 Hence the need for a matrix of institutions (SSA) which works by attenuating conflict whilst providing "conditional or synthetic closure in an environment of fundamental uncertainty" (Setterfield, 2003, p.374). Moreover, in this situation SSA's may be fruitfully reinterpreted as as series of Lawsonian demi-regularities which can serve as the entry point for a retroductive analysis.

Yet, the persistence of an open ontology has also dictated that any such closure will always be partial and ephemeral and indeed this has been the case historically as each SSA has undergone a similar process of initial consolidation, continuous reproduction and eventual transformation-under the dynamic pressures of its own specific contradictions. As such, SSA theory conceives the long run dynamic of capitalism as a series of historically unique institutional fixes to the problems of accumulaion, and it is the job of the theorist to identify their particular characteristics through empirical enquiry. Indeed a central premise of the approach is that theoretical concepts must be investigated empirically in order to ground them in historical processes and this entails positioning the theory at the intermediate level of analysis.61 Not only is this important for providing meaningful insights into the workings of actually exisitng economies but it aslo enables the theory to transcend the economism of more vulgar versions of Classical Marxism, by pointing to the empirical significance of extra

[59] Neo-marxian analysis can be distinguished both from classical Marxism with its strict adherence to the doctrine of the Second International and the so-called post-Marxism best exemplified in the postmodern turn of Laclau and Mouffe and the analytical Marxism of Elster and Romer. In essence neo-Marxism remains within the Marxian problematic but extends the analysis in a non dogmatic way.

[60] Perhaps the best and most explicit example of the connections between SSA theory and post-Keynesian economics can be found in the writings of Jan Kriegel who writes " the pervasive nature of uncertainty which influences entrepreneurs animal spirits is of vital importance in the capital accumulation process, so much so that the volatility of expectations under uncertainty is thought to lead potentially to strutural breaks and crisis. Uncertainty leads to volatility in the sense that the stability which emerges from the creation of appropriate institutions and conventions to help deal with uncertainty is subject to periodic unpredictable and discrete shifts. These institutions and conventions however generate much more stability than would be offered by the continuous and simultaneous market clearing system" (Kregel, 1987, p.531).

[61] See section 3.2.2 for a practical illustration.

economic institutions in the stability of capitalism. As such, SSA theory is also influenced by the Veblenian tradition of American Institutionalism-which champions the importance of numerous institutions in the economic process-and it therefore explicitly brings ideological and socio-political factors into the centre of the analysis.62

Critical Realism and SSA Theory.

Given its own methodolgical position and the formative influence it has had on the SSA theorists it is a short step to conclude that the substantive connections between SSA theory and heterodoxy should be augmented with a common realist methodology. However, while there is a prima facie case for subsuming the theory on this basis, this section will argue that this doesn't do justice to the strength of the connection as the SSA approach is actually the paradigmatic substantive example of critical realist methodological prescriptions. Moreover, this is true whether those involved in SSA theory have traditionally realised it or not.

Critical realist ontology and SSA theory.

As previously outlined the SSA approach is an intermediate level of analysis which affirms the 'laws of motion' laid down in Capital, while seeking to ground them in concrete historical processes. Thus as Kotz explains, the approach is "more general and abstract than a detailed historical account…but more specific and concrete than the usual abstract theory of capitalism-in-general (1994b, p.87), and this allows the SSA theorists to follow Bhaskar in acknowledging the importance of abstractions that identify the underlying causal structures, whilst simultaneously eshewing all approaches which fail specify the concrete conditions in which they are reproduced (Lovering, 1998 p.48). Hence in critical realist terms, the social strucutres are located at a deeper level of reality and are therefore ultimately determinate, but their actual manifestations at the empirical level are likely to vary (sometimes considerably) and as such the particular institutions composing each historical economy must be discovered through a process of empirical investigation.

Moreover, we saw that once this process of articulation begins it enables the SSA approach to illustrate the significance of extra economic structures in the attenuation of capitalist contradictions and consequently to incorporate them more centrally into the analysis. This not only allows for a more complex explication of capitalist dynamics but also facilitates the reinterpretation of 'inexorable laws' as transfactual tendencies wherein the crisis tendencies outlined by Marx can be counteracted by a structural matrix of stabilizing institutions. Thus in realist terms; Marx was correct to highlight the intrinsic crisis tendencies of capitalist production. However within an open system the specific results of a particular crisis are never predetermined and the eventual outcome will always be dependent on a complex interaction of numerous (often countervailing) influences. Furthermore, it is actually the open nature of the social environment which renders the SSA esssential as its institutions are necessary to attenuate class conflict and this further highlights the SSA theorists insistence

[62] Kotz et al actually write that "the unifying theme of the SSA approach is the importance of institutions in the economic process" (1994, p4). In addition, Sherman (2002) has tellingly labeled the approach as Marxist Institutionalism, although the present author prefers to sustain a neo-Marxian tag to highlight the relative weight of Marxian analysis for the SSA approach.

on real intentional agency and the importance of capitalist class strategies in the maintenance of successful accumulation.

In addition, the theory also asserts that while underlying capitalist productive relations have remained relatively stable, they have also experienced disjunctural shifts brought on by changes in form. And as such, capitalism must be conceived of as a processural movement through a series of qualitatively distinct and historically unique stages. Thus to again draw on the CR terminology; it is clear that the SSA approach implicitly relies on a dynamic ontology of continually reproduced and occasionally transformed structures. Indeed as Lawson (following Keynes) has argued, even gradual change can eventually put such a strain on a system that there can be “moments of crisis situations or structural breaks when existing conventions or social practices are disrupted” (Lawson, 1985, p.920). Therefore, once they are viewed in this light it starts to becomes apparent that SSA’s are particularly good substantive examples of the social structures described in the CR framework-being both historically contingent and susceptible to change.Finally, the critical realist insistence on relationality is also accomodated by the SSA theorists who contend that an SSA should never be conceived of as merely a laundry list of disparate institutions but must always have an integrated character, which in the words of Gordon “creates a combined social struture with a unified internal struture of its own-a composite whole in effect, whose intrinsic struture amounts to more than the sum of its parts” (1980, p.17). Indeed, it would be strange if this were not the case given the Marxian affirmation of the importance of totality, and this highlights yet another area of consessus between critical realism and SSA theory, hinging on the importance that both attach to the concept of emergence.63

Therefore, whilst there is little doubt that critical realist ontological prescriptions are sufficiently broad to encompass much of the theory in the heterodox tradition the foregoing analysis has hopefully illustrated that the SSA approach is actually the classic example of a substantive adoption of Bhaskar’s ontology. That is an ontology which is open and structured, dynamic and contingent and is characterised by a level of emergence and internal relationality.

Critical Realism, SSA theory and knowledge generation

Although being quite unintentional, the process of theory construction in the SSA approach is also paradigmatic of the prescriptions offered by critical realists. Indeed the development of the theory itself turned on the identification of a change in the structural conditions before and after 1973. As such, it seems appropriate to use this incident as the basis of a practical illustration. According to critical realists, knowledge is generated by identifying a demi-reg and then accounting for it by moving retroductively from the level of its manifestation to the underlying causal mechanisms. In the case of the period around 1973 there were a number of observable demi-regs, of which the most notable were the steady decline in the rate of profits and the onset of stagflation. Moving retroductively the SSA theorists asserted that the root causes of the former could be located in the exhaustion of the post war accumulation model and that this in turn accounted for a wage price spiral which itself (at least partly) accounted for the presence of stagflation. More specifically, given that

[63] Emergence is essentially an argument against reductionism contending that while more complex forms of reality presuppose less complex ones (eg societies presuppose individuals of consciousness presupposses matter) the former is not reducible to the latter and will always possess attributes not discernable in the constituent parts. In this sense it is akin to Keynes’s insistence on the fallacy of composition in economic systems and constitutes a meta theoretical critique of methodological individualism.

an SSA is “a conventions-based resolution to the uncertainty created by distributional conflict” (Setterfield, 2003, p374), it is only natural that when it breaks down distributional conflict will re-ignite. Indeed this is even more likely in light of the successes of the ‘Golden era’ which would have heightened expectations on both sides so that when the growth rate of the cake began to shrink neither capital nor labour was prepared to accept a smaller slice. Finally it seems then that all of this can be accounted for by the inherently conflictual nature of class relations in the capitalist system, and that as such, this particular retroductive movement from the surface phenomena of crisis and stagflation eventually leads to a determinate cause in the shape of the contradictory and conflictual nature of capitalist productive relations.

Critical Realism, SSA theory and the Status of Knowledge.

As has been outlined above, the retroductive method involves a movement from the empirical level to the level of the ‘real’. However it is important to emphasise that given the objective of uncovering ever deeper levels of reality there is no suggestion that any particular retroductive analysis is ever complete. Rather as Aglietta contends, theoretical concepts should be developed in a dialectical transformation between empirical reality and theorical construction, which ensures that our theoretical frameworks are both open to criticism and susceptible to continued elaboration (Aglietta, 1976). SSA theory adheres to these principles both in the rejection of a priori theorizing and by appreciating the limits of its historical analysis.64 Thus as Harris-white contends “a great range of mechanisms relate accumulation to its institutional matrix…No general hypothesis is advanced about the relative importance of the different elements of the structural matrix, there is no priviliged list of ‘crucial’ institutions or forces” (Harris-White 2003, p.14). Therefore the fact that the theory is elaborated at the intermediate level dictates that the SSA theorists are keenly aware of the partial nature of their results and of the corrigibility of their theoretical constructions. 65 Indeed it is this that allows them to incorporate insights from other intellectual traditions.

Moreover, this acceptance of the partiality of knowledge has also meant that SSA theory has actually progressed the methodological prescriptions outlined in the Marxian framework by augmenting the movement from abstract to concrete with a realist movement from simple to complex. Thus as Jessop relays, in focusing on the narrowly economic “Marx tended to overlook the fact that there are actually two types of movement in any realist analysis: abstract-concrete and simple-complex” (Jessop, 2001, p.8), wherein the first movement concerns the position of a concept along one plane of analysis, while the second refers to the combination of numerous planes for theoretical complexity.66 Now as we have seen the SSA approach addresses this deficiency both by accepting the persistence of ontological openness and thus bringing extra economic institutions into the centre of the analysis and by accepting the fallibility of knowledge and engaging with disparate intellectual traditions. As such, the commitment to an open and dynamic reasearch programme is more

[64] It is noteworthy that the original SSA theory delimited its validity claims both spatially (to the USA) and temporally (from the 1820’s to roughly the 1970’s).

[65] Indeed one of the premises of the theory is that our theoretical constructs must change in response to the discrete shifts in the real world. So for example the relationship between capital and labour which was theorised as the capital-labour accord must now be supplanted with a new concept to take account of the dominance of capital in the new SSA.

[66] Thus events in a critical realist framework are determined by the conjuncture of “a multitude of stratified and emergent structures that inter-relate and co-determine one another in complementary and contradictiory ways (Joseph, 1998, p.80). As such it is important to incorporate numerous planes of analysis including for example the hegemonic political projects, ideological campaigns, state repression etc.

than satisfied by the SSA theorists and this allows them to argue (following Bhaskar) for the mutual implication of ontological realism and epitemological relativism. Moreover-given the earlier ontological congruence-this adherence to epistemological relativism also serves to reinforce the case for regarding SSA theory as the primary substantive example of critical realist methodological principles.

Section Four

Critical realism as an emancipatory project.

Heretofore our account of critical realism has been necessarily one-sided and incomplete, as the primary objective of our analysis has been to establish its specfic credentials as a philosophy of science.67However, while this philosophical influence is undoubtedly crucial, the true significance of critical realism is only recovered once it is viewed as a liberating project which in the words of its founder constitutes a

> *"heterocosmic instance of the emancipatory transformation socialism aspires to achieve" (Bhaskar, 1991, p.143). Indeed as a socialist himself, Bhaskar has repeatedly outlined the need to transcend capitalist relations, whilst being fully aware of the difficulties that this entails within bourgeois society.68 And it is to this end that he has championed the "building of a movement…in which socialism wins a cultural and intellectual hegemony, so that it becomes the enlightened common-sense of our age"(*Bhaksar, 1989, p.1).

Moreover, while for Bhaskar any such movement must encompasse more than just critical realism, it is also the case that he deems critical realist philosophical principles as absolutely essential for any socialist emancipation and consequently his entire project must be understood as being both philosophical and political in orientation.69 Indeed that it is more than just a philosophical project is readily discernable by the fact that Bhaskar has consistently highlighted the political consequences of his meta-theory in relation to the activity and concept dependence of our social structures. In that once their dependence on human praxis is appreciated it immediately becomes apparent that a causal interdependency exists between our scientific endeavours in the transitive domain and their concrete manifestation in the intranstive one and that this in turn permits a space for what are denoted as 'explanatory critiques'.70

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[67] A philosophy of sicence is in this sense a meta-theoretical analysis of the nature of reality as well as an explication and clarification of what it is the sciences do- see Spinker (1992) for an analysis of the distinction between philosophy *of* science and *for* science.

[68] Thus for exampleBhaskar has stated in interview that "capitalism itself is wrecking havoc on our environment, and quite frankly, unless capitalism is overturned, by a revolution, which will be at once much more peaceful and deeper than the one that overthrew socialism…I can see very little prospect of humanity surviving much into the 21st century on this planet" (Norris, 1999, p9).

[69] This can be discerned from the last sentence of *Reclaiming Reality* which reads (in relation to critical realism) that "it is the argument of this book that it is a philosophy without which a socialist emancipation cannot be achieved" (1989, p192.). For a critical perspective on the political implications of critical realism see Hodgson (1999) and for a reply see Collier (1999).

[70] Critical realism thus "suggests that social theory is non neutral in two ways. It always consists in a practical intervention in social life and sometimes (other things being equal) it logically entails values and actions. In these circumstances, the standard fact/value and theory/practice distinctions break down" (Bhaskar, 1989, p.5).

Such critiques function by presupposing the falsehood of a certain theoretical production and then asking the transcendental question-what must be the case for this ideology to not only survive but to also be dominant.71 This in turn hinges on identifying how the theory influences the sciences in the transitive domain as well as pointing out any functional relations between intransitive institutions and the false beliefs which may justify or legitimate them. In this senseBhaksar's idea of explanatory critique is reminiscent of Marx's critique of political economy in that both maintain that theoretically produced ideologies in the transitive domain have real world effects which are principally mediated through the false beliefs that they engender. Moreover, if these real world institutions are oppressive (such as those which exist under capitalism) they will only be stable when protected by such false beliefs so that in propounding the truth one is not only criticising the underlying ideology but also subverting the institutions that it protects (Collier, 1994). Thus as Bhaskar explains-while our social structures are ultimately praxis dependent, this praxis is nevertheless often unmotivated (being the unintentional consequences of intentional action) and even when motivated is quite likely to be informed by false, inadequate or partial beliefs.72 Given this the task of a critical philosophy must be to debunk these beliefs with a three pronged attack consisting in (1) a critique of any unscientific theoretical productions (ideologies) in the transitive domain, (2) an illumination and critique of their pernicious effects on the intransitive domain (this involves highlighting any functional relations between false ideas and real world practices or institutions etc) (3) utilising 1-2 above to aid in the critique of the underlying strutures which generate both the interests in the intransitive domain and their attendant ideologies.73

Indeed this final point is crucial, as to 'aid in the critique' indicates the limits of purely methodological interventions in the intransitive domain, and in doing so highlights a potential tension within critical realism-as noted by Nielsen (2002)- between on the one hand critical realism as an emancipatory project of totalising vision and on the other as a humble scientific underlabourer devoid of any theoretical or political implications (Nielsen, 2002). Now while it is undoubtedly true that Bhaskar has, over the course of his numerous publications, commited himself to both these positions, it is also the case that an overall appreciation of his output must entail that the work be primarily viewed through an emancipatory lens.74 However this distinction is immaterial in any event as the tension adverted to by Nielsen only arises if these two positions are regarded as being mutually exclusive when in fact they are

[71] See the last chapter of *Scientific Realism and Human Emancipation* for a detailed explanatory critique of positivism as the dominant ideology in capitalist cultures.

[72] For example I may be giving a presentation in which my intention is to convey the central tenents of critical realism. However, I am also unintentionally reproducing one of the most important and pervasive social strutures-the english language. Similarly when a worker becomes a wage-labourer he intentionally works for his immediate means of existence but simultaneously-if unintentionally-reproduces capitalist production relations. Moreover in the latter case the worker may come to recognise this relationship as being based on systematic exploitation through 'explanatory critique' and may then engage in political action to take over the means of production. It is in this sense then that philosophy can become causally efficacious in the intransitive domain. Thus as Marx maintained in relation to the emancipation of the German people "the head of this emancipation is philosophy, its heart the proletariat. Philosophy cannot realize itself without the transcendence (Aufhebung) of the proletariat, *and the proletariat cannot transcend itself without the realization (Verwirklichung) of philosophy* (Marx, 1992, p257emphasis added).

[73] Thus Bhaskar writes that critical realism "exhibits a mechanism of ideology-critique, which can be generalised to the critique of social system on the grounds of their incapacity to allow the fulfillment of other human needs, wants and interests (besides truth)" (Bhaskar, 1991, p.141).

[74] Indeed it could be argued that a cursory glance at the titles of his books would suffice in confirming this as they include *Scientific Realism and Human Emancipation* (1986), *Philosophy and the Idea of Freedom* (1991), *Dialectic, the pulse of Freedom* (1993) and *From Science to Emancipation, Alienation and the Actuality of Enlightenment* (2002).

perfectly compatible. Thus as Kanth (1992) has rightly pointed out, dominated and exploited classes have an interest in the knowledge of their oppression as a necessary (if not sufficient) condition of emancipation and consequently scientific endeavour can itself be revolutionary as the bearer of this knowledge. Moreover insofar as critical realism can underlabour to illuminate the nature of this social reality and defend authentic science from its ideological competitors, it too can increase the possibilities for legitimate scientific knowledge and transformative oriented praxis.

However, it must also be remembered that critical realism as a meta-theory, can only ever facilitate the social sciences and consequently if it is to realise its emancipatory objectives it must be appended to a substantive theoretical framework. Moreover, given that Bhaskar himself has alluded to the myopic nature of such work without Marxism (or some such theory) it is reasonable to assume that it is to Marxism that critical realism be conjoined. Yet consequently this entails following authors such as Joseph (1998), Nielsen (2002) and Callinicos (2003) in distinguishing critical realism from its more recent dialectical counterpart whilst arguing for the modest 'underlabouring' position of the former as oppossed to the more ambitious pretensions of the dialectical variety.75 Therefore while there are obvious complimentarities between Marxism and critical realism, there is also a tension related to the interconnections between these two dynamic and open research programmes and it is to the specific relation defended within this article that we must now turn our attention.

Section Five

Critical Realism and Marxism

As indicated above there are certain ambiguities in the relations between critical realism and Marxism. However despite this, the specific relationship defended in this essay is well defined and involves conceiving the latter as a kind of philosophical 'trouble shooter'charged with providing secure foundations for Marxian theory by identifying key conceptual errors. In particular, this involves making interventions in the transitive domain, and one of the principal tasks in this regard has been to recover the (depth) realism implicit in Marx's own method. Particularly well exemplified by Joseph (1998) of the remarkable congruity between Marx's analysis of commodities at the beginning of Capital and Bhaskar's contention that depth realism involves moving retroductively from a specific surface phenomena to a set of underlying causal mechanisms. Thus as Joseph explains, Marx's analysis begins with the commodity in its concrete form as exchange value, and only then moves to an analysis of the underlying structures (i.e. the embodied labour) that can account for this phenomena. Moreover as the following quotation suggests, Marx was quick to concede that while value was determinate of price, it was not singularly so (as the frequent divergence between the two suggests). And given this, it is a short step to conclude that the

[75] Joseph writes " In adopting this position I am explicitly rejecting the more ambitious projects of Roy Bhaskar- as marked by his book Dialectic…such projects should be rejected as an attempt, not to aid Marxism through philosophy, but to replace Marxism as a form of analysis" (Joseph, 1998, p.). Similarly Nielsen (2002) distinguishes between critical realism and the latter dialectical work, while Callinicos goes so far as to state that "Ido think that Dialectic is where the whole enterprise of critical realism goes off the rails" (Bhaskar, 2003, p.109).

'labour theory of value' be reconceived as a transfactually operating structure, which exerts significant influence on prices without completely determining them.76

" The possibility therefore of quantitative incongruity between price and magnitude of value, or the deviation of the former from the latter is inherent in the price form itself. This is no defect, but on the contrary, admirably adapts the price form to a mode of production whose inherent laws impose themselves only as the means of apparently lawless irregularities that compensate one another" (Marx, 1967, p102 emphasis added).

This not only offers a solution to the 'Transformation problem' which on this acount has been a misallocation of Marxian intellectual resources, but also affirms Marx' s appreciation of the open and contradictiory nature of the social environment and once this is acknowledged it has tremendous consequences for Marxist theory more generally. Thus for example the mechanistic teleology of the Second International must be abandoned along with any attempt to refute Marxism on the basis of predicitve inadequacy. As an open environment dictates that the 'crisis theories' and particularly the thesis of the 'falling rate of profit' be reinterpreted as transfactual tendencies rather than 'inexorable laws'.77 In addition, societal openness also entails a rejection of the economism and reductionism associated with cruder versions of the Base/Superstructure model. In favour of an emergent relationship in which the structures of the base set limits and exert pressure on the superstructure without ever completely determining its constituent parts (Williams,1973). Finally it is clear that the problems alluded to above generally stem from the mistaken logic of historical necessity with its attendant denial of real efficacious human agency. Therefore once the latter has been rescued by the TMSA it also allows the sublation of the hyperstructuralism of the Althusserian position without slipping into the voluntarist excesses of Western Marxism.78

Hence there is no doubt that the epistemological consequences for Marxism are profound, involving a rejection of much of the Classical orthodoxy and a significant retheorising of the place of the individual within structures. However if the ambition of Marxists is to effect real structural change then it is important that conceptual errors be eliminated, particularly as "the world cannot be rationally changed unless it is adequately interpreted" (Bhaskar, 1989, p.5). A point perhaps most forcefully brought home by the disasterous political inactivity advocated by the theorists of the Second International in the face of European Fascism. Principally as Daly (1999) recounts, on the misconceived basis of historical necessity and the inevitable collapse of capitalism.

[76] Thus for example while labour may be the principal influence on price there is no doubt that patriarchal structures and the existence of racism can also be causally efficacious. Indeed as Lovering has pointed out "the defeat of Apartheid in south Africa would dramatically change the value of labour, and recast the entire set of values and prices" (Lovering, 1990, p45).

[77] This is essentially due to the impossibility of forecasting in open environments, and it equally entails that Marxist theory must be corroborated by reference to its explanatory power.

[78] There is an interesting parallel here between Bhaskar's interprtation of the anti-naturalism of the hermeneutic tradition and the relationship between Western Marxism and that of the Second International. More specifically, in the former case Bhaskar has outlined how an ambition to carve out a separate sphere of human intentionality inadvertently meant that the hermeneutic tradition ceded the natural sciences to positivism. Moreover in much the same way it could be argued that Western Marxism abandoned social science to the Second International in its attempt to rescue the humanism of Marx's youth. If this admitted then the Althusserian project can be reread as a (partially successful) attempt to recapture the scientific ground from the Second International by affirming the determining nature of the economy only in a last instance which never comes! Obviously this is unsatisfactory and along with the poverty of hyperstructuralism it has meant that Althusser own position has had to be sublated and this has been achieved within Bhaskar's TMSA.

Finally it must be noted that while a lack of agency forms the basis of the foregoing realist critique, Bhaskar's defense of efficacious activity is hardly unique in the Marxian canon. Indeed it was there from the start! As the following quote from the The Eighteenth Brumaire fully attests "men make their own history, but they do not make it as they please" (Marx, 1977, p.300). Moreover, a similar emphasis on the importance of human activity can be found in Engels' Letter to Joseph Bloch when he states that "we make our own history, but first of all, under very definite assumptions and conditions" (Engels, 1977, p.75). Therefore what is clear is that Bhaskar's achievment has not been to introduce agency into Marxism, but rather to rearticulate it's relationship with structure and in the process to resolve a supposedly 'irresolvable dualism' in Marx's thought.

This centres on the historical tension within Marxist theory between its structural and class struggle dimensions, which postmodernist authors such as Laclau and Mouffe (1985) argue originates in a fundamental ambiguity in Marx's own writing's on the political. In particular, whether the latter constitutes an arena of contestation in which historical classes become 'aware of their interests and fight it out' or whether it is merely a reflection of an underlying economic logic. Now while this dichotomy is patently false and caricatures the respective positions, there is nevertheless some merit in the classification in the sense that over the course of their writings Marx and Engels did advocate both positions and perhaps more importantly left the relationship sufficiently ambiguous to create confusion in the minds of some of their followers.79 Essentially then what Bhaskar's realism has been able to do is to sublate this tension by reafirrming the significance of class struggle, whilst pointing to a structural context which has causal significance in exerting pressure and delimiting possible outcomes. Indeed this emphasis on strategic action in contexts structured by the outcomes of previous struggles is reminiscent of Jessop's 'strategic-relational' approach and is particularly important for the SSA theorists in reminding them of the normative implications of particular SSA's.80 Moreover, as this is only one of the possible advantages of a critical realist SSA theory, it is to the latter that we turn our attention in the final section.

The Advantages of a Critical Realist SSA Theory.

Having previously argued that SSA theory is both paradigmatic of critical realist social science and entirely unaware of this! It may be questioned as to whether realism can contribute anything substantial to the SSA project. The implication being of course that if the SSA theorists have achieved similar ontological conculsions without explicit ontological enquiry, is it really necessary? The short answer to this question is yes and the final section will attempt to substantiate this claim with a retrospective underlabouring exercise in the transitive domain and an essential critical realist intervention for the intransitive one.

As is well known SSA theory has its origins in the historical conjuncture of the end of the long war boom, which unsurprisingly led heterodox economists to a renewed interest in stadial and long cycle theories of capitalist dynamics. Indeed that Gordon's early work was no

[79] Indeed in the same letter to Joseph Bloch Engels writes that "Marx and I ourselves are partly to blame for the fact that the younger people sometimes lay more stress on the economic side than is due to it. We had to emphasize the main principle over and against our adversaries, who denied it. We had not always the time, the place or the opportunity to let other factors involved in the intersaction be duly considered" (Marx and Engels, 1977, 76).

[80] See Taylor (1995) for a useful summary of Jessop's position.

different is revealed by the titles of his initial offerings, 81and more specifically in the following quotation "the essay has two major sections. The first seeks a theoretical elaboration of the Marxian theory of stages of accumulation. The second builds upon that "theory of stages" to advance some tentative hypothesis toward a political-economic theory of long cycles" (Gordon,1980, p.11). Thus in its original elaboration SSA theory amounted to a curious juxtaposition of political contingency (associated with the uncertainty of class struggle in crises) and technological necessity (accounted for by the regular bursts of social infrastructure investment) and consequently while it represented an advancement on Kondratiev and Schumpeterian long cycle theory82it was nevertheless guilty of similar determinist failings. Moreover, while this technological bent was subsequently deemphasised, it was only completely abandoned on the basis of empirical investigations (see McDonough 1994), which would have been unnecessary (at least in this instance) had Gordon been acquainted with Bhaskarian philosophy of science.

In addition, an appreciation of societal openness also supports Reich (1997) in his contention that " some of the work in the SSA literature became overly concerned with measured growth rates and with using standard econometric techniques that take as exogenous the very dynamic processes that the theory seeks to comprehend" (Reich, 1997, p.2 emphasis added) as the constant conjunctions on which the latter depends are rarely apparent in the social domain. Thus while SSA theory is now a classic example of realist substantive work it has only belatedly achieved this position through a trial and error process, which may have been avoided with an a priori ontological investigation. Yet given that all of this is essentially retrospective it is rather academic (in the worst sense of the word) and consequently it is debatable as to whether this benefit is of any lasting significance. However as we shall see, this is emphatically not the case when we apply insights from the TMSA to the SSA approach in its current guise.

As a neo-Marxian account of capitalist accumulation SSA theory affirms the central contradictions (identified by Marx) at the heart of the capitalist system. However as the analysis is primarily focused on the resourcefulness of capitalism in negociating these contradictions it is easy to forget about them, and to inadvertently naturalise capitalist production relations as they move through a 'succession of relatively stable SSA's'. Critical realism can help to avert this danger by drawing our attention to the praxis dependence and contingent nature of our societal structures. As this will ensure that the SSA is never conceived of in functionalist terms (as the conscious design of the capitalist class) but rather as an arena of contestation in which hegemonic project building by the working class can be causally efficacious in changing reality. Indeed as Kotz has maintained

"Even if socialism is not yet on the agenda, the working class and the socialist movement can still influence the character of the next social structure of accumulation. And one possible social structure of accumulation may be more favourable than another for the working class and for the development of the socialist movement during the next long up-swing expansion. This in turn will influence the possibilities for socialist transformation in the next long-swing stagnation" (Kotz, 1994a, p.61)

[81] 'Up and Down the Long Roller Coaster' (1978),and 'Stages of Accumulation and Long Economic Cycles' (1980).

[82] Due to the fact that Gordon focused attention on the broader cultural, political and ideological variables which he believed were central to the perpetuation of cycles whilst also maintaining "I do not argue that infrastrutural investemtn dynamics causes long cycles but much more simply that the infrastrutural dynamic provides a kind of centre of gravity to their specific amplitude and period" (1980, p.40).

Therefore, given that the task of socialist analysis is not to anticipate the future, but to show what will shape it, a critical realist SSA theory is essential in emphasising that social structures ultimately rest on points of change, and moreover, that structural transformation is generally most feasible during periods of crisis. Finally all of this involves the SSA project following Bhaskar's dismantling of the fact/value distinction that has for too long been a deleterious taboo within the social sciences. As such "if we accept Marx's critique of political economy, which is also a critique of the illusory or false consciousness which capitalist society generates, we may-indeed must-pass immediately to a negative evaluation of those strutures and to a positive evaluation of action rationally directed to changing them" (Bhaskar, 1989, p.5). Adhering to this principle will not only reposition SSA theory more squarly within the Marxian framework. It will also recover its normative basis thus ensuring that the SSA approach is more than just a descriptive analysis of capitalist relations but becomes a tool for their eventual transcendance.

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PART THREE: FINANCE AND REGULATION

7. THE CONTEMPORARY AMERICAN SSA IN THE LIGHT OF CEOS REMUNERATION EVOLUTION, *Robert Boyer*[83]

Abstract

The explosion of CEOs remuneration during the 90s and the persistence of unprecedented levels in the 2000s are used as an evidence of the emergence of a finance led SSA or accumulation regime in the terms of régulation theory. It is argued that the diffusion of stock-options and financial market related incentives, that were supposed to discipline managers, have entitled them to convert their intrinsic power into remuneration and wealth, both at the micro and macro levels. This is the outcome of a de facto alliance of executives with financiers, who have thus exploited the long run erosion of wage earners' bargaining power. This de facto institutional compromise has been structuring a new accumulation regime, quite specific to the US. It is not clear that this regime should or could diffuse all over the world, since it is highly specific to the US economy, even if the diffusion of stock options and financialisation has been quite general, but no so strong, in other OECD countries.

Introduction: An indirect approach to emerging SSA

SSA theory has been quite useful in order to point out the basic social relations and economic mechanisms that were at the origin of the post WWII golden age. A second wave of these researches has investigated the impact of conservative strategies and the absence of a clear alternative to the previous SSA regime. The last decade has brought forward another hypothesis about the restructuring of capital accumulation under the aegis of finance. This has been also investigated by régulation theory and the related research has finally delivered a quite balanced assessment of the viability and generality of a finance led accumulation regime. Previous papers have investigated various aspect of this complex regime at the society wide level. The novelty of the present paper is to start of a much more micro analysis of the role of managers, the transformation of their remunerations and their shifting alliances from a fraction of wage earners to financiers.

Since the mid-80s the remuneration of CEOs has exploded in an era of speculation triggered by quite optimistic appraisals about the rate of return of the new information and communication technologies. When the Internet bubble out, it became clear that many managers had mismanaged their corporation, that the average shareholder incurred major losses…but nevertheless the remuneration of CEOs declined, but only moderately. With the post internet bubble recovery, their remuneration is again growing.

Their stylized facts are challenging most conventional economic theories, specially the consequences derived from the seminal paper by Michael Jensen and William Meckling. The first stage consists in a brief historical retrospective analysis of the factors that have been shaping the internal an external organisation of the modern corporation (section 2). A second question has then to be addressed at: why such an acute concern for managers' remuneration took place at the end of the 90s and not before? Both corporate related factors and the macroeconomic context seem to play a major role in the emergence of the paradox of managers' compensation (section 3). The complexity of the forces that shape the performance of corporations and the incentives that govern managers behaviour, addresses challenging

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questions to economic as well as managerial theories of the firms. In a sense, the search for an optimal principal/agent contract is bound to fail precisely because the objectives of the managers and shareholders can never be totally reconciled.

This theoretical analysis help to explain the recurring conclusions of many empirical studies: the public corporation run by managers facing dispersed shareholders may be less efficient than patrimonial corporations run by family related managers. Actually, less agency conflicts seem to exist in family run corporation than in typical public corporations. Similarly, private equity is again an effective option for reducing agency costs (section 4). These converging findings call for a political economy approach. During the last half-century, the relationships between executives, employees, consumers, finance and State have been transforming themselves. Taking into account the shifting alliance between these stakeholders casts some light upon the issue under scrutiny: how to explain an unprecedented boom of executive remuneration far ahead of corporate performance in terms of value creation and shareholders wealth? The answer is simple, if not trivial: managers have used the pressures of institutional investors and diverted them at their own benefit. This gives ex post the impression of a de facto alliance of managers with institutional investors. This shift has contributed to the process that had already curbed down the bargaining power of employees; furthermore the financialisation of the wage-labour nexus has imposed/induced labour to accept a larger share of risk (section 5).

The bulk of the paper provides a survey of the empirical evidences from the abundant literature about managers' compensation. Numerous converging statistical analyses confirm the rather large autonomy and significant power of managers at the firm level (section 6). Similarly, it is argued that the highly specific social and macroeconomic context of the 90s has given a renewed power of managers in political arena. Even economic policy and the tax system have been redesigned according to this new distribution of power between corporations, institutional investors and wage earners (section 7).

This significant change in institutionalized compromises is therefore the origin of the transformation of the accumulation regime towards a typically finance led configuration. Consequently, the explosion of CEOs remuneration is the revealing factor of this structural change. Surprisingly, the bursting out of the Internet bubble only transitorily affected the rise of CEOs remuneration. In spite of a more drastic regulation implemented by Sarbanes Oxley law, the managerial power over their own remuneration has been translated towards new methods such as the backdating of stock options (section 8). This is a confirmation of the large embeddedness of finance led SSA. Quite all institutional forms are drastically affected by comparison with the Fordist era, since financialisation simultaneously labour market institutions, the welfare especially concerning retirement, but also the role of credit for household consumption. Finally the objectives and tools of the central bank have to take into account the leading role of private and globalised financial market (section 9).

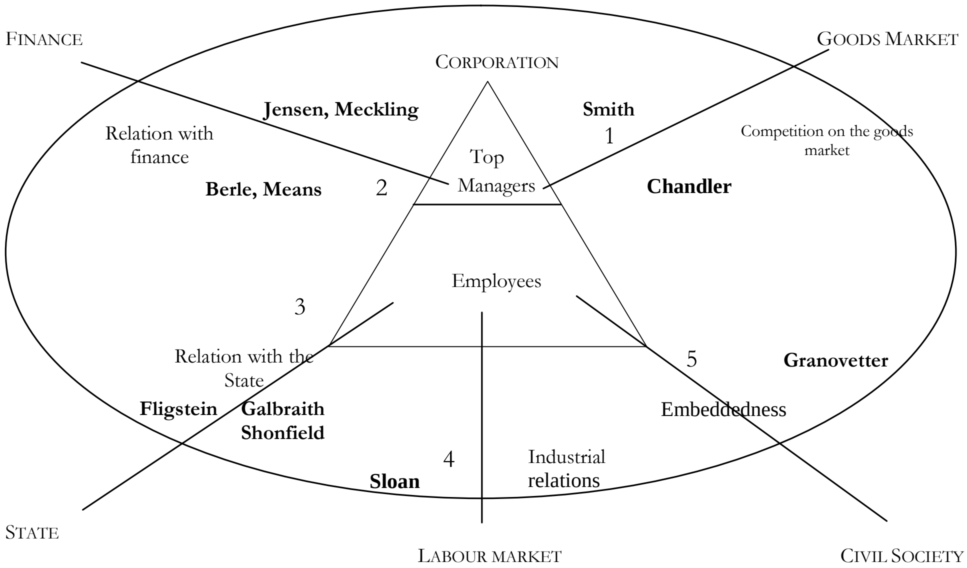
A short conclusion summarises the core arguments and findings. The role of stock-market options in aligning the objective of managers with the interest of shareholders is not at all fulfilled both at the theoretical level and the analysis of actually existing schemes. Basically, top managers exert a de facto power at the micro level of the genesis of profit by the complementarity of firm specific assets. Accounting scandals are the most vibrant expression of these asymmetries between the insiders (the managers) and the outsiders (the shareholders). Thus, the liquidity of financial markets has entitled CEOs to expand drastically their remuneration, on top of high wages and various bonuses indexed to profits.

Paradoxically, a de facto alliance prevails between CEOs and financiers, whereas typical workers are no more part of the core compromise of large quoted corporations. This micro power has been extended at the political level and affected taxation, financial regulations and even the evolution of labour market institutions. Consequently, CEOs remuneration explosion is the expression of a new finance-led SSA, but contrary to the Fordist era, this regime cannot be extended easily to the rest of the world.

The emergence of the corporation: two centuries of theorising by social scientists

The complex issues related to the control and rewarding of managers cannot be captured without an assessment of the origins and rationales of the modern joint stock corporation. This entity has to overcome a series of coordination problems among the various actors, and simultaneously to prevent the related mechanisms from eroding the competitive advantage associated to the large corporation. Just to paraphrase a well known contributor (Fligstein, 2001:126): “The joint corporation comes into existence in situations where technology requires a large among of capital, a demand exists for specialised agents to utilise economies of scale and a large pool of capital is needed to bond contracts and organisation – specific assets”. As Fama and Jensen (1983: 346) put it, “the benefits of unrestricted common stock residual claims in activities where optimal organisations are large and complex offset the agency costs resulting from separation of decision functions and residual risk-bearing”. This is an opportunity to explicit the core mechanisms that explain the emergence and the persistence of the organisation form associated to the joint stock corporation (figure 1, below).

Figure 1: The factors that shape the internal organisation of the corporation



Division of labour and size of the market: from Adam Smith to Alfred Chandler

The pin factory of Adam Smith is the starting point of this story. Given the large increasing returns associated to the specialisation of workers to a specific and repetitive task, this process of industrial manufacturing calls for a large size of the product market. The entrepreneur is then coordinating the labour process, observing the market and he pays the workers at the ongoing wage, set according to competitive mechanisms. By definition, his remuneration is the residual income when receipts exceed the costs of labour and raw materials. In such a configuration, there is no distortion between property and management that are jointly remunerated by the profits. Such a configuration has been the implicit reference and has inspired the neo-classical theory of the firm, as a profit maximising entity.

When transportation costs are drastically reduced by the building of the railways network, the increasing returns to scale associated to mass-production can be extended to an unprecedented level. So does the division of labour, both within and among firms. The large modern corporation therefore has to be reorganised (Chandler, 1990). First, the entrepreneur can no more manage himself the whole productive, marketing and financial routines that define the corporation: managerial tasks have to be delegated to non-proprietary managers. Second, the capital required for being cost efficient might be so large that the entrepreneur has to rely on credit or equity. Here begins the historical process of corporation reorganisation, quite complex indeed.

From a pure legal entity to an organic conception of the firm: Berle and Means

The creation and the success of the joint stock corporation entitle a significant increase of the size of the workforce, associated to a deepening of the specialisation both of workers and of managers. Consequently, the large corporation becomes a pyramid like bureaucratic organisation, with multiple layers decomposing the chain of command. The performance of the corporation appears to depend crucially from the firm specific investment and competence developed by the employees. It is no surprise if emerges a new conception of the corporation. Whereas from a strictly legal point of view, the joint stock corporation appears as the collective property of the shareholders, from an economic standpoint, its survival, performance and growth clearly depend upon the distinctiveness of the products that result from the complementarity of the competences of the employees. This is no more than the emergence of a duality between the management responsibility and the property rights (Berle, Means, 1932).

This separation of ownership from control challenges the conventional hypothesis that the firm should maximise profits. A priori, the top managers cannot be totally controlled by the shareholders and they may thus pursue distinctive objectives such as growth, size, diversification, risk minimisation, enjoyable environment, or attractive career. Actually, the top managers are in good position to allocate residual claims of the corporation, even if formally shareholders have to vote about their proposals. This primacy of managers can be accepted by patient capital markets and dispersed shareholders under the condition of a minimal but rather safe rate of return: actually, the configuration of strong managers but de facto weak owners, have been observed in Europe and Japan (Roe, 1994). But the standard answer in other capitalisms is quite different: the task of public authorities should be to design devices in order to align again the interest of managers with the core objective of profit maximisation and/or shareholder values (Jensen, Meckling, 1976; Fama, Jensen, 1983). Unfortunately, there is no general solution in order to restore the first best solution of profit maximisation: various configurations at different epochs have just generated a whole spectrum of corporate governance structures.

State interventions and legal conceptions shape the internal organisation of the corporation: from Kenneth Galbraith to Neil Fligstein

Economists tend to interpret simply the rise of modern corporations by the diffusion of the principles of rationality and competition: this would be the direct consequence of their intrinsic superiority in mobilising increasing returns to scale and fostering innovations. By contrast, political economists and economic sociologists (Fligstein, 1990) show the significant impact of State regulations that govern competition on goods markets, the organisation of the financial system and of course, the legal regime for firms. Property rights themselves display a large variety of regimes through time and across nations (Kay, 2003: 317-8). Consequently, the nature of the competition regime, the organisation of the tax system, the style of economic policy, as well as the general principle of corporate law do play a role in explaining organisational choices.

Actually, the American history displays significant variations in the legal framework and this has had a clear impact upon the internal organisation of the joint stock corporation, but also on the nature of the incentives designed in order to control top managers. Just an example: some researches suggest that the adoption of executive stock option plans in US corporation is more linked to the tax code than pure efficiency criteria about wealth maximisation or value creation (Long, 1992). Similarly, the nature of public procurement for defence for instance, may shape the strategy of corporations in terms of investment, innovation, price formation. All these relationships between the State and the corporations affect their performance and the role of executives (Galbraith, 1993).

The employees recognition as stakeholders: Alfred Sloan

Many historical studies point out a major transformation of the American capitalism after the New Deal and the Second World War: the wage earners have gained a significant bargaining power in terms of wage negotiation, access to welfare and more generally in the political arena. Some political scientists consider that the period 1932-1971 has exhibited a pro-labour alliance of the managers of large corporations, a quite unprecedented episode in American history. This is precisely the origin of the Fordist growth regime that has been investigated by regulationist approaches (Aglietta, 1982). Such an epochal change has affected the internal distribution of power within the joint stock corporation.

On one side, the wage earners have become part of the mass production society, via their access to mass consumption: clearly, the size and the prosperity of the American corporation have benefited from this socio-political change. On the other side, given the bargaining power of workers unions both on the labour market and within the firm, the managers have been induced to adopt an organic conception of the firm. In a sense, General Motors appeared as the prototype of such a government compromise, combining the interests of workers and managers, in the context of rather weak stock holders (Sloan, 1963). A variant of this conception of the corporation is the Japanese one: managers and permanent workers seem to have the leading role provided that the corporation deliver a minimum rate of return to shareholders and bondholders (Aoki, 1988). Another variant of this conception has long been operating in Germany, given the large recognition by law of the role of wager earners in one of the board governing the firm.

The embeddedness of the firm into civil society: Mark Granovetter

The previous visions of the corporation do share a common feature: this entity is not simply the property of stock holders since it has to take into account various requirements outside the pure economic sphere. Recognition of labour's voice and social rights, prevention of negative externalities caused by the firm to the rest of the society, conformity with the prevailing conception of fairness or social justice: all these factors imply the embeddedness of the firm into a web of legal, social and ethical relations.

This feature may explain a significant differentiation in the role of managers, the form of the control and the rewards they get. Therefore, during at the long run history of American corporations, various configurations are observed. Across developed countries, various conceptions of the corporation still coexist even in the era of good corporate governance that is largely inspired by the American business model. This feature is especially relevant concerning CEOs remuneration. On one side, the boom of the remuneration quite unsuccessful top executives has triggered a protest of shareholders and wage earners as well. In some extreme case, the CEOs were compelled to abandon an extravagant pay, because they had violated the society wide conception of fairness84. On the other side, contrary to the

[84] This is more common in Europe than in the US. The Ahold CEO Anders Moberg had to adjust his remuneration package on September 2003, after the debate in Netherlands (www.ahold.com). Similarly the

expectations, in the US and to a minor extend in European countries, the pay of some CEOs continued an upward spiral in 2002 and 2003.

Hence a major contemporary question addressed to accountants and economists: does theory deliver any device in order to overcome the opportunistic behaviour and erroneous strategy of CEOs, since these patterns are detrimental to shareholders, wage earners and finally the very survival of some corporations85.

Managers and corporation: from the end of XIXth century to early XXIst century

The history of intellectual representation of the corporation and its various legal conceptions in a sense mirror the actual long term historical process of transformations of business. Each of these conceptions tries to capture a specific feature that has been dominant at some epoch. Thus, the complexity of the issue of controlling and rewarding managers cannot be understood without a brief history of the factors that have shaped the present configuration. For simplicity sake, a contemporary querie about executive compensation might be seen as the most recent act of a plot that began more than one century and half ago.

The crisis of the previously successful managerial corporation

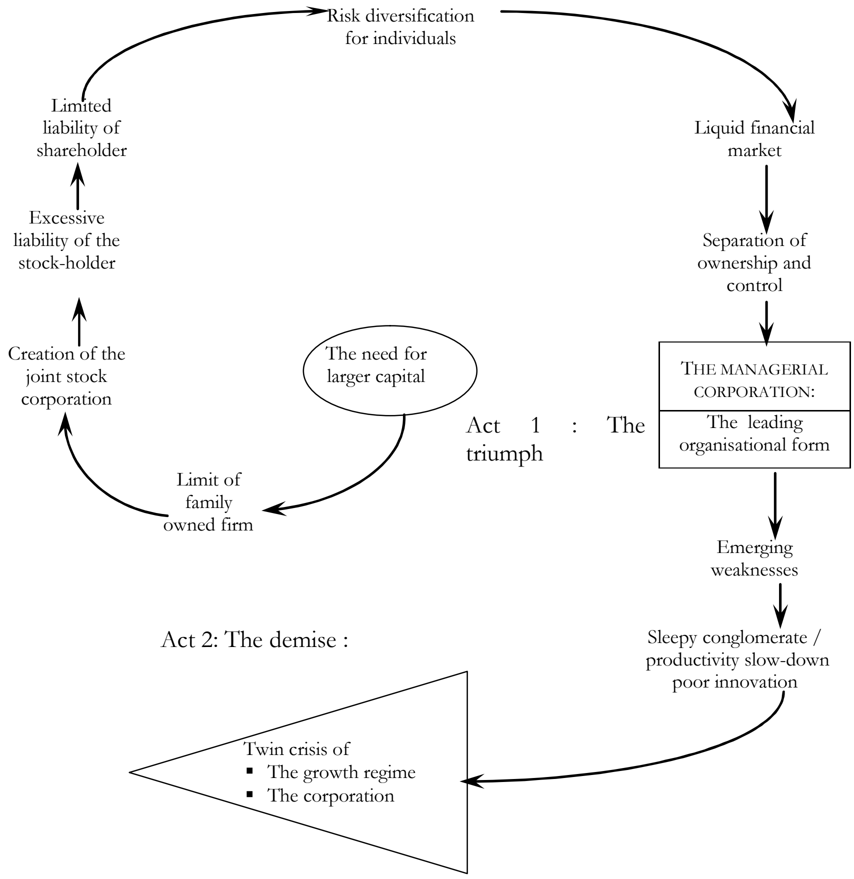
The first act takes place in the last third of the xixth century. In most industrialised countries, and especially in the US, family founded and owned firms encounter limits in capturing the advantage derived from the new technologies that required more capital and closer links with scientific advances. A wave of mergers makes clear the merits of the joint stock corporation as a method for mobilising dispersed savings. This is so for the railroad industry and then the chemical industry. The invention of the limited liability of shareholders plays a crucial role: individuals can diversify risk by investing in a portfolio of various traded companies. Thus, the stock and the bond markets become highly liquid via the activity of buying and selling shares, quite independently from the irreversibility of productive capital and the everyday management of the company.

Consequently, there are two sources to the separation of ownership and control. On one side, family managers are replaced by salaried ones who are delegated the management of the firm. Incidentally, the division of labour that had taken place at the shop floor level is also observed in the management of large companies. In a sense, managers tend to become bureaucrats in charge of taking rational decisions, informed by the advance of science, technology and management. On the other side, individuals, as investors, enjoy the freedom to optimise the rate of return of their wealth par transacting on more and more developed financial markets in London and New York. By the way, except during periods of hot scandals, the individual investors do not ask for a close monitoring of the managers, provided they deliver a modicum rate of return. It is the epoch of the triumph of the managerial corporation “à la Berle and Means”: the de facto complementarity between the liquidity of saving and the specialisation of management delivers an unprecedented dynamic efficiency, and therefore few criticisms are voiced by experts and public opinion on behalf of discontent shareholders. The only concern is about the risk of monopolisation of product markets and concentration of capital…but these are mainly the complaints of labour and socialist movements (figure 2).

French CEO of Alstom had to renounce to a quite generous golden parachute after quitting a quasi-bankrupt firm.

[85] One has to remember Enron, Worldcom, Vivendi, Ahold, Parmalat.

Figure 2 : Act I and II: The emergence and the crisis of the managerial corporation



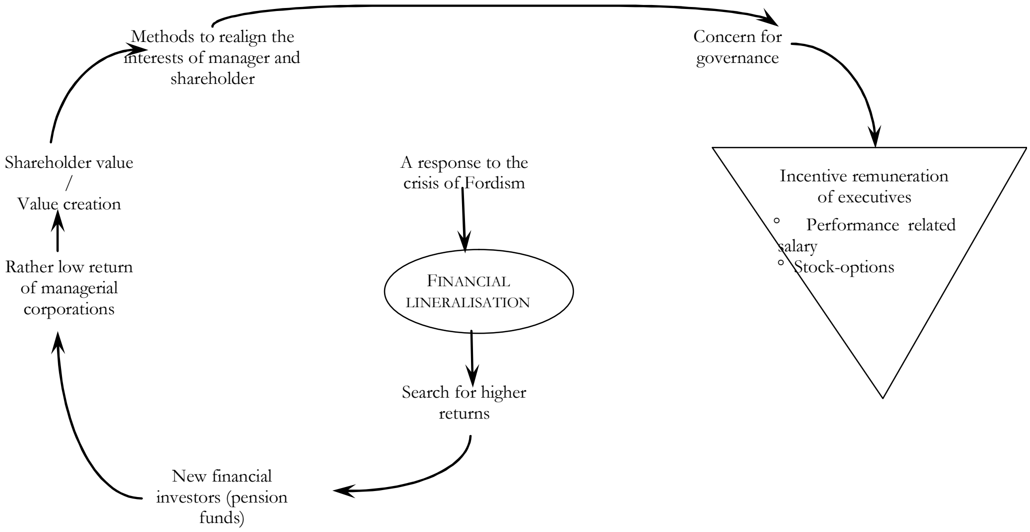
But the heyday of the managerial corporation does not survive to the 1970s. Act II begins when the previous favourable trends are reversed. The very diffusion of this canonical model to many activities finally triggers adverse trends. First, managers enter into an excessive diversification without any clear synergy with their "core-competences" to use the term that will be proposed during the 80s to promote the split the large conglomerates. Second, this excessive diversification and the strains associated to the impact of near full-employment upon labour discipline and work intensity trigger a significant productivity slow-down. Third, the oligopolistic nature of competition on product markets erodes the innovativeness of maturing large corporation, at the very moment when newcomers in Europe and Asia, challenge the American way of doing business. These strains on the managerial corporation are correlated at the macro level with the demise of the Post-World War II growth regime: productivity slow-down generates pressures on costs that are turned into prices increases due to a rather accommodating monetary policy (Aglietta, 1982). The stage is ready for act III.

Value creation and shareholder value as disciplinary devices

The first reversal takes place in the conduct of monetary and budgetary policy. Conservative Central bankers replace the Keynesian principles by a monetarist credo according to which inflation has to be curbed down in order to fulfil toward a monetary and financial stability, at the possible cost of a growth slow down, due to high and unprecedented real interest rates. Since the real interest rate on bonds becomes superior to the dividend/price ratio on stocks, corporation have to adjust accordingly wages, employment and their investment decisions (Lazonick, 1992). The bargaining power of wage earners is therefore eroded and this opens a new epoch for the evolution of the distributive shares between wage, profit and the revenue from finance. Financial liberalisation defines the second structural transformation of the 80s and 90s: new financial instruments are created and diffused especially in the US and to a minor extend to the UK. Derivatives and stock options are good examples of the success of financial innovations. Consequently, financial instruments are more and more diversified and therefore attract new customers in response to an unprecedented specialisation of financial institutions and investors. A final shift, in the US, concerns the transformation of pay as you go pension system into pension funds: the large and permanent inflow of saving on financial markets improve their liquidity and deepness and simultaneously increases the probability of financial bubbles (Orléan, 1999). Furthermore, the concentration of the management of these savings brings a counter tendency to the extreme dispersion of ownership: some pension funds may use not only exit (selling the shares of a badly managed corporation) but also voice (by expressing conditions for approving the decisions of the boards).

It is the epoch of value creation, and then shareholder value (figure 3). In this context, the divergence of interest between managers and owners pops out as a crucial issue. Why not to try to align the strategy of top managers with the objectives of stock market value maximisation on behalf of the shareholders? The use of stock options therefore widely diffuses, not only to the traditional corporation operating in mature industries but also in the start-ups of the information and communication technology industry.

Figure 3 : Act III: disciplining the managers by shareholder value



In the former industries, stock options are conceived as an incentive for good management and shift the strategy of CEOs from extreme diversification to the concentration on their core business, and the economising of capital. In the later industries, a large fraction of the personnel receives a modest wage but a significant number of stock-options that can be cashed when if the expected profits will manifest themselves. By the way, this reduces production costs and makes higher profits, since the American accounting principles in the 90s did not require stock-options to be included into the costs. The search for radical innovations and stock options as a form of remuneration are closely associated in the vision of the “new economy”.

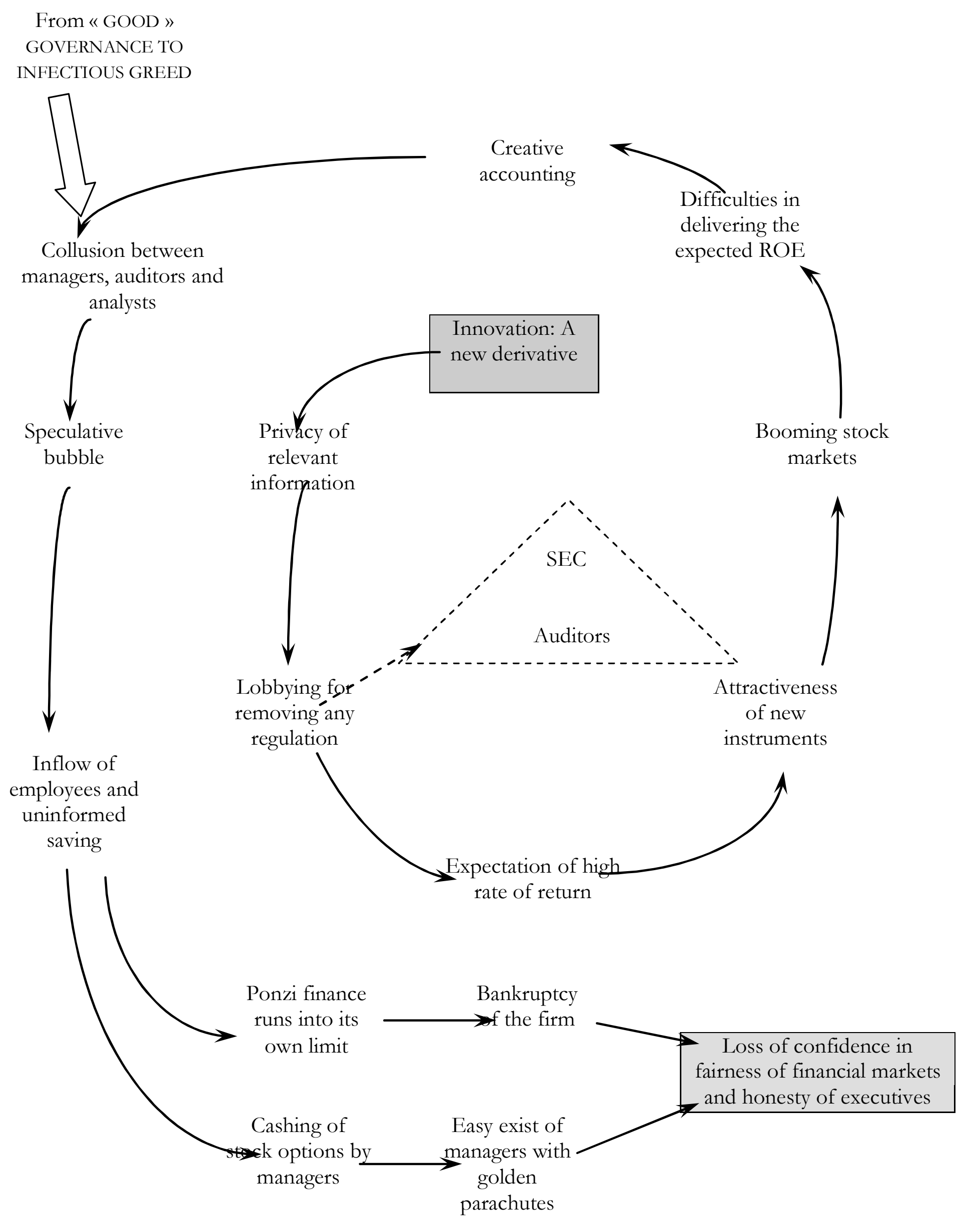
Stock-options are therefore central to American business in the 90s: they are supposed to control the managers of mature corporations and reward the professionals and managers of the sunrise sectors. Act III seems to announce an happy end…but this was not the case.

Financial bubble and infectious greed: executive compensation under scrutiny

Actually the very optimistic views about the higher and higher rate of return on equities drive the boom of the mid 90s in the American stock market. What was supposed to be a rational method for generating value and wealth has become “a casino economy” whereby every body tries to get rich as quickly as possible, without any concern for the long run viability of her/his strategy. The implicit rate of return of most of the start-ups of the new economy was totally unlikely, but nevertheless attracted the investment of well established investment banks and institutional investors. The public was convinced by the financial and popular press that the boom on the stock markets was not at all a bubble but the evidence of an unprecedented area featuring totally new economic regularities. This was an illusion since the divorce between the actual rate of return and the expected one was bound to be recognised thus reduced, if not by a progressive reappraisal, by a brusque down turn of the financial market. This takes place in March 2001, when the Internet bubble bursts out, and generates an impressive series of bankruptcies: in a sense, the trajectory of Enron is typical for this new relations between corporate governance and fiancial markets (Figure 4).

In this context, the divorce between the supposed rational goals of incentive pay and the effective use of financial performance related compensation is made clear by the multiplication of financial scandals and some spectacular bankruptcies. In retrospect, the surge of stock-options appears as a method for fast wealth accumulation from top executives and not so much a method for rewarding the quality of their management. The previous methods for controlling and rewarding managers are therefore under public scrutiny. Should it be a surprise for the proponents of the indexation of top-managers compensation to shareholder value?

Figure 4: How an alleged virtuous circle turn into a vicious spiral: the Enron story



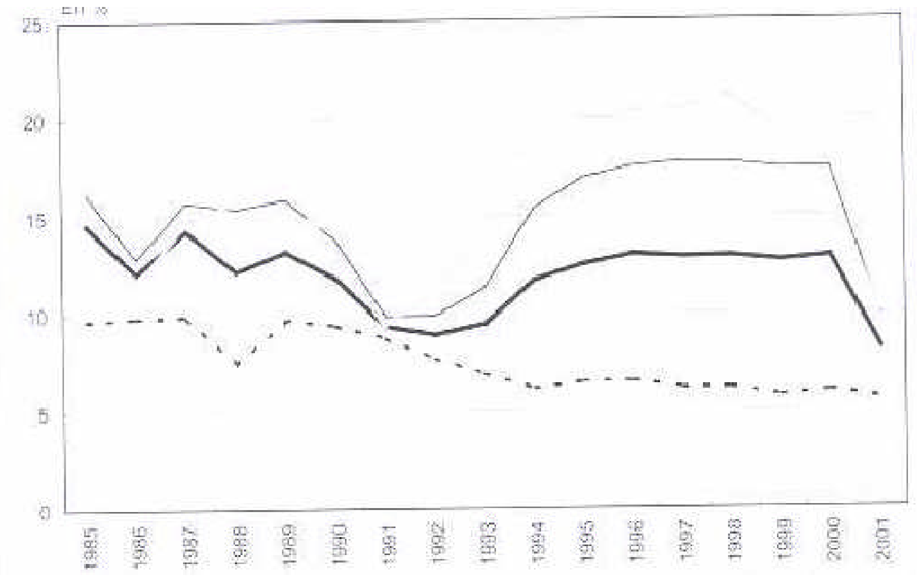
Corporate governance and shareholder value: the divorce between economic performance and managers remuneration

The historical retrospective analysis (section 2) suggests that the competitive hedge of the joint stock corporation (capturing increasing return to scale, risk pooling, search for market power…) is mitigated by the rise of agency costs along with the size of the firm. These costs result from the dichotomy between management and ownership and more generally the multiplicity of principal/agent problems when the internal division of labour and specialisation leads to a multiple layer organisation (functional divisions, operational divisions, productive units, teams,…). Therefore, one could observe different phases according to the cost/efficiency balance of the joint stock corporation compared with other organisational forms of the firm. Under with respect, the large diffusion of the discourse on value creation, shareholder value and good governance would suggest that the joint stock corporation was the most efficient organisational form. A quick look at American and French evolutions does not confirm this hint.

The joint stock corporation in the 90s: good financial performance but moderate improvement of economic efficiency

The boom of American stock markets (New York stock exchange and Nasdaq) was initially interpreted as an evidence for an unprecedented efficiency of production, specially in information and communication technologies. In retrospect, the national account data do not confirm diagnosis suggested by the financial results as presented by American corporations CEOs and CFOs (figure 5). On one side, the rate of return on equity of the 100 S&P larger corporations actually increased from 10% to nearly 17%. But a closer look shows that such an impressive boom results from a declining interest rate paid on corporate debt and a typical leverage effect based upon the difference between this interest rate and the rate of return of total capital. On the other side, when one computes the economic rate of return according to the national account methodology, the recovery of large corporations profitability is far less impressive: the slow decline from 1985 to 1992 is interrupted and the economic rate of return increases by only 3% from 1993 to 2000 and then declines with the bursting out of the Internet bubble. In retrospect, the prosperity of American corporation that was supposed to be attributed to the impact of SCI and a new management style was largely due to the quality of the policy of the Federal Reserve Board and a clever management of credit and bonds by corporations.

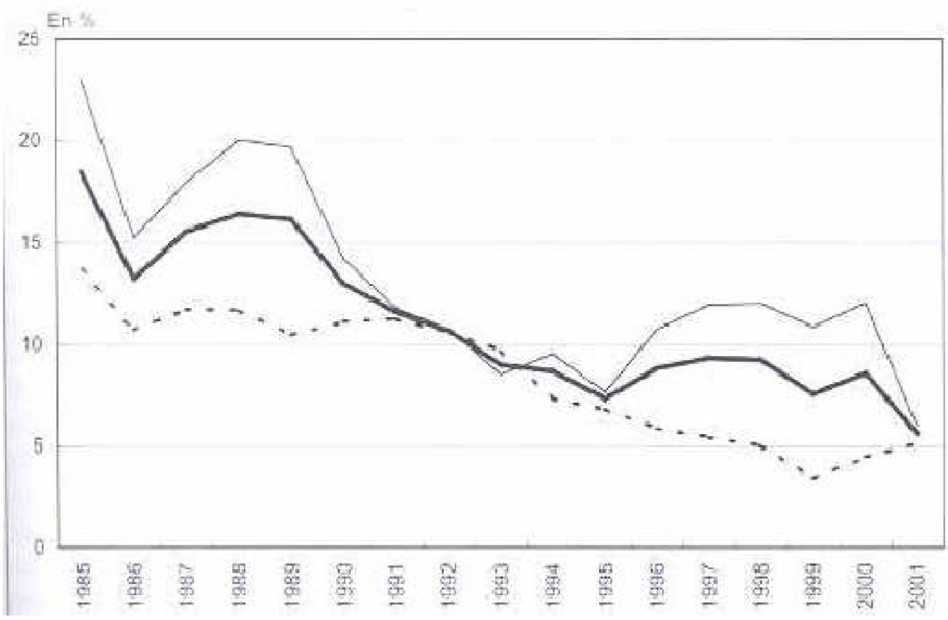
Figure 5: S&P 100 American corporations: High financial profitability due to the leverage of debt



Average interest rate of corporate debt
Economic rate of return (Profit after tax/total capital)
Rate of return on corporate capital
Source: Plihon (dir.) (2002: 90)

This movement has been diffusing to many developed and developing countries. The evolution of the CAC40 index for larger French joint stock corporation is similar to the US configuration, but the recovery of financial profitability is more limited (figure 6). Again, the erosion of financial profitability is stopped in 1995 and it reaches 12% in 2000 starting from 8% in 1995. But the economic rate of return of total capital does not experience an equivalent rise. Of course, the French economy is lagging both in terms of corporate governance and access to the new economy, but the conclusion is the same: financial management of debt and the decline of nominal interest rate have been quite important in the good financial reports of CAC40 corporations.

Figure 6: CAC40 French corporations: Moderate rise of financial profitability due to the leverage of debt



Average interest rate of corporate debt
Economic rate of return (Profit after tax/total capital)
Rate of return on corporate capital
Source: Plihon (dir.) (2002: 101)

Thus, the positive impact on efficiency of shareholder value and changing pay system for CEOs has still to be documented. But there is a second challenge to conventional wisdom.

The surprising coming back of patrimonial capitalism even in the US…

Basically, given the expected superiority of the joint stock corporations managed by professional CEOs and CFOs under the scrutiny of analysts, investors and shareholders, one should observe the progressive vanishing of founding-family ownership. This is the case neither in the US nor in France.

Recent researches show that in the United States founding-family ownership is common in large, publicly traded firms and is related, both statistically and economically, to a lower cost of debt financing (Anderson, Mansi, Reeb, 2002). These authors show that “the relation between founding-family holdings and debt costs is non-monotonic: debt costs first decrease as family ownership increases but then increase with increasing family ownership. However, irrespective of the level of family holdings, family firms enjoy a lower cost of debt than non-family firms”. Given the impact of leverage upon firms profitability (see figure 2, supra), this result is quite important indeed. Anderson, Mansi and Reeb attribute this result to the fact that founding-family ownership in publicly traded firms reduces the agency costs of debt. They conclude that “founding family firms have incentive structures that result in fewer agency conflicts between equity and debt payment, suggesting that bond investors view founding family ownership as an organisational structure that better protects their interests". Nevertheless, the relationships between a low credit spread and family-ownership is not linear: this spread first decreases with the size of family ownership and then increases up to a 12% of family ownerships. This suggests that hybridisation of corporate structures is better than purest forms, a quite suggestive result indeed, that should call for more empirical research. Last caveat, these conclusions are obtained by statistical and econometric methods and do not exclude outliers[86] .

A follow up of this research by Anderson and Reeb (2003) refined the previous results. Using Standard and Poor's 500 firms from 1992 to 1999, they document significant corporate governance differences between family and non-family firms. Whereas neoclassical theory suggests that founding-families are in unique positions of power and control that would enable them to expropriate wealth from minority shareholders, the statistical evidence shows that in large publicly traded companies, firms with founding-family outperform those with more dispersed ownership structures. But there is a key factor according them that limits family opportunism in US firms: the relative influence of independent and family directors. Finally, they mitigate their previous findings: "rather than focussing on divergences in family ownership and control as reported in East Asian firms, investors in US firms appear to focus on the presence of independent monitors to counterbalance family influence". In any case, by contrast, this means that the agency costs in managerial corporations might be higher than in family founded corporations. Implicitly, this means that the sophisticated pay systems for top executives in the US has not necessarily curbed down CEOs and CFOs power and opportunistic behaviour.

… Family controlled firms outperform managerial corporations in France

The findings are still more surprising for the larger manufacturing firms in France (Allouche, Amann, 2000). Among the 500 larger French manufacturing firms, the forms of control take many forms: family, managerial, technocratic, cooperative, workers, ownership … Contrary to a widely diffused belief, the importance of family control has not been declining from 1982 to 1992 in terms of total sales, quite on the contrary: in 1992, family control led firms represent nearly 59% of total sales, up from 49 % back in 1982. The typical managerial control is quite limited in size, but the technocratic industrial and technocratic banking controls are finally rather similar to what is considered in US as managerial control. In any case, this group is not growing in size (Figure 7).

Figure 7: The Share of family owned firms does not decline
(500 larger French manufacturing firms)

[86] In Italy, the Parmalat scandal would be a good example of a tentative of expropriation of bond and equity holders by founding-family members…in spite of the supervision role attributed to international accounting firms and institutional investors.

Form of Control	1982 % Total sales	1992 % Total sales	Variation 1982/1992 %
Family	48.89 %	58.86 %	9.97 %
	238	246	8
Managers	3.91 %	0.23%	- 3.69 %
	6	3	- 3
Technocratic-industrial	31.11 %	27.25 %	- 3.86 %
	154	145	- 9
Technocratic-banking	9.09 %	8.19%	- 0.90%
	45	56	11
Cooperative	5.54 %	4.11 %	- 1.43 %
	44	41	- 3
Wage-earners	0.76 %	0.90%	0.14%
	7	5	- 1
Unknown	0.70 %	0.45%	- 0.26 %
	7	4	- 3
Total	100.00 %	100.00 %	
	500	500	

Source: Allouche, Amann (2000), p. 9, tableau 3.

This success cannot be attributed to a pure inertia of the distribution of manufacturing firms nor to a form or another of archaism of the French capitalism. Actually, quite all the ratios measuring economic efficiency and profitability deliver better results for family controlled firms compared with other large manufacturing firms (Figure 8). The economic rate of return, the profit margin, the growth rate of return, and even the return for shareholders are quite superior for family firms. Furthermore, family controlled firms exhibit more satisfactory social indexes. The top wage earners – frequently managers and professionals – are less paid than their counterpart in non-family firms but the average wage is higher and the dispersion of compensation is lower. The social expenditures financed by the firms are higher and the stability of employment and the access to training are superior in family controlled firms.

Figure 8: Family firms are outperforming public corporations

France (1989 – 1992)

Ratios (%)	Family firms	Other firms
Economic rate of return	9.30	7.60
Economic performance	5.30	3.80
Profit margin	5.40	3.60
Cash-flow / sale	5.80	3.80
Rate of return of net capital	18.50	12.60
Gross rate of return	34.60	19.50
Return on shareholder funds	25.20	15.80
Net profitability	3.10	2.20
Returns on total assets	7.60	6.10

Source: Allouche, Amann (2000), p. 10 Table 4 et p. 13, tableau 6.

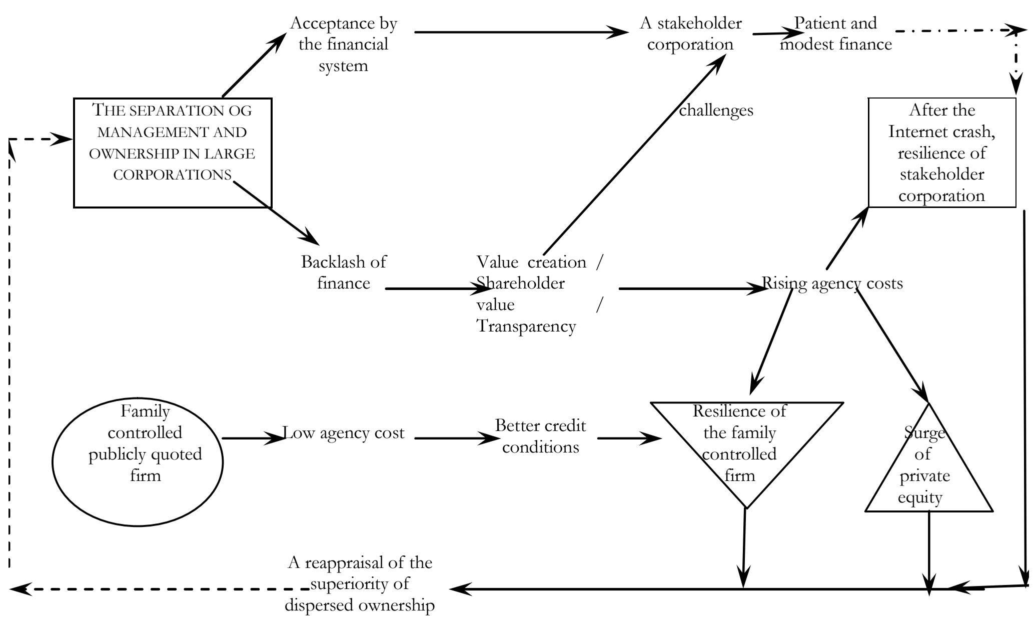
The authors (Allouche, Amann, 2000) attribute this hierarchy to the lower agency costs in the family controlled enterprises, thus confirming the findings for the US economy (Anderson, Mansi, Reeb, 2002). A contrario, these costs appear quite important for managers controlled firms. The result is rather strong since the authors have been matching family and non-family firms belonging to the same sector and profession, a methodology that corrects the differences in techniques of production and type of competition on various good markets.

Thus, the conventional vision, which assumes that the family firm is only efficient at the early beginning of an activity and then it has to convert into a typical managerial firm, because this form is more efficient, has to be challenged. Of course, this kind of research should be updated, in order to substantiate this provisional conclusion87.

The surge of private equity: a challenger to dispersed ownership?

There is a third evidence about the limits of shareholder value as a method for restoring more efficiency to publicly quoted corporations. Actually, back in the 80s, corporations near bankruptcy have triggered innovations such as leverage buying out (LBO) or managerial buying out (MBO), i.e. the equivalent of a take-over with a single operator or at least an homogeneous group of shareholders. In many cases it turned out that the restructuring could deliver a significant profit that could not be extracted from the firm under typical managerial corporation. In the 90s, some publicly quoted corporations have opted out and preferred to adopt the statute of private equity firm. A rather intuitive interpretation emerges: the contemporary attractiveness private for equity would mean that this organisational form reduces transaction costs and the typical agency problems between ownership and management (figure 9).

Figure 9: The publicly quoted corporation under pressure of an old and a new challenger



Similarly, the stakeholder company that was supposed to be inefficient and obsolete, enjoys a noticeable coming back, once the mirage of the new economy has dissipated. Actually, when corrected distortions in accounting practices, the rate of return of capital is not so different between these companies and the most promising corporations in the high tech sector. The stakeholder company is thus a third challenger to the ideal of shareholder value and transparent governance.

Thus, when all the previous findings are gathered, implicitly at least, the sophisticated incentives put in order to align the interest of managers and shareholders do not seem to have

[87] A clear limit of the French study is recognised by the authors: after 1992, they experience many difficulties in the determination of forms of control. Therefore, the cost of agency typical to the non-family firms only relates to a pre-shareholder value epoch.

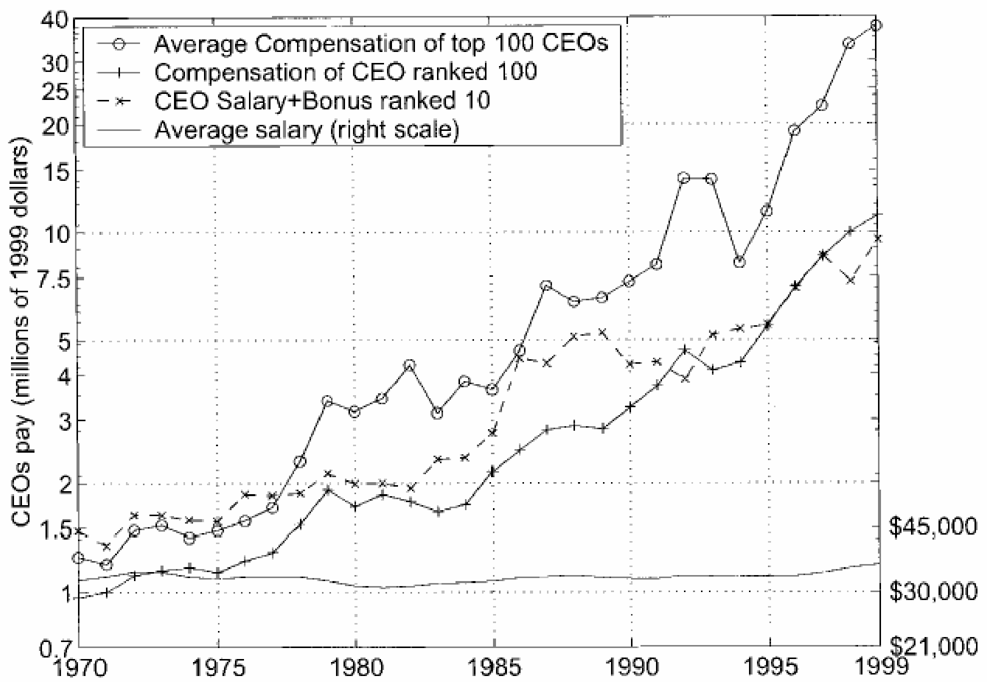
overcome the curse of the principal/agent problem. Back again to the limits of the strategy proposed by Jensen and Meckling (1976).

Top executives have divorced from labour

One can find a more direct evidence of the power of CEOs in the same research (figure 10). Back in the early 70s, the average compensation of top 10 CEOs was around 1.3 millions of $-1999, whereas the average salary was around 40 000 $. Since 1975, the trends of these two variables have been diverging: over a quarter century, quasi stagnation of the average salary, fast and quasi continuous increase of the average compensation of top 100 CEOs that reaches the level of 40 millions in 1999. One notes again an acceleration of their total compensation after 1995, i.e. the beginning of the financial bubble in the US.

These figures seem to confirm the core hypothesis of this paper: benefiting from the competitive threat exerted by foreign competition and still more of the consequence on corporate governance of financialisation, the American CEOs no more consider themselves as the elite of the permanent wage earners. Nevertheless in Gemany or Japan, CEOs continue to see themselves as the upper strata of wage-earners. Not anymore in the US, where they are part of an implicit alliance with the financiers.

Figure 10: US: CEOs' pay versus average wage, 1970-1999



Source: Piketty, Saez (2003), QJE, p. 33, figure 11.

Managers at the centre of shifting alliances: A political economy analysis

If the managerial joint stock corporation is not more efficient and does not increases it share via the selective mechanisms of competition –both on product and financial markets – how to explain the boom of CEOs remuneration during the 90s? Nearly any country is affected and this trend persists in spite of the suspicion from minority shareholders and public opinion. For instance in France, one still observes diverging trends of CEOs remuneration and financial results for a significant number of corporations (see Annex 1). This paper proposes a two fold explanation.

First, history suggests that managers have always been part of the leading alliance, compromising successively with various groups. The novelty of the present period would be an alliance with finance, at odds with the golden age of Forsdism, when a compromise was struck with wage-earners.

Second, there is a more theoretical and structural reason for this hegemonic role of managers. Where does the profit of any firm come from? Basically, from the idiosyncratic mix of firm specific assets and it is precisely the role of managers to organise the related complementarity and they have a significant autonomy in deploying their strategies and still more informing the outsiders about the financial situation of the firm.

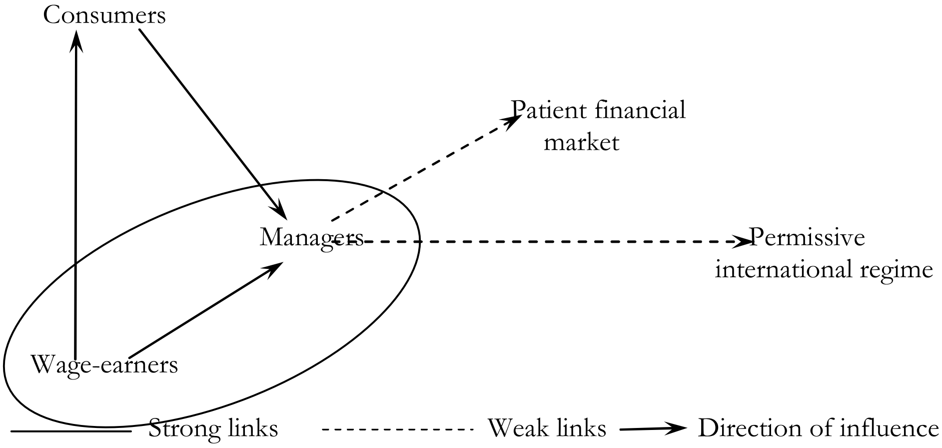
A brief history of economic and social alliance since the golden age

The current bargaining position of executives is the outcome of a series of long run transformations in the relations between wage earners, consumers, financial markets, the international economy and the Nation-State. Three quite distinctive periods can be distinguished.

The 60's: An alliance between wage earners and managers and the Fordist growth regime

This period has already been mentioned by the brief history of the concept and the forces that shape the modern corporation. Actually, the 60s experienced a quite atypical compromise between wage earners and managers. Given the strong bargaining power of workers unions, the pro-labour orientation of many governments and the high control over finance via a series of national regulations, a Sloanist corporation was built upon three premises. First, workers exchange the acceptance of modern productive methods, and productivity increases against an indexation of real wage on productivity (Aglietta, 1982; Boyer, Juillard, 2002). This creates a large market for mass production and sustains the multidivisional and large conglomerates (Boyer, Freyssenet, 2002). Second, the professional managers consider themselves as part of the wage earners and express their income as a multiple of the average wage. Third, the financial markets are not in position to exert a strong influence on the strategic choices of corporations. This de facto alliance of managers with wage earners triggers an unprecedented growth regime. Its economic benefits easily sustain the related social compromise (figure 11). Paradoxically, this period was perceived by contemporary as highly prone to conflicts between labour and capital, whereas in retrospect the demand for higher wage and better welfare were highly functional to this growth regime.

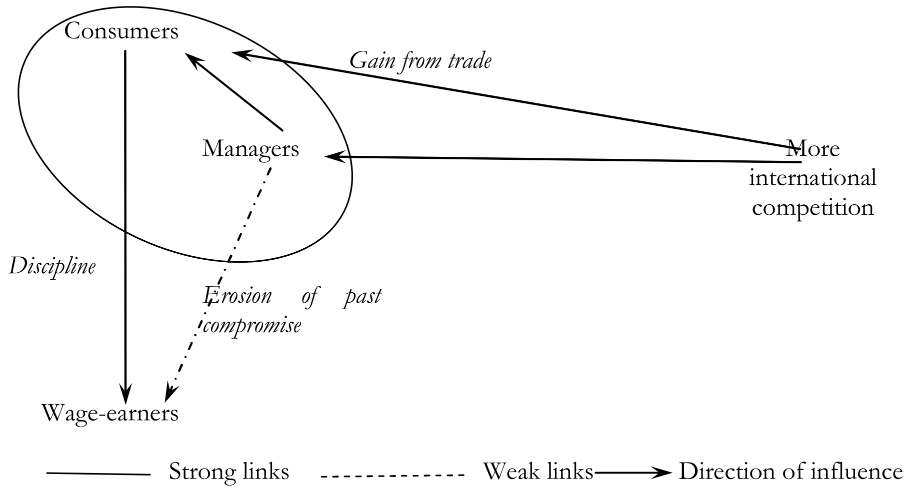
Figure 11 - The 60's. The first configuration of actors: the Fordist compromise



The 80's: The internationalization erodes the previous alliance

But such a regime was not to last forever: its very success triggers adverse trends such as an accelerating inflation, a rise of unemployment and more basically an internationalisation that progressively erodes the alliance between managers and wage earners. Whereas the international regime was highly permissive in the 60s, recurring external trade deficits put the question of competitiveness of firms at the centre of the political and economic agenda. The corporations have to restructure their organisation and frequently slim down their workforce, and this is quite a drastic reversal with respect to the previous Fordist compromise. During this period, the competition on the product market puts at the forefront the consumers that are presented to gain from external competition via a moderation of the price of imported manufacturing goods. The competitiveness motive is invoked by managers in order to redesign the labour contracts and the internationalisation becomes the main preoccupation of governments. In a sense, the sovereignty of consumers plays the role of an enforcement mechanism in order to discipline workers, and managers cleverly used this device (figure 12). Implicitly at least, the managers invoked the role of consumers demand in the context of a more acute international competition, in order to impose or negotiate a new configuration of the wage labour nexus. During this period, the adjustments required by a rather turbulent international economy involve a larger risk sharing by workers via the flexibility of hours, the revision of the laws protecting about employment and of course, a larger flexibility of wage and a slimming down of welfare.

Figure 12 : The 80's. The second configuration of actors: An international competition led regime



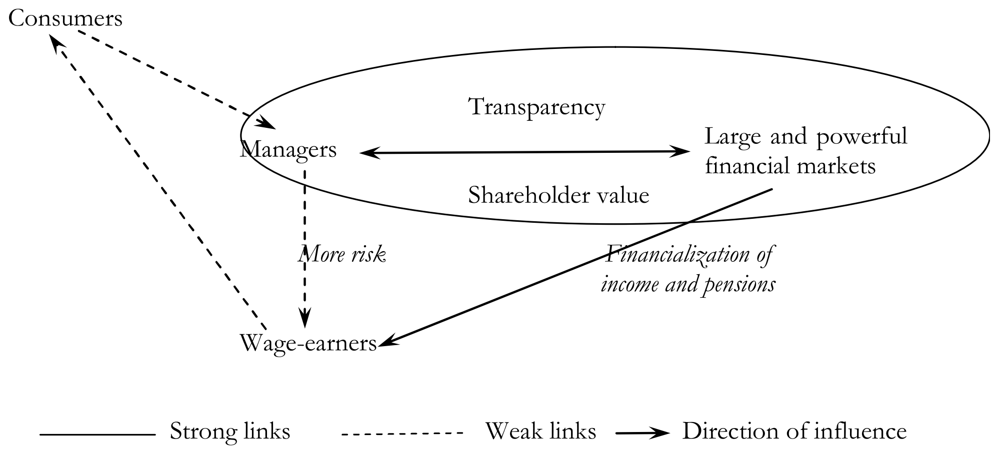
The 90's: Under the aegis of shareholder value, the hidden alliance between managers and financiers

The internationalisation of production is not the only feature of the last two decades. Since the mid-80s, the financial liberalisation, the multiplicity of financial innovations and their diffusion from the US to the rest of the world have drastically changed the conception of corporate governance and the conduct of economic policy as well. The conventional vision states that the joint stock corporations that operate in the manufacturing and service sectors have been submitted to the strong requirement of institutional investors. The power of these new actors precisely derive from financial deregulation and the high mobility of capital entitles them to ask for new rules of the game: higher rate of return on invested capital, conformity of actual profits to previous forecasts and financial analysts expectations, stability of the flow of profits generated by the corporations. In the US and to a minor extend in the UK, a finance led growth regime has replaced the Fordist one, but the relevance of this model was not warranted in countries such as Germany or Japan (Boyer, 2000a). In spite of this divergence in the national growth regimes, the ideal of shareholder value, or at least its rhetoric, has been diffusing all over the globe.

Nevertheless, a more precise investigation suggests a more nuanced appraisal. Given the fad promoted by financial investors about the promotion of stock-options, the support of many experts in corporate finance, the objective of realigning the interests of shareholders and managers has been widely diffused, first in the US, and then in many other OECD countries. Cleverly, without necessarily admitting it openly, the managers have used this demand of institutional investors in order to redesign their own compensation. On top of their wage, many forms of remuneration out of profit and stock market valuation have therefore been developing, and they have drastically increased the total income of CEOs (see figure 21, infra). Top executives have been practising the art of judoka: converting the pressure of the financial community into a countermove that benefits to them and continues to erode the bargaining power of wage earners.

Thus beneath the tyranny of investors, an implicit alliance between managers and investors takes place…and the wage earners have to comply with a new wave of labour market deregulation (figure 13). For instance, they have to bear a larger share of risk, just to stabilise the rate of return of the corporation, in order not to be fired. The wage labour nexus itself is transformed accordingly. First of all, the shift from pay as you go pension scheme to pension funds generates a huge inflow of saving into the stock market (Montagne 2003), and this propels in the US a finance led growth regime. Second, in order to try to compensate modest wage increases, permanent workers accept various forms of profit sharing and even they have access to the corporate shares via special schemes. Thus, managers have been reorienting their alliances and this has definite consequences about macroeconomic patterns – régulation modes – income inequality and even economic policy formation.

Figure 13: The 90's. The third configuration of actors: the alliance of investors and managers



The power and informational asymmetry in favour of executives

How to explain this pivotal role of managers? A political economy approach suggests one interpretation: given their position in the firm, structurally managers are able to exert a power within the economic sphere. Power relations are not limited to the political sphere they exist under other forms in the economy (Lordon, 2002). Many factors may explain a clear asymmetry both with respect to labour and to finance.

A mundane observation first: executives make decisions on an everyday basis and directly affect the strategy of the firm. By contrast, the control of the boards has a low frequency, the control by financial analysts is only indirect and in most OECD countries wage earners have not any say about the management of the firm they work for.

Therefore, managers built up special knowledge and competences that have not to be revealed to financial markets, competitors or labour representatives. External financial analysts may gather statistical information about the firm and its competitors, but the real sources of profitability may be still mysterious by lack of familiarity with the intricacies that make the success of a given corporation.

By definition, all insider information has not to be revealed and provided to outsiders since it might well be the source of extra profits. There is therefore a clear incentive to use strategically and opportunistically this information. Of course, insider trading on stock market is illegal but not the every day use of insider information and knowledge.

There is a strong asymmetry of power and information between the top managers and the various boards and committees. Their members are appointed by the executives, the information they are provided is elaborated by the staff of corporations and finally, the members of the board tend to belong to the same social network. Thus, the probability of accepting the agenda and the proposal put forward by the CEOs is quite high. Similarly, during the general assembly of shareholders, minorities do not have the resources to propose alternative nomination and proposals (Bebchuk, 2004). Therefore, the control of managers by auditors, financial analysts, shareholders organisations, is operating ex post and generally when the situation has become dramatic. A fine tuning of the control of managers is quite difficult indeed.

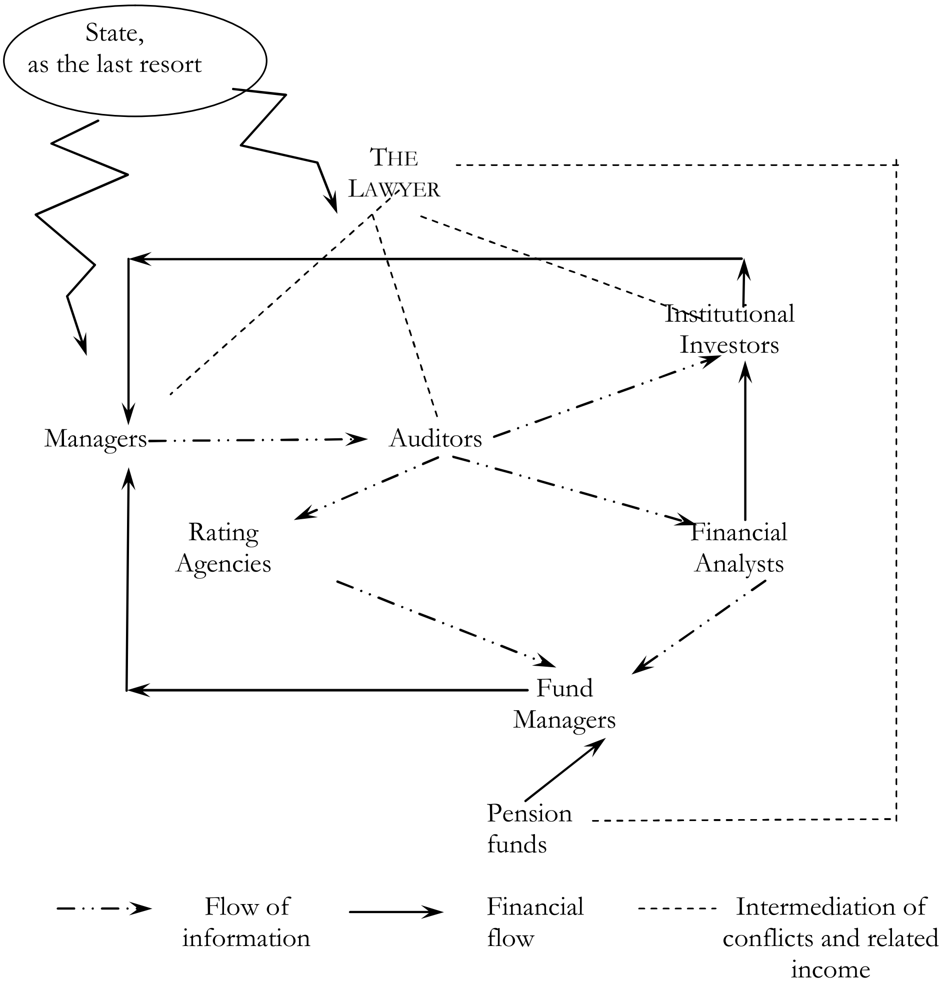
All these arguments derive from the same central feature of profit generation. The patrimonial conception of the corporation assumes that the profit derives from the mix of substitutable and generic factors of production, according to the prevailing system of prices. The basic hypothesis is that each factor is paid according to its marginal productivity. This model breaks down as soon as one adopts an organic conception: the corporation is defined by a set of complementary competences that are difficult to replicate. This is the origin of the net profit of the firm, once the capital has been paid at the ongoing interest rate. Therefore, the entrenched power of executives is the mirror image of the ability of the firm to generate profits. It is therefore illusory to think that the traders on the financial markets know better than the managers the origin and causes of the success of a given corporation. Their informational advantage derives from the statistical analysis of the macro and sectoral determinants of a sample firms belonging to the same sector.

When the financial crises and scandals burst out: two new actors, the lawyer and the activist

The bursting out of the Internet bubble in the US and the financial scandals that affected the US and many other OECD countries have again shifted the previous alliances. Paradoxically, the instability of finance led growth regime could somehow be forecasted and the history of financial crises reveals that the situation of the 2000s is not totally new. Then, two new actors enter into the plot.

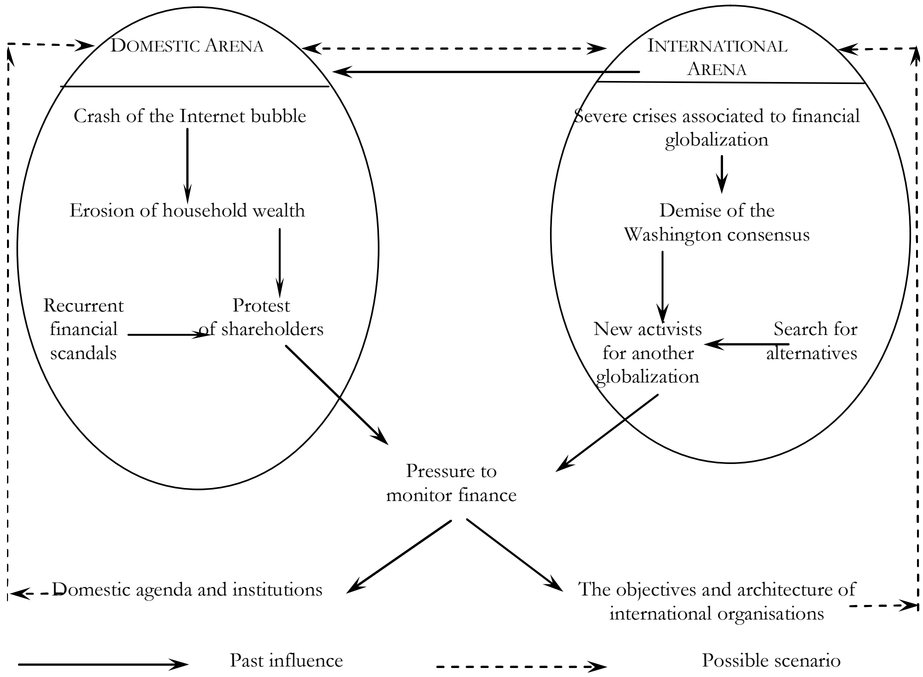
Given the role of lawyers, and the judiciary in the US, it is not surprising to observe that the excess of greed of some managers has implied the multiplication of lawsuits whereby disappointed shareholders or wage earners made redundant ask for compensation to the top executives. But since the responsibility are shared among a whole spectrum of professionals (institutional investors, financial analysts, auditors, rating agencies and fund managers and of course corporate managers), this is a wonderful opportunity for lawyers to extract a quasi secure income: who ever wins the case, lawyers benefit from a positive and significant fee! The key role of these actors probably means the disruption of the previous alliance between managers and financiers (figure 14).

Figure 14: The 2000's in the US. The fourth configuration of actors: the lawyer wins whatever the situation



Last two actors have to be brought into the picture. First, households that have lost a significant part of their capital do complain and precisely sue joint stock corporations, pension funds, financial analysts, institutional investors. Second, activists express their voice and ask for legal reforms of the responsibility of managers and financial intermediaries as well. Both domestic activists and international activists focus their criticisms and demands for reform against finance. The second complains about the social cost of globalisation, including financial globalisation (figure 15). The only method for converting this voice into actors is by pressuring the State to pass laws in order to try to curb down the power of corporations and institutional investors. This is essentially a matter of domestic policy: where the financial scandals have been the more acute, new bills have been passed, such as the Sarbanne-Oxley law in the US.

Figure 15: The 2000s. The fifth configuration of actors: the threat of State intervention in order to discipline global finance



The power of managers at the firm level: numerous converging empirical evidences

In many of the previous configurations, top managers have a pivotal role since they develop alliances with other social groups and these alliances vary according to the institutional, political and economic context. The previous hypothesis about the intrinsic power of managers, both at the micro and macro level, is difficult to test fully and directly, but many scattered evidences suggest the existence and permanence of such a power.

Insider trading: a manifest use of strategic information

Top managers and members of the board of directors of publicly traded corporations possess more information about their company than the individual shareholder or even professional analysts. Given this asymmetry, insider trading conveys some information to outsiders and this may contribute to the efficiency of the stock market. Generally the literature finds that the stock prices increase after publicly announced grants of stock-options to executives (Yermack, 1997). Two opposite interpretations might be given to this phenomenon. Either the incentive mechanisms of stock options trigger better management that is afterwards translated into more profits and higher stock market prices. Or executive time their option grants in anticipation of news, likely to boost stock prices.

A recent study on the UK listed companies (Fidrmuc, Goergen, Renneboog, 2004) does confirm that market reaction to the announcement of directors purchases is positive (figure 16) and conversely, that the announcement of directors sales induces a decline of the stock market (figure 10B). The mere observation of the sequence of announcements and returns suggests that the second hypothesis is likely. Actually, the insider purchases are associated with a previous decline of the rate of return and conversely, insider sales are observed after a period of abnormal positive returns. This could be an evidence of a strategic behaviour by managers and directors.

Figure 16: Market reactions to insider purchases: the UK stock-market

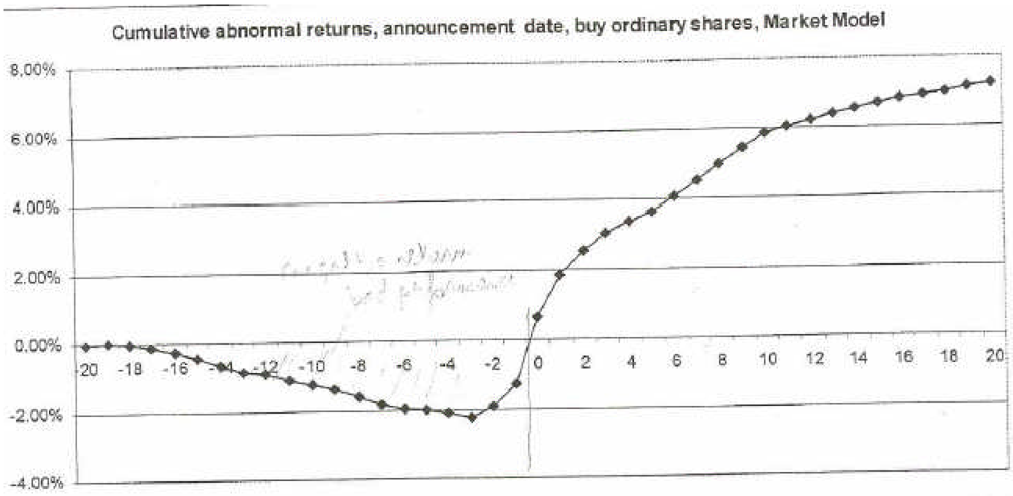
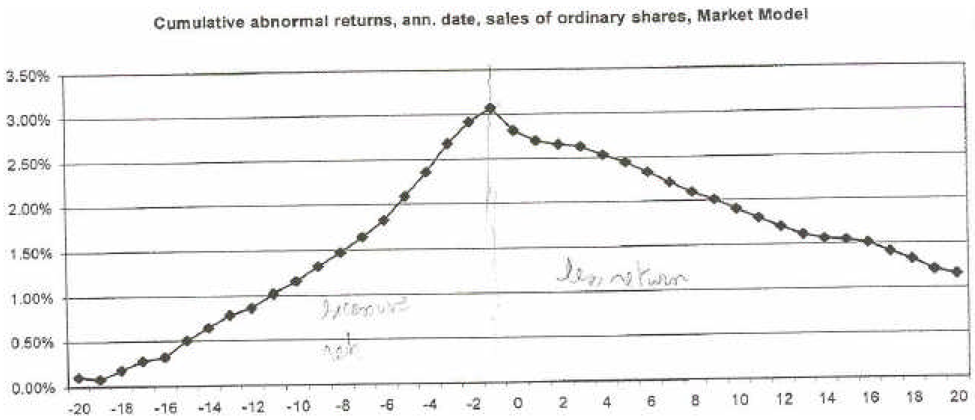


Figure 17: Market reactions to insider sales: the UK stock-market



Source : Fidrmuc & al. (2004), p. 41.

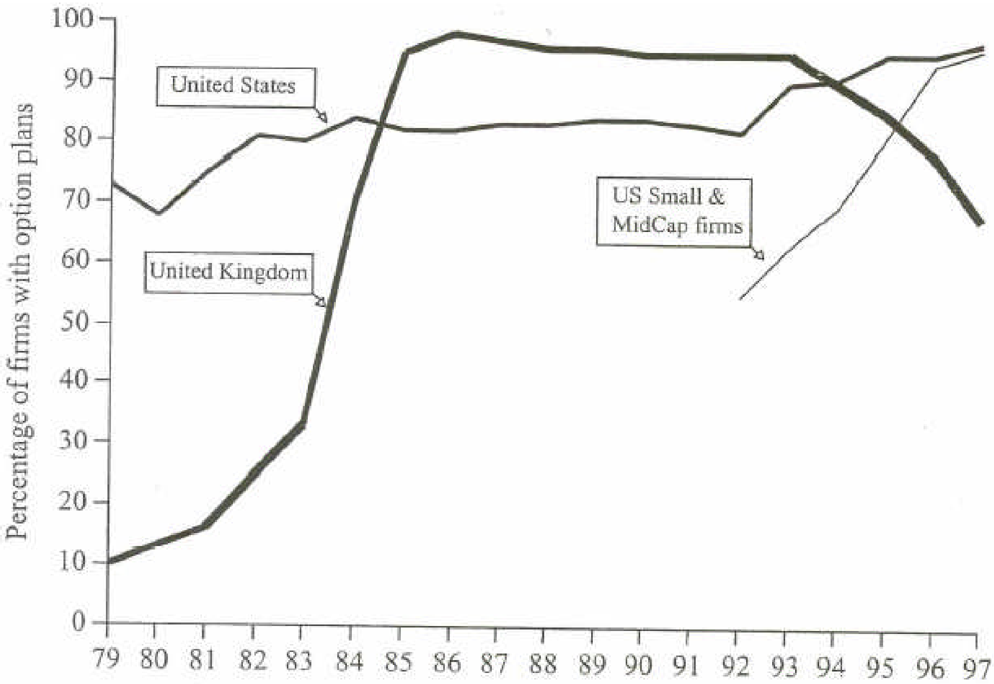
The same pattern is observed in the US as evidenced by the backdating of stock-options that has been detected in 2006. The related scandals concern nearly hundred large American corporations and they are a new and strong evidence about the strategic autonomy of CEOs, quite difficult to monitor in spite of the reinforcement of public control by the Sarbanes Oxley law.

The diffusion of stock options plans: a response to shareholder value

If in theory, stock options are supposed to discipline managers according to the interest of shareholders, it cannot be excluded that managers use this pressure in order to increase their total compensation. Such a hypothesis comes out from a comparison of CEOs pay in the United States and United Kingdom (Conyon, Murphy, 2000).

First the timing of the diffusion of stock-option plans is quite different in the two countries. In the United-States, the top executives of the S&P 500 benefit from stock option plans with a high frequency since the 1980s and they experience a new increase in this frequency during the 1990. But the novelty of the 1990s is the diffusion to small and medium capitalisation firms of this type of remuneration for executives (figure 18). In the UK, the pattern of diffusion is U shaped: nearly non existing stock-options in the early 80s, then a boom of their diffusion until they reach the plateau and then they decline since 1993. These contrasted trajectories could sustain the hypothesis that the unequal maturation of financial markets, including the diffusion of pension funds, may explain the differences observed in the structure of the remuneration of top executives in both countries.

Figure 18: The contrasted patterns of stock option diffusion in the US and UK



Source: Conyon, Murphy, 2000: F650

Actually, the structure of CEOs compensation is quite different in both countries. In UK, base salary is the largest fraction of total compensation, annual bonus is the second source of remuneration whereas option grants represent only 10 % of total CEOs compensation. By contrast, in the US, base salary is less than a third of CEOs compensation but the stock-options represent the largest source of income for top executives (Figure 19). Total pay only doubles in UK when the size of the firm goes from less than 200 million £ to more than 1.5 billion £, but in the US this remuneration is multiplied by more than 6 for the same range of size. Lastly, the US display an interesting feature: the CEOs remuneration is far higher in financial services, nearly the double of average remuneration, and option grants in this sector are the major source of total compensation. This is another evidence of the financialisation of corporate remuneration that starts from the financial sector and then diffuses afterward to the rest of the sectors.

Figure 19: The structure of CEO compensation is quite different in UK and US (1997)

Group	Sample firms	Total pay Average (£000s)	Median (£000s)	Average composition of total pay (%) Base salary	Annual bonus	Option grant	LTIP shares	Other pay
United Kingdom								
All companies	510	589	414	59	18	10	9	5
By firm sales (millions)								
Less than £200	152	452	287	64	17	10	4	5
£200 to £500	119	403	335	61	19	8	6	6
£500 to £1,500	116	601	507	54	20	10	12	4
Above £1,500	123	927	811	55	16	10	15	4
By industry								
Mining/manufacturing	217	564	436	59	17	9	9	5
Financial services	84	559	411	60	22	6	7	4
Utilities	19	448	382	58	15	6	14	8
Other	190	645	397	58	17	11	8	5
United States								
All companies	1,666	3,565	1,508	29	17	42	4	8
By firm sales (millions)								
Less than £200	339	1,166	686	38	14	43	1	4
£200 to £500	379	1,833	926	36	18	36	3	7
£500 to £1,500	458	3,038	1,604	28	18	40	5	9
Above £1,500	490	7,056	3,552	20	17	48	5	10
By industry								
Mining/manufacturing	842	3,388	1,540	28	17	43	3	8
Financial services	198	6,277	2,787	19	20	47	5	8
Utilities	120	1,333	707	43	15	23	6	13
Other	506	3,326	1,438	32	16	43	3	6

Source: Conyon, Murphy (2000), p. F646.

The divergence of CEOs remuneration between UK and US is confirmed by the most recent studies that provide data for the early 2000s (Erturk, Froud, Johal, Williams, 2004). The CEOs of the FTSE 100 have 74.5 % of their compensation by the way of basic pay, whereas the share of base salary is only 11.5 % for the CEOs who run the S&P 500 companies. Conversely, cashed options are more than 71.2 % of total compensation of the largest quoted American companies (Figure 20). These findings are coherent with the general hypothesis that share holder value has permeated more easily the American than the British corporations. Thus, the American managers have been able to capture a larger remuneration via the adoption of stock option plans.

Figure 20: The CEOs total compensation in the US and UK (2001-2002)

US: S&P companies, 2001-02

	Total compensation	Of which		
		Base salary	(all) bonuses	Cashed options
	$mill.	%	%	%
S&P 500	7.990	11.5	17.3	71.2
S&P 400 (Midcap)	3.493	17.6	20.7	61.7
S&P 600(Smallcap)	1.809	26.1	19.0	54.9

UK: listed companies, 2001-02

	Total pay	Of which	
	£	Basic pay %	Bonus %
Small company (turnover up to £5m)	62,250	93.2	6.8
Medium company (turnover £5m to £50)	94,997	86.3	13.7
Large company (turnover £50m to £500)	129,000	89.1	10.9
FTSE 100 (turnover range £403m to £119bn)	1,249,000	74.5	25.5

Source: Erturk, Froud, Johal, Williams (2004), p. 22.

The larger the corporation, lesser CEO pay-performance sensitivity

If the hypothesis that stock options were designed as incentive mechanisms in order to control the opportunistic behaviour of the CEOs in charge of the large quoted corporations, one should observe a larger sensitivity of CEOs compensation when the size of the company increases. Quasi unanimously, the econometric literature finds the opposite result. For instance, Conyon and Murphy (2000) find that the pay performance sensitivity is about 0.07 for small companies but only 0.02 for the largest ones in the US. Similar result emerges from the British data: the pay performance sensitivity is around 0.05 for small companies and monotonously decreases along with size (only 0.003 for the largest companies) (Figure 21). Of course, this is not necessary an evidence for the immunisation of large corporation CEOs from the valuation by the market of their performance. Actually, the estimated coefficient combines the impact of the size and the elasticity of CEOs remuneration.

There is another evidence of the significant autonomy in the determination of the CEOs remuneration: the very mechanism of stock options gives them a room for manoeuvre. If the options are under water, CEOs suffer no downward adjustment of their actual remuneration, since the only loss is unobserved, due to the gap between the actual performance of the company on the stock market and the expected one, when the stock-options were granted. Conversely, an exceptional performance of the company is rarely rewarded by an increase of the volume of stock-options (Stathopoulos et al., 2004).

Figure 21: Statistics for stock-based CEO incentives by size

Group	Share holdings (£ millions)		Share holdings (% of common)		Option holdings (% of common)		Pay-performance sensitivity (%)	
	Average	Median	Average	Median	Average	Median	Average	Median
United Kingdom								
All companies	7.01	0.46	2.13	0.05	0.24	0.11	2.33	0.25
By firm sales (millions)								
Less than £200	9.86	1.41	4.38	0.63	0.38	0.21	4.72	1.09
£200 to £500	9.50	0.70	2.55	0.14	0.24	0.14	2.75	0.42
£500 to £1,500	4.55	0.13	0.76	0.02	0.19	0.12	0.91	0.16
Above £1,500	3.40	0.33	0.21	0.01	0.10	0.04	0.31	0.05
United States								
All companies	60.37	3.26	3.10	0.29	1.18	0.72	4.18	1.48
By firm sales (millions)								
Less than £200	16.63	2.07	5.32	0.96	1.84	1.37	6.98	3.65
£200 to £500	23.84	2.93	3.94	0.58	1.39	0.94	5.20	2.05
£500 to £1,500	32.25	2.64	2.36	0.25	1.12	0.70	3.43	1.26
Above £1,500	145.26	4.96	1.61	0.09	0.62	0.40	2.17	0.56

Source: Conyon, Murphy (2000), p. F655.

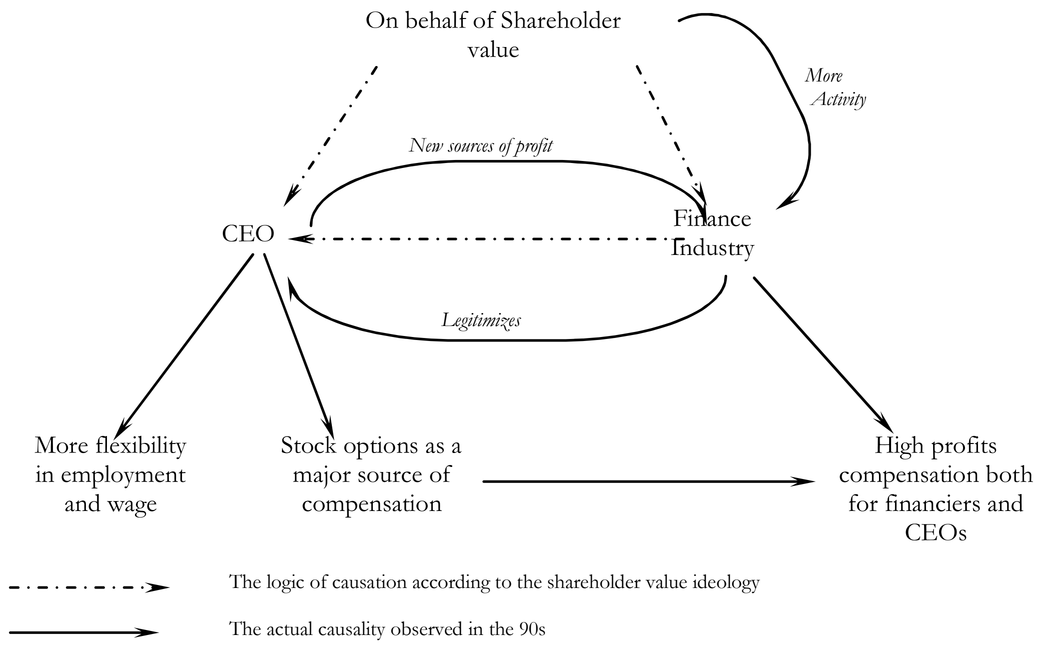
The surge of mergers and acquisitions: a benefit for the managers, more rarely for shareholders

Another evidence of the power of CEOs can be found, just looking at the merger mania of the 90s and the previous episodes. On one side, most studies find no correlation between financial performance and the size of quoted companies (Main, O'Reilly III, Wade, 1995). On the other side, total CEOs remuneration clearly increases with the size, especially so in the US (see supra, table 6). Consequently, the interest of shareholders would be a careful approach to external growth, but the CEOs usually have a different vision: big is beautiful especially for their remuneration. Therefore if the financial market is highly liquid and if a financial bubble distorts the valuation of the company, it is highly tempting for CEOs to use mergers and acquisitions in order to extend their turn-over and the capital they control.

These conditions were precisely fulfilled in the American stock market during the 90s: once again, a merger mania took place in spite of the robust evidence that previous episodes have generally been quite detrimental to the rate of return of the company resulting from mergers and acquisitions (Kaplan, 2000). The Internet bubble was not an exception: ex post it is clear that the start-ups of the new economy have globally been destroying stock market value, whereas the so-called mature industries have been more profitable than the sunrise industries. Nevertheless, the compensation of CEOs has skyrocketed, largely due to the fact that the speculative wave moved nearly all the stock market prices, whatever the company.

This is a new evidence of the implicit alliance between CEOs and top executives on one side, investment banks and high level financiers on the other side. The first ones got fast rises of their total remuneration, the second ones developed larger and larger profits, by the multiplication of the fees associated to merger and acquisition operations and an active portfolio management, for example on behalf of pension funds. The average shareholder only obtained a fraction of the total financial gains, precisely because the operational costs have been increasing with the sophistication of financial methods. Thus, beneath the shareholder value rhetoric, an implicit alliance between the financial industry and the top management seems to have been operating during the 90s (figure 22).

Figure 22 : From the rhetoric to the reality of shareholder value



Clear windfall profits for managers benefiting from stock options

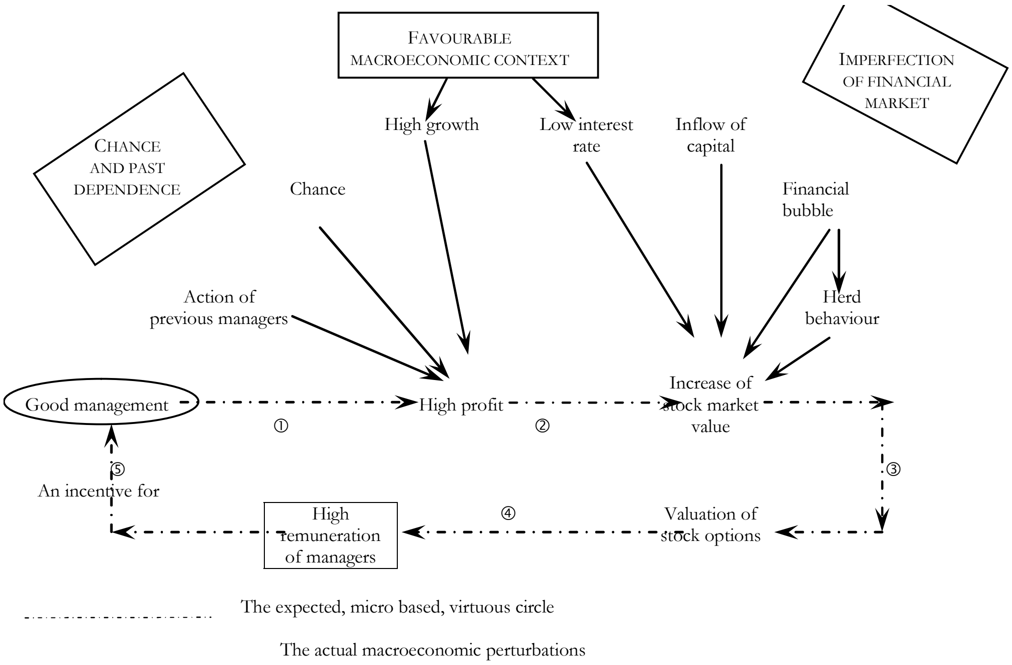
The intensive use in the US of stock options was supposed to adjust the strategies of CEOs along with the interest of shareholders. It has already been argued that, at the micro level, such alignment of interests can never be perfect. New sources of discrepancies emerge when the firm is immerged into the macroeconomic context (figure 23).

First, the contemporary financial performance of a firm is largely shaped by the decisions taken by previous CEOs, given the large time lag between an investment (and still more an RD expenditure) and their impact on the competitiveness of the firm. Actually the time of financial valuation by stock markets is far shorter than the time of maturation of innovation and productive investment. The car industry and still more the biotech sector are good examples of such time lags that might cover nearly one or two decades.

There is a second source of discrepancy between stock options and actual merits of CEOs. During the second half of the 90s, a fast and stable growth with quasi no inflation had entitled very low interest rates, thus generating and diffusing a speculative bubble that had no direct correlation with the quality of management (Boyer, 2004). Bad and good managers equally benefited from the common belief that a new growth regime had emerged, and that profit could only grow and thus sustain unprecedented rates of return for invested capital.

A third limit of stock options derives from the fact that financial markets are generally micro efficient (i.e. in valuing the relative price of stocks) but macro inefficient in the sense that they are not immune for bad inter temporal allocation of capital: over confidence and mimetism are the response to the typical uncertainty of highly liquid financial markets, thus generating speculative bubbles (Orléan, 1999). During such speculative periods, the compensation of CEOs has no more any relation with their contribution to the performance of the company they run.

Figure 23: Why stock options do not sort out the contribution of managers to the performance of the corporation



These three mechanisms (path dependency and chance, impact of macroeconomic context and imperfection of financial markets) totally distort the core virtuous circle contemplated by the proponent of stock options (figure 23).

These divergences between the incentive mechanism of stock-options at the micro level and their macro determinants have had a major impact in the skyrocketing of CEOs remuneration from 1995 to 2000 (Figure 24). If financial markets were perfect the distribution of dividends would be the only relevant performance index…and source of remuneration of shareholders and CEOs benefiting from stock options. Actually, since the early 80s, the increase of the share price has represented between 2/3 and ¾ of the total return for shareholders. This is a rough estimate of the over valuation of CEOs compensation during this period.

Figure 25: The source of shareholder gains in the UK and US (2003)

		Total shareholder returns %	Of which Share price (%)	Dividends (%)	Price-earnings ratio (average year)
UK					
FTSE 100 (constituents)	1983-1992	20.4	72.8	27.2	12.7
	1993-2002	7.9	57.2	42.8	21.9
	1983-2002	21.8	63.4	36.6	17.3
FTSE 100 (survivors)	1983-1992	17.7	69.7	30.3	14.1
	1993-2002	10.4	59.6	40.4	18.7
	1983-2002	21.4	63.2	36.8	16.4
US					
S&P 500 (constituents)	1983-1992	11.4	64.9	35.1	15.3
	1993-2002	11.5	75.8	24.2	32.4
	1983-2002	16.3	72.0	28.0	23.8

Source: Erturk, Froud, Johal, Williams (2004), p. 25.

CEOs have an asymmetric power on the remuneration committee

In large US corporations, the compensation level for chief executives is set by a remuneration committee. The conventional wisdom states that independent board of directors safeguard shareholder‘s interests and reduce opportunism on part of management. Nor social science theories neither empirical studies do confirm this optimistic view (Main, O’Reilly, Wade, 1995). From a theoretical standpoint, the CEOs have at least three series of trumps compared with the members of the remuneration committee.

The first bias in favour of top management may be termed as cognitive: the insiders such as the CEOs have a better knowledge of the company activity, strengths and weaknesses than the outsiders. Furthermore, the executive and financial officers do control the information given to the various boards as well as to the financial markets. This first asymmetry is well documented, when one considers the average time spend by independent directors for controlling the management of company, compared with the full-time activity of top executives.

Social psychology point out a series of other small group mechanisms that take place in the board of directors or/and remuneration committee. The principle of reciprocity plays a role in the escalation remuneration, since the members of the board and CEOs tend to belong to the same densely knit social group. The respect due to the authority of the CEOs is a second factor that may explain the overpaid top executives with respect to an accurate assessment of their contribution to the performance of the firm. A third mechanism relates to similarity and potential liking for the members of the same “small world” (Témin, 1999).

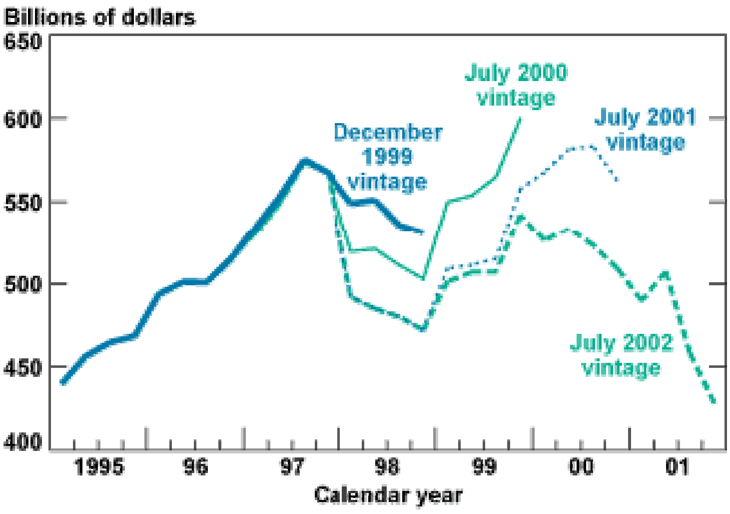
The issue of power introduces a third asymmetry between CEOs and members of the various boards: who nominates whom? If the CEO is nominated before the remuneration committee, econometric studies show that this has a positive impact upon the level of remuneration of the CEO, once added the relevant economic variables capturing the situation of the corporation.

Actually, some econometric studies based on Business Week compensation survey, even dated (1985) confirm the prevalence of these asymmetries in favour of top executives (Main, O’Reilly, Wade, 1995: 317-318). One interesting and one surprising result emerge. On one side the ability of the board to monitor CEO performance and set pay appears greater in owner-controlled firms. On the other side, CEO compensation is the higher when directors are independent! This is the strict opposite of the prognosis put forward by the advocates of transparent corporate governance (see section 2 supra).

After 1997, a favourite corporate strategy: distorting the profit statements

The relative autonomy of top executives by the way the CEOs as well as the CFOs, concerns also the information provided to capital markets. Under this respect, the American system entitles a significant freedom in the interpretation of the general principles of accounting. Actually, during the Internet bubble, many firms have used and abused of this opportunity (Himmelberg, Mahoney, 2004). In retrospect, the overestimation of corporate profit is so large that the ex post accurate figures show a reduction of corporate profit after 1997, whereas ex ante until July 2001, the corporations have persistently announced an ongoing rise of their profit (figure 25).

Figure 25: The systematic overstatements of profits after 1997: as slow process of adjustment in the US



Source: Himmelberg, Mahoney (2004), p. 10.

Such a discrepancy between real time private information and ex post public evaluation by American national accounts might have many sources. First of all, the accounting rules are not the same for corporations and for national accounts…. But this cannot explain the discrepancy shown by figure 14 that only deals with Bureau of Economic Analysis estimates elaborated according constant rules. A second and quite important source of discrepancy, relates to an unexpected surge of employee stock options exercised during the second half of the 90s. During this period, stock options were not considered to be a cost by corporation. This feature has contributed to the spiralling of stock markets: the shift of employee remuneration from basic wage to stock options increases corporate profit, hence a higher valuation of the shares of the corporation and finally a new incentive to grant stock options to a wider category of personnel. Of course, the CEOs and CFOs have been key beneficiary of this trend.

From the mid-90s to the early 2000s, two independent surveys show that the share of stock options exercised in total corporate profit has steadily increased. For the Bureau of Economic Analysis, they represented 12.4% in 1997 and continuously grew until 2000s when they represented nearly 39% of corporate profits. According to the survey of Business Week (2003: 38), option expenses as a percent of net earnings of S&P companies represented only 2% in 1996, 8% in 2000, and finally 23% in 2003 (Figure 26).

Figure 26: Two evaluations of the impact of stock-options on corporate profits in the US

Stock options exercised as a percent of after corporate profit

	1997	1998	1999	2000
1. Stock options exercised	68.61	100.08	139.29	197.37
2. Profit estimated by Bureau of Economic analysis	552.1	470.0	517.2	508.2
Stock options exercised compared to profit	12.4%	21.3%	26.9%	38.8%

Source: Himmelberg, Mahoney (2004: 10)

Options expenses as a percent of net earnings for S and P companies

1996	1998	2000	2002
2%	5%	8%	23%

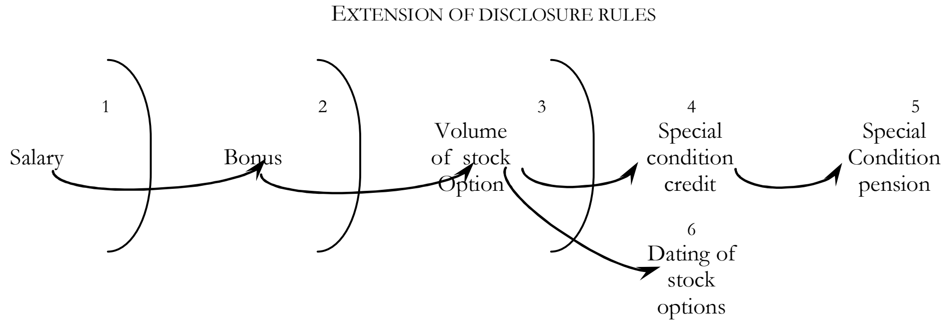
Data: The analyst’s accounting observer in Business Week, July 20, 2003: 38.

Nevertheless, a third and more problematic strategy has to be put into the picture in order to explain the diverging evaluations in figure 14: quoted corporations have intentionally inflated their profit statements, largely using the flexibility of GAP, playing the game of creative accounting and in some extreme case using lies in order to sustain the rise of their shares (Enron, Worldcom, Ahold). This is the unintended fallout of the conjunction of shareholder value and the convention of a required ROE of 15%. Such a target cannot be reached on a permanent basis by the majority of firms and sectors, thus it is not really a surprise if creative accounting has become one of the favourite discipline taught in prestigious business schools and practiced by CFOs. During this process, CEOs, CFOs and top executives became rich, potentially or really when they had the opportunity to exercise their stock options before the crash of stock market. Again, this is another evidence about the discretionary power that benefits to top management in modern corporations.

A last resort weapon of CEOs: shift from the transparent to the hidden

Corporate misbehaviour is a recurrent pattern in the history of financial systems. The lawmakers then pass new bills in order to prevent the repetition of financial scandals that actually are detrimental to the transparency required in order to foster and sustain the confidence of the savers about the fairness of financial markets. The Sarbanes-Oxley bill is not an exception…but will it overcome the diverging interests between top executives and shareholders? Not necessarily, given the structural power exerted by CEOs at the corporate level. A brief retrospective analysis of the evolution of disclosure rules suggests a cautious approach to the issue of managers’ reward and control (figure 27).

Figure 27: From the transparent to the non apparent: the trickle down strategy of CEO about their compensation



First the salary of top management had to be made public, second it was extended to bonus and more recently to stock options…and this has not prevented the use and abuse of this quite specific and not very efficient form of remuneration (See insert 1, infra). Recently, the financial press has pointed out that some CEOs had departed their corporation after quite unsuccessful strategies not only with golden parachutes but also they had access to special condition credit and in some instance special condition pension. All these conditions were not known by the financial markets. This means that if legislation puts control over an extended share of CEOs remuneration, they are able to develop new and innovative methods in order to have access to other and hidden (at least transitorily) forms of compensation.

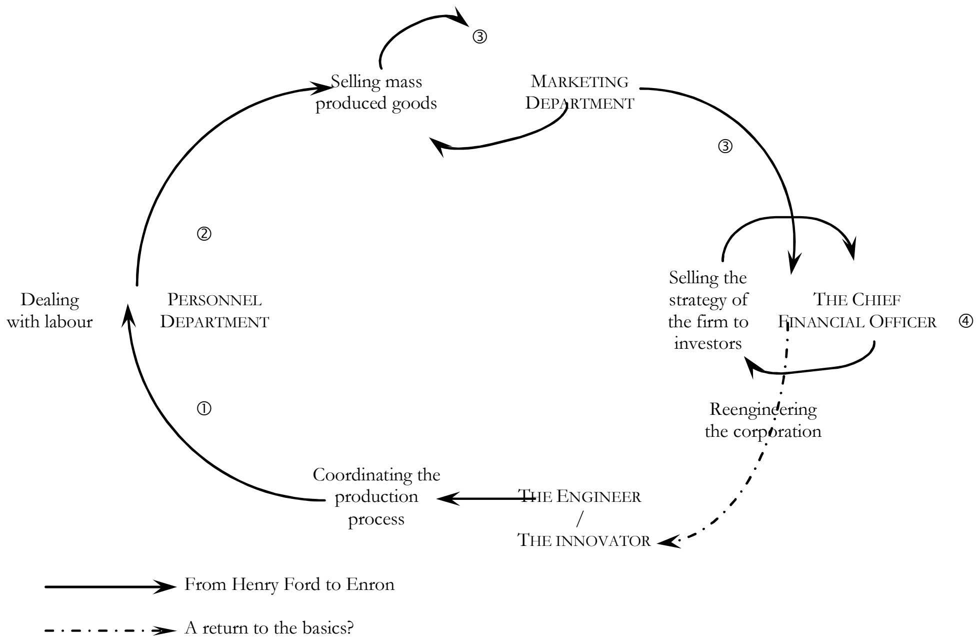
The financialisation of CEOs compensation: the consequence of the internal restructuring of the divisions of the quoted corporation

The transformation of the structure of CEOs compensation suggests another interpretation derived from the history of the internal organisation of the large American corporation. At the origin of the so-called American mass production system, there is the emblematic figure of the engineer who finds out a new production methods and products: Henry Ford is a good example of such a vision of corporation. But the implementation of mass production has triggered a lot of problems with personnel management (large turn-over, strikes, absenteeism, low quality of products). Thus comes the time of the personnel management as an important division of the large corporation. During the interwar period, one of the issues is the discrepancy between an explosion of mass production and still a limited market due to an income distribution distorted in favour of the richest fraction of the population. Such an unbalance puts at the forefront the marketing and design department. Adding all these components delivers the configuration of the American corporation during the Golden Age of sloanism.

But the progressive financial liberalisation triggers a series of innovations that call for a specialisation of top management in financial assets management: Since the mid-80s, the chief financial officer has become a central component of the American corporation. Whereas the expertise of the engineer and the specialist of production system was largely specific to a sector, a product, a method of production, a type of equipment, the financial management is much more homogeneous across corporations. Furthermore, in the era of global finance, the ability to generate financial profits by a clever portfolio management contributes largely to the performance of the corporation that used to be concentrated on the manufacturing and the marketing side. Last but not least, the rise of the CFOs fits quite well with the growing role of direct finance, since the CFO is in good position to discuss with institutional investors, analysts, trusts and pension funds and convince them to buy the share of his/her company (figure 28).

This shift in the distribution of power within quoted corporation may contribute to explain simultaneously the increasing share of stock options in the compensation of CEOs (Figure 26, supra) and the rapid increase of their total compensation: is not the financial sector the promoter of higher compensation (see figure 25)? If one believes in the cyclical pattern of managerial strategies and fads, the bursting out of the Internet bubble and the rediscovery that mature sectors can provide a significant and stable rate of return could imply a comeback of the production manager, and by extension the RD manager, as the key competitive assets of the large corporation.

Figure 28: The shift of internal control within the corporation: the rise of CFO as CEO



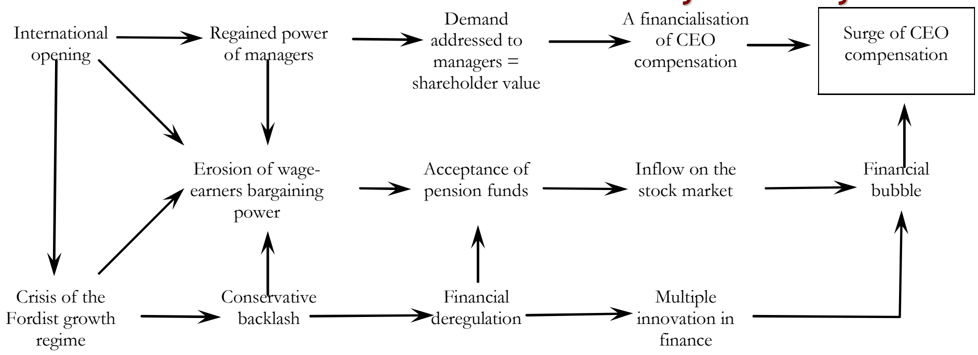
The power of managers in the political arena

It is now time to go out of the inner micro structure and functioning of the large corporation that generate a significant autonomy and power of the top executives and explore how the insertion of the large quoted corporation into the social and political system has changed since the mid 80s. The rise of CEOs compensation and especially the surge of stock options may find a series of relevant explanations at the macro level.

Financial liberalisation has been a prerequisite for CEOs compensation explosion

Actually, the internal shift in the hierarchy of the departments of the large firm shown by figure 28 is closely related to the transformation in the American growth regime. Clearly, the explosion of CEOs compensation and the rise of the CFOs could not have happened under the Fordist regime, since finance was strictly regulated and the major issue was about the mutual adjustment of production along with (largely domestic) demand, in accordance with the then overwhelming reference to the Keynesian style for monetary and budgetary policies. But the crisis of Fordism back in the late 60s opens a period of major structural change, basically penetration of imports, labour market deregulation, and financial innovation and liberalisation. The wage earners bargaining power is therefore eroded and symmetrically the managers have to respond to the demands of financial markets and not so much those of labour. The reform of pensions plays a crucial role, since it links the evolution of the wage labour nexus along with the transformation of the financial regime (Montagne, 2003). On one side, the inflow of the pension funds into the stock market increases its liquidity and thus makes the market prone to financial bubbles. On the other side, the financial intermediaries and institutions put forward the idea that shareholder value should be the only concern of quoted corporations. The financialisation and explosion of CEOs compensation is the logical outcome of the interaction of these two mechanisms (figure 29).

Figure 29: The main episodes and factors in the financialisation of executive remuneration



When economic power is converted into political power

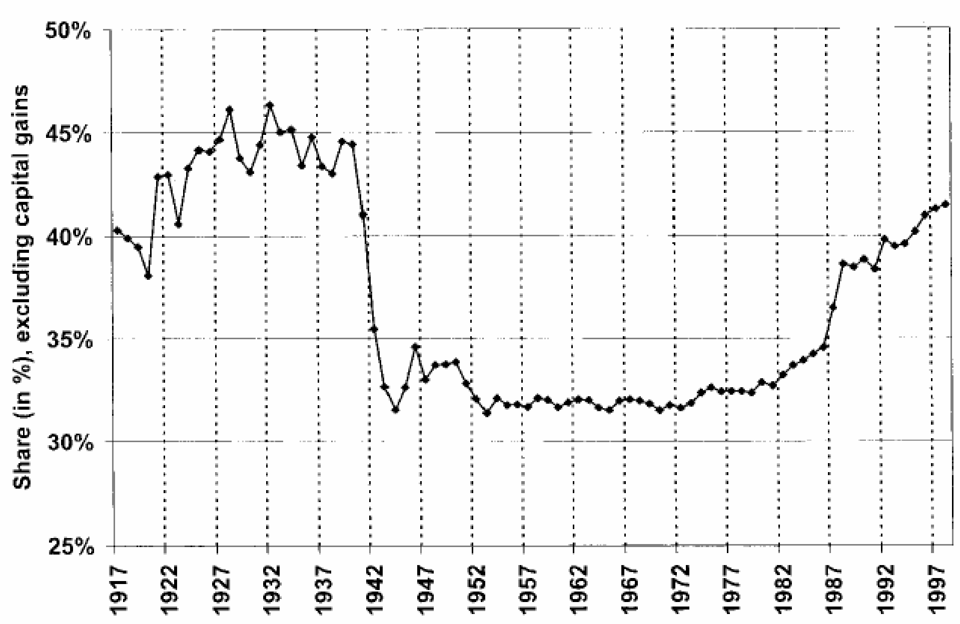
This explanation in terms of political economy usefully complements a typically micro grounded analysis of the power of managers within the corporation. It is an invitation to explore how they convert their economic power into the ability to partially shape economic policy according to their interests. During the last two decades, large corporations have used both exit and voice in order to be influential in the political arena. First, with the large opening of national economies and the free movements of capital, the managers of multinational corporations have been able to redesign domestic labour contracts according to the requirements of the competitiveness of their domestic sites of productions. Second, they asked for lower taxation of profits, arguing that they could benefit from preferential treatment abroad. Thus the managers have been combining the threat of delocalisation, i.e. exit, along with voice via the lobbying in direction of lawmakers.

During the Golden Age prevailed an implicit alliance between a fraction of the managers and wage earners, and this compromise was also embedded into the style of economic policy: search for full-employment, constitution of welfare, high and redistributive taxation. Nowadays, governments are, implicitly or explicitly, adopting pro-business policies: deregulation of labour markets, slimming-down of welfare benefits, lower taxation of high incomes, accommodating conception of fair competition. This is the context that entitles the deep transformation of the economic and social position of top managers. The purpose of the next sections is to provide some evidence in order to sustain the hypothesis put forward by figures 13 and 22: the transformation of core economic institutions during the last two decades have consolidated and legitimised the power of top managers at the society wide level.

The general context of rising inequality

In retrospect, the period 1950-1970 has experienced a quite unprecedented reduction in inequalities. The top deciles income share that represented nearly 45% in the 30s, is drastically reduced to 32% after the second World War. This share experiences a slow rise from 1973 to 1987 and then a quick increase during the 90s (figure 30). This upward trend coincides first with the stiffening of foreign competition and labour market deregulation (period 1973-1987) and second with the evolution of the American economy towards a finance led regime (1988-1997).

Figure 30: The US: The top deciles income share, 1917-1998

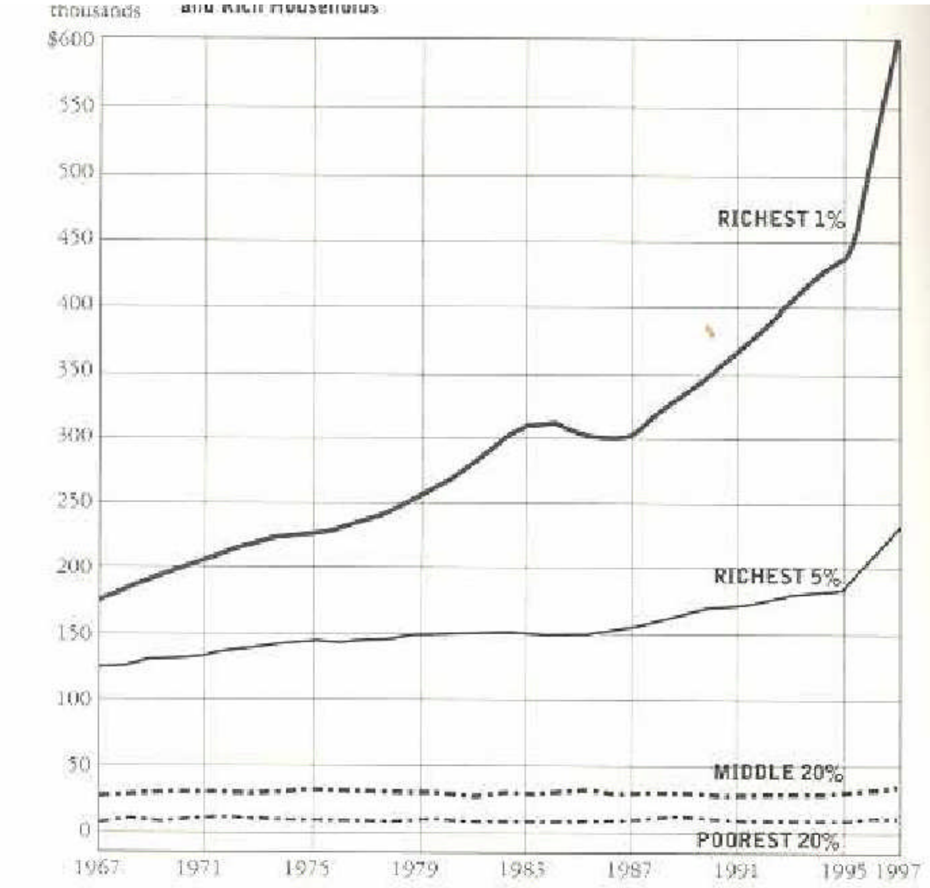


Source: Piketty, Saez (2003), figure 1, p. 11.

This rising inequality within household takes a specific form in the US where the redistributive role of taxation (see tables 11 and 12, infra) and a limited universal welfare cannot counteract the trends generated by labour markets. Since nearly three decades – more precisely, 1971-1995 – the 20% poorer households have experienced a near stagnation of their real income after taxation. By contrast, the richest such have become richer and richer, especially after 1987 and ultimately 1995 (figure 31). Again, households are precisely the dates of international pressures on American competitiveness (mid-80s) and the boom of financialisation (1995).

The compensation of CEOs has been evolving within this general context. In the US, during the last two decades, the feeling of the population about the dividing line between legitimized and exorbitant inequalities has been shifting. The question is then: how have capital and entrepreneurial incomes contributed to such a rise of the income of the 1% richest part of the population?

Figure 31: The polarisation of America (1967-1997) Average inflation-adjusted annual after tax income of poor, middle class, and rich households.

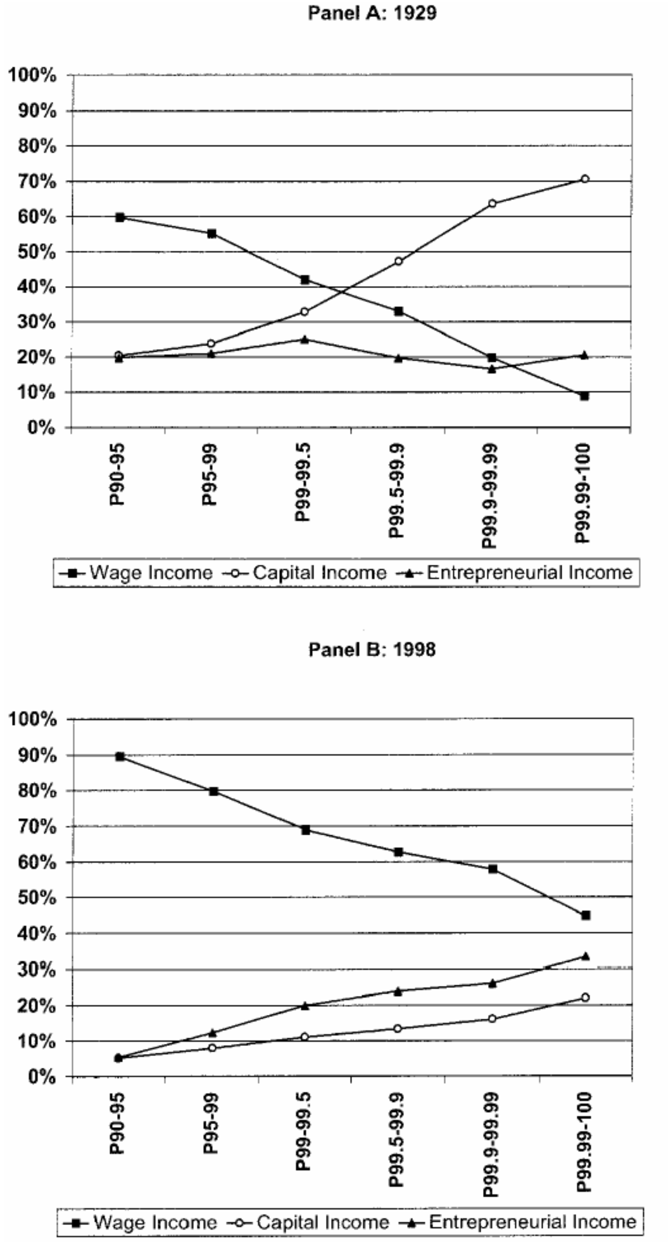


Source: Phillips (2002), p. 128.

The surge of entrepreneurial incomes contributes to the growing number of super rich

A recent study compares the distribution of total income between wage, capital income and entrepreneurial income among the 10% richest part of the population at two periods, in 1998 and 1929 (Piketty, Saez, 2003). Whereas in 1929, capital income represented 70% of the income of the 1% richest households, in 1998 this source of income only represents 10%, since the largest fraction of income is related to wage. Nevertheless, a quite interesting feature is that the share of entrepreneurial income is increasing monotonously as individuals shift from the 5% to the 1% richest (figure 32). Interestingly enough, the share of capital income is also increasing but at most it represents 20% of total income for the 1% richest. By comparison with the interwar period, these data suggest two conclusions.

Figure 32 : US: Income composition of top groups within the top deciles in 1929 and 1998



Source: Piketty, Saez (2003), figure 4, p. 16.

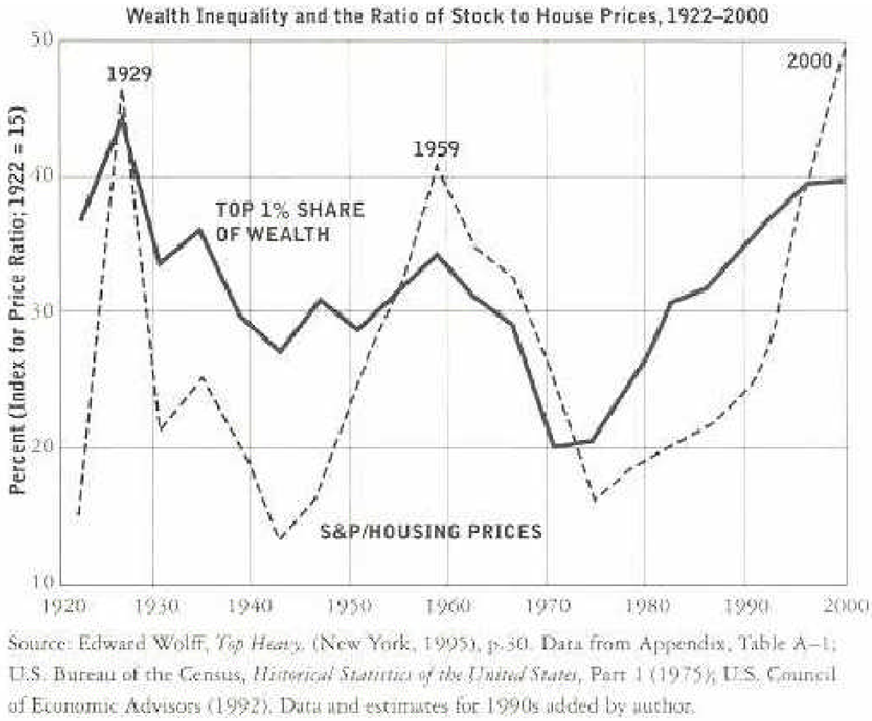
First, the richest part of the population nowadays belong to the elite of wage earners and they combine the two other sources of income, that appear as complement not at all substitute for wage.

Second, the fact that the income of entrepreneurial origin is increasing along the top centiles faster than the income derived from capital suggests that the power of managers has been more significant than the power of financiers.

The concentration of wealth goes along with stock market bubbles

In historical retrospect, the surge of inequality in terms of income and still more wealth are closely associated with the waves of financial speculation, at least in economies such as the US, where the tax system and the welfare do not have significant redistributive effects (figure 33). The previous developments suggest that the top executives benefit more than the typical rentiers, even though finance seems to have the leading role in shaping the objectives and the organisation of the corporate world. If financial markets may constrain corporate strategies in the short run by their brusque changes in the valuation of the stocks, in the long run, executives of service and manufacturing firms do control the sources of profit.

Figure 33 : Wealth inequality and stock market peaks



Source: Phillips Kevin (2002), p. 79.

The tax system is redesigned in favour of the richest

In European countries, such a pattern is milder and can be mitigated by intensive redistribution via a progressive income tax, heavy inheritance tax and of course the role of a universal welfare. It is not the case in the US, since the rich individuals do participate to political debates and polls. Consequently, they are more efficient in lobbying in order to get an alleviation of the high bracket income marginal tax than under privileged are able mobilise in favour of redistributive measures.

Whereas the effective Federal tax rate for median American family is nearly constant since 1980, after a significant increase since the 60s, the shift is opposite for millionaires and top 1% richest households (Figure 34).

Figure 34 : Contrasted evolutions of tax rates for middle class and rich families

	Effective Federal Tax rate	
	Median family	Millionaire or top 1%
1948	5.30	76.9
1955	9.60	85.5
1960	12.35	66.9
1965	11.35	68.6
1970	16.06	
1975	20.03	35.5
1977		31.7
1980	23.68	
1981	25.09	
1982	24.46	
1983	23.76	
1984	24.25	
1985	24.44	24.9
1986	24.77	
1987	23.21	
1988	24.30	26.9
1989	24.37	26.7
1990	24.63	

Source: Phillips Kevin (2002), p. 96.

Similarly, corporate taxes have been declining to very modest levels (10%), but the pay roll tax and welfare contribution is up to 31% in 2000 from 6.9% in 1950 (Figure 35). This is a new evidence in favour of a political economy interpretation that links the political and economic spheres.

Figure 35: The declining share of Federal tax burden paid by corporations and the rising share of payroll taxes

	Share of total receipts (%)	
	Corporate taxes	Payroll taxes*
1950	26.5	6.9
1960	23.2	11.8
1970	17.0	18.2
1980	12.5	24.5
1990	9.1	35.5
2000	10.2	31.1

Source: Phillips (2002), p. 149

* Social security and medicare

Considering all the previous evidences, it becomes clear that the power of managers is not restricted to the information and power asymmetry typical of the firm, that is exacerbated in the large corporation. At the society wide level, the rise of entrepreneurial income, the evolution of the conception of social justice (market allocations are fair), the revision of the income tax, and finally the reduction of the share of the corporations in total State receipts do confirm the hypothesis of a renewed political power of large corporations, and especially of their top executives.

From the micro inefficiency of stock options to the surprising resilience of the financialised SSA

The staggering evolution of CEOs compensation has triggered a renewed interest from economists and they now deliver a more balanced view about the ability of incentive payments to fully monitor the opportunistic behaviour of CEOs. Stock-options appear as a quite costly form of compensation, recent scandals put at the forefront the large autonomy of managers, the significant of stock-options differ greatly between mature firms and start-ups and finally international comparisons show that, outside the US, other governance systems do not rely on the same methods for controlling and rewarding managers…and they are not necessarily inferior in terms of performance. Given the evolutions in the US, the accounting rules now consider stock-options as expenditures and the Sarbanes Oxley law has strengthened the responsibility of CEOs and CFOs. Nevertheless, this moralisation has not fully succeeded, as evidenced by the new tricks used by CEOs to optimize their remuneration: backdating is the last device they have been using. Still more, at the macro level, financialisation is still major component of the growth pattern. The elasticity of credit and finance has triggered a real estate bubble, mega mergers and acquisitions have continued at an unprecedented scale, and the resilience of household consumption is clearly related to the flexibility of access to the credit, since average wage has not benefited so much from the productivity increases from 2001 to 2005.

After the Internet bubble: a critical reappraisal of the virtues of stock-options

The basic and simple rationale for stock-options as an incentive mechanism for managers has been challenged by a large variety of authors, from the academics (Kevin, 1999) to journalists and novelists (Partnoy, 2003). Among the 10 reasons why to be sceptical about stock-options (Figure 36), let us mention the more fundamental ones. Firstly of course, the asymmetry of typical stock-options (no losses but only gains) might be an incentive to take too much risk. Secondly, since the risk for the CEOs is already highly concentrated upon the company they run, stock-options are thus an expensive form of compensation: paradoxically, direct pay or still more bonus would reduce the total costs of compensation for the company.

Thirdly, not only are stock-options very difficult to value due to long maturities and restrictions in their exercise, but they are not included as expenditures in the corporation financial statement: the profits the firm are overstated and the shareholders suffer from a dilution of the value of their portfolio. Fourthly, when stock-options represent the bulk of top managers' remuneration, they face a strong incentive to fraud…especially so if the rate of return required by the financial community is very high and out of reach via normal methods. Lastly, as already mentioned, since the large majority of stock-option plans are not indexed on the relative performance of the company, managers enjoy the windfall benefits typical of good macroeconomic and sectoral conditions (see figure 23 supra). The bursting out of the Internet bubble has made quite clear all these limits.

Figure 36: Ten reasons against the use of stock-options

1. Stock-options align the interests of managers and shareholders when stock market rises, but not when it declines. This feature is specially clear with the bursting out of the Internet bubble

2. Restricted stocks that could be sold in the market after a period of several years are a better device for aligning managers and shareholders interests. Thus, they make more sense but they are not widely used. Both in US and UK, the stocks held by CEOs declined during the Nineties (Murphy, 1999, p. 2533).

3. The exercise of stock options dilute the value of existing shares unless the corporation is buying back its own stocks, but this distorts the valuation by the market.

4. Given the concentration of the risks on the same firm, the stock options are an expensive form of compensation for the corporation. Direct pay via salary or bonus would alleviate the total cost of managerial compensation.

5. Basically, stock options benefit more to rich CEOs who are prone to take risks…and this is not necessary a good strategy from the point of view of shareholders.

6. Generous stock options are an incentive to reduce dividends, contrary to what was observed during previous periods when the payment of dividends represented the majority of the returns to shareholders.

7. Stock options are quite hard to value: long maturities and restrictions to then use limit the relevance of Black and Scholes option pricing.

8. This may be an argument to keep stock options outside the accounting system of the corporation, but consequently the costs are undervalued and the profits overvalued.

9. Given the temptation of insiders trading, stock options may exacerbate the incentives to fraud and adopt creative accounting, already present given the political power of managers.

10. Stock options are not indexed on the relative performance of managers (only 1/1000 corporation offered index option) therefore managers benefit from windfall benefits associated with a financial bubble, good macroeconomic or sectoral environment.

Source: Collected from Murphy Kevin (1999) and Partnoy Frank (2003)

The recent literature: a rediscovery of the power of managers

A similar trend has transformed the analysis of managerial activity within large corporations (Demsetz, 2003). De facto, being at the core of managerial activities, CEOs may deploy their privileged information and exert their power in many spheres, that are supposed to be controlled by a sophisticated corporate governance (Figure 37). The more challenging issue could be that the top executives may take erroneous decisions by insufficient work and information… whatever the sophistication of the routines designed to deliver good governance. Basically, incentives do not replace talent and vision (Kohn, 2001): a bad manager will not be turned into a good one only by being granted a stock-options plan. Conversely, a talented manager does not necessarily require high compensation in order to be motivated to fulfil the objectives of the corporation. Moral philosophers and experimental psychology even suggest that devices designed in order to control an alleged misconduct, may well trigger the very misbehaviour it was supposed to prevent (Petit, 1997). Under this hypothesis during the 90s, the stock-options fad would have exacerbated the issue of CEOs autonomy and opportunistic behaviour.

Figure 37: How managers use their relative autonomy with respect to shareholders

GIVEN THE ASYMMETRY OF INFORMATION AND POWER IN FAVOUR OF TOP MANAGERS, THEY CAN DEPLOY NUMEROUS STRATEGIES IN ORDER TO SHIFT THE DECISION IN FAVOUR OF THEIR OWN INTEREST.

1. Excessive compensation, via base salary or generous bonus is a first method.
2. Nepotism is another method available to top managers who may want to enjoy on the job perks.
3. Managers may neglect firms' problems and they can take erroneous decisions by insufficient information.
4. Managers can use a fraction of the cash and assets of the corporation in order to acquire stature in the community.
5. They can ally with core workers in order to extract rents from the firms and extend firm competence and competitiveness at the cost of the rate of return of capital for shareholders.
6. Top managers may ally to a fraction of shareholders against a minority.
7. Misdoing against shareholders: fraud, creative accounting,

Source: Inspired by Demsetz Harold (2003)

Corporate America versus Silicon Valley: two different uses of stock-options

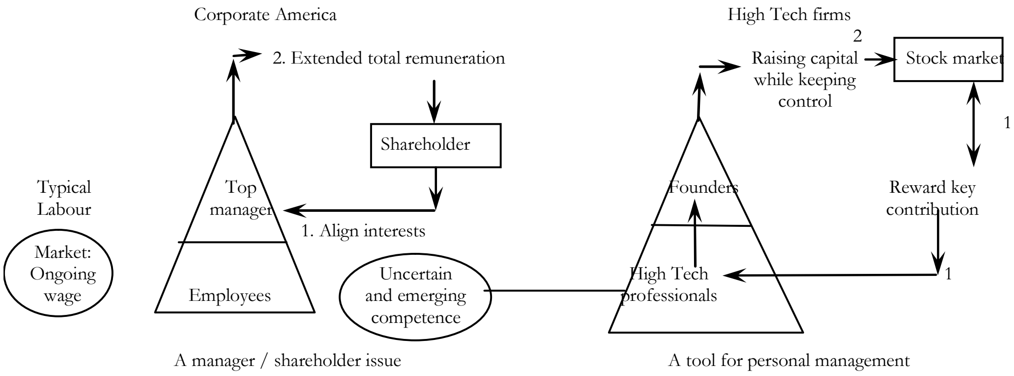
The diffusion of stock-options in the US economy points out an ambiguity, since at least two models of corporate governance have been merged into a single one. After 1997, any single quoted company, even in mature sectors, had the objective of belonging to (or mimicking) the new economy. Thus, the stock-options were not presented only as a method for aligning top managers and shareholders interests but they have been diffusing to professionals, high-tech specialists or even rank and file workers in the start-ups. The purpose was then to share risk by shifting a fraction of the remuneration of labour from wage towards stock-options. The rationale was therefore rather different (figure 38).

For corporate American, the issue about stock-options concerns the relationships between shareholders and top-managers. Consequently, the majority of employees and workers of the internal market were not part of this incentive mechanism, since their remuneration was set by the market ongoing wage or bonus linked to specific performance criteria.

For high-tech firms, the main purpose of stock-options is about risk sharing between the founders of a start-up and the employees after an Introductory Public Offer (IPO). A second objective relates to the minimization of the fixed costs, such as the wage bill, in order both to react to the basic uncertainty typical of innovation. A third objective is to upgrade the financial results of the firm, in order to convince the financial markets to continue to finance a quite risky business that initially incurs loser.

This conjunction of two contrasted motives in these different sectors probably explain the positive welcome of stock-options during the 90s, as well as the fact that these options had not to be expended in the account of the company. Mature companies managers benefited thus from this positive appreciation by the financial markets of start-ups.

Figure 38 : Two conceptions of stock options



The emergence of a corporate governance market?

The tenants of market efficiency may address an objection to the main hypothesis developed by the present paper. On one side, surveys show that the remuneration is higher when CEOs are hired from outside and not promoted within the company. On the other side, the mobility of top executives has been increasing during the last decade. These facts may imply that a market for corporate governance talents is emerging, at least, in the US (Murphy, Zabojnik, 2004). Thus, the relevance of the interpretation in terms of idiosyncratic power on top managers would vanish (Figure 39).

Figure 39 : Three stories about CEO remuneration in the 90's

General interpretation	Rent extraction by CEO due to idiosyncratic skills and social connections	Response of markets to higher efficiency of general managerial skills	Managers shift from a public spirited technocratic creed to a property right ideology, elaborated in academia by financial agency theorists
Author	BEBCHUK Lucian, FIRED Jess and WALKER David (2002)	MURPHY Kevin, Jan ZABOJNIK (2004)	Ernie ENGLANDER, Allan KAUFMANN (2004)
In favour	• In accordance with the origin of net profit • Fits with some recent scandals • Actual evidence by econometric studies	• Permanent increases of outside hires of CEO (1970: 15%; 1980s: 17%; 1990s: 26%) in the US • More CEO with MBA degrees • US is leading the market for corporate governance	• A fall of the technocratic system implemented during the period 1950-1970 • Managers adopt shareholder value and interests: 1990-2000 • The wide adoption of stock-options • The capturing of a larger share of the new wealth by managers
Against	• The independence of the remuneration committee has improved, not deteriorated and nevertheless CEOs compensation accelerated • CEOs hired from outside earn 15.3 % more than internally promoted CEOs	• No clear evidence of a perfect market competition for CEOs • MBA deliver transferable competences, but they are not homogenous: competition is largely imperfect • If perfect market for CEO, net profit should be zero	• Why this strategy proved successful: new market power of CEO? Or idiosyncratic skills have become less important? • Why shareholders did no react before the stock-market crash?

See AER, May 2004, p. 196; see Enterprise and Society (September, 2004)

Actually, the argument is not totally convincing. Of course, financial expertise is largely transferable from one company to another, but it is not so for the organisation of production, product development and human resources management, since these activities are largely shaped by the idiosyncratic mix of specific managerial tools that are the very source of the performance of the firm. A second objection challenges the idea that the information upon the talents and abilities of managers is common knowledge and therefore competition among firms contribute to set the relevant price for managerial talents. Just to hint how imperfect this market is, let us recall that in France, nearly every time a CEO is granted the award of "best manager of the year", one year later his/her company enters into a severe crisis, that makes the front page of business news…and challenges the wisdom and the competence of the jury in charge of the prize. This actually means that the excellent performances observed during the previous years are simply extrapolated and attributed to the talent of the CEO, whereas, in most of the cases, it is largely due to the legacy of past strategic choices, a booming macroeconomic context or pure chance (see figure 23).

Business historians (Englander, Kaufmann, 2004) propose a totally different interpretation: the surge of CEOs compensation would be the outcome of the shift in values and behaviour of top management. From technocratic and allied to the permanent workers they would adopt a property right ideology, by opportunism. Thus, they would welcome the academic literature on principal agent models, value creation, good corporate governance. The reference to a market for corporate governance would itself be a pure pretext to cover unprecedented increases in their compensation, actually decided in the closed circle of the American business elite (Temin, 1999).

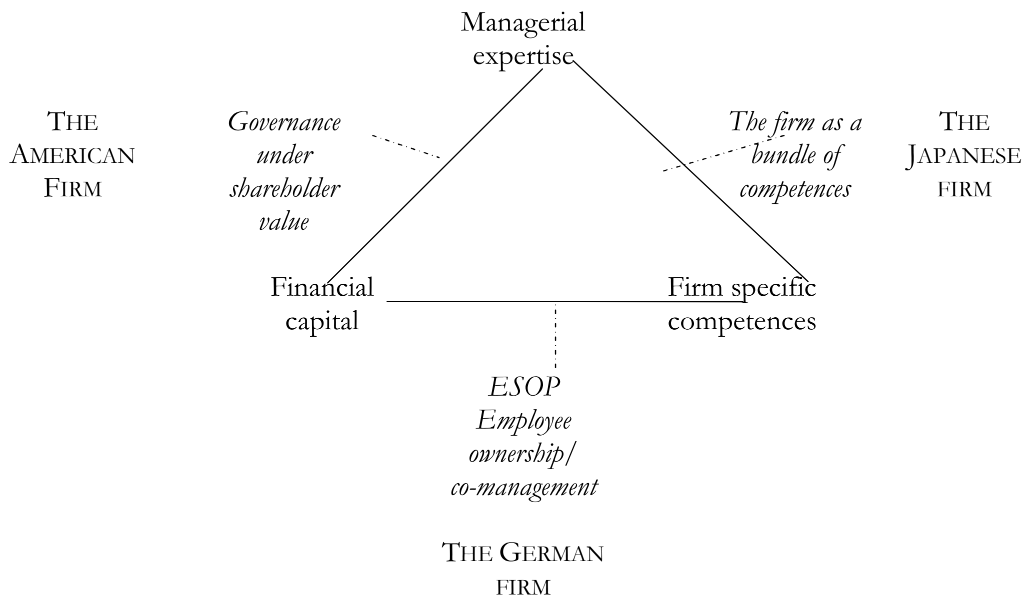
The explosion of CEOs remuneration: the symptom of a specific form of corporation

Of course, most of the managerial principles and fads originate from American business schools and corporations and they tend to diffuse to the rest of the world, via the network of multinationals specialised in consultancy. This pattern may give the illusion that all over the world, all the corporations emulate the American system and finally should converge towards a single one best way. Careful comparative studies contradict this simple and attractive vision and show that even within the same highly internationalised sector, for instance the car industry, several productive models do coexist and they are embedded into quite different internal organisation of the firm (Boyer, Freyssenet, 2002). Each of them is built upon a specific government compromise and displays a definite profit strategy: the contemporary American corporation is only one of these organisational models (figure 40).

When the alliance takes place between top managers and financiers, the governance of the company is organised according to shareholder value. The financialisation of CEOs compensation is part of this configuration. The competence of the rank and file workers are supposed to be available on the labour market, since labour is viewed and managed as a variable cost. By contrast, the stability or progression of the rate of return of invested capital is a core feature of such a model. This is the American configuration.

A second type of compromise may explicit the alliance of top managers with permanent workers who are supposed to be part of the fix costs, since they have been nurturing the specific competences that make the competitive edge of the corporation.

Figure 40 : Alternative alliances, different conceptions of the firm, various rewards and controls of managers

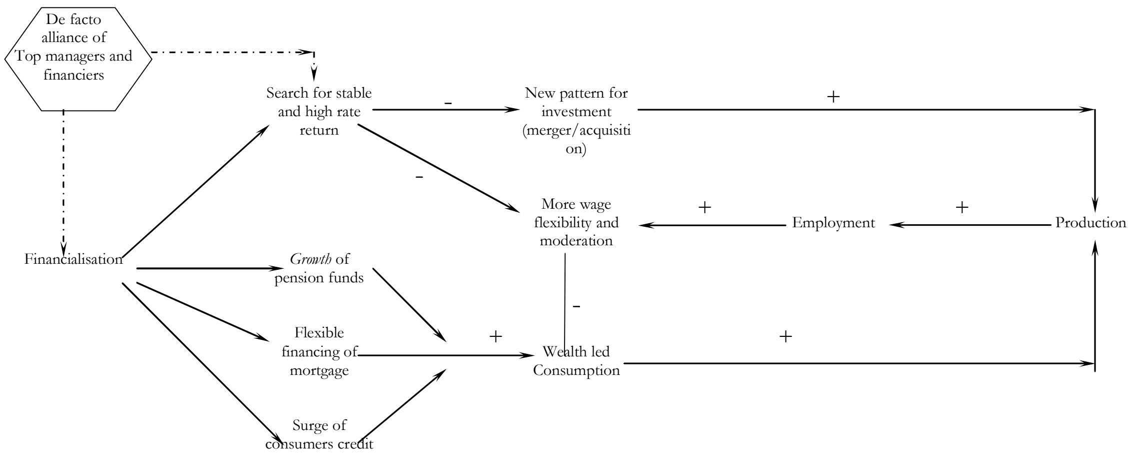


The labour flexibility is internal and uses hours worked, and thevariation of the bonus as adjustment variables. Consequently, the financial rate of return is more variable than within the previous configuration. One recognises the Japanese corporation of the Golden Age (Gerlach, 1992; Aoki, 1988). This model has been altered by the financial globalisation but not totally eroded.

A third organisational form would result from an alliance between permanent workers and a patient banking system. At the extreme, the company could be an ESOP with partial or complete ownership of employees. Such an ideal is difficult to observe in contemporary capitalism, but the German system and its co-determination and the significant impact of länders on corporations exhibits some features of this theoretical model. Basically, the top managers are engineers or specialists of production/innovation who consider themselves as part of the personnel. Of course, and again, financial liberalisation has altered this model.

The ideal structure of managers' compensation is different for each model: stock-options for the model governed by shareholder value; bonus for the configuration built upon the cumulative increase of collective and individual competence; wage for the ESOP/co-management configuration. Thus, the political economy approach explains simultaneously the drastic change in corporate compensation that took place in the US during the 90s and the large heterogeneity observed at the international level in the methods for controlling and rewarding managers.

Figure 41 : A new finance led accumulation regime



An evidence for the financialisation of accumulation regime in the US?

It is now clear that the explosion of American CEOs remuneration is not a mere local and transitory curiosity but the symptom of a structural transformation of contemporary capitalisms.

• Firstly, this phenomenon cannot be understood without a reference to the demise of the fordist accumulation regime and the search for an alternative reconfiguration of the institutional forms inherited from the Golden Age (see supra section and figure 29).

• Secondly, the emerging changing technological paradigm based upon Information and Communication Technologies has brought a new conception about corporate governance: the large diffusion of stock options has been a method for reducing the wage bill while introducing a significant flexibility and reactivity to the uncertain process of radical innovation (see supra section and figure 38). Simultaneously venture capital and NASDAQ have been quite instrumental in providing a financial environment favourable to start ups.

• Thirdly, the power of top managers at the firm level has been extended at the society wide level via the redesign of the tax system, the evolution of corporate law, the permissiveness of General Accounting Principles. Under this respect the financialisation has been quite instrumental in the redistribution of income and wealth in favour of top managers.

The core of a finance led accumulation regime: a new alliance between managers and financiers

The general hypothesis of this chapter is that the whole architecture of institutional forms has been redesigned under the aegis of a de facto social compromise: the top managers accept the principle of shareholder value, whereas financiers recognize the power of managers. The wage earners are excluded from this arrangement, unless they accept to link a significant part of their remuneration to the financial success of the firm they are working for, and if they join pension funds and thus might benefit from Stock market booms. This alliance puts the financial system as the dominant institutional form since its very functioning implies quite definite transformations of others (Figure 42).

•The publicly quoted corporation looks for a high and stable rate of return in order to comply with the demands of the shareholders. Thus a new pattern emerges for investment. Productive investment becomes more sensitive to profit than to expected demand, whereas the high liquidity of the stock market makes more easy mergers and acquisitions as well as LBO.

• This new configuration of the financial system has definite consequences for the evolution of the wage labour nexus. During the Golden Age, firms used to grant the equivalent of an insurance to wage earners since their remuneration was not directly affected by the uncertainty typical of a market economy. With the rise of shareholder value, a fraction of this uncertainty is now borne by labour, via more rapid employment adjustments, wage flexibility and less generous welfare benefits. Consequently, the wage bill becomes more reactive to macroeconomic shocks and households consumption profile is affected negatively.

• But financialisation partially or totally compensates this adverse trend since it is bringing a transitory relaxation of households budget constraints. The transition from a pay as you go system to pension funds alters the wealth of wage earners and financial assets tend to become a significant determinant of consumption. Simultaneously, the ability to revise mortgage opens new source of financing when interest rates are declining and an easy access to credit helps in sustaining consumption in spite of the wage moderation induced by the strategies of flexibilisation deployed by corporations.

Therefore, this new alliance is bringing a shift in the hierarchy of institutional forms (Boyer 2000b) and, at least potentially, this makes possible a genuine accumulation regime, at odds with the fordist regime, implicitly based upon a coalition between managers and core wage earners.

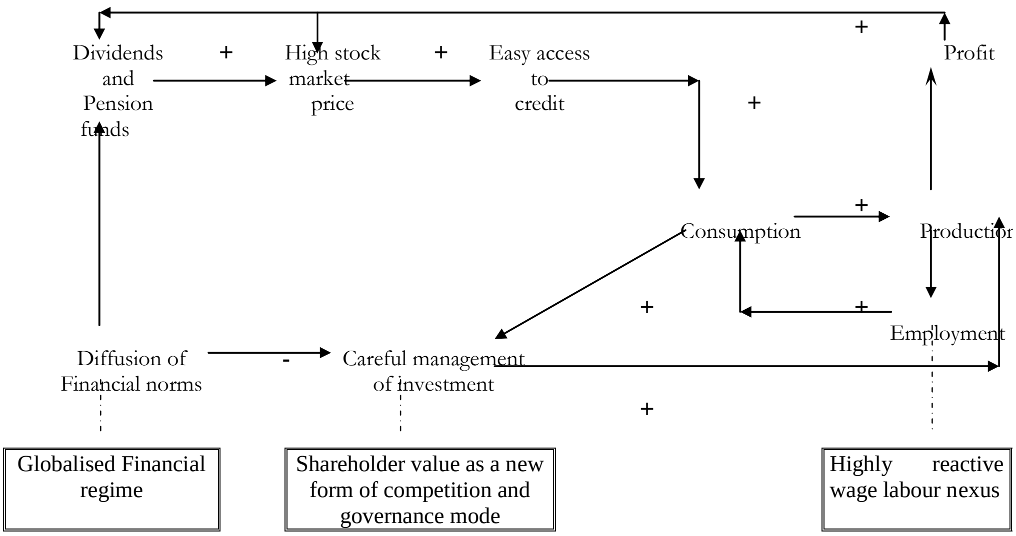
The major components of a finance led SSA

The central variable of this regime is the stock market valuation, since it is this market that is governing the strategies of firms and the behaviour of individuals and it socializes expectations of quite all actors (Orlean, 1999). Direct finance tends to overcome bank credit as the key component of the financial system: the generous access to credit is conditioned by the valuation of the stock market. A careful management of productive investment drives a new pattern for macroeconomic variables and simultaneously the wealth on the stock market is taken into account by banks when they grant credit to households (Figure 26).

Consequently, the levels of production and employment are no more the consequence of the interaction of productive and consumption norms independently of any major role of the financial markets, i.e. the golden Age regime of the post WWII era (Aglietta and Rebérioux 2004). Basically the stock market is the focal point that all actors consider when they make decision, since it is providing a coordination of expectations. Growth is thus governed by these expectations.

Since the norms associated to shareholder value have diffused and permeated a large number of developed and even developing countries, one could imagine that the features observed in the United States are quite general and therefore, a finance led regime is quite likely as a follower of the fordist one.

Figure 42 : The main macroeconomic relations of a finance-led SSA



This is a regime quite specific to US

A previous research has proposed a very simple model of a finance led growth along the hypotheses put forward by Figures 42 and 43 (Boyer, 2000a). The very possibility of such a regime requires a precise configuration for the parameters of the investment and consumption functions. It is the more likely:

- The higher the ratio wealth in shares/ disposable income,
- The more important is the impact of wealth upon consumption,
- The higher the propensity to invest profit with respect to accelerator effects.

But such a finance led growth is not stable:

- If the target for the Return On Equity (ROE) is too high,
- If the wages are too flexible .

Furthermore, even starting from a stable regime, the very success of the financialisation, i.e. an increase of financial wealth more rapid than earned income, may trigger a financial crisis. This may precisely happen during financial bubbles, but this is a phenomenon that this simple model does not capture explicitly.

A rough calibration of the model for some OECD countries delivers an interesting, but not so surprising result (Figure 43): the American economy is the only candidate for such a finance led regime. By contrast, quite all other economies do not enjoy superior performances if shareholder value principles are introduced. The reason of such a result is simple enough: when wage is the main source of income, financial portfolio are small and investment react essentially to demand and not directly to profit, financialisation is detrimental since it implies a loss in production, profit and employment. Furthermore the explicit or implicit alliances between financiers, industrialists and wage earners are quite different indeed, compared with those prevailing in the US.

Here comes a remarkable congruence between financial deregulation, the transformation of corporate governance, the diffusion of stock options within CEOs remuneration schemes, the financialisation of the wage labour nexus. In other words, in the US the alliance between financiers and top managers has contributed to the coalescence of a brand new finance led accumulation regime.

Figure 43: The finance-led SSA is typical of US and UK: few chances of diffusion

Countries Parameters	United States	Great Britain	Canada	Japan	Germany	France
1. Average propensity to consume (1996)	0.95	0.926	0.956	0.869	0.884	0.908
2. Wealth in shares/ disposable income (1997) %	145	75	95	30	25	20
3. Extent of capital gains /disposable income (%)	35.5	15	11	- 7	7	5
4. Proportion of shares and bonds in households' financial assets	28.4	52.4	n.a.	25.3	21.3	14.5
5. Monetary market rate	5.34	7.38	5.20	0.32	3.5	3.46
6. Return on bonds	6.51	5.59	7.30	1.06	3.97	4.23
7. Reference profitability	12%-16%	12%-16%	12%-16%	5%	6%-7%	9%

Sources : Line (1) Japan 1998, Keizen Koho Center, An international comparison, p. 97.

Lines (2) (3) and (4) The Economist, September 19th –25th, 1998, p. 129
Line (5), (6) Japan almanac, Asahi Shimbun 1998, p. 26
Line (7) The Economist, September 19th –25th, 1998, p. 129

Conclusion: managers, financiers, politicians and finance led SSA

The main objective of this paper has been threefold. First, it proposes an explanation for the explosion of american CEOs compensation far ahead and frequently quite independently from the actual performance of their corporations. Second, it is argued that this phenomenon derives from the crisis of the Fordist accumulation regime and the long run transformation of most institutional forms: weakening of the bargaining power of wage-earners, strengthening of competition in reaction to deregulation and the emergence of new industrializing countries, institutionalization of pension funds to replace pay-as-you-go systems. Third, all these transformations seem to coalesce into a new finance-led accumulation regime, at least in the US.

The expression of the transformation of corporate governance after the crisis of Fordism

The issue of control and reward of managers is an integral part of the wider question about the nature of corporate governance in a world of largely open national economies and global finance. The contemporary concerns about the legitimacy and efficacy of stock-options grants as an incentive for controlling managers have their origins in the crisis of the sloanist corporation and the related domestic growth regime. The progressive opening to world competition, labour market and then financial deregulation, the rise of pension funds and the evolution of the bargaining power of unions have induced a dual shift. At the company level the restructuring has affected productive organisation but also promoted the priority to financial management. At the macroeconomic level, the previous model based on mass-production and consumption has entered into a crisis and after a long period of trials and errors, the engine of growth has been the outcome of the synergy between financial innovations and the creation and diffusion of information and communication technologies.

No efficiency gain at the micro, macro level

The arguments that have been used to justify the introduction of preferred stocks or stock-options have proven to be erroneous by contemporary theories as well as by many empirical evidences. The interests of professional managers and owners can never be fully reconciled and the diffusion of ownership makes the control of managers still more difficult. The idea that stock-options were the required complements to shareholder value and value creation has been invalidated by the evolution of the rate of returns on equity of the large corporations during the 90s. Nearly no empirical study exhibits a positive correlation between option grants and economic performance of the firms. The repeated financial scandals have made clear the difference of interests and returns respectively for top-managers and the average stockholders.

At the macro level, contrary to the expectations, the economic rate of return of capital has experienced a very modest rise, since the optimism about private rate of return on equities has been obtained by a clever financial management of leverage effects in the context of rather low nominal interest rate in response to the new pattern of monetary policy.

The intrinsic power of manager at the firm level and its extension at the society wide level

The observed asymmetry between top-managers and stockholders finds its origins at the core of the objective of the firm: how to generate profits? The old conventional neoclassical theory states that profit results from the optimal combination of totally substitutable factors of production: labour, equipments, managerial talents, in response to their market prices. Quite on the contrary, modern theorising on the firm stresses that a positive net profit is the outcome of the combination of complementary assets and firm specific competences: none of these factors can be bought or mimicked by the market, still less the financial markets. Who is in charge of generating these profits? Precisely, the top-executives. The very reason that makes the firm efficient entitles CEOs and CFOs with a significant economic power. First, they have access to the relevant and private information that has not necessarily to be made public (for instance about the real sources – and even amount – of profit generated by the firms). Second, they have a better knowledge than shareholders, analysts, fund managers about the strengths and weaknesses of the firm, since they know the routines and the synergies that make the firms profitable (outsiders are best equipped to analyse the impact of macroeconomic/sectoral variables upon the evolution of the profit, not its internal determinants). Third, the CEOs and the directors have the power to make decisions about the strategy as well as the everyday management of the firm (shareholders have only an ex post control, mainly by exit i.e. selling their shares, and annually they have a chance to voice their opinion and cast their vote on an agenda set by the corporation). The control of managers over their remuneration largely results from this intrinsic asymmetry. In the era of financialisation, this superiority took the form of remuneration by stock-options. In the past, it had another form (salaries, bonuses) and in the future, it will evolve toward new forms.

The art of judoka: converting shareholder value into CEOs wealth explosion

In the 90s, on behalf on defence of shareholders, managers have converted this internal power into financial wealth, thus benefiting from the liquidity and the speculative bubble associated to the Internet. Given the long lasting erosion of wage earners bargaining power and the shift of governments towards a pro-business stance, the business community has lobbied in order to reform the labour laws, the welfare and the tax systems. In a sense, the economic power of managers has been extended to a significant dose of political power. For instance, the fact that stock options had a privileged taxation and were not considered to be a cost to be taken into account in the evaluation of profits, has created a virtuous circle of seemingly impressive company performance and rise of the stock market.

It is why optimal contract approach to the control and rewarding of managers is bound to fail given the intrinsic power of top managers, the origin of which is related to the very sources of profit in contemporary capitalism. By contrast, combining a managerial power approach with a typical political economy analysis conveys a simple and rather convincing interpretation of the paradox under review. Thus, under the motto of shareholder value, managers implicitly allied with financiers in order to extend their power and remuneration.

The complete script: from a new alliance to a finance led SSA

This structural transformation cannot be understood without enlarging the picture to issue of the nature of the SSA emerging out of the demise of the fordist regime. Actually, the explosion of CEOs remuneration is quite specific to an historical epoch that features the liberalisation of finance and its impact upon most of other institutional forms: the wage labour nexus, form of competition, tax system, international relations. But the pervasiveness of finance does not necessarily imply that the “financial motive” is able to engineer a complete and fully fledged SSA, sui generis.

Basically, only the US seem to explore such a finance led regime, whereas the introduction of similar financial innovations in other OECD countries has not generated an equivalent virtuous circle at least until the bursting out of the internet bubble. In Japan, Germany and France, the legacy of the previous regime, based upon mass production and consumption is still present. This may explain why these economies entered into a vicious circle .. and simultaneously why they did not experience such an explosion of CEOs remuneration.

Thus this analysis points out a research agenda: how do corporate governance and SSA relate one with another and can their complementarity be at the origin of a persisting and periodically recreated diversity of capitalisms? After all is not the American capitalism the exception and not the rule?

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8. SOCIAL STRUCTURES OF ACCUMULATION, REGULATION APPROACH AND STAGES THEORY, *Stavros D. Mavroudeas*[88]

Introduction

The Regulation Approach (RA) and the Social Structures of Accumulation (SSA) theory appeared in the 1980s as ambitious attempts to advance Marxist and Radical Political Economy. Their main common argument was that abstract theory is not sufficient and needs to be complemented with an intermediate level of analysis (e.g. Gordon, Edwards & Reich (1994, p.13)). They argued that the general analysis of capitalist accumulation is not sufficient to explain the concrete evolution of capitalism. Thus, it has to be escorted by a less abstract analysis of more historically contingent structures and processes.

This argumentation can hardly be rejected. It is obvious, at least from a Marxist point of view, that abstract theory provides the basis of the analysis but does not fulfill the whole task of explanation. In a nutshell, for Marx theoretical analysis should begin from the more abstract (and simpler) dimension, which establishes the *essence* (the basic sine qua non elements) of the subject at hand. Then it should move through a series of intermediate levels to lower levels of abstraction. Every such intermediate level is characterized with the addition to the abstract analysis of more concrete (historically specific) elements. In terms of Dialectical Materialism, this is a meticulous process of layering abstractions. Hence, for Marxist Political Economy the course of the analysis – as Marx has summarized it in the beginning of the *Grundrisse* – is a movement from the abstract tot the concrete[89].

Thus, both the SSA and the RA posed valid questions and pointed to a serious lacuna of the previous Marxist analyses. However, the way they attempted to answer these questions is fraught with difficulties and problems. They both maintained that this intermediate level of analysis should necessarily focus not only on economic structures and processes but also on the institutional environment of the economy.

Again this is a logical argument. Marxist Political Economy (but also the Classical Political Economy) – contrary to orthodox Economics – comprehends perfectly that the sphere of economic relations is not an autonomous one but it is part of the wider nexus of social relations. Moreover, these social relations are – for the types of society under study – class relations. Consequently, economic relations are social relations by definition and cannot be separated from the other types of social relations. Put it in a nutshell, *economic relations* together with the *extra-economic social relations* and the *political relations* form the basis of every socio-economic system. Economic analysis should necessarily refer to those two other spheres of social relations. Political relations – i.e. the structures and relations that organize the governance of the socio-economic system – are not alien elements for political economic analysis. On the other hand, for Marxism, the economic relations have a determining primacy within the whole nexus of social relations. This thesis about the organic unity of economic, extra-economic social and political relations is a common basis for every Marxist perspective. Of course, there exist well known differences on the way that the political economic analysis

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[89] For a more detailed exposition of the Marxian methodology see Mavroudeas (1999a).

should fulfill this task. More primitive approaches (usually characterized as base – superstructure approach and, seldom unjustifiably ridiculed) maintained that the analysis of the economic sphere should come first and more independently from the analysis of the other social spheres. However more dialectically rigorous approaches do simultaneously retain the primacy of the economic relations and analyse them in relation to extra-economic social and political relations.

The SSA and the RA attempted to confront this problem by producing this intermediate level of analysis that intends to complement both the abstract theory of capitalist accumulation and the more concrete analyses of everyday life. In order to do so they emphasize the role of institutions. Capital accumulation cannot operate in a vacuum but it necessarily has an environment. This is its institutional underpinnings. Hence, both theories attempted to endogenize the institutional factors. i.e. instead of considering them as essential but external conditions of the accumulation process they posit them as crucial internal elements of capitalist accumulation. In other words, capitalist accumulation is not a simply economic process but it relates crucially upon a wide range of institution that are not only economic but political and ideological as well.

Apart from reference to political relations, this intermediate level of analysis should necessarily be more historically specific (i.e. more concrete and less abstract). The vehicle for this is the production of a *periodisation or stages theory*. That is a theory that creates criteria, terms and specialized analytical perspectives that facilitate the recognition of specific historical epochs within capitalism's historical course. Again this is also a warranted thesis. Periodisation theory, as initiated by Lenin's (1916) pioneering work, is the obvious vehicle for an intermediate level of analysis of capitalism.

However, the method that the SSA and the RA – explicitly or implicitly adopted in order to accomplish these tasks is extremely problematic and has led to serious problems that undermine their very founding thesis: i.e. the operationalisation of abstract theory through the creation of an intermediate level of less abstract and more concrete analysis. Instead of that they have, especially the RA, recoursed to a Mertonian type of *middle-range analysis* (see Merton (1968)) that has divorced itself from abstract general theory and strived to stand on its own. The results are rather disappointing and press the need for a reconsideration of course.

The next part of this essay will compare the SSA and the RA and argue that they both are *newer non-orthodox middle-range theories*. The third part will focus on the periodisation theory, its significance and the problems of the SSA's and RA's approach. It is argued that their main periodisation criterion – i.e. the interrelationship between economic and institutional factors is rather problematic. The fourth part will present an alternative perspective on periodisation theory, which focuses primarily on the relations of extraction of surplus-value. Then the role of other factors and relations – political and ideological factors among them – are derived from the more fundamental criterion and established at lower levels of abstraction. Finally, the part concludes.

The newer non-orthodox middle-range theories: RA vs. SSA

The SSA and the RA (and other similar approaches such as the Flexible Specialisation theory (Piore & Sabel (1984) etc. whose similarities are nowadays well-documented (see Boyer (1991), Jessop (1992)) were born in a precarious historical period. Radical Political

Economy - this distinct trend born out of the university radicalism of the ‘70s - was exasperated by the retreat of the radicalism of the ‘70s. Much of this radicalism derived from an extremely reductionist conception of class and social structure which led to a simplistic and non-dialectical abstract theory. The answer to this problem was thought to be a dive into the concrete. The study of historical contingency was adopted as the cure for rigid abstract theory. This dive into the concrete had several common features for all the implicated theories. It was considered as more able to (a) capture better the historical specificities of different periods of capitalist development, (b) solve the structure-agent riddle and, (c) understand the significance of institutional forms.

The two last features denote the impact of two other significant theoretical currents that were on the rise during that period.

The first influence comes from the structuralism vs. post-structuralism saga. This debate engulfed almost all of social sciences – and not only – with rather dubious results. Today it is clearer that, in the end, it is rather a shadow boxing. More or less, the same people alternate opposite positions as Anderson (1988) has accurately shown. First structuralists produced a rigid and undialectical version of *structure* (which was imposed on Marxism via Althusserianism) and then almost the very same people, this time as post-structuralists, demolished it in favour of agents. Moreover, the latter became more and more indeterminate and subject to ideological and, in the end, discursive influences. Their previous supposedly rigid and economistic determination by material (economic and class) factors was ceremoniously thrown to the fire. The end of this journey is well-known: post-modernist disintegration of every relation of determination and a plunge into the uncharted waters of analytical relativism and indeterminacy[90].

The second influence is more subtle. During the last decades of the 20th century *institutionalism* has reappeared as a significant theoretical trend. It is supposed to be able to grasp better – at least from orthodox theory - social relations and at the same time it is less controversial, within orthodox circles, than Marxism. Last, but not the least, during the previous decades capitalism has been characterized by vigorous institution-building. Thus, focusing on institutions was considered as a warranted step. However, this influence – which is also related to the previous one – is also problematic. Within orthodox theory neoclassical institutionalism represents an attempt to both overcome well-known deficiencies of neoclassical analysis (namely its inability to capture the social dimension of economic affairs) and expand the realm of neoclassical analysis to fields and areas previously forbidden to it. As such, neoclassical institutionalism – in all its variants from North and Williamson to Stiglitz – is a vehicle for what Fine (2000) has termed ‘economics’ imperialism’. As it has been argued elsewhere (Mavroudeas (2006)), it is simultaneously a sign of strength and of weakness of orthodox Economics. It is a sign of strength in the sense that they invade new territories. But it is also a sign of weakness because in order to do so they have to relax their analytical coherence[91] and to embed elements that are rather incompatible with the hard core of neoclassical theory. In radical and heterodox Economics, institutionalism – in its radical versions – is seen as a subtle and less controversial vehicle for the subversion of the suffocating dominance of neoclassical orthodoxy. It is less controversial than Marxist Political Economy per se and at the same time it can more easily – than the former - be employed for applied economic analysis. However, these merits come at a rather heavy cost.

90 RA’s gradual slide towards post-modernism is analysed in Mavroudeas (1999a).

91 For example, with the invasion of foreign fields the coherence of neoclassical general equilibrium models becomes extremely strained and dubious.

Institutionalism – radical or conformist – is a poor alternative for Marxist political economic analysis. It is a poor substitute for class analysis. And also it cannot comprehend properly a crucial feature of the capitalist system. The latter is a 'free system' in the sense that – contrary to its previous class socio-economic systems – it is not based primarily on violence (on power relations) but only on economic non-violent obligation. In capitalism, power relations (i.e. political relations) are a derivative of its economic relations. This determination process cannot be grasped satisfactorily by institutionalism whereas Marxist Political Economy exhibits a far superior record. Consequently, for Radical and Marxist Political Economy institutionalism surrenders more than those that it brings aboard. It brings alien influences that jeopardise their analyses and – as in the not-so-unusual case of theories that knowingly or unknowingly follow Agassi's (1975) *institutional individualism* [92]– they open the gates to orthodox infiltrators.

The way the SSA and the RA attempted to accommodate historical specificity and to construct their intermediate analysis took, in the end, the form of *middle-range theory* (Mavroudeas (1999a), Sayer (1995)). This, as advocated by Merton (1968), is a particular type of intermediate analysis. Middle-range theories, in contrast to general theories - covering the whole spectrum, from the most abstract laws and concepts to the empirical analysis of the concrete, in a unified framework - reject abstract general laws and the necessity of an all-embracing theory which are deemed to be either redundant or a distant accessory. It substitutes both with <u>intermediate concepts</u> with an immediate identification with the most concrete phenomena. These concepts are not linked to a general theory but are based on empirical observations perceived as indisputable (<u>stylised facts</u>). These stylised facts are supposed to capture important facets of historical reality and, thus, to mark different epochs. This type of reasoning has significant problems. Stylised facts - in contrast to dialectical materialist abstractions from concrete historical reality - are supposed to be theory-free but also historically accurate. However, they are usually founded on theoretical influences and perceptions which are neither explicit not necessarily coherent and, therefore, represent an eclecticist reading of historical reality. The next step is the construction of a theory based on the intermediate concepts and the periodisation derived from the stylised facts. Consequently, both concepts and periodisation vindicate, in a circular way, the initiating empirical perceptions. Middle-range theories' major weapon - their close identification with a particular historical epoch - gives them immense popularity during the course of the particular epoch (if and when it has been identified correctly) but, on the other hand, invalidates them when it ends. Then, more fundamental questions re-emerge, requiring a general theory. In this case, middle-range theory's agnosticism and/or referential pluralism become a major weakness.

The RA and the SSA have followed – gradually and with contradictions - the path towards middle-range analysis. Thus their characterisation as the *newer non-orthodox middle-range theories* is not off the mark. In the case of the RA its very success was the recipe for its current stagnation. The more its middle-range analyses acquired popularity the more its linkages to a general theory were being severed. In the end, the middle-range analysis and its concepts (Fordism, post-Fordism etc.) acquired a life of their own and the initial task of providing an intermediate analysis for Marxist abstract theory was thrown to the dustbin.

Curiously enough, although SSA have been a less coherent and less popular approach than the RA it has not followed the latter in severing altogether its links with its foundational

[92] For an analysis of the role of institutionalism within Radical Political Economy and its relation to post-modernism and neo-classical Economics see Mavroudeas (2006).

task. A number of studies (e.g. Jessop (1990), Kotz (1994)) have pinpointed the similarities and the differences between the SSA and the RA. Their differences can be summarised as follows.

In their beginning, as Jessop (1990) rightfully observes, the RA ascribed to Marxist Value Theory and this was reflected in Aglietta's (1979) conceptual hierarchy[93]. On the contrary, the SSA adopted from the beginning a more price-theoretic perspective. This was coupled with RA's emphasis on qualitative aspects (how the interplay between historically contingent economic structures and politico-economic instirutional structures affect the fundamental Marxist crisis tendencies) in contrast to the SSA's emphasis on quantitative analysis (how institutions affect the profit rate and the speed of accumulation). However, the RA dropped quite soon its initial value-theoretic perspective and followed a course towards institutional analysis.

Their differences regarding their conceptual toolboxes are also significant. The RoA began with a strict adherence to Marxist general theory. Its first concept was the *law of accumulation*, which is an abstract economic concept denoting the general workings of the capitalist system irrespectively of historical epochs. This is followed by the *Regime of Accumulation* (RoA). This is a purely economic but historically contingent concept that denotes the distribution of the surplus-value between capital and labour which is required in each period in order to co-ordinate production with social demand. It covers the essential economic conditions for the operation of the productive system (technology, organisation of the labour-process, relations between the departments of production). The RoA is followed by the *Mode of Regulation* (MoR). The latter is economic and political concept that designates the necessary institutional forms and social compromises for the reproduction of the RoA. Hence, the MoR covers both economic and political aspects. In this sense it is equivalent to the concept of the SSA and particularly its *inner boundary* (Gordon, Edwards & Reich (1994, p.15)). The RoA is posited at the level of the compulsory economic structures, whereas the MoR is less determinate, since it relies on concrete, historically specific institutional forms. More than one MoR can be implemented in a certain RoA. Which will prevail is a question open to the indeterminacy of history. However, not every MoR is suitable for every RoA. Thus, in its initial version the RA attempted to construct a structured analysis of all the aspects of the capitalist system from the more abstract ones to the more concrete ones. This analysis upheld the determining primacy of the economic relations over the other social relations. The SSA does not have such an elaborate conceptual toolbox. As it has been shown in the relevant literature the institutional structure is very weakly linked to the process of capital accumulation. Additionally, the SSA overemphasises the linkage between power relations and profitability. However, the RA had quite soon dropped the *law of accumulation* as a working concept. It has also 'parked' the RoA since – after the competitive and the monopolist RoA – no new regime has been discovered and all its emphasis has focused on the MoR. It is not unwarranted to argue that for contemporary regulationist analyses the RoA has become an insignificant concept.

Apart from the differences regarding the concepts, there are also well known differences with reference to the way institutions affect capital accumulation. For the SSA institutions create stability and predictability and – given certain assumptions - they should induce rapid accumulation. This reflects a more Keynesian conception of accumulation given

[93] This value-theoretic perspective is even more evident in his initial thesis which had subsequently been removed in his first book.

its emphasis on the capitalists' investment decisions in an uncertain environment. On the other hand, the RA focuses on the character of accumulation and particular on how the relationship between accumulation and the institutional structure affect the profit rate and the realization of value. This reflects a more Marxian conception of accumulation given its emphasis on the profit rate. However, the Keynesian influences on the RA are not few[94]. The very definition of the RoA stresses the significance of social demand. Moreover, the crisis of the 1929 and the process that generated Fordism is posited as an underconsumptionist one.

Finally, the process of eruption of structural crises is theorised in a rather different way. For the RA crisis stems from the disarticulation between MoR and RoA. On the contrary, for the SSA crisis stems either from the collapse of the SSA and/or the change of the equilibrium of power relations between its main pillars.

It is evident that both the RA and the SSA have strived to achieve a precarious balance between the primacy of the fundamental capital accumulation processes and the role of the institutional environment. Thus, in the initial versions, the former is clearly posited as the primary. However, at least in the case of the RA, this theoretical architecture has led to a slippery path towards relativism and ultimately post-modernism. The emphasis on the middle-range analysis has facilitated this trajectory. The initial primacy of capital accumulation has been gradually downgraded up to the point where it has been equated with the institutional sphere.

Thus, Kotz (1994) may be right when pointing out that the SSA's theoretical structure was less organised and less materialist than that of the RA. However, this today appears as a bygone feature. The RA has long ago shed its initial architecture and moved to the field of power and ultimately discursive relations. In this sense his call for a greater interchange between the RA (and its supposed emphasis on structural factors) and the SSA (and its emphasis on class struggle) as a cure for the deficiencies of each one sounds hollow. The RA, at least, has already moved out from structuralism.

The analysis presented above poses the following question: what went wrong with the newer non-orthodox middle-range theories? As already implied in the previous part, although they set valid questions their replies seem unsatisfactory. Their first main problem is the middle-range methodology which weakened their theoretical depth and – although purporting to the contrary – it ultimately limited their explanatory power. Once again it has been proved that without a firm grounding in abstract general theory you cannot perform satisfactory intermediate analysis. Their second main problem is the questionable prioritization of the relationship between capital accumulation processes and institutional framework as the main locus of intermediate analysis. As it will be argued below the institutional framework (and political relations in general) is not of equal importance with the economic relations. It follows as a consequence and it also exerts feedback effects but it is not equivalent.

Periodisation theory and the newer non-orthodox middle-range theories

It has already been argued that periodisation theory is an integral part of the newer non-orthodox middle-range theories. This theoretical field has been initiated by Lenin's (1916) pioneering work on imperialism (or more accurately on monopoly capitalism). As it is well known Lenin's thesis was the culmination of a heated debate in the beginning of the 20th

94 For a more detailed exposition of the Keynesian elements in the RA see Mavroudeas (1999a).

century on capitalism's development and the new characteristics that it acquired at that period in comparison to its previous state of affairs. What distinguished Lenin's analysis from the rest of his contemporary analyses in the 'classical Marxist debate on imperialism' is that – apart from its superior political impact – it stated clearly that capitalism passes through different stages and that Marxist theory has to study them and produce relevant analytical but also political conclusions. Thus, contrary to Hilferding, for example, he clearly posited the necessity for a periodisation theory. After Lenin periodisation theory became for a period a 'hot subject' in Marxist analysis till it reached an impasse in the 1950s and 1960s. Much of this impasse was caused by the very significance of Lenin's thesis and also the political form (but not the analytical essence) of his argument. There was an intellectual 'shyness' to expand periodisation theory on Lenin's steps (apart from either certain Soviet Marxist formalisations on state monopoly capitalism and Monthly Review's theory of 'monopoly capitalism'). This 'shyness' was further induced by Lenin's political argument that imperialism (or more accurately monopoly capitalism) represented the highest stage of capitalism after which no other stage can follow and capitalism's collapse is on the agenda. As a closer look at Lenin's work can reveal, this was an argument put forward for political reasons, i.e. in order to push forward the revolutionary movement of his time and drive it away from reformist paths. As a recent editorial in Monthly Review (2004) shows Lenin's original title of his book was referring to imperialism as the 'latest stage of capitalism', thus it did not precluded further developments in capitalism.

There was another significant lacuna in those first waves of periodisation theory. As Gordon (1980) accurately points out there was a certain lack of rigorousness in them. More specifically, there was not a complete and coherent theory for periodising capitalism, i.e. there were not clearly defined criteria for discerning different historical epochs. This was coupled with an emphasis on elements of the sphere of circulation, e.g. monopolisation. This theoretical architecture stands rather uneasily with the Marxist thesis of the primacy of the production sphere.

The newer non-orthodox middle-range theories – and the RA primarily among them – challenged these perceptions. They argued that capitalism's evolution – however unpleasantly – is not a 'finished job'. In this way – and this has to be credited to them – they have reinvigorated periodisation theory. They have also to be credited – particularly the RA - for focusing periodisation on the sphere of production as opposed to the previous focus on the intra-capitalist competition. It is the type of organisation of the labour process and the types of collective labourer that comes at the centre of attention.

However from this point and onwards start the problems in the newer non-orthodox middle-range theories. Faithful to their fundamental perspective they offer a periodization of capitalism on the basis of the interaction between capitalism's purely economic processes and their economico-political counterparts. Thus, instead of using as a periodisation criterion the types of intra-capitalist competition, they use the interrelationship between capital accumulation and institutional structure. Whereas previous traditions periodised capitalism from within the framework of a general theory, on the basis of abstract general laws and tendencies, the newer non-orthodox middle-range theories opted for a more historically conjectural point of view. A typical way of doing this is by examining statistical data in order to discover phases of development of crucial economic variables (for example, the profit rate and/or the rate of productivity growth). Then, find the institutional structures that are associated with these developments and establish appropriate theoretical indicators. Finally, test statistically this relationship. This type of analysis, in the end, leaves aside any gearing to general theory and focuses solely on historical specificities. Thus it hinges mainly upon a number of *stylised facts*, i.e. pre-theoretical beliefs about historical facts. That is they reflect deep empiricist perceptions about specific historical periods which however have not been rigorously examined and thus their validity is far from certain. They usually stem from high profile events or facts (e.g. the mass private use of cars), which might not reflect accurately historical reality but can create strong impressions. The problem with this type of reasoning is that it actually presupposes what has to be proved. Intermediate concepts are being created in order to cope with these stylised facts and then, in a cyclical manner, these concepts and the concomitant analysis validate the initial stylised facts. This vicious circle can operate until reality rejects it irrefutably. The newer non-orthodox middle-range theories share the same, more or less, stylised facts. Their main object of study is the post World War II era. Subsequently, all previous and following eras are being theorised in relation to this benchmark period. The intermediate concepts that are created are very closely related to specific – correct or erroneous – features of that period. This in turn limits seriously their general applicability and makes them concepts of limited explanatory power and use.

There are well-known examples of the shortcomings of this periodisation approach which is based on the coupling of stylised facts with historically specific intermediate concepts. For example, it has been seriously disputed the regulationsit assertion that labour's real subsumption under capital – and thus the systematic extraction of relative surplus-value – took place during the 1920s. Brenner and Glick (1991)) has indicated that this process took place quite earlier. capitalist mass production and labour's real sumbsumption under capital were created long before the 1920s. Indeed, there cannot be a form of capitalism in which absolute surplus-value predominates; apart perhaps from its first primitive steps when it was not a fully organised socio-economic system. Apart from Brenner & Glick, Marx's analysis of the capitalist labour process and the forms of extraction of surplus-value gives a similar picture. Another well-known case is the regulationist belief that during a quite lengthy historical period the lack of institutionally insured levels of consumption (the *social norm of consumption*) acted as a fetter to the scope and intensity of capitalist accumulation. This has been refuted by many studies. Additionally, it has been shown (see Mavroudeas (2003)) that – contrary to the regulationist empirical beliefs – capitalism dominates from its very beginning both production and consumption and transforms them both – to the extent that it is able to - according to its needs. More specifically, working-class' consumption (and, thus, the reproduction of labour-power) was commodified from the very beginning of capitalism - not after World War II as the RA maintains – because this is a necessary condition for the creation of a class of wage labourers. From the very birth of capitalism, working-class' consumption represented a market for capitalist commodities. This market was increasing, because both the size of the workforce and the real wage increased – although with irregularities and ups and downs. Furthermore, capitalist mass production was established long before the 1920s and mass consumption before the end of World War II.

Thus, the regulationist interpretation of the 1929 as an underconsumption crisis is simply wrong.

In the case of the RA the middle-range periodisation methodology was coupled with an undue projection of developments in the labour and production process to the whole of the economy (see Brenner & Glick (1991), Mavroudeas (1999b)). Although periodisation analysis should focus on that field, it must not project its conclusions directly to the rest of the economic spheres. Moreover, the analysis of the labour and production process was done initially under the auspices of Marxist Value theory and, thus, focused correctly on the relationship between paid and unpaid labour-time. However, the abandonment of the value-theoretic perspective led to the inability to grasp this crucial for capitalist exploitation labour-time dimension. This, again in the case of the RA, facilitated abrupt and unprincipled theoretical changes. For example, the infamous – and yet to be defined – post-Fordism is mainly derived from the saturation of mass markets and the emergence of a new thirst for niche goods. In this argument the centrality of the production sphere is substituted by the changes in consumers' tastes.

Setting aside specific issues, the main problem with the periodisation methodology of the newer non-orthodox middle-range theories is exactly their main periodisation criterion. Why stages in capitalism depend on the articulation between the process of capital accumulation and the institutional structures? From a political activist perspective it sounds extremely logical and also functional to relate stages of capitalism to political factors. Certainly, a new capitalist stage is based on changes in the economy but it cannot be long-lived without an appropriate political and institutional framework. This, however, does not preclude the analytical question of why a stage depends on this articulation and not on something else. For example, it can convincingly be argued – and indeed the RA in its initial steps followed this argument - that the process of capital accumulation generates different stages and then, on the basis of these, appropriate political and institutional structures are being constructed. Additionally, the collapse of a stage does not depend on the disarticulation between capital accumulation and institutional structures – a well known problematic area of all newer non-orthodox middle-range theories – but stems primarily from the process of capital accumulation. Such an approach can – if it employs properly dialectics – avoid a crude juxtaposition of the economic relations on the rest of social relations and at the same time retain the determining primacy of the former.

The theses presented above touch upon an intriguing argument put forward by McDonough (1994). He argued - applauding Lenin's insistence on the analytical and political necessity of periodisation theory – that the SSA cannot be a satisfactory theory of long swings given its problems but it may be a good periodisation theory and therefore it must focus on this latter area. It could be certainly agreed that an emphasis on periodisation can bring interesting insights. However, a serious obstacle remains. Almost any kind intermediate periodisation theory .without a solid reference to a general theory is destined to crash into serious difficulties. And the SSA, for the moment at least, lacks such a theory.

An alternative periodisation theory

There is an alternative way to conduct periodisation analysis. Marx's periodisation of feudalism on the basis of the forms of extraction of the surplus provides a significant intuition. This intuition is further developed in *Capital* when analysing the capitalist labour process and the two basic forms of extraction of surplus-value (absolute and relative surplus-value). The extraction of surplus-value is the main operating principle of the capitalist system. It is therefore appropriate to analyse changes in the modus operandi of the system is reference to this fundamental principle. In a sense, the RA had initially alluded to such a perspective with its definition of the RoA. However, as already argued, it soon moved its attention to other areas.

As it has been argued in length before (see Mavroudeas & Ioannides (2003)) the periodization of capitalism should be conducted at the level of the *mode of production*, (m.o.p.) from a capital-theoretical perspective and in close relation - at a lower level of abstraction - with its general theory (see Fine & Harris (1979)). Each m.o.p. is based on a specific set of class relations of production. Relations of production are directly class-determined, whereas forces of production are only indirectly class-determined as well.

The existence of these relations of production requires a further constitution of social relations that are preconditions for economic reproduction (i.e. the integration of production-distribution-consumption). Moreover, this economic reproduction requires and necessitates the creation of social reproduction (comprising of political, ideological etc. relations with a particular structure of links between themselves and the economy). Thus, while m.o.p. are distinguished in terms of the fundamental relations of possession and control among producing and non-producing classes (not merely in their legal form, since this can be superficial and deceiving, but in their essential nature), stages in each mode are differentiated on the basis of the specific forms of these basic relations and their social reproduction. Therefore, the criterion for the periodisation of a class-divided social m.o.p. should be the evolution of the process of production and appropriation of surplus.

This covers two crucial areas: 1) the way in which production is socialised (i.e. autonomous or separate individual production processes are related) and, 2) the method of appropriation of the surplus. In addition, the prerequisites of general social reproduction should be taken into account. In the capitalist m.o.p. the accumulation of capital and the class struggle associated with it are the basic forces transforming this mode and, thus, producing different stages. From a more general perspective, accumulation and class struggle within this mode determine not only changes within it but also the contradiction-ridden movement from this mode to another. The specific criterion for the periodisation of the capitalist m.o.p. should be the <u>mode of producing, appropriating and controlling surplus-value and the associated mode of socialisation of production</u>. This is so because its transformations are closely related with new forms of class struggle and are reflected in the transformations of the whole production process and, subsequently, to the whole economic reproduction. These, in turn, produce, and in many cases presuppose, changes in the social relations, in political relations and the state form of the state etc. The mode of appropriation of surplus-value is closely related to the modes of socialisation of production. Because the capitalist m.o.p. - contrary to most pre-capitalist m.o.p. - is fundamentally a ‘free’ decentralised system (private enterprises, competition, labour markets) the latter concern the way that all these decentralised private economic processes are compounded in a unified socio-economic system. In this way they express the specific mode of existence of (1) the fundamental contradiction (capital-labour) and, (2) the secondary contradictions (intra-capitalist competition). The socialisation of production is ultimately expressed in the form of the linkage of production-exchange-circulation-distribution. Since the capitalist m.o.p. appears as relations of exchange (despite its structuration as relations of production), its specific periods are expressed as different forms of exchange; which, however, arise out of different forms of production. Periodisation should cover this unity of essence and appearance.

On this basis we can rank, in terms of importance, the following categories of relations that characterise each stage of the capitalist m.o.p.:

Labour and Production Process

It constitutes the fundamental kernel of every socio-economic system since it through this that the latter’s means of reproduction are being produced. In the capitalist m.o.p. it imprints the mode under which labour is subsumed by capital. As such it reflects also the balance between the two ways of appropriating surplus-value (absolute and relative).

Several theories (Fine & Harris (1979), RA etc.) tend to periodise capitalism on the basis of the extraction of absolute and relative surplus-value. Additionally absolute surplus-value is identified almost exclusively with the predominance of the formal subsumption of labour by capital and relative surplus-value with the real subsumption. Then they periodise accordingly capitalism. For Fine & Harris (1979) absolute surplus-value and the formal subsumption prevailed during laissez-faire capitalism, which lasted till the end of the 19th century. The RA, on the other hand, posits their reign for the whole (abnormally long and rather vague) pre-fordist period, which lasted till the 1930s. As said before, this extremely clean cut connection is incorrect. The capitalist system, apart from its phase of birth, was characterised by the real subsumption of labour and the predominance of relative surplus-value.

This view is quite problematic since the very essence of capitalism consists in the continuous revolutionisation of the social and technical conditions of the labour-process so as to push back the initial natural limits of necessary labour-time and, hence, progressively to extend the domain of surplus labour. It is not thus absolute but relative surplus-value that, according to Marx (1981, p.769) constitutes the essential basis of the capitalist m.o.p. The processes of extraction of absolute and relative surplus-value co-exist and are interwoven from the first moments of capitalism. During its birth era - which however does not constitute a separate period - there was a predominance of absolute surplus-value and the formal subsumption of labour. However, as soon as capitalism completes its emergence its is relative surplus-value and the real subsumption that assume primacy.

What changes between different stages of capitalism is neither the predominance of absolute surplus-value nor formal subsumption. It is the balance between relations of extraction of absolute and relative surplus-value. This balance depends crucially upon the prevailing modes of organisation of the labour-process (always on the basis of the real subsumption of labour). This does not imply the separation of the production process from the rest of the economy. The sphere of production is the dominant one within the total circuit of capital (production-circulation-exchange-distribution). However, just because it is the dominant one but within a unified process, it cannot be separated from the rest of the process (Marx (1981), p.99-100)). In capitalism socio-economic relations - generated and founded exactly in the sphere of production - appear as a coherent social system mainly in the sphere of exchange: production for exchange. Therefore, the system appears as a social system mainly on the level of exchange relations: everything before is autonomous. The capital-labour relation is based on the individual relations between capitalists and workers at a social molecular basis. Of course, its general preconditions - and most of all the separation of labour from the means of production - are pre-given for the whole of society. But the specific and particular individual forms of these fundamental relations - the creation of an individual capitalist firm and the specific capital-labour relation expressed in it are 'socially spontaneous'. They are regulated only at a second, subsequent level by labour laws and regulations governing intra-capital competition. Therefore, the extraction and appropriation of surplus-value and the socialisation of production refer the whole spectrum of the total circuit of capital. In this sense, there is neither radical autonomy nor special role of class struggle within the immediate production process. Furthermore, a proper theorisation and periodisation of capitalism must be based on the whole of the total circuit of capital and on the dialectical determination and unity of its different moments.

Process of socialisation of production

This covers:

(a) intra-capitalist competition (particularly its inter-sectoral and intra-sectoral dimension as well as tendencies with regard to the centralisation and concentration of production),

(b) *money and credit* (the formation of the general equivalent, types of money (commodity, fiat, credit money etc.) and their interrelationship, credit mechanisms)

(c) state's economic functions

Process of income distribution

In the sphere of distribution two divisions are of particular importance: (1) the division between wages (depending crucially upon the value of labour-power and the relevant bundle of wage-goods) and profit, (2) the division of total surplus-value in (industrial) profit, interest and rent. Both these divisions are influenced by monetary intermediation, since it affects both the validation of the wage-goods bundle and the distribution between profit, interest and rent. In each stage of the capitalist m.o.p. the specific mechanisms of formation of these two fundamental divisions are transformed.

Forms of crisis

The capitalist m.o.p. is riddled with crises of overaccumulation deriving from the tendency of the rate to fall due to the increasing organic composition of capital. However, although this is the fundamental cause of crises, they are expressed in different forms and through different mechanisms (stock-market crises, collapses of exchange rate regimes etc.). Each stage exhibits considerable specificities with regard to crises.

Processes of political intermediation

The capitalist system - contrary to previous class systems - is characterised by the fetishist separation of socio-economic relations in the economy (which appears solely as exchange relations) and the political sphere (which appears as a socially-neutral management of common affairs). Thus the capital-relation is doubled in form in the domain of the economy (where inequality and class divisions predominate) and the domain of politics (where typical equality among members of the society prevails). The capitalist state - as the collective capitalist, the representative of the general interests of the bourgeoisie - has to appear as a neutral mediator between capital and labour as well as in conflicts between different fractions of capital. Hence the political-form is generated from the capital-relation, although it retains a degree of autonomy. Political intermediation, ideological hegemony and institutional structures - the main levers of the domain of politics - change also in accordance with transformations of the capital-relation.

International system

Capitalism is the first class system that acquired a global dimension. From its very first it created a system of international relations whose main characteristics are antagonism between capitalist blocs (backed by states) and relations of unequal exchange and exploitation between more and less developed countries. In sum, as implicitly suggested by Fine & Harris (1979), imperialism is not an exclusive feature of monopoly capitalism but the universal feature of capitalism's international system. The structure of the international system - and specifically its main factors (which of capital's main fractions (productive, money or merchant capital) are internationalised and predominate, what means play the role of international money, what are the forms of international competition, what supra-national politico-economic structures exist etc.) - changes from stage to stage.

The process of transition from one stage to another

A crucial question is why and how there is a transition from one stage to another. The cause is a combination of the limits of capital accumulation and the subsequent limits set by class struggle. The capitalist m.o.p. is a system endogenously crisis-prone. The continuous production and appropriation of surplus-value and its accumulation leads to crises of overaccumulation. Its very success is what leads to its failure.

Capital's desire for profits leads it to struggle against labour and other capitals. The struggle against labour is manifested in the increasing replacement of workers by machines through the mechanisation of production. Hence the type of technical change pertaining to capitalism is labour-saving. This increases both the productivity and the intensity of labour. His struggle of its individual capital against labour has meaning only if it is expressed, as a lower unit cost, in the (Intensified) competition with other capitals. Thus, intensified competition and the subsequent mechanisation of production lead to rising technical, organic and value composition of capital. This increased composition produces a downward shift in the rate of profit even when the rate of surplus-value is rising faster than the composition of capital. A crucial factor in this relation is that the worker has definite physical limits which fetter the continuous imposition of new combinations of increased productivity and intensity of labour, within a given technological pattern. Beyond these limits the increase of the rate of surplus-value (in its fundamental sense, as a change in the demarcation line between necessary and surplus labour-time) cannot continue and, consequently, it cannot counteract the increasing composition of capital. The decline of the rate of profit necessarily leads to a fall in the mass of profit signalling the beginning of a crisis. Crises of overaccumulation are surpassed through the devalorisation of capitals but above all through the deepening and the intensification of processes of labour exploitation. The latter is the crucial link in overcoming a capitalist crisis. The processes of labour exploitation - through the mechanisms of absolute and relative surplus-value - always have a historically concrete character and are expressed by the specific mode of organisation of the production process. As said before, every mode of organisation of the production process (technology, combination of absolute and relative surplus-value, processes of increasing labour productivity and intensifying labour) have definite limits beyond which the worker cannot be pressed. Surpassing these limits is destructive for the capitalist system as a whole - although each individual capital strives to overcome them - since it will destroy its very basis of operation, labour. On the ground of this struggle for the change of the demarcation line between necessary and surplus labour-time class struggle in production arises, The working-class - even in its more 'molecular' and less conscious form of struggle - strives against the deterioration (if not for the improvement) of the terms of sale of its labour-power and its conditions of work. When this resistance is combined with capital's inability to successfully continue its accumulation then it becomes obvious that capitalism's modus operandi has to be transformed. The successful implementation of such transformations implies an increased socialisation of production, since through this capitalist dynamics can be coordinated better and crisis-tendencies, although not avoided, can be managed easier.

Through this process of accumulation - class struggle - crisis - transformation is expressed the Marxian contradiction between production relations and productive forces. The very development of productive forces (even in their capitalistically determined form) is fettered by its own production relations and on this ground develops both working-class' struggle as well as capitalism need to be transformed. Whether this outcome will be achieved depends crucially on the balance of class forces. The latter is at the same time 'open' and constrained. It is 'open' because the working-class' conscious struggle can create history and lead to surpassing capitalism and open the process for socialist transition. It is constraint because this possibility is restricted by existing economic constraints (particularly the knowledge of collective labourer and its ability to direct the production process, development of productive forces etc.). The working-class can revolutionise these conditions but it cannot neglect them.

Conclusions

How valid empirically can be today a periodisation of capitalism based on the equilibrium between absolute and relative surplus-value? For many writers the relationship between absolute and relative surplus-value was an early capitalistic affair: it concerned only capitalism's natal phase. After its establishment as a fully-blown and coherent system it has ceased to play any important role: relative surplus-value is dominant. Particularly, after the eight-hours movement and the imposition of the Factory Laws, the case of absolute surplus-value has been silently considered as a mere appendage, a residual of the main capitalist processes but not an important mechanism. This perception is disputed today. Capitalism, after the 1973 crisis, exhibits a trend towards the increase of real work-time. This is a rather new trend since till then actual work-time tended to decrease. It can easily be shown that this increase of real work-time is closely related to the increase of unpaid labour-time; that is to an increase of absolute surplus-value (as the real wage rate either decreases or lags behind).

There is indeed increasing evidence that from the 1980s and onwards, with the advent of 'labour flexibility' policies, the declining work-time trend not only ceased but it has been probably reversed. During the last years statutory and collectively bargained limits to the length of the workweek are increasingly either neglected or becoming irrelevant. The organization of work-time moves from the more or less synchronized hours of work and leisure to more multiple and widely differentiated patterns of flexible working time arrangements. The 'standard' workweek gives way to schemes of hours averaging over longer intervals of time and the eight hours workday is violated for increasing sections of the workforce. These trends bring forth the significance of actual work-time, as differentiated from the statutory one. Flexibility and destandardisation make statutory arrangements more or less ineffective. On the other hand actual work-time (which incorporates overtime, absenteeism, moonlighting etc.) becomes far more important since it can show the real trends in work-time (particularly in cases where a decline in statutory time can co-exist with an increase in actual work-time).

These developments have been picked up by a growing number of recent studies which cast doubts on the belief of a declining work-time. On the contrary, they argued that actual work-time appears to be rising in many countries and for increasing segments of the working class; whereas, at the same time, other segments become underemployed. However, the first seems to be the dominant trend. For example, there is significant evidence that actual weekly work hours are rising in the United States, Japan and most of the emerging and less developed market economies (see ILO-KILM (1999)). Particularly for the US, the case of overworking has been convincingly raised by many researchers (see Schor (2000), Bluestone & Rose (1998), Golden & Figart (2000a) etc.). There is, however, an ambiguity on what is happening in Europe, where the greater influence of trade unions and the stronger traditions of the welfare state (despite the recent decades' reversals) have presented greater resistance to the trend of the increasing work hours. Most studies - influenced by the 35-hours movement and particularly its legislation by the Jospin government in France and similar demands by several European trade unions (e.g. the influential German IG-Metal) - assume that the postwar downward trend is still effective. However, it is usually neglected that statutory decrease can go hand in hand with actual increase in work-time. Furthermore, recent developments (e.g. certain deals in big German enterprises securing works at the cost of increased work-time with the same payment) dispute this picture. Particularly in Southern Europe the trend towards overworking appears to be more pronounced (see Mutari & Figart (2000)).

If this picture is true then a new situation appears where absolute surplus-value rises again significantly. This might signify that a new capitalist stage is in the process of creation.

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9. FINANCE AND THE CONTEMPORARY SOCIAL STRUCTURE OF ACCUMULATION, *William K. Tabb*

"Finance capital, once cut loose from its original role as a modest helper of a real economy of production to meet human needs, inevitably becomes speculative capital geared solely to its own self-expansion. In earlier times no one ever dreamed that speculative capital, a phenomenon as old as capitalism itself, could grow to dominate a national economy, let alone the whole world, but it has."

Paul M. Sweezy (1994:1)

Neoliberalism had both a negative moment of destruction of the old national Keynesian order and a positive moment of the creation of new institutional forms and social relations. The former can be seen as a period of crisis. The latter as the establishment of a coherent regime of accumulation. Observers living through transitional periods can lack an appreciation of the dialectical nature of change and so fail to see how tension inherent in the collapse or undoing of seeming enduring accommodations are necessary preludes to incorporation of new social elements into a fledgling social structure of accumulation. Thus it was the case that initially many analysts saw neoliberalism as an effort to put the clock back to a kind of capitalism which no longer existed. There was, and is, a reluctance to see the harsh new world of greater risk and destabilization of postwar SSA accommodations as anything but an era of crisis. Yet it has had decades of durability. Andrew Gamble (2006:21) has noted it took some time to appreciate that neoliberalism "did have some distinctive new features as the prefix `neo' implied, and was an integral part of the re-organization of capitalist relations which was taking place."

Global neoliberalism is spherically coherent. Its dominant elements, attitudes and practices are mutually reinforcing. With regard to the state-citizen relationship the new dispensation rejected previous entitlement presumptions of welfare state provisioning and the regulatory role and participation of the state in favor of deregulation, contracting out and privatization. The new capital-labor discord is one of flexibility, higher cost of job loss, downward pressure on wages and benefits; and of individualism in place of solidarity, acceptance of unionism, and greater degree of job security. The previous core-periphery relation between the richer countries of the world system and the rest in which the former are industrialized and the latter providers of raw materials is replaced by the emergence of newly industrializing economies and significant deindustrialization of much of the former manufacturing core where the growth of business services and high technology sectors has become characteristic. Capital-capital relations are therefore globalized and complex commodity chains indicate production with complex cooperation-competition patterns among technologically sophisticated firms and unremitting pressure on suppliers and contractors.

The growth of the financial sector results from the need to lubricate such developments. In the era of global neoliberalism the best form in which to hold capital is its most general form. This is certainly the case as opposed to non-mobile brick and mortar of outmoded vintage or skill sets specific to declining sectors. Unlike the postwar SSA with its close long term working relations between banks and manufacturing firms which favored European corporatist and Japanese state-led banking patterns, global neoliberalism privileges Anglo-American finance with its focus on short term maximizing better suited to the needs of dramatic redeployment of capital, rapid sectoral restructuring, downsizing, plant closings, and focus on shareholder value. The slowing of the global economy and greater volatility in the final decades of the 20th century led profit seekers deeper into an array of financial speculations made potentially quite profitable by such departures as floating exchange rates and rapid growth in new centers of the semi-periphery.

It is the theme of this paper that finance has been central to each of the accommodations of the new conjuncture and provides an avenue of insight into transformative elements raising two important questions regarding the new era's regime of accumulation. The first is: How does neoliberalism allow the greater appropriation of surplus created in production to be appropriated by the financial sector? We see in this regard the growing importance of U.S.-based financial institutions (including their subsidiaries in the City of London and elsewhere) along with competitors based in global money centers in reorganizing corporate structures to maximize shareholder value benefitting from buyouts, mergers, acquisitions and financial hedging strategies and suggests continued growth and rising income shares for the financial sector as a result. The short time horizon of finance capital has changed the behavior of corporate America so as to distort long term resource allocation and produce dynamic inefficiencies which will slow future growth diminishing social capital by significantly increasing inequality and taxing the social fabric. Secondly, how seriously destabilizing a factor is the risk that payments settlement crises or dollar devaluation could prove broadly harmful? There are questions as to whether there has been an overreaching in this highly leveraged, debt dependent growth model. Structural and conjunctural policy aspects to this development provide reasons to believe that the self-interest of Washington policy makers, given the current military and economic power of the country is leading to excesses and imbalances dangerously increasing the fragility of the global economy.

The first section of this paper develops an understanding of the global neoliberal conjuncture, the role of the state in its construction, and the centrality of finance to its evolution. The second part explores statistical dimensions of financialization (a term to be defined) in a global perspective and the key role of the United States, its government and financial institutions to its development. The third section considers issues of risk inherent in neoliberal financialization and a fourth the role of the dollar in the global political economy. A short conclusion suggests a larger framing of the present in history.

Global Neoliberalism and Finance

In the countries effected by serious debt and banking problems financial adjustment is typically accompanied by poor performance across various social indicators including health outcomes and education. Such disappointing social progress during the decades of rapid globalization strongly support the view that the two decades 1960-1980 during which national Keynesianism reigned was a far more successful time overall for global development then the quarter century and counting of global neoliberalism during which economic growth and social progress for the vast majority countries has been significantly slower (Weisbrot, Baker, and Rosnick, 2005). Real global growth averaged 4.9 percent a year during the `Golden Age' of national Keynesianism (1950-1973). It was 3.4 percent between 1974 and 1979; 3.3 percent in the 1980s; and only 2.3 percent in the 1990s, the decade with the slowest growth since World War II (Maddison, 2001). While restored output and productivity have been strong in the U.S. in the opening years of the new century, and America has been the engine generating global demand for final goods and services, there are questions about whether the imbalances central to US ability to spend can continue.

Restructuring and financial liberalization has more painful consequences elsewhere. As the regime of global neoliberalism consolidated financial crises occurred with greater frequency. An IMF study found that 133 of its 181 member countries suffered at least one crisis involving significant banking difficulties between 1980 and 1995. In more than two-thirds of the countries for which data is available, the direct loss sustained by the government was about equal to a country's growth in output in a good year. Some countries lost the equivalent of more than half their annual national income (Lingren, Garcia and Saul, 1996; Caprio and Klingebiel, 1996). The conventional wisdom blamed these governments for following reckless policies. The dominant role of money center investors in initiating such capital movements was rarely acknowledged. Lenders were assisted by the international financial institutions which rarely admonished them for their role. However research shows that most of the responsibility lies outside of the developing economies in question.

Economists examining the factors which effect private capital flows from developed to developing economies distinguish push factors, conditions in the developing countries, and pull factors in the receiving ones and find it is the push factors which dominate. In any particular conjunctural situation it is changes in interest rates and in the amount of footloose capital which produce waves of lending and contraction of lending. Goldman Sachs (2005) estimates that only 40 percent of the change in the spread between developed and developing country interest rates can be attributed to domestic fundamentals in the borrowing country. The majority of the causal impetus is thus from the lending countries. Further, the correlation between events in the financial markets of the core and their knock-on impacts for emerging markets are almost instantaneous. A Bank of England (2004) study suggests each 100 basis point increase in the US interest rate by the Federal Reserve, all else equal, is associated with an 80 basis point increase in the average emerging market spread. It is of course true that the characteristics of the debtor economy matters. A high level of short term debt carried in foreign currencies at variable rates compound external shocks. But the prevailing stress on debtor country errors and the need for good governance in emerging market financial regulation ignores these salient factors.

In the U.S. in recent years the increasing importance of debt and financial market growth has taken a number of forms. Following the collapse of the stock market bubble in 2000-2001 the Federal Reserve pursued an extended easy money policy. One result was a real estate boom. Housing market speculation, construction and related activities, the wealth effect of the steep rise in asset valuations and other borrowing stimulated growth. From 2000 to 2005 housing starts went up by a third and sale of new and existing homes increased by close to forty percent. In 2005 half the new home loans had variable interest rates and by 2006 the most popular mortgage options included paying less than the amount due each month, the difference being added to the principle and subject to dramatically higher monthly payments. (The consequences of such arrangements were often ignored by eager buyers speculating that housing prices could only continue to rise). The end of the housing bubble would bode ill for many recent home buyers lured in over their heads by loan terms industry critics believed irresponsible lending practices.

A very different source of debt creation was stagnant real wages and the cost of job loss (Farber, 2005) which encouraged borrowing to maintain consumption levels facilitated by the banking industry's targeting of low income households with poor credit ratings. The stagnation of wages and loss of purchasing power from labor market churning came in part as a result of restructuring pressures imposed by financial markets on US companies. Firms which built up large cash reserves became targets for private equity firms which, by paying a premium price to take control are able to purchase and reorganized corporations, selling off or closing units, downsizing and in other ways withdrawing money, and loading them up with debt before taking them public again. Globalization and off shoring put further pressure on workers. The share of US national income going to wages and salaries reached its lowest recorded level in 2005. Corporate profits which were seven percent of US GDP in 2001 (at the start of the upturn) were 12.2 percent at the beginning of 2006, but median income was 3 percent lower in real terms. American families added to their debt between 2001 and 2005 at a rate 60 percent greater than the growth of the overall economy. The financial sector grew for other reasons as well. Merger and acquisition activities, nationally and cross-border, relied on financing and assumption of debt, internationally-oriented businesses learned to hedge foreign exchange exposure and securitize accounts receivable, and banks offered a host of new products. Each of these developments raised the profits and increased the size of the financial services sector.

Dimensions of Financialization

Financialization refers to “the increasing importance of financial markets, financial motives, financial institutions, and financial elites in the operation of the economy and its governing institutions, both at the national and international levels.” (Epstein, 2002:3) Finance capital, footloose and flexible, interposes itself whenever arbitrage opportunities present themselves. It represents the increased power of abstract capital as opposed to productive capital. On another level, financialization is a policy choice of governments in alliance with internationally oriented financial institutions. It is a tool of accumulation pushed powerfully by the American state and other money center governments.

Robin Blackburn has characterized financialization, this growing and systemic power of finance and financial engineering, as “grey capitalism” because relations of ownership and responsibility have become weakened or “blurred.” He writes “In the end the largest and most famous of corporations have only a precarious and provisional autonomy within the new world of business – ultimately they are playthings of the capital markets.” (Blackburn, 2006:42) While perhaps somewhat exaggerated in the sense that financial markets respond to and in anticipation of real values of assets including the credit worthiness of corporations and CEOs have discretion over strategic decisions in meeting market demands, these financial pressures exercise a powerful influence over how success is to be measured at any point of time. Blackburn (2006:43) is right as well when he suggests that investors consider the corporation itself as simply “an accidental bundle of liabilities and assets that is there to be reorganized to maximize shareholder value.” Today’s investors are far from the patient capital of the earlier period. Given the pressure on institutional investors to maximize short term returns there is a constant churning of assets and so pressure on companies to maximize quarterly earnings The incentive structure makes this rational behavior but can produce irrational results in terms of the longer run health of companies and the system.

Thus financialization has produced a major structural change in corporate capitalism “from an implicit acceptance of the Chandlerian view of the large NFC [non financial corporation] as an integrated, coherent combination of illiquid real assets assembled to pursue long-term growth and innovation, to a `financial’ conception in which the NFC is seen as a `portfolio’ of liquid subunits that home-office management must continually restructure to maximize the stock price at every point in time.” (Crotty, 2003:272) The vastly shorter time horizon combined with the distorting impact of stock options as the dominant form of the compensation of top executives does not bode well for growth. But this is also because overcapacity in the absence of some form of global Keynesian stimulus makes downsizing and painful redeployment of capital on a large scale inevitable. Financialization is the rational response to the social irresponsibility of capitalism's imperatives.

The US financial market is the largest in the world with 37 percent of global financial stock, 45 percent of global equities, and 51 percent of private debt security stock (McKinsey and Company, 2006: 86). In 2005 foreigners held more than half of US Treasury securities (up from 20 percent in 1975), 14 percent of US equities (from 4 percent thirty years earlier), and 27 percent of US corporate bonds (compared to only 1 percent three decades previous). Surplus funds have been attracted to the US market for a variety of reasons ranging from the desire of governments to hold greater dollar reserves against the threat of financial crisis, to the wish to hold down the value of their own currency to promote exports, to the desire of the investor class around the world for higher risk adjusted returns. Because of the dominant position of the dollar close to two-thirds of foreign exchange official reserves are held in the US currency and 89 percent of all foreign exchange trades are against the dollar. In addition, the United States has been the innovator in financial instruments, for example asset backed securities, primarily real estate but extending to a large variety of future earning streams from auto loans and leases, credit card receivables, small business loans and other categories now valued in the trillions of dollars.

Financialization has proceeded very fast in the opening years of the new millennium. Between 2001 and 2004 daily foreign exchange turnover increased by 57 percent and daily trading in derivatives was up by 74 percent. In 2006 private equity firms controlled $800 billion in capital, 300 percent more than five years earlier, and hedge funds managed a trillion dollars compared to half of that in 2001. Importantly debt creation, private and government debt securities, accounted for more than half of the overall growth in financial assets from 2000 to 2004. Taken as a whole the corporate profits of the financial sector of the US economy in 2004 were $300.6 billion compared to $534.2 billion for all nonfinancial domestic industries, or about 40 percent of all domestic corporate profits. They had been less than two percent of total domestic corporate profits forty years earlier, a remarkable indication of the growth of financialization in the American economy (Council of Economic Advisors, 2006: Table B-91).

A crucial difference between the era of national Keynesianism and that of global neoliberalism is in the priority given to growth by the managerial capitalism of the earlier regulatory regime under which top executives benefitted from the growth in the size of the firms they managed. The triumph of stockholder capitalism in the era of global neoliberalism has meant firms are pressed to extract every bit of surplus from stakeholders. This produces a pattern of slower growth and upward redistribution. To align corporate leaders with the simple minded pursuit of stockholder value stock options became the dominant source of executive compensation in the new set of institutional structures (On managerial capitalism see Chandler, 1977; on the new financial capitalists see Baker, 1998; and on the new ideology of shareholder value see Lazonick and O"Sullivan, 2000). In practice encouraging executives incentives to maximize short term profit invited manipulation of earnings so that high stock market valuation coincided with exercising options. The shift in the firm's objective function led to a new corporate objective function, a growth-profit combination which exhibits higher profit and lower growth. Firms under the new incentive structure could grow faster but choose not to because that would reduce profitability (Stockhammer, 2000). This often involved the greater use of financial gimmicks, many illegal as was increasingly revealed (Quinn, 2003).

Gatekeeper conflict of interest proved substantial as accountants, bankers, lawyers, stock analysts, and corporate boards cooperated with questionable and often blatantly illegal practices (Coffee, 2006).

The embrace of neoliberalism in one form or another by major political parties is accompanied in the United States, but hardly only in the United States, by a growing influence of finance in the political arena. While always a central component of any hegemonic coalition, the political power of finance accompanied and enhanced its economic centrality. This recursive process is evident in recent elections, their financing, and the policy priorities of officials once elected. It can be argued for example Bill Clinton owed his presidency to Robert Rubin and other Wall Street boosters. The coalition which brought George W. Bush to power was Sunbelt-oil-military-contractor-based; however by the 2004 campaign Bush was the recipient of a huge infusion of cash from Wall Street which in 2003 was his biggest donor base. The leading figures were prominent executives from Merrill Lynch and Lehman Brothers. This influence was cemented toward the middle of his second term when Henry Paulson head of Goldman Sachs became Mr. Bush's third Secretary of the Treasury. Through the Clinton Administration Congressional members of finance committees were showered with contributions to facilitate deregulation and especially to repeal New Deal era banking legislation which had segmented the industry and imposed safeguards against excessive risk taking. In the Bush administration there was major reform of bankruptcy legislation for the benefit of credit card issuers and other creditors; and again committee chairs and ranking members of influential committees received bribery level contributions. There has been similar active pressure to spur deregulation in the international economy and US politicians, both Democratic and Republican, have used their influence on the industry's behalf.

The turn toward financialization in the periphery of the world system was pressed by Wall Street and driven by Washington pressures directly and mediated through global state economic governance institutions (Tabb, 2004). In a now famous 1997 interview with the Times of India Jagdish Bhagwati (Veneroso and Wade, 1998) offers a pointed critique of this financial liberalization. Responding to a question as to why the IMF was seeking to open financial markets everywhere he replied: "Wall Street has become a very powerful influence in terms of seeking markets everywhere. Morgan Stanley and all these gigantic firms want to be able to get into other markets and essentially see capital account convertibility as what will enable them to operate everywhere. Just like in the old days there was this `military-industrial complex,' nowadays there is a `Wall Street-Treasury-IMF Complex' because Secretaries of State like Rubin come from Wall Street... So today, Wall Street views are very dominant in terms of the world they want to see." Bhagwati went on to say, "In my judgment it is a lot of ideological humbug to say that without free portfolio mobility, somehow the world cannot function and growth rates will collapse." The humbug does however serve the interests of international financial firms such as Morgan Stanley, Goldman Sachs, the firm Mr. Rubin led before taking up the position as Secretary of the Treasury, and Citigroup where he took up a senior position on leaving public service.

The reporter or the professor can be forgiven for calling Mr. Rubin Secretary of State when his title was Secretary of the Treasury. The mistake is understandable because under President Clinton it was Robert Rubin who was the most powerful member of the cabinet rather than as traditionally is the case, the Secretary of State. Under George W. Bush the most powerful cabinet figure is the Secretary of Defense reflecting a very different understanding of the world in which setting the rules of trade and finance have taken a back seat to a muscular unilateralist pre-emptive foreign policy. The appointment of Henry M. Paulson indicated as awareness that global financial issues are indeed important. Mr. Paulson's firm, and he himself, had been very active in seeking out business in China, representing both the Chinese government in the United States and negotiating financial opening of China's financial market. The latter project was a priority for the Bush administration which pushed China to open its financial sector to foreign companies well beyond the commitments China was forced to make in order for Washington to approve its membership in the WTO. The Bush Treasury demands foreign ownership caps for investment banks be dropped and barriers for overseas investment in local shares removed. Given the nature of the global financial system China and other countries prefer such protective measures seeing any efficiency gains and access to capital markets as secondary to possible destabilizing impacts of such unrestricted flows; hence the need for Washington to impose pressure for countries to undertake reforms for which there is no evidence they benefit.

For Wall Street firms financialization on a world scale has been central to profit strategies – both responsible for and benefitting from the increased risk and volatility in the system and Bhagwati's comments with regard to Morgan Stanley's interests are certainly on target. Finding new venues offering potential for profit making has always been central to the logic of accumulation. As John J. Mack head of Morgan Stanley told BusinessWeek over a decade ago (1996:64) that "It's growth or die. The biggest risk is not to invest." At the time Morgan Stanley's Capital International based in Geneva maintained 3,500 different international market indices. Its traders from their desk top computers accessed exhaustive on line data for scores of `emerging markets.' Being first to have new data properly analyzed is the way to beat the market and the secrets of investment banker success are developing new products and investing based on a better appreciation of market forces which their investments in information technology, sophisticated forecasting, and inside information give them. Of course Morgan Stanley was hardly alone in placing bets in the global south. There was intense competition with rivals such as Goldman Sachs, Merrill Lynch, and others on Wall Street as well as foreign financial institutions, all ready to pounce on some new piece of data, to respond to fast breaking or anticipated events, to move very large amounts of money in or out of these countries, and to put together mergers and acquisitions both in-country and cross border.

Summarizing this section of the paper, while investment banks found the volatility of global markets a fertile field for profit making this market instability was costly to the countries involved. Ordinary citizens of effected economies would have benefitted from greater protection and tighter regulation of their financial markets instead of having their governments pressured into liberalization. Yet it was the policy of both the Clinton and Bush administrations to do just that, forcing governments to liberalize their capital accounts which meant profits for the international banks but frequently financial crises for borrowers. Despite evidence of what is likely to happen these policies continue. Most damaging to those declaring `TINA' (there is no alternative) to financial liberalization is the increasing number of studies supporting a landmark IMF paper (Prasad, Rogoff, Wei, and Kose, 2003) which concludes "it has proven difficult to find robust evidence in support of the proposition that financial integration helps developing countries to improve growth and to reduce macroeconomic volatility." While financial liberalization did not produce economic growth it did increase volatility of consumption, pushing huge numbers into poverty and others below the margin of subsistence (Tabb, 2004:chapter 6). Given the costs of financial liberalization Joseph Stiglitz (2000:1085) has famously asked "Are international policies in this area being designed on the basis of the best available economic theories and evidence, or is there another agenda, perhaps a special interest agenda, seemingly impervious to the effects of such policies, not only on growth, but on stability and poverty."

Increased Systemic Risk

Contrary to the efficient market perspective which suggests that more participants, a finer parsing of risk, and availability of new financial instruments all lower risk, there are reasons to think that systemic risk is increased by this growth of financialization. The vast increase in speculative capital (Miller, 2005) and the climate of financial liberalization makes crises more likely, and attempts by individual countries to guard against them more expensive and difficult.1 The collapse of speculative positions amplifies instability. Unexpected changes and uncertainty can produce major sell-offs. There may not always be buyers at viable prices. Speculators could be caught out by a change in the investing environment. Tightening by a major central bank limits liquidity globally and impacts financial markets. For example a rise in interest rates by the Bank of Japan means hedge funds which had borrowed cheaply in yen and invested in high yield assets elsewhere leveraging their money are exposed to greater risk. The popularity of such carry trade meant knock-on impacts for high yielding currencies from New Zealand to Iceland.

Hedge funds are another US contribution to the growth of financialization. They are the fastest growing segment of the industry, accounting for half of all trading on the New York and London stock exchanges. They are a major force in the less transparent debt markets which are one and a half times larger than the stock market. In both markets hedge funds are seen as trading on non pubic information and moving markets in violation of insider trading rules but do not face the same sort of regulatory oversight as other major market players. Their horizons are also shorter and they are more highly leveraged. The typical `2 and 20' compensation scheme (two percent fees go to managers plus twenty percent of the profits) encourage and generously reward risk taking. Investment banks put larger amounts of capital at risk, leveraging their own funds by borrowing vast sums. The large and increasing numbers of such funds, which according to the SEC controlled $2.4 trillion in assets in 2006, pursue essentially similar strategies. The growth of participants has pushed down returns and encouraged still riskier behavior as more money piles into these vehicles creating the potential for serious systemic risk. Because of the existence of deep financial markets there is a general belief that these positions can be sold if need be so hedge funds bet using lots of leverage and often unhedged credit derivatives. But while speculators are believed by mainstream financial theorists to be exploiting market inefficiencies and anticipating market movements (Paredes, 2006) the potential for herd error is often ignored until a major widely shared misjudgment occurs. As successful hedge funds attract entry by less skilled, opportunistic players and their

[1] Gary Perlin (2001:2), Chief Financial Officer at the World Bank, explains the dramatically changed market structure financialization has produced, reinforcing the view taken in this paper.
"Institutional investors now dominate, and although they often place long-term funds they have a very short-term perspective on relative performance, which can encourage large-scale risk taking by competitors who are reassured by the similarity of each other's actions. At the other end of the spectrum, but moving in the same direction, are the individual investors in OECD countries who increasingly participate in savings and defined contribution plans, and who are advised to seek long-term returns by increasing their exposure to risk. Taken together, these flows can be very large in relation to the size and institutional capacity of the markets into which they flow. Even more dangerously, however, they may have little information content. Rather than reflecting underlying economic fundamentals, they are just as much a product of rapidly changing risk appetites..."
This may explain the rise in market volatility which has accompanied slower global economic growth. It also suggests the need to supervise more forcefully, a task made difficult by neoliberal presumptions and regulatory arbitrage.

less sophisticated customers the potentially successful opportunities for high returns may not match the amounts being thrown onto the market. It is not only highly leveraged players who then face the prospect of serious losses when hedge financing turns into Ponzi financing (Minsky, 1992).

Fear of serious asset valuation loss has led to a spectacular growth in credit derivatives which allow investors to buy protection against defaults and other downside risks. These are sold mostly by the giant banks. JP Morgan Chase is said to hold some 2.2 trillion of credit derivative exposure as of mid 2006. Hedge fund borrowers have become an important source of bank revenues and, as Morris Goldstein (2005:8) writes, "In an environment where flows into hedge funds are strong, where banks face strong competition from other suppliers of services to hedge funds, and where hedge funds are very important clients to banks, how heavily we can count on a regulatory model where banks are the agents primarily responsible for exercising oversight over the risk-management practices of hedge funds?" If another wave of Enrons and WorldComs were to occur in the presence of such exposure the global financial system could be seriously effected. The very existence of such contracts produces moral hazard, greater risk is undertaken because the investor is insured. Lenders don't worry because they believe themselves protected. As a result they may not as a result monitor closely, or at all. Neither may those who sell the derivatives which can be quite complex. For the issuers these instruments may prove highly risky especially when speculative activity is in remote markets and arcane products like credit default swaps and catastrophe bonds. These are highly illiquid and cannot easily be sold off as many of the earlier innovations in securitization allowed. While losses to individual investors and local issuers may not be a major policy concern for international regulators the scale of speculation has increased dramatically raising questions of systemic weakness.

With the growing amount of capital seeking investment opportunities market pricing reflect little provision for risk as the IMF has pointed out. The Fund warns of the possibility of illiquid market conditions for some of the new and complex financial instruments which could act to amplify a market downturn (International Monetary Fund, 2006:7) Emily Thornton, while expressing the reasonable conclusion that `so far' the rewards had justified the risks, indeed booked profits and their stock prices had performed admirably so far into the new millennium but they raise the stakes and are "arguably the biggest game of risk ever to play out on Wall Street." (Thornton, 2006:54) The wreckage of the collapse of such leverage would be considerable and could be triggered not only by a change in market sentiment but by a failure to settle trades with knock-on effects in highly leveraged interdependent market (as the collapse of Long Term Capital Management threatened to do in 1998). The rapid rise of debt and high leverage raises serious questions for systemic stability despite the presumed more sophisticated risk management tools employed by major banks as a reading of the increasingly agitated Global Stability Report; A Report by the International Capital Markets Department on Market Developments and Issues released twice a year by the International Monetary Fund suggests (also see Schinasi, 2005).

There appears as well to be a concentration of risk. The US Comptroller of the Currency (Bank Derivatives Report, 2004) reveals that five commercial banks account for 96 percent of the total notional amount of derivatives and for four of these five exposure equaled 230 percent or more of their risk-based capital. For banks and hedge funds higher leverage has become the general rule and are worrying (Geithner, 2006). Whatever the systemic risk, there is just too much money to be made to turn cautious too soon. Even in the face of widespread loss after a pause the game is likely to resume. The question which remains to be answered by history is whether the change from the postwar SSA so that financialization is now so much the economy's driving force means the amounts involved in a meltdown will bring the era of global neoliberalism itself to an end.

The Dollar

There are two seemingly contradictory yet conjuncturally connected aspects of the US financial position. The first is what is widely viewed as the irresponsible behavior of the US government manifest in the impacts of large and continuing budget deficits. There is reason to think that the fiscal policies of the United States are not sustainable and that financial markets may come to heavily discount federal debt instruments (Kotlikoff, 2006). The second is the successful achievement of US-based financial institutions and transnational corporations in venues outside the nation's borders which draw capital from investors globally. While US-based capital has been exceedingly successful, the country itself has become dangerously indebted. These two developments are entangled. The financial liberalization the United States has pursued has favored both the US as a debtor nation living well beyond its means and US-based financial institutions, but at the price of the build up of serious global imbalances.

From 1996 to 2004 the US current account deficit grew to $666 billion from $120 billion, requiring external financing of $546 billion. These funds allowed the country's economy to grow rapidly without inflation but raised the issue of how much longer this could go on. In 2006 the US current account deficit was close to seven percent of GDP. This development produced fear that adjustment would come through a dramatic drop in the value of the dollar (Roubini and Setser, 2004; Blanchard, Giavazzi and Sa, 2005). Estimates of an unwinding of the dollar's current account deficit, financed by three-quarters of the combined current account surpluses of all of the world's surplus countries, suggest a potential collapse of the dollar by as much as thirty percent or more (Obstfeld and Rogoff, 2005). Many economists and financiers, as George Soros has said, see "an acute financial and political crisis" which "if left unchecked will lead to the disintegration of the global capitalist system" (O'Brien,1998:Bu1). Extrapolating trends, the United States in a not distant future would absorb all the world's savings and then some having to make interest payments exceeding its own GDP. Like all simple minded projections this will not happen of course but it does suggest the seriousness of the growing imbalance. There is also the prospect of some seemingly minor development triggering a stampede out of the dollar. For example in February 2005 a Korean central banker Park Seung spooked stock markets around the world when he said he hoped to diversify his bank's portfolio. The Dow fell 174 points and the dollar slumped. He quickly reassured the markets that this did not mean at all dumping the dollar. The Japanese central bank quicky followed on with a similar reassurance and the market recovered. But the potential of such events given the huge dollar overhang is substantial.

Among those who are troubled by the U.S. current account position there is disagreement as to whether these global imbalances are caused by trade or capital movements. The official position, that of the Treasury and the Fed, is that the United States because of the strength of its economy attracts surplus savings from countries where savings exceed domestic investment opportunities. The alternative story has a number of elements. The first is that in a world of floating exchange rates, uneven growth, and the impact of interest rate policies (above all of the United States) lead to rapid movement of funds into and out of smaller economies often to devastating effect. To protect their economies countries have substantially built up reserves, holding U.S. Treasury securities and other dollar assets. Wealthy individuals fearing currency weakness have done likewise. Such developments produce large capital inflows for the United States. The foreign savings in this telling are not really voluntary.

This part of the official story is also questioned by those who point out that the seeming high savings of the Japanese, Germans, and Chinese are not quite what they seem. It may be that Japan as an aging society needs to save more, but this does not explain the capital account surplus (as argued by among others Bernanke, 2005). Japan's current savings surpluses come from the business sector and are not explained by an autonomous expansion of national savings. Japanese firms with surplus capital, insurance companies and banks, find it difficult to lend internationally in yen and so are big buyers of dollars. Ironically this means that appreciation of the yen could bankrupt some of these same firms if the yen value of their dollar holdings dropped significantly (McKinnon, 2003:6).

There is of course pressure everywhere to hold down the value of their currencies and so enhance their international competitiveness and to squeeze unit labor costs to stimulate growth; but export expansion at the expense of wage increases and currency appreciation leads to low domestic demand. In Germany, another current account surplus country there has been wage disinflation in recent years producing greater export competitiveness (UNCTAD, 2006:7). Even China where money wages in manufacturing are growing substantially (12-16 percent annually in recent years) is experiencing declining unit labor costs in manufacturing as labor productivity is rising at close to twenty percent a year (UNDP, 2005, chapter I, Section E). And of course the renmimbi is being held down by government fiat. Chinese net saving is not particularly high compared to its forty percent annual investment rate.

The Treasury and Fed claim that there is `a worldwide savings glut' (Miller, 2005) can therefore be contrasted with a loss of competitiveness interpretation. While high tech sectors in the U.S. are doing well, industrial production is growing slowly (overall by five percent between 2000 and 2005) while consumption of durable goods increased by more than thirty percent in this period. In 2003 Kenneth Rogoff, retiring chief IMF economist summed up the elements involved in the superior U.S. economic performance, "The US has the best recovery that money can buy. It has a very high fiscal stimulus, a huge current account deficit. It's borrowed a great deal in order to sustain this very high recovery." Martin Wolf (2003:17) commenting on Rogoff's statement suggested that the impacts of the financial crises benefitted the United States and any future adjustment to the overvalued dollar is likely to have similar results. His analysis is worth quoting at length.

"One might, if one were cynical, view what has happened as a brilliant US conspiracy. In the 1980s and 1990s, its policymakers persuaded a host of economies to liberalize their financial markets. Such liberalisations generally ended with financial crises, currency crises, or a combination of the two. These disasters lowered domestic investment in the afflicted countries, instilled deep fear of current account deficits and engendered a strong desire to accumulate foreign exchange reserves. The safest way was to invest the surplus funds in the country with world's biggest economy and most liquid capital markets.

"When gullible foreigners can no longer be persuaded to finance the US, the dollar will decline. Since US liabilities are dollar-denominated, the bigger the decline, the smaller net US liabilities to the rest of the world will turn out to be. In this way, the last stage of the `conspiracy' will be partial default through dollar depreciation."

It can further be argued the United States has been put in a considerably better position since the end of the Bretton Woods fixed exchange rate system. Not only does the world need more dollars for reasons already discussed, but the United States is freed of any obligation to make good dollar claims in gold, a requirement under Bretton Woods which limited the creation of dollars at the whim of Washington policy makers. It is for this reason that the rest of the world would benefit from a new global financial architecture. It is also the reason the United States resists a more balanced and so more stable system. A decline in the value of the dollar reduces rest of world exports to the United States. It would produce unemployment, lower output and a huge loss on the dollar denominated assets foreigners hold. Both give foreign governments pause and contribute to their willingness to increase holdings to protect both the value of their existing dollar denominated assets and continued exports to the U.S. Since American liabilities are denominated in dollars and its assets are not as heavily in its own currency, devaluation improves its position. The United States also benefits from its special privilege in terms of seigniorage rents. Well over half of all U.S. coins and currency circulates outside the United States. World trade is invoiced in dollars as are almost all commodity markets. The rest of the world exchanges real goods and services for this token money.

Use of the dollar as the international medium of exchange favors U.S. banks and financial interests more broadly and makes the U.S. antagonistic to multilateral arrangements such as increasing global liquidity through expansion of Special Drawing Rights. The United States opposes European proposals for currency management including those for a target zone regime. In Asia, Washington has opposed a regional lender of last resort facility. For Washington policy makers the cost of addressing global imbalances is paid in a loss of US hegemony and the economic gains continued imbalances bring. It would take a major crisis to force the U.S. to give up what in Charles De Gaulle's phrase is its `exorbitant privilege' and to accept something like Keynes' proposed bancor world currency and other symmetrical adjustment mechanisms. The appeal of continued growth of financialization, of more debt and leverage, speculation and hedging even in the face of potential crisis remains attractive to American finance capital.

A sensible rebalancing of global finance would require increased saving and this would be best achieved by reducing federal deficits. To present the loss of growth such a reduction in aggregate demand would imply, a tax increase should be targeted at the very rich who received most of the income and wealth gains of the neoliberal era (and the generously regressive tax cuts of the Bush years) even as tax policy eased the burden on the working class which would spend their windfall rather than feed financial market inflation as the very affluent do when their taxes are reduced. Such a policy as Joseph Stiglitz (2006:A27) among others has argued would simultaneously sustain US growth and reduce the US current account deficit bringing greater balance to international financial flows. Such a policy shift remains off the policy agenda. Thus it remains unclear how these imbalances can be adjusted. It is also unclear how present trends can go on without the imbalances being addressed.

In the longer run financialization is related to other developments in the world system. The rise of new industrial centers and providers of increasingly sophisticated export services is increasingly evident. Whether the world system comes to be centered in Asia only time will tell but the signs, as we shall see momentarily, are there. In such a transition the allure of maintaining the position of US capital by relying on finance is evident. Expanding the time dimension and shifting the level of analysis and focusing on the world system as a whole, current developments may be put in a broader historical perspective. It can be noted, but not more fully discussed given the scope of this paper, that in such a larger context the experience of other great powers – Genoa, Holland and Great Britain – may suggest the outline of further transformation of the U.S. political economy. When these previous world powers were no longer dominantly competitive in product markets they moved decisively to financialization and this financialization of once dominant powers was accompanied by the geographic relocation of the center of capital accumulation after a decline of their productionist-based system of accumulation (Arrighi and Silver, 1999:258-264). The historical trajectory is described by Arrighi (2004:536):

> *"...one kind or another of financialization has always been the predominant response to the overaccumulation problem of the established organizing centers of the system of accumulation. Thanks to their continuing centrality in networks of high finance, these centers have been best positioned to turn the intensifying competition for mobile capital to their advantage and thereby reflate their profits and power at the expense of the rest of the system. Over time, however, financial expansions have promoted the geographic relocation of the centers of capital accumulation by rerouting surplus capital to states and regions capable of ensuring a more secure and profitable spatial-temporal fix to the overaccumulation crisis. Previously dominant centers have thus been faced with the Sisyphean task of containing forces that keep rolling forth with ever renewed strength."*

A study by PriceWaterhouseCoopers (2006) forecasts that in the year 2050 the Chinese economy will be almost as large as that of the United States in dollar terms with India which has been the fastest growing in economy in recent years the third largest. They predict Brazil's economy in 2050 to be as large as Japan's, the Indonesian and Mexican economies to be larger than those of the U.K. and Germany, and expect the `E7' (Brazil, China, India, Indonesia, Mexico, Russia and Turkey) to be around 25 percent larger than the current G7 – and to be driving the growth of the global economy. Whatever one may think of the details of such projections there is little doubt that momentous changes in relative nation state economic standing are in the offing. The questions of ownership claims and financial assets at mid century is another question. Looking at today's outsized rentier claims (Epstein and Jayadev, 2005) of Dutch and British capital one suspects that the position of large asset holders domiciled in the United States in mid century may be impressive. The relative decline of the territorial United States economy is likely to be accompanied by the continued prosperity of the top ten percent of the US income distribution, and within that the top one-tenth of one percent of the population which has in recent years already increased its lead over the rest of the country to record levels (Piketty and Saez, 2006).

Conclusion

Global neoliberalism stimulates a pattern of growth very unlike the postwar social structure of accumulation. It continues to conquer territory in the fast growing export economies of the semi-periphery of the global economy so that while the global neoliberal transformation is transitional it has been the driving force of capital accumulation on a world scale for decades, the space for the continued growth of Anglo-American financial standards, techniques, and institutions penetrate more deeply into other social formations the room for its expansion even after decades of privatization, mergers, acquisitions and leveraged buyouts on the side of industrial reorganization, sale of derivatives of all sorts to hedge against currency and interest fluctuations, securitization, leveraged borrowing, expansion of consumer credit, institutional investing and innovative mortgages still seem substantial.

At the same time it should be recognized that there is potential for systemic crisis in such a world in which leverage and risk may be expending beyond tolerable bounds. Whether such crisis will occur from any of the flash points discussed in this paper is unknowable. Regulators are active consolidating protective measures for a borderless world even as market players move the frontiers of financial market innovation (Geithner, McCarthy and Nazareth, 2006:19). The growth of financialization continues basically unimpeded, deepening and widening on a world scale. Importantly, given existing constraints and incentives, foreigners are investing globally through the agency of US-based financial institutions and transnational corporations, and earning good returns for doing so. The amount of capital coming into the country is two times the current account deficit of the United States. The rest is going out again. The continuation of such flows rests on US structural power in the international political economy, confidence in the value of the US dollar, and the capacity of the debt-driven US economy to continue to be a motor of a global economy. Along such lines some economists embrace what has come to be known as the Bretton Woods II perspective which asserts that both debtors and creditors have a vested interest in preventing the dollar from losing value. American demand for goods and services paid for with borrowed funds coincides with the interests of exporters and investors. The U.S. thus absorbs savings generated elsewhere, provides markets for other countries, and channels global investments through the mediating role of American financial institutions and transnational corporations. In such a view imbalances are likely to persist for some time and will be resolved with a smooth adjustment in interest and exchange rates (Dooley, Folkerts-Landau and Garber, 2006).

While one would hope for such a benign outcome a dangerous high stakes game being played. Assuming it can be sustained, the U.S. will continue to benefit from the overvalued dollar and its stunning capital account surplus. The costs of addressing this imbalance would be great for other countries. It is this which gives those who hold to the Bretton Woods II perspective the sense that the current situation can be prolonged into the middle term. But the strains are showing and systemic breakdown is feared by others. Failure to develop a coordinated strategy to deal with the problem as Charles Dallara, managing director of the influential Institute for International Economics suggests, is to “roll the dice and to leave it to the markets to reduce global imbalances” (Guga, 2006:4). The manner in which markets might do this could prove harsh. In the longer run as US structural power weakens relatively to its creditors it is to be expected that even in the absence of severe crisis the U.S. will not be able to maintain its exorbitant privileges.

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PART FOUR: BRAZIL

10. DIGITAL MIGRATION AND REGULATION OF THE VIRTUAL STRUCTURES OF ACCUMULATION IN BRAZIL, *Hindenburgo Francisco Pires[95].*

A quick introduction to the theme

I am presently working in the field of "Cyberspace and Information Society", which became a new field of study of Geography and is part of the line of research in "Globalization, Public Policies and Territorial Restructuring" of the post-graduate course in Geography of Rio de Janeiro State University – UERJ. I have been developing a research project in this field about "Virtual Structures of Accumulation and Cyberspace", which is financed by the Carlos Chagas Filho Foundation for Research Aid of the state of Rio de Janeiro – FAPERJ.

In three years, this area of knowledge, in Rio de Janeiro State University's Geography Department, has already produced two master's degree dissertations. These studies in light of the theory of social structures of accumulation reinforce and expand cyberspace studies[96].

This study is divided into three parts:

1. the first part deals with the "Territorial Formation of Virtual Structures of Accumulation and Cyberspace";
2. the second part examines the "Regulation and Institutionalization the Internet and of Electronic Commerce Relations";
3. the third part analyzes "Regional Governance and the Reterritorialization of Virtual Structures of Accumulation in 'Financial' Capitalism".

Territorial Formation of Virtual Structures of Accumulation and Cyberspace

From a geographical perspective, this study intends to contribute to reflection upon the phenomenology of the territorial formation of virtual structures of accumulation in light of the Theory of Social Structures of Accumulation - SSA (Kotz; Mcdonough; Reich, et al. 1994).

Important efforts, seeking to reveal the spatial dimension contained in Marx's accumulation theory, emerged in the field of geographical science in the mid-70s. The merit of these studies was to reveal and explain how capitalist accumulation engenders spatial structures and, in turn, how these structures can impel and reinforce the

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[96] As is the case of the following works:

Carvalho, Ronaldo Pimenta de. - *Redes Acadêmicas e a Morfogênese do Ciberespaço Fluminense: a RedeRio de Computadores*, Rio de Janeiro, Instituto de Geografia/UERJ, 2006, p.170.

Girão, Cecília Silva. Porto Digital do Bairro do Recife - *Uma ilha de riqueza em um oceano de pobreza: Um Estudo de Caso das Estruturas Virtuais de Acumulação no Brasil*, Rio de Janeiro, Instituto de Geografia/UERJ, 2005, p.319.

contradictory expansion of capitalism (Harvey, 2005[97]). The spatial structures of accumulation are the results of the SSAs.

Also according to this premise, the spatial processes of concentration, agglomeration and conglomeration, which so characterize the contemporary urban phenomenon, are almost always historically impelled by capitalist accumulation.

The essential, requisite conditions that unleash capitalist accumulation are: a) a growing supply of material and immaterial work (Gorz, 2005; Lazzarato & Negri, 2001[98]), reasonably adapted to the technological standard of the expansive capital cycle (Goldstein, 1988); b) spatial concentration of means of production, of productive network infrastructure and of financial selective investment (Gordon, 1994); c) a market to absorb growing quantities of new merchandise or to expand the demand for tangible or intangible goods. The spatialization of these structural conditions can influence and reverberate in the growth of capitalism.

Overcoming distances, destroying spatial barriers, reducing the time of capital circulation and increasing the speed and scale of markets are the main fundaments of capitalist accumulation.

Networks and their technical composition play an important role in territorial integration, for they allow for the transport of material, energy or information (Santos, 1996).

Networks, as infrastructures of capitalist accumulation (waterways, railways, highways, telephony, underwater cable, "infoways", etc.), reflect technological (Reich, 1994) and geographical investment standards required by the different forms of capital (commercial, mercantile, industrial, financial and informational). These networks possess a morphology whose design can reveal: a) the scale of digital division and the global connectivity (fig. 1[99]); b) the urban hierarchy and the power of dominion of its territories (Smith & Timberlake, 2002); c) the concentration of the social knowledge or economy of knowledge (Gorz, 2005) [100].

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97 In the 70s, David Harvey produced a collection of articles with the goal of revealing the spatial dimension contained in Marx's theory of accumulation. This collection was published by the *New Left* Review and republished in 2005 under the title *Geography of Capitalist Accumulation.*

98 According to Gorz (2005:15), "Simple abstract work, which was considered to be a source of value since the time of Adam Smith, is now substituted by complex work. The work of material production, measured in product units per time units, is substituted by immaterial work, to which classical standards of measurement can no longer apply." Meanwhile, for Lazzarato & Negri (2001:45): "All of these characteristics of the post-industrial economy (present in industry as well as in outsourcing) are accentuated in the form of "immaterial" production, properly speaking. Audiovisual production, publicity, fashion, software production, territorial management, etc., are defined by the particular relation that production maintains with its market and its consumers".

99 See the attached figures.

100 Gorz argues (2005:29): "If it were not a metaphor, the expression 'economy of knowledge' signifies important setbacks for the economic system" (…). "It also indicates that the trade value of goods, whether or not material, in the final analysis is no longer determined by the quantity of general social work that they contain, but, principally, by their content of knowledge, information and general intelligence. The latter (and no longer abstract social work measurable according to one sole standard) becomes the main social substance common to

Spatial structures in networks have a mediative or virtual link with the dynamics of accumulation, for these spatial structures can play an important role in reducing the time taken for capital returns. The landscape and territory are altered and modeled by the engineering structures of the hegemonic technological standard, which imposes unequal temporalities and rhythms upon them.

Digital networks are organized by differentiated geographical standards hierarchically articulated by international satellites and super information highways (Abilene - fig. 3, Aarnet - fig. 4, Alice - fig. 5, Clara - fig. 6, Ampath - fig. 7, Géant - fig. 8, Eumed - fig. 9, Cernet - fig. 10, Janet and Linx- fig. 11, Saix - fig. 12[101], TEIN2 - fig. 13, etc.). These super "infoways", interconnected by satellites, combine elements and devices of creation (art), production, commercialization, communication, simulation and knowledge, and form a quasi-embryo of "collective intelligence" (Levy, 1994), cyberspace[102] (fig. 14).

The study of cyberspace through the eyes of geography is a recent effort that has been expanding and consolidating itself rapidly, impelled mainly by the necessity of establishing ontological and conceptual bases that explain and elucidate how this network structure affects territorial dynamics and, through the internet, influences the growth of electronic services and activities.

Within this perspective, it has also been important to investigate how the consolidation of two important processes characteristic of the expansion and development of cyberspace – digital migration, designated as a "new colonialism" (Vilches, 2003), and digital division, represented by the scenario of unequal access to the internet (Castells, 2003) – makes possible the reconfiguration of social, economic and political activities in territorial structures of accumulation.

Cyberspace as a Virtual Structure of Accumulation

Cyberspace, a term coined by William Gibson in 1984, was often confused, through common sense, with the internet, or has been improperly treated as a virtual "dimension" whose nature is "non-territorial", "post-organic" or "immaterial space", occasioning innumerous equivocations, mythifications and imprecision. The fetishism of cyberspace is the

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all goods. It becomes the main source of value and profit, and, as such, according to various authors, the main form of work and of capital".

[101] To confer the Africa map of Internet host in: http://demiurge.wn.apc.org/africa/afrmain.htm

[102] According to The Opte Project, the symbolic map of cyberspace, designed in 2003, reveals more than 5 million borders and almost 50 million spots distributed according to the following color distribution (In: http://www.opte.org/):

Pacific Asia – in Red
Europe/Middle East/Central Asia /Africa – in Green
North America – in Blue
South America and the Caribbean – in Yellow
RFC1918 IP's – in Gray
Unrecognized spots – in White

opposition between the representation, from viewpoints, and that which is represented, as SSA.

Seeking to demythify common sense's consecrated use of the term cyberspace; Koepsell (2004) affirms that these incorrect notions originate from ontological questions pertaining to all phenomena mediated by computer technology, suggesting that the term "cyberspace" refers to the set of transactions of information and commutations that occur within and between computers by way of these commutations. E-mail exists and moves through cyberspace. Computer programs exist and function in cyberspace. Virtual reality exists and occupies cyberspace. Financial transactions occur with growing frequency in cyberspace.

Using a philosophical approach, Koepsell (2004) seeks to derive the concept of cyberspace from a perspective originating from a formulation elaborated within the discipline of ontology, without, however, dialoging with thoughts produced by the debate over the theme within the scope of geography and economics.

Geographical science has also been making efforts to elucidate and demythify all ideology producing attempts to dissimulate the "nature" of cyberspace.

Cyberspace is treated, in this study, as "techno space" (Turco, 2002), that is, as territory articulated and structured by the primacy of its technological networks and of its SSAs.

Cyberspace is no longer a "public space" eminently made up of academic networks, and has transformed itself into a virtual structure of accumulation subsumed by digital migration.

The imperative of cyberspace and of the digital age is an irreversible fact. The growth of electronic commerce and the trade of tangible and intangible goods over the internet reveal this tendency.

Regulation and Institutionalization of the Internet and Electronic Commerce Relations

Seeking to sketch a brief history of the constitution of cyberspace and of virtual structures of accumulation in Brazil, some recent studies point out that they were structured in two large phases: academic and commercial (Stanton, 1993, 2004; Filippo & Sztajnberg, 1996; Pires, 2005).

The first initiatives to create the network and the infrastructure necessary for the development of cyberspace in Brazil were undertaken by non-commercial public institutions, mainly composed of university and research institutions, namely: the National Laboratory of Scientific Computation (LNCC) in Rio de Janeiro, the Sao Paulo State Research Aid Foundation (FAPESP) and the Federal University of Rio de Janeiro (UFRJ). The principal justification for these initiatives was to perfect the atmosphere of integration and intra-institutional articulation to the global networks, mainly those of American universities, in such a way as to make it capable of promoting and expanding scientific exchange and collaboration by the use of advanced technologies of information and communication (TIC's).

Within this perspective, in September 1988, the National Laboratory of Scientific Computation (LNCC) in Rio de Janeiro – previously pertaining to the National Council of Scientific and Technological Development (CNPq) and presently subordinate to the Brazilian Ministry of Science and Technology – was responsible for the initiative of establishing the Brazilian scientific institutions' first connection to the BITNET network through the University of Maryland at College Park, using a 9,600 bps connection. In November of the same year, the Sao Paulo State Research Aid Foundation (FAPESP) provided the BITNET and HEPNET networks with a second connection, hooked up to the Fermi National Laboratory in Chicago at 4,800 bps; this connection served university and research institutions maintained by the state government. In May 1989, UFRJ undertook a third connection to access the Bitnet through UCLA in Los Angeles, connecting itself in a similar manner at 4,800 bps (Stanton, 1993).

During this same period, the Brazilian Ministry of Science and Technology (MCT) created a task force whose goal was the formulation of a plan for the construction of a national academic network, which would be responsible for the management and planning of Brazilian cyberspace. In this direction, already in 1989, the MCT (SEI), CNPq and FINEP formulated the project, setting up the National Research Network (RPN), which had the support of the most important state research aid institutions: FAPERJ – Rio de Janeiro State Research Aid Foundation; FAPESP – São Paulo State Research Aid Foundation; and FAPERGS – Rio Grande do Sul State Research Aid Foundation. However, only in 1990 was the RNP formally launched.

In the early 90s, besides offering courses in utilization of the BITNET and the Virtual Machine (VM) on IBM terminals, the CNPQ, through the LNCC, at Praia Vermelha, in Rio de Janeiro, permitted its researchers dial-up access to this network, soon after the standardization and use of TCP/IP internet protocols, already commonly disseminated in PC's that used operational systems based on UNIX, Macs or Windows 3.1.

The first morphological representation of cyberspace in Brazil, elaborated by Michael Stanton in 1993, reveals topology mainly made up of university and research institutions.

The structural design of the national network in 1991 was morphologically based on the model furnished by the National Science Foundation (NSFNET) of the United States; within this perspective, the backbone of Brazilian cyberspace was structured on four levels of solidarity: global, national, regional and local or institutional (Santos, 1996). The global level is maintained with the collaboration of large international research centers. The Brazilian federal government was an important agent responsible for maintaining the backbone through one internet connection distributed among the states. The state governments collaborated to promote the connection of the institutions of their own regions. At a local or institutional level, the universities and research centers were responsible for the costs of and access to the existing networks on their campuses.

The territorial implantation and consolidation of the Brazilian cyberspace structure occurred officially soon after Eco'92, when the RNP, the CNPq and the state research aid foundations inaugurated the national spinal column, or backbone, founding it in the states of Rio de Janeiro and São Paulo, through the networks:

1. Rio Computer Network (Rede Rio), composed of the LNCC, UFRJ and PUC-Rio. Rede Rio resulted from academic interchange programs and research established between the Federal University of Rio de Janeiro (UFRJ) and the

University of California at Los Angeles (UCLA) in the late 80s. Rede Rio was officially inaugurated in May of 1992 with an initial investment by FAPERJ of 300 million dollars <http://www.rnp.br/ noticias/2003/not-030923b.html>;

2. Academic Network of São Paulo (ANSP), maintained by FAPESP and by Fermilab - Fermi National Accelerator Laboratory.

Originally conceived in 1985, and with an international connection linking UFRJ to CERFNet (California Education and Research Federation Network) in San Diego, California, Rede Rio had almost all of its institutions interconnected at 64 Kbps. This advance in the use of TIC's, based on TCP/IP internet protocols with multi-protocol routers, made it possible to offer this service for commercial use on a regular basis to Telerj (phone company of Rio de Janeiro), known today as Telemar.

In 1992, with international connections between Fapesp and Fermilab, the ANSP gradually expanded this 9,600 bps connection to 64 Kbps. Some universities also began to connect at 64 Kbps, as, for example, the University of São Paulo (USP).

In 1993, the national network's morphology began to have institutional connections greater than 9,600 bps and 64 Kbps. During this period, there was significant growth of other regional academic networks; the National Research Network's (RNP) connections expanded in 1993 beyond the Rio-São Paulo axis; this impulse favored decongestion of the RNP's infrastructure and helped to reduce the digital division that always characterized the development of the territorial structure of cyberspace in Brazil. Support from state governments and research aid foundations were fundamental.

In 1994, with saturation of the 64 Kbps international connections beginning, the RNP planned to upgrade its connections to 2 Mbps between Rio de Janeiro and São Paulo. During this period, with the consolidation and use of TCP/IP internet protocols and with the solution of the problems with digital modems, the dissemination of the culture of services (such as e-mail, ftp, gopher, news WWW (Lynx) and of dial-up connections, it had become rather popular in the academic circles. Besides RNP, there was prosperity for other non-commercial networks, such as the:

- Ibase/AlterNex, of the APC network;
- amateur radio community network;
- Bulletin Board Systems networks (the Brazilian BBS's);
- National Package Network (RENPAC), operated by Embratel, which became the main network infrastructure to reach cities in the interior and became the embryo of commercial internet in Brazil;
- Telebrás X.25 operator networks, which offered e-mail services (Filippo & Sztajnberg, 1996).

The commercial supply of internet services in Brazil was taking its first steps.

In 1995, with the network's speed increased to 2 Mbps, the RNP began to act not only as an academic network, but also as a network with services and activities of a private and commercial nature. During this same period, the Brazilian federal government, under President Fernando Henrique Cardoso, through the Ministries of Communication and of Science and Technology (MC and MCT), established the Internet Management Commission

(CG) by way of Interministerial Act #147, which became a judicial device for regulation and privatization of the internet in Brazil.

Besides regulating the functioning and the providing of commercial and private internet services to the public in general, the main duties of the CG were to:

a) aid the development of internet services in Brazil;
b) recommend technical and operational standards and procedures for the internet in Brazil;
c) coordinate the allocation of internet addresses, the registry of dominion names, and the interconnection of backbones;
d) collect, organize and disseminate information about internet services.

In 1996, the BITNET network, with a speed of 9,600 bps, was gradually dismantled. The national computer network gave up being a predominantly academic network and went on to definitively become a network that offers services and activities of a private and commercial nature.

The commercial expansion of services and of access to cyberspace and to the internet favored the growth of innumerous economic activities and of the number of internauts in Brazil, and transformed Brazilian cyberspace into a large virtual structure of accumulation. The maturity reached by Brazilian electronic commerce on the internet well reveals the strength of this market, which was able to move 1.8 billion *reais* (840 million dollars) in 2004 and 2.3 billion *reais* (1 billion dollars) in early 2005 <http://www.e-commerce.org.br/STATS.htm>.

According to the Internet Telecommunication Union, from 1996 to 2001 the number of inhabitants connected to the internet in Brazil rose from 170 thousand to 11.9 million, or 6.84% of the Brazilian population.

In 1999, Brazil possessed 77% of all persons with access to the internet in South America (NUA, 2002). During this same period, Brazil was in twelfth place in the world ranking of numbers of hosts – computers with an active internet address – and tenth place in regard to the number of inhabitants connected to the internet, a total of 6.79 million persons, which is only 4% of the Brazilian population. By 2002, this number was already greater than 8%. Data furnished by the Brazilian Treasury confirm this number and reveal that the number of income tax returns (IRPF) filed via internet increased from 706 thousand, in 1997, to more than 14 million in 2002; this growth was due to the extraordinary increase in the speed of and of the services offered on the internet.

In 2004, the maximum speed reached by informational flows between the two largest metropolitan regions in Brazil was 622 Mbps, but by 2007 this speed could reach a high of 10 Gbps (RNP - fig. 15) with the implantation of Project Giga Net (fig. 16), which is presently in the experimental phase (Santoro, 2004).

Implantation of Project Giga Net will extend to eight universities and nine research and development centers along the Rio-São Paulo axis.

Seeking to identify the territorial paradigm that subscribes the material expression of the leading sector in the region, the virtual structures of accumulation (Pires, 2004), it can be observed that, in light of the dispersion of the information age’s economic activities, cities have acquired new forms of composition of capital and of centrality, associated with new arrangements in the management and operational command of their activities on a planetary scale.

Electronic commerce represents one of the most important pieces of evidence of digital migration; at the present time, its existence as an economic activity is the result of the purchase and the exchange of goods (tangible and intangible) on the internet. Electronic commerce is the fruit of the intensive and combined utilization of informational and communications technologies. Stated simply, electronic commerce can be defined as *the purchase and sale of products and goods on the internet* (Neto, 2003).

According to Takahashi (2000), since 1999, Brazil has been the leader in Latin America's electronic commerce market, having transacted 450 million US dollars, which represent close to 88% of the total value of all electronic transactions made by Latin American countries during that period.

The process of judicial regulation of commercial and trade relations on the internet constitutes an important mechanism for the control and normative management of flows, for it contributes to the strategic repositioning of the Brazilian states faced with the expansion of electronic commerce, beginning with the creation of mechanisms of regulation and institutionalization of activities generated by the development of the digital economy, influenced by the "techno-economic paradigm" and based upon the financialized regime of capital globalization (Chesnais, 1997).

In this age of informational and communications technologies, the financial sector is having "a love affair with the technological revolution", as Carlota Perez put it. In Brazil, the financial sector, through the process of banking automation (Pires, 1997; Pires, 2001) was responsible for the introduction of the most important technological innovations, mainly in the area of informational and communications technologies.

This perspective of normative necessity is emphasized by the State due to the fragility of national markets faced with the onslaught of global entities that operate through the digital paradigm of accumulation or, in other words, under the protection of the virtual structures of accumulation.

The implantation of instruments that regulate electronic commerce in Brazil occurred when the Electronic Commerce Executive Committee was instated in August of 2001. At that moment, this committee had been oriented to act through resolutions, technical recommendations and other appropriate devices for the regulation and definition of the management processes of this new field of the economy. In February of 2005, through the initiative of the ministries of Development, of Science and Technology, and of Planning, the Electronic Commerce Executive Committee improved its field of action and also went on to conceive actions focused on the promotion and dissemination of electronic commerce.

Presently, the Electronic Commerce Executive Committee's priority is to define public policies in four large task areas: territorial limit lines, digital inclusion, exportation, and industrial, technological and external commerce policies.

As the years passed, the Electronic Commerce Executive Committee elaborated and catalogued a data bank with more than 230 records of the most diverse statistics on topics that encompass: e-commerce, information science, internauts, the internet, markets, telecommunications and innovation (Cf. http://ce.mdic.gov.br/estatisticas/ page accessed in August of 2005)

According to the Electronic Commerce Executive Committee, by August of 2005, the number of providers of products and services for electronic commerce, electronic government and information technologies already amounted to 393 licensed businesses, which employ 61,777 employees. The work force employed by these firms demonstrates a high level of education: 613 have doctorate degrees, 4,962 have masters' degrees and 40,570 are graduates with a superior level of knowledge in diverse areas (Cf. http://ce.desenvolvimento.gov.br/e-tools/ page accessed in August of 2005).

From 2001 to 2005, electronic commerce in Brazil increased from 549 million to 2.3 billion *reais* , and the use of the internet in financial activities grew, in volume of transactions, from 3.7% in 2000 to 13% in 2004 (*Valor Econômico*, 2005). In 2003, the majority of these transactions was made by 48% of the internauts.

Brazil has a quite impressive number of internet users within the context of South America. There are approximately 19.2 million internauts (Pires, 2004b), which constitute a valuable and important segment of the e-commerce market of this region. According to a survey conducted by Ibope in 2005, among persons over 16 that navigate the internet in Brazil (28 million people), 56.5% effectuate at least one price consultation on the net. The number of on-line consumers went from a little over 2.5 million in early 2004, to 3.25 million by the end of the same year (Felipini, 2005).

Regional Governance and Reterritorialization of Virtual Structures of Accumulation in Financial Capitalism

Internet governance went through three phases: the first phase was in the 60s at the time of the cold war and was marked by military control on the part of the US Defense Department through the ARPANET[103], which had its origins in the earlier Defense Advanced Research Projects Agency (DARPA); the second phase, in the 70s and 80s, was consecrated by scientific-military bias and regulated by academic institutions linked to the National Science Foundation (NSFNET), and it remained controlled by the Internet Assigned Numbers Authority (IANA); the third phase, back in the late 90s, distinguished for its corporate-nature bias, maintained by the Internet Corporation for Assigned Names and Numbers (ICANN), a non-profit organization that inherited its management responsibilities from the IANA network.

With the growth of the internet, ICANN's excessively unilateral corporate bias[104] and its capacity for management began to be questioned (Goldsmith & Wu, 2006;), mainly by European authorities who wanted greater autonomy in the elaboration of public policy proposals for its development.

In the 90s, in contraposition the expansion of the digital division and to the bias of corporate governance produced by the great companies of proprietary software, emerge the

[103] To confer the maps of the historical evolution of ARPANET in: http://som.csudh.edu/cis/lpress/history/arpamaps/

[104] More information to confer in The Internet Governance Project: http://www.internetgovernance.org/

community of free software, a multilateral socialist alternative of the governance in the world wide web, based on the solidary and shared production of free software.

In 2002, the United Nations General Assembly took an important step toward preparing a new model of multilateral governance, organizing two large conferences, the first being held in Geneva in 2003, and the second, in Tunisia in 2005 (Kapur, 2005, CMSI, 2005, Afonso, 2005).

In this sense, it may be stated that the formation of a movement for the formation of regional governance represented a repositioning process for the Brazilian states, faced with the necessity of establishing political mechanisms and common regulatory instruments, with the goal of implementing regional actions that would promote, in an integrated manner, economic and social development, participation, cooperation and the construction of cultural relations among nations.

Since 2004, the Brazilian state has adopted public policies to promote the free software use in the educational institutions and in the administration institutions.

Four factors contributed to the constitution of regional governance among the Brazilian states: digital migration; digital division; expansion of the electronic commerce of tangible and intangible goods; and the globalization of the financial markets.

In the case of cyberspace, regional governance is characterized by the establishment of actions focused on guaranteeing:

- rules for protecting intellectual property;
- the control of and combat against cyber crimes. For example, in Brazil, Law Project #84 of 1999, which regulates the use of data banks and the providing of services through computer networks, has authority over crimes committed in the area of information science;
- norms for defining standards and models of identification of internet users (IP, Domain Name System, etc.);
- policies for the integration and development of technologies;
- measures for establishing universal access and combating digital exclusion;
- development of institutions that can represent common interests and interests of regional markets in United Nations forums.

Since 1993 in Brazil, the federal government has promoted and perfected the politics of Electronic Government consolidation, whose goal was to formulate policies, establish directives, and coordinate and articulate actions aimed at providing services and information to the common citizen, such as:

- electronic income tax declarations and tax payment certificates;
- registry of researchers’ curriculums (*Currículo Lattes*);
- electronic auctions and purchase declarations;
- registration of governmental suppliers;
- accompaniment of judicial processes;
- information about economic and social indicators, etc.

The dispute over the implantation of this virtual structure of accumulation, within the context of extreme digital division, represents a new battle deflagrated by the appropriation, maintenance or reterritorialization (Cocco; Galvão & Silva, 2003) of markets, mainly by late-blooming capitalist countries that are still entering the age of the knowledge economy.

The implantation of the virtual structure of accumulation is in need of institutional changes that favor the development of immaterial capital and the expansion of "financial capitalism".

Conclusions

Virtual structures of accumulation possess a morphology that is the fruit of digital division and represents the historical basis of consolidation of the process of capital investment in space.

The expansion of electronic commerce and its financial operations via internet, which are associated with the establishment of digital division and the intensification of digital migration, constitute a new topical area to be tamed by research in geography and economics.

Could it be that the exhaustion of the model of financialized accumulation based on virtual structures of accumulation is near? Will simulation and virtualization be able to engender a society of knowledge? What will be the limits on or barriers to the expansion of this form of metamorphosed capitalism?

The expansion of free software represents an alternative international effort for the digital inclusion. The economic advantages of the free software model already are recognized.

Presently, there are some contributions that follow a line of investigation that deepens the analysis of the consolidation process of virtual structures of accumulation.

Anexes

Figure 1: Global Research Networking

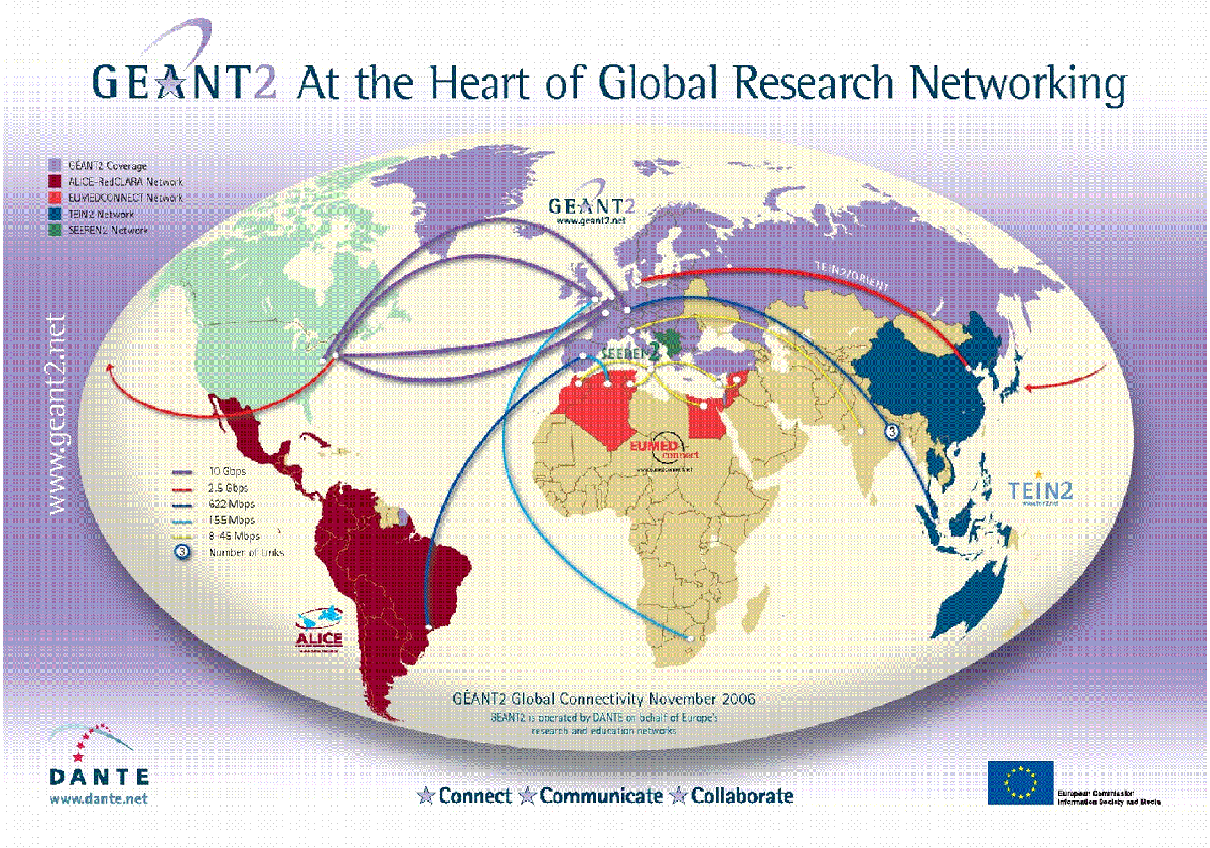


Figure 2: Speed of connectivity

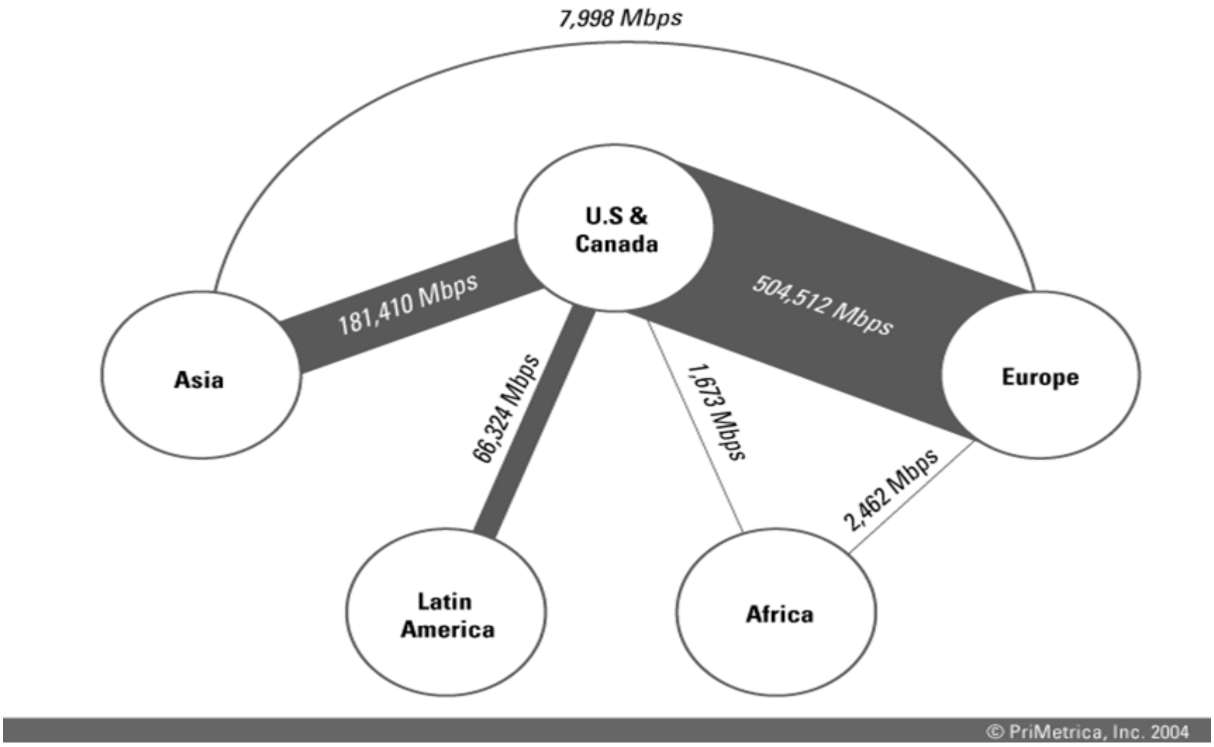


Figure 3: Abile Internacional Network Peers

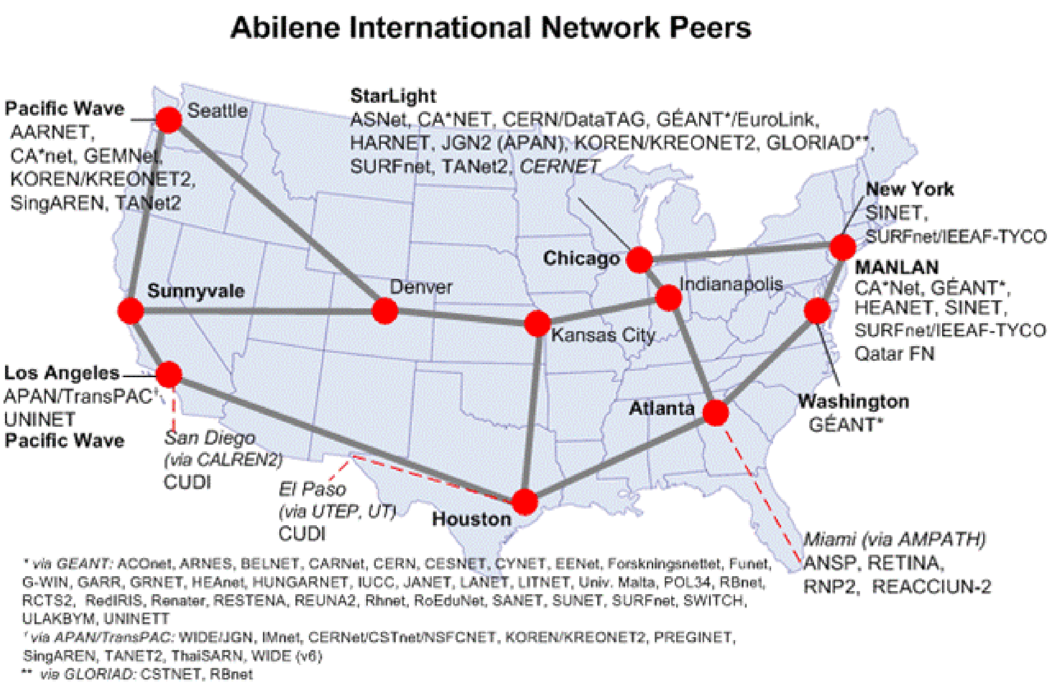


Figure 4:

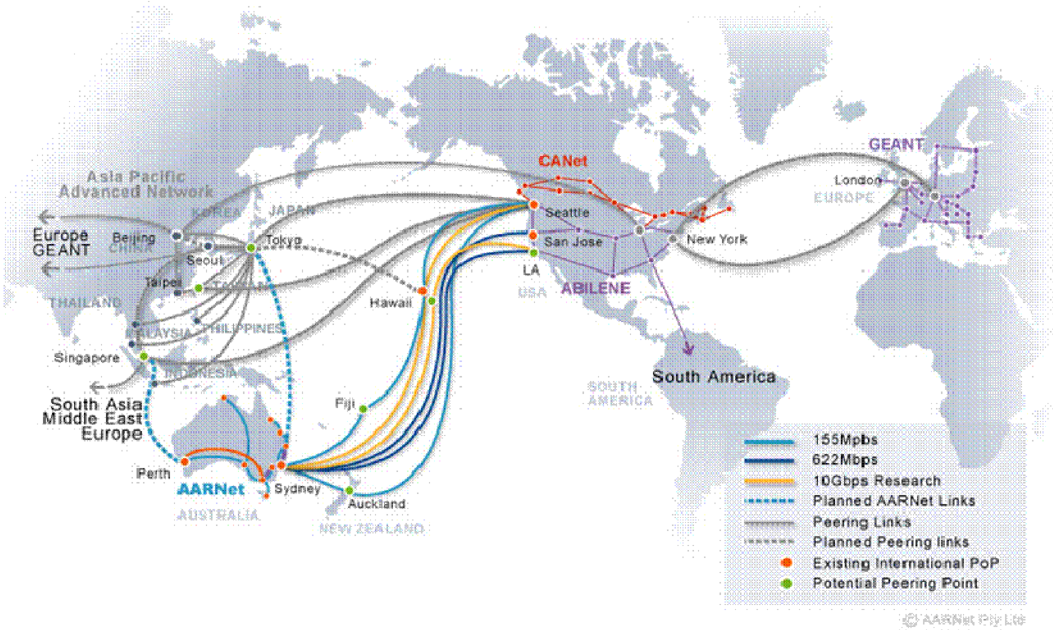

Asia Pacific Advanced Network
Europe GEANT
Beijing
CHINA
KOREA
Seoul
JAPAN
Tokyo
Taipei
TAIWAN
THAILAND
MALAYSIA
PHILIPPINES
Singapore
INDONESIA
South Asia
Middle East
Europe
Perth
AARNet
AUSTRALIA
Sydney
Auckland
NEW ZEALAND
Fiji
Hawaii
CANet
Seattle
San Jose
LA
USA
ABILENE
New York
South America
SOUTH AMERICA
GEANT
London
EUROPE
155Mpbs
622Mbps
10Gbps Research
Planned AARNet Links
Peering Links
Planned Peering links
Existing International PoP
Potential Peering Point
© AARNet Pty Ltd

Figure 5: Latin American Research and Education Network

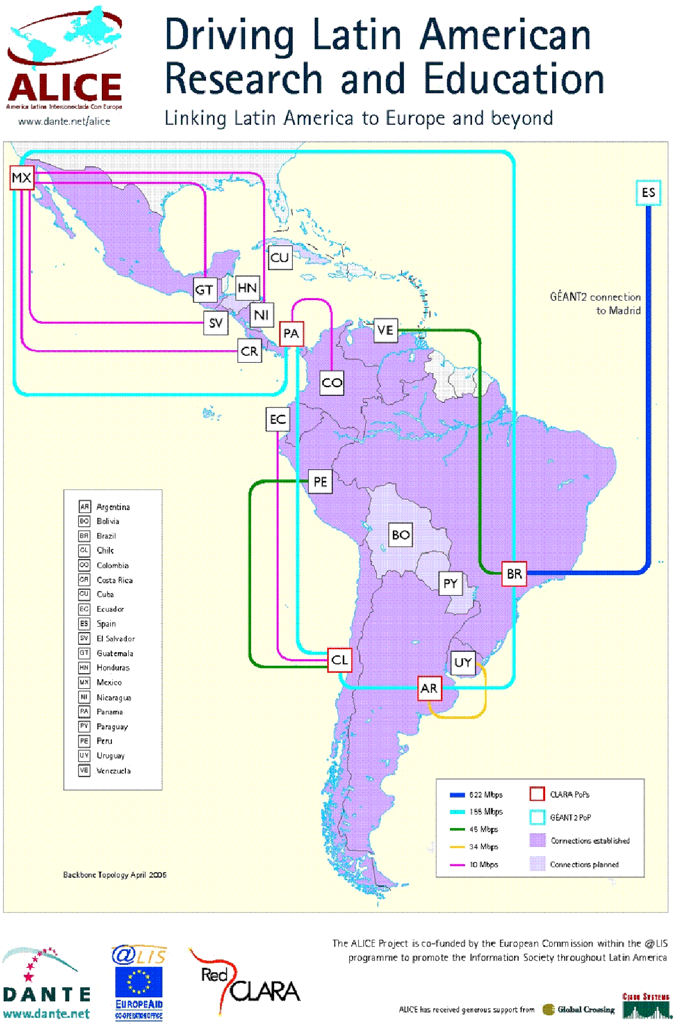


Figure 6: Network connection speed in Latin America

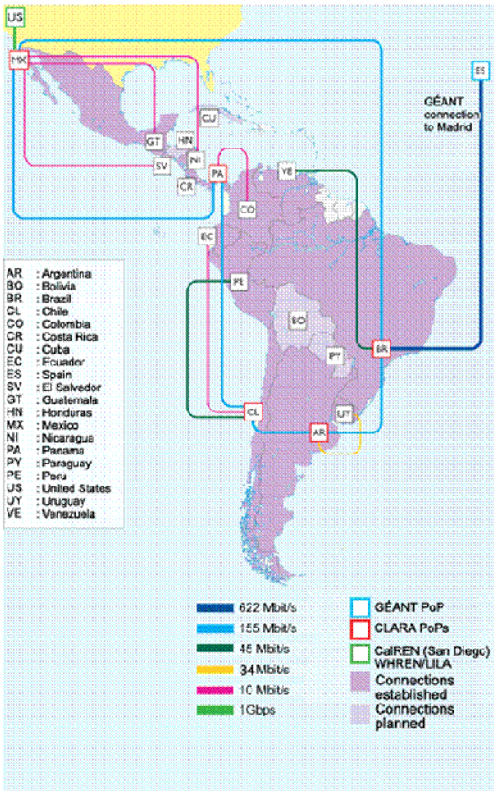


Figure 7: AMPATH network November 2005

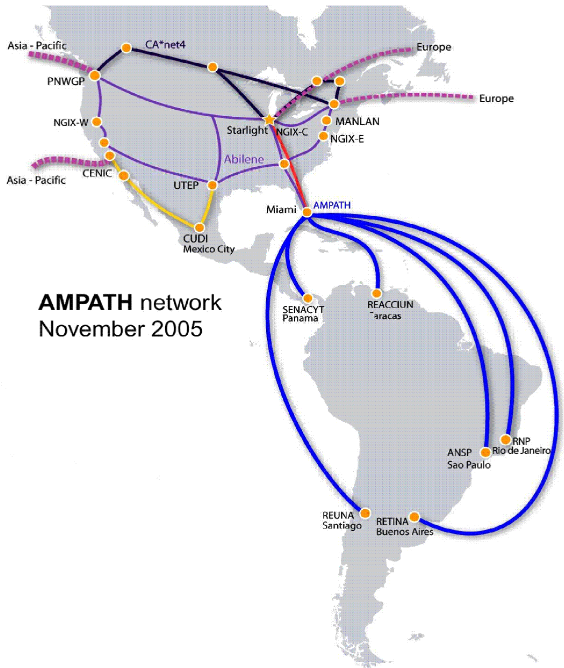


Figure 8: Géant 2: European Research Network and Education

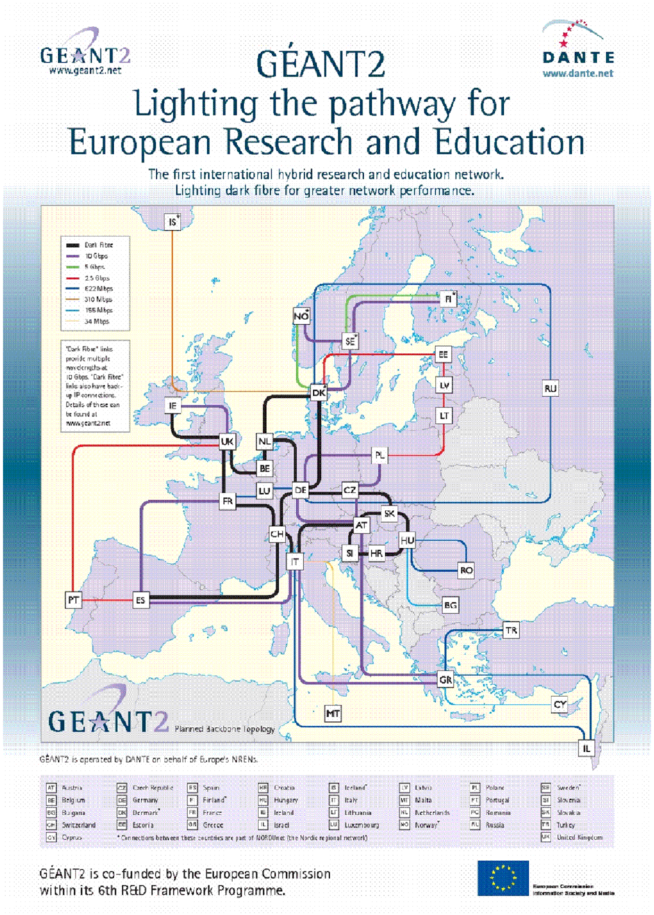


Figure 9: Eumed Connection: Mediterrean research and education network

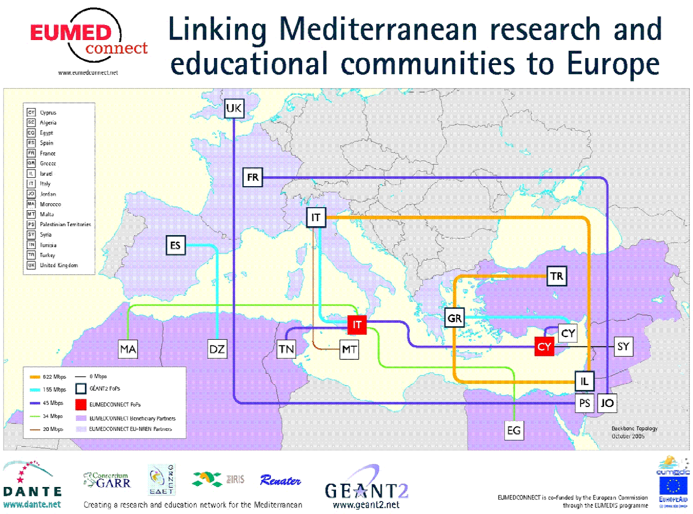


Figure 10: Chinese network

Figure 11: Janet. UK and Ireland

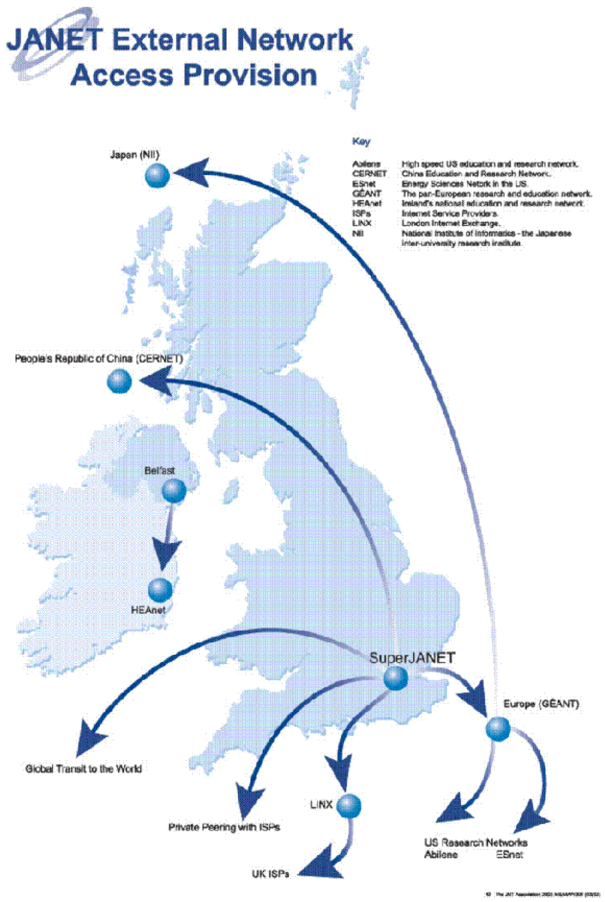


Figure 12: Saix Internacional Topology

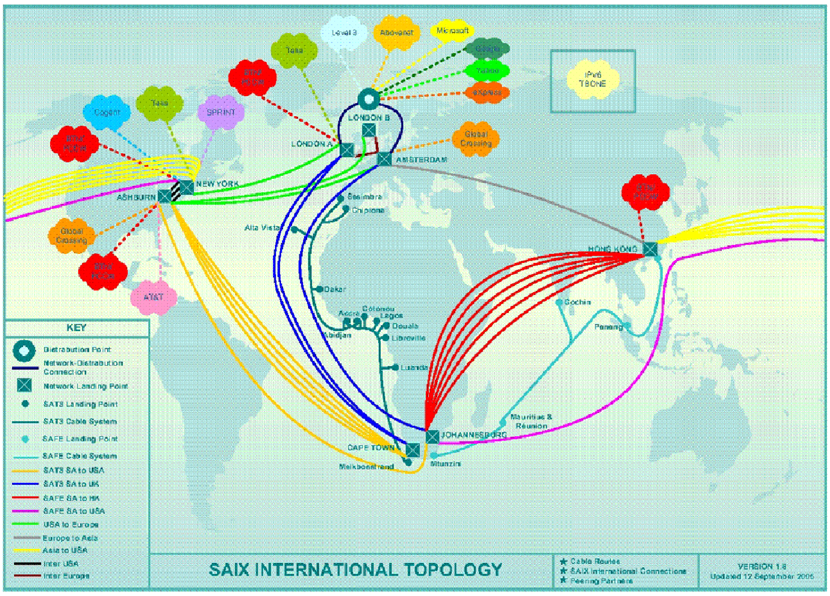


Figure 13: Tein 2: Regional Connectivity for Asia-Pacific Research Education

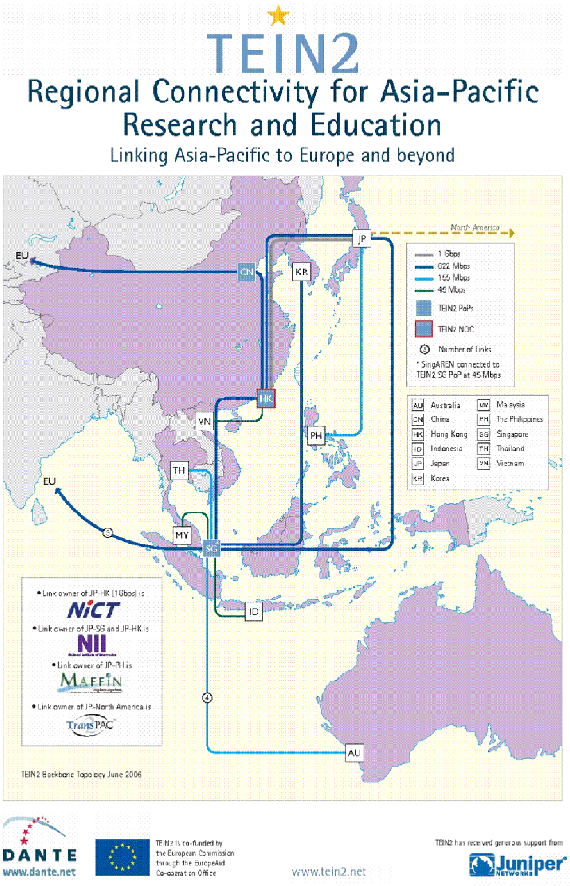


Figure 14: Internet

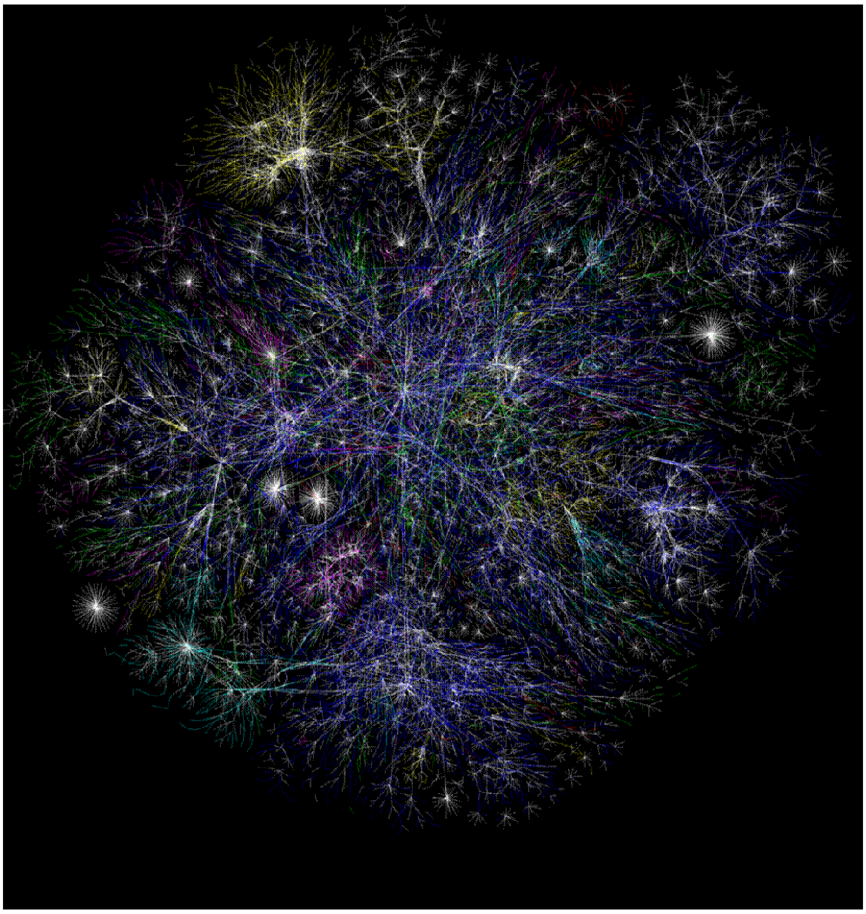


Figure 15: Brazil: Redelpe

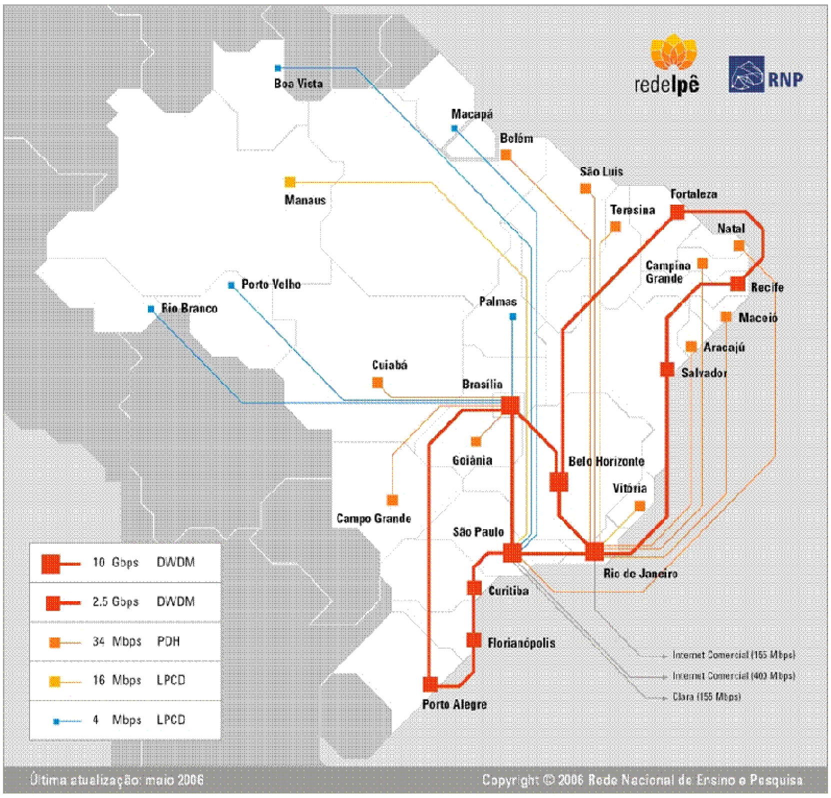
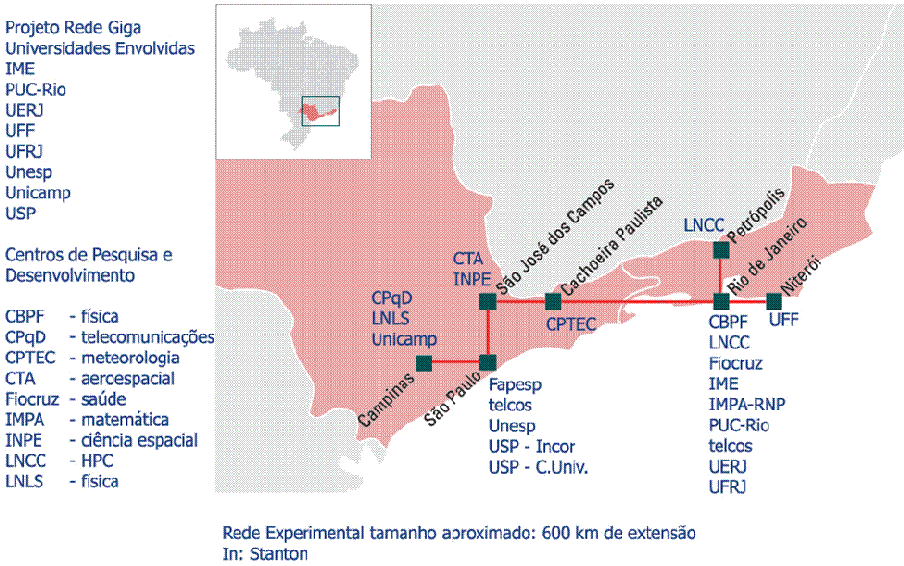


Figure 15: Experimental Research and Education Network in Brazil



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11. LA LOGIQUE DES CRISES FINANCIERS DANS LE CADRE D'UN REGIME D'ACCUMULATION FINANCIARISE: LE CAS SPECIFIQUE DU BRESIL, *Hawa Diawara*[105]

Introduction

Malgré l'application des politiques d'ajustement structurel durant la décennie 80 puis des politiques de libéralisation des marchés durant la décennie 90, un certain nombre de pays en voie de développement dits industrialisés connaissent depuis plusieurs décennies une accentuation de la précarité sur leur marché de travail (flexibilité, informalisation du marché du travail ainsi qu'une hausse considérable des inégalités sociales). Parallèlement à ce processus, la forte croissance « auto-équilibrée » que promettaient les défenseurs du néolibéralisme ne s'est pas produite comme l'attestent les expériences récentes des crises financières qui ont atteint un ensemble de pays émergents tout au long de la décennie 90. C'est le cas, par exemple, du Brésil qui en 1998 connaît, dans un contexte de grande turbulence financière généralisée, une crise de confiance engendrant une sortie brutale des capitaux externes. Ces derniers, en effet, atteignent le montant de 82,564 millions de dollars en Juillet 1998 et chute à -40,14 millions de dollars en novembre 1998. D'autre part, cette sortie brutale des capitaux s'est produite dans un contexte de repli de la production dans le secteur industriel, soit une chute de 17% (en terme réel) entre le troisième trimestre 1998 et le premier trimestre 1999[106].

L'ampleur des crises financières[107] , qu'ont connue un certain nombre d'économies en voie de développement , ainsi que ses effets réels sur l'économie ont alimenté le débat théorique sur les causes et les mécanismes de ces dites crises ainsi que les moyens de s'en prémunir. De façon générale, l'analyse dominante, qui est faite des crises financières, considère l'imperfection des marchés financiers comme la principale source de déséquilibres. L'interprétation qui est privilégiée, dans le domaine académique et parmi les décideurs publics, est de prendre en compte trois grands facteurs susceptibles d'expliquer les crises financières qui ont suivi les politiques de libéralisation: les failles dans la supervision du système bancaire (qui auraient conduit à une expansion élevée du crédit interne et externe en volume et en qualité de risque), les erreurs de gestion dans la conduite de la politique macroéconomique (notamment l'excessive tolérance à l'inflation ou au déficit public) et

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[107] En prenant en considération la structure des marchés financiers, les crises financières peuvent être analysées comme des crises touchant les différents segments de ces marchés ou, de façon générale, les institutions financières. Ainsi, plusieurs types de crises financières peuvent être répertoriées : les crises de change, les crises bancaires (lorsque ces deux crises se produisent simultanément il s'agit alors de « crises jumelles »), les crises boursières...Dans cette analyse, on s'intéressera plus spécifiquement à la crise de change, ou de façon plus générale, à la crise de la balance des paiements qui a touché le Brésil à la fin de la décennie 90. Cette crise a conduit à la mise en place d'un nouveau régime de change (le système de change flexible remplaçant le système de change fixe avec ajustements, le *crawling peg*). D'autre part, compte tenu du fait que les crises financières produisent également des effets réels dans l'économie, on a choisi d'analyser la crise de confiance qu'a connue le Brésil sous l'angle du cycle économique. Selon Keynes, un mouvement cyclique se produit lorsque le système évolue dans une direction ascendante, dans ces conditions « les forces qui l'animent sont à l'origine d'une intensité croissante et s'augmentent cumulativement les unes aux autres mais qu'elles s'épuisent peu à peu jusqu'au moment où elles sont remplacés par des forces dirigées en sens contraire [...] » [J-M Keynes (1969].

enfin, l'erreur dans la propre gestion de la politique de libéralisation (qui aurait dû respecter certaines séquences et être précédée d'un ajustement macroéconomique ainsi que d'un renforcement des mécanismes de supervision bancaire). Au-delà des différentes causes que l'on peut attribuer aux crises financières, il semble cependant se dégager un consensus pour dire que seule une nouvelle architecture financière ou, plus particulièrement, un mécanisme de « supervision bancaire » (réduisant l'imperfection des marchés financiers ou le « risque moral ») permettrait d'amortir les effets des dites crises, ou de « *lisser le cycle* ». Le présupposé théorique implicite de la neutralité de la monnaie, et le renouvellement implicite de l'hypothèse « *d'incohérence temporelle* » (qui fonde les modèles de première génération) à travers le concept de « *risque morale* » conduisent alors à interpréter les dites crises comme *un conflit d'intérêts entre créanciers et débiteurs exigeant une règle de faillite qui ordonne la restructuration des dettes* (J-M. Pereira, 2003). Cependant, cette approche théorique, en occultant les effets macroéconomiques de la politique monétaire (c'est-à-dire son rôle dans l'évolution des déséquilibres macroéconomiques internes et externes) n'est pas en mesure de rendre compte de la spécificité des crises financières dans une économie telle que le Brésil qui se caractérise par une forte dépendance externe de nature financière.

L'objectif de ce papier est d'analyser la spécificité des crises financières dans une économie telle que le Brésil en prenant en considération le rôle des facteurs conjoncturels (notamment l'évolution des anticipations) et des facteurs structurels qui déterminent la nature de la contrainte externe. On s'attache, plus particulièrement, en partant de l'hypothèse d'une régulation monétaire des intérêts [J-M. Pereira (1999)], à analyser la spécificité des crises financières en mettant à jour les interactions entre la politique monétaire, les mécanismes de valorisation rentière du capital et le cycle économique dans le cadre de l'économie Brésilienne. L'hypothèse d'une régulation monétaire des intérêts, part du rejet du principe de neutralité cher aux théoriciens orthodoxes et cherche à dévoiler comment la monnaie, définie en tant que lien social ou « totalité sociale » [M. Aglietta et A. Orléan (1982)], notions déjà présentes chez Marx et Keynes, peut constituer un moyen fondamental de la régulation sociale. Dans le cadre de l'économie brésilienne, cette hypothèse se justifie si l'on reconstitue l'analyse historique du processus d'endettement (ainsi que les mécanismes sociaux et institutionnels implicites) qu'a impliqué un régime de croissance dit « excluant » (puisque reproduisant de façon endogène les inégalités sociales) ainsi que les conséquences de cet endettement en terme de valorisation rentière du capital. Durant le régime de croissance dit de substitution aux importations, l'expansion d'un endettement interne privé (à partir de la décennie 60) puis d'un endettement externe public (à partir de la décennie 70), a permis que s'établisse une adéquation entre un marché de biens durables en pleine expansion et un marché de biens de production. Cependant cette synchronisation donnant lieu à un régime de forte croissance (connu sous le terme de *miracle brésilien*) s'est faite au prix d'une endogénéisation de la contrainte externe, et d'un surendettement externe (favorisé par ailleurs dans un contexte d'expansion des liquidités internationales) qui deviendra, par la suite, le levier d'une valorisation rentière du capital. Avec l'autonomisation de la dette externe [P. Salama (1989)], la politique économique se détache progressivement des objectifs de croissance, et la politique monétaire deviendra l'espace public des enjeux privés. Cette hypothèse permet alors de concevoir le régime monétaire comme un terrain de construction des compromis sociaux [(J. Marques-Pereira), 2005].

Notre hypothèse fondamentale est que le rôle de la politique monétaire repose essentiellement sur la dette publique comme support de la liquidité financière.[108] Les normes financières déterminent les conditions de financement de la dette publique ainsi que sa rentabilité et sa liquidité. La préservation de la liquidité financière rend possible une accumulation rentière du capital, d'une part en viabilisant l'endettement de l'Etat rendu nécessaire dans un contexte d'ajustement externe (cas de la décennie 80, dans le cadre du *Régime monétaire dual*), puis d'autre part, en modifiant les critères d'estimation des agents qui commandent et financent l'investissement (les banques et les entreprises de façon générale). Cette préservation de la liquidité financière accentue également la dépendance financière. En partant de ce cadre analytique implicite, Les crises financières, analysés à travers leurs effets réels (c'est-à-dire sous l'angle du « cycle économique » ou du retournement de la croissance économique) mettent à jour les interactions entre la politique monétaire (dont la gestion est « subordonnée » aux exigences de rentabilité qu'exigent les investisseurs internationaux), l'évolution de la dépendance financière et le retournement des anticipations des marchés financiers. En ce sens elles sont le corollaire d'une valorisation rentière du capital qui s'est développée dans le cadre spécifique d'un régime d'accumulation financiarisé.

En partant de cette méthodologie, ce papier se structure en trois grandes parties. Dans une première partie, on analysera, en partant d'une démarche historique, les facteurs qui sont à l'origine de la perte d'autonomie de la politique monétaire en étudiant le rôle de l'endettement (ainsi que les différent processus sociaux et institutionnels qui accompagnent cet endettement) comme moyen de dépasser les limites d'un régime d'accumulation excluant et de poursuivre l'accumulation du capital ainsi que l'industrialisation de l'économie brésilienne. On montre ainsi que la valorisation rentière du capital tire son origine dans les normes monétaires instituées depuis la décennie 60. On terminera cette partie par une analyse des mécanismes spécifiques de valorisation rentière du capital durant la décennie 80 (sous le régime monétaire dual) et durant la décennie 90 (sous le régime monétaire du Plan Réal) en soulignant le rôle des normes monétaires comme mécanisme de préservation de la rentabilité des titres de la dette publique. Cette analyse historique sur les compromis sociaux que cristallisent les normes monétaires permet alors d'illustrer empiriquement l'hypothèse d'une régulation monétaire des intérêts et de révéler les déterminants structurels de la vulnérabilité externe conduisant aux crises financières. Dans une deuxième partie, on analysera les mécanismes du cycle économique en partant du contexte spécifique de l'économie brésilienne durant la période 1998/1999. Dans une première étape, on fera une analyse critique du texte de J. Lopez (2001), puis, dans une deuxième étape, en mettra à jour les interactions entre la politique monétaire (subordonnée aux intérêts du grand capital financier et bancaire), l'évolution de la vulnérabilité interne et externe ainsi que l'évolution de la confiance des marchés financiers (qui se matérialise à travers leurs anticipations ou ce que l'on peut appeler la « crédibilité externe »). Enfin dans une troisième partie on conclura cette recherche.

Les déterminants structurels de la vulnérabilité externe: de la perte de la souveraineté monétaire à la valorisation rentière du capital

[108] Ce sont les règles monétaires et les conventions financières qui émergent au sein du système monétaire organisé ou du marché financier qui assure la rentabilité et la *liquidité* des titres financiers , c'est-à-dire leur circulation au sein de la société et leur acceptation comme forme particulière de la richesse. En ce sens, la *liquidité financière* n'est pas une propriété intrinsèque de l'actif, mais résulte bien d'une invention institutionnelle [M. Aglietta et A. Orléan (2002)].

L'analyse des mécanismes à la source de la perte d'autonomie de la politique monétaire nécessite de prendre en considération, dans une perspective historique, les interactions entre les facteur internes (liés à la nature et à la dynamique du régime de croissance fondé sur la politique de substitution aux importation) et des facteurs externes (liés à l'évolution de la conjoncture internationale) ainsi qu'au rôle qu'ont joué ces facteurs dans les mécanismes d'endettement de l'économie brésilienne et dans le passage progressif à un processus de « surendettement ».

De l'endettement de l'Etat brésilien à la perte de la souveraineté monétaire

Durant la période de l'après-guerre, le régime de croissance fondé sur la stratégie de substitutions aux importations[109] présentait des limites endogènes à l'accumulation du capital. Ces limites résidaient dans l'inadéquation entre la structure de l'offre productive et celle de la demande industrielle, inadéquation liée au mode de répartition des revenus profondément inégalitaire. En effet, dans un contexte d'inflation chronique, le revenu moyen de la population (y compris celui de la classe moyenne) n'augmentait que très peu, ou insuffisamment pour dynamiser le secteur des biens durables. La stratégie de différenciation des produits[110] (visant à accroître la propension à consommer de la classe moyenne la plus aisée) ne pouvait avoir qu'un impact limité dans le temps. Dans le long terme, le dépassement de ces obstacles endogènes à l'expansion du marché des biens durables et à l'accumulation du capital nécessitait que se mettent en place de nouvelles normes d'accumulation fondées sur un nouveau schéma de financement. L'Etat jouera alors un rôle central dans l'institutionnalisation de nouvelles normes monétaires ou, de façon plus générale, dans la mise en place d'un nouveau régime monétaro-financier[111].

Plus précisément, les réformes monétaires de la période 1964/1970[112] ont permis d'établir les bases institutionnelles au développement d'un marché de crédit extra-bancaire (développement qui conduira par la suite à la mise en place d'une structure de financement interne), puis à la création d'un marché de capitaux et d'une structure de financement externe. Tout d'abord, l'expansion des institutions financières ainsi que l'émission de titres financiers viabiliseront l'endettement de la classe moyenne et donc une hausse de leur pouvoir d'achat

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[109] M. Tavares (1986) rappelle que la politique de substitution aux importations tire son origine dans la grande dépression des années 30, laquelle a engendré un effondrement du secteur exportateur brésilien. L'objectif des autorités publiques était dès lors, à travers une transformation profonde du rôle de l'Etat (c'est-à-dire son intervention dans les secteurs clés de l'économie, et de façon plus spécifique son rôle dans la constitution d'une l'industrie lourde), d'enclencher une dynamique endogène d'accumulation du capital et de poursuivre ainsi l'industrialisation de l'économie. L'Etat, à travers un système de taux de change multiple, pouvait protéger les industries exportatrices et importatrices. Dans une première étape, ce régime de croissance (fondé autour de la politique de substitution aux importations) reposait essentiellement sur la production de biens de consommation non durables, puis, dans une deuxième étape (après la seconde guerre mondiale) elle s'orientera progressivement vers la production de biens de consommation durables (biens d'équipement, machines...)

[110] Cette stratégie de « marketing » qui se fonde sur une intensification de la compétition monopolistique fut utilisée dans les premières années de la décennie 60 et a favorisé l'apparition d'un marché d'occasion répondant aux besoins de la classe moyenne.

[111] En partant d'une vision holiste de la société et de l'hypothèse de différenciation et de complexification des sociétés modernes en ordre de pratiques hétérogènes (l'ordre économique et l'ordre politique), le concept de régime monétaro-financier peut être défini comme : « le résultat de structures organisationnelles et institutionnelles (publiques et privées) qui servent de support à la circulation monétaire et financière, lui conférant une forme de régularité déterminée en fonction des activités économiques, des relations d'Etat-économie et du propre niveau de développement de l'accumulation du capital » [B. THérêt (1992)]

[112] Cependant, il convient de noter qu'en 1964 sera créée la Banque Centrale du Brésil et que seront mis en place les autorités monétaires compétentes pour la régulation de la liquidité bancaire.

et de leur consommation privée. La hausse de la consommation privée de la classe moyenne engendrait l'expansion de la demande interne et, par ce bais, celle du marché des biens durables. De la sorte, l'accumulation du capital pouvait se réaliser, même au prix d'un accroissement des inégalités sociales[113] et d'une sur-exploitation de la force de travail. Pierre Salama (1973) rappelle, par exemple, que durant la période 1949/1959 le salaire moyen de l'industrie augmente de 31% alors que la productivité du travail (dans ce même secteur) croît à un rythme de 102%.

A partir de 1968 commence à se développer le marché des capitaux par le biais d'une réorganisation du secteur financier traditionnel (des banques d'investissement sont créées) et d'une profonde restructuration patrimoniale des entreprises passant par une ouverture de leurs capitaux à la bourse de valeur, ouverture que favorisait, par ailleurs, la politique fiscale de l'Etat. A travers l'émission des titres de la dette publique, les Obligations Réajustables du Trésor National (ORTN) et les Lettres du Trésor National (LTN), la classe sociale disposant d'un niveau de revenu le plus élevé pouvait acquérir des titres mixtes hautement rémunérés et devenir ainsi des « semi-rentiers » dont la consommation participerait à l'expansion du marché interne. L'accumulation des actifs financiers (permise par la restructuration du patrimoine des entreprises) stimulait celle des actifs productifs dans la mesure où elle favorisait une expansion de la demande agrégée, ou plus exactement elle rendait possible une modification de la structure de la demande (tout en préservant la profitabilité des entreprises malgré la hausse de leur coût d'endettement) qui engendrera une expansion du marché des biens durables. Cette expansion pouvait se produire du fait de l'enrichissement de la classe moyenne, ou de la « transformation » de la population la plus aisée en semi-rentiers de la dette publique. En ce sens, l'accumulation financière avait un impact direct sur le processus macroéconomique de l'épargne et de l'investissement.

L'endettement interne d'origine privée permettait de soutenir le processus d'accumulation du capital, du moins dans le court terme, (comme le montre la forte croissance économique qu'à connu le Brésil entre 1965 et 1970) malgré les limites que comporte un régime de croissance inégalitaire ou « à salarisation restreinte ». En effet, dans le long terme, le système financier brésilien commençait à connaître une atrophie liée la croissance du taux d'intérêt, croissance qui s'expliquait par la généralisation des divers mécanismes d'indexation dans un contexte d'accélération graduelle des prix. Ainsi, si la hausse du taux d'intérêt permettait aux détenteurs de titres de la dette publique de percevoir une rente financière confortable, elle pénalisait, par ailleurs les entreprises dans la mesure où la croissance accélérée du taux d'endettement réduisait les perspectives de profit à long terme. Tant que la hausse des coûts financiers pouvait être absorbée par le dynamisme de la croissance économique, l'endettement ne posait pas de problème. Mais dans le long terme le problème d'incapacité du système financier brésilien à répondre à la demande croissante de crédit de long terme ne pouvait être dépassé que par le détournement d'une parcelle

[113] En effet dans un contexte d'indexation des revenus non généralisée (les bas revenus n'étant pas protégés de l'érosion inflationniste) l'accélération des prix permettait que l'endettement de la classe moyenne se transforme en mécanisme d'appropriation de la richesse en faveur de ceux qui disposaient d'une capacité d'épargne effective. M.Tavares (1977) illustre bien ces mécanismes d'accroissement des inégalités sociales à travers des données statistiques montrant l'évolution de la participation relative des différents groupes sociaux (répertoriés en 5 grandes catégories) dans les revenus totaux. Il ressort de cette étude que durant la période 1960/1970, les groupes B1 et B2 représentant respectivement la classe moyenne la plus aisée (quelques professions libérales, hauts fonctionnaires et entreprises de moyenne taille) et la classe moyenne urbaine (les bureaucrates du secteur public et privé ainsi que les petits commerçants) voient leur participation relative augmenter le plus rapidement, au détriment des groupes C (qui représente la classe salarié de base) et le groupe D (composé des travailleurs ruraux , des travailleurs indépendants urbains et des marginaux).

expressive de cette demande de crédit vers l'extérieur. L'endettement public externe devenait alors nécessaire. Elle l'était d'autant plus, qu'une fois passée à la seconde étape de la politique de substitution aux importations (c'est-à-dire une fois passée à la production de biens de consommation durables ou sophistiqués), la poursuite de ce régime de croissance nécessitait d'accroître les importations et donc de recourir à l'épargne externe. Le recours à l'épargne externe (qui débute entre 1971 et 1973), facilité par ailleurs dans un contexte international de sur-liquidité[114], permettra alors de combler l'insuffisance d'épargne publique et privée compte tenu du niveau d'investissement qu'exigeait le maintien d'un taux d'accumulation de capital élevé. Le changement de la structure de la dette (ou plus précisément la hausse de la participation relative de la dette publique d'origine externe dans la dette totale) permettra à l'Etat brésilien de se procurer les ressources financières nécessaires pour financer l'importation de ces intrants de plus en plus sophistiqués, et résoudre ainsi (du moins temporairement) le problème de son déficit récurrent des comptes courants.

C'est donc dans un contexte d'abondance de liquidités internationales que le processus d'endettement trouvera une base d'accélération. Cette accumulation de la dette prendra par la suite une allure exponentielle dans le sillage des bouleversements apportés par la conjoncture internationale. En effet, au tournant de la décennie 80, la montée subite des taux d'intérêt américains, la forte appréciation du dollar et la hausse brutale du prix du pétrole accélèrent le passage d'un processus d'endettement à un processus de « surendettement ». Celui-ci se caractérise par un mécanisme *d'autonomisation* de la dette publique par rapport à la sphère productive [P. Salama, (1989)]. Dans une première étape, la dette pallie l'insuffisance des devises nécessaires pour l'importation des biens d'équipement, et également, dans de nombreux cas, l'insuffisance de l'épargne locale. Ensuite, la dette «s'autonomise» car la relation entre les importations et les biens d'équipement se modifie, le déficit public s'endogénéise: l'augmentation de la dette sert alors à financer le stock de dettes existantes et non plus l'accumulation productive du capital. L'évolution de la structure de la dette devient alors un élément essentiel pour comprendre la dynamique d'endettement : la part de la dette publique (dans la dette totale) contractée à un taux fluctuant est de 22.2% durant la période 1971/73 et passe à 51.8% durant la période 1974/78 pour finir à 64.4% durant la période 1979/1982. [B. Júnior (1988)].

Avec le taux de croissance de la dette s'est progressivement instituée ce que l'on peut appeler *une régulation monétaire* de l'économie : la politique monétaire se détache progressivement des impératifs de croissance économique et devient le terrain d'une valorisation rentière du capital. L'autonomisation de la dette externe que met en évidence P. Salama (1989) témoigne ainsi du phénomène social et politique de la valorisation rentière du capital. L'utilisation excessive de financements externes répondait à un ensemble d'intérêts qui liait le capital bancaire international au capital bancaire domestique [Zíni junior (1982)]. A travers les opérations d'endettement, ces segments du capital réalisaient de substantiels profits, parallèlement à cela le secteur financier domestique pouvait se dispenser de constituer une base de captation de ressources de long terme. D'autre part, l'analyse des transformations du système financier international, dans une perspective historique, est fondamentale pour comprendre les mécanismes implicites à cette valorisation rentière du capital[115]. Celle-ci se

[114] L'accélération de l'endettement des pays en voie de développement a été facilitée par l'abondance de liquidités internationales. Celle-ci était liée à la nécessité de recycler les pétrodollars des pays développés.

[115] En effet, par le biais du développement des euro-marchés, le capital industriel des pays capitalistes trouvera un terrain de valorisation financière en dehors de la sphère productive dans un contexte d'épuisement du régime de croissance fordiste et de baisse tendancielle du taux de profit ou de la rentabilité du capital investi dans

produit lorsque que la monnaie « se transforme » en un actif financier ou autrement dit, lorsque la fonction traditionnelle du crédit telle que l'a décrite J. Shumpeter (1935) (fonction liée au développement des forces productives) se modifie et donne lieu à un processus d'accumulation de type « capital-argent », c'est-à-dire à une accumulation sous la forme *« la plus fétiche »* du capital. La valorisation rentière du capital cause ainsi une rupture dans le schéma classique du cycle du crédit: la *rente*, ou le « *profit financier* », devient alors une retenue sur la plus-value.

La nouvelle orientation de la politique économique autour de l'ajustement externe, qui se met progressivement en place au tournant de la décennie 80, apparaît comme le corollaire du phénomène d'épuisement du régime de croissance excluant. L'exacerbation de la contrainte externe, la persistance des tensions inflationnistes (et sa montée graduelle), et enfin la crise de la dette externe (qui démarre avec le moratoire de septembre 1982), sont autant d'éléments d'ordre économique, qui vont permettre de comprendre le renoncement progressif des dirigeants politiques avec le compromis fondamental articulé autour de l'expansion économique, lequel fut un des piliers de l'époque du *miracle brésilien*. Ce revirement en ce qui concerne les impératifs que devait suivre la politique économique signifiait en réalité « *une perte de souveraineté* » de l'Etat traduisant une nouvelle forme de dépendance: la dépendance d'ordre technologique cédant la place à une dépendance de nature financière. Cette transformation de la nature de la dépense soulève la question de la perte de souveraineté de l'Etat dès lors que *« les compromis sanctionnés par les autorités gouvernementales conditionnent son initiative dans les secteurs clés de la politique économique »*. [M. Tavares et J-C. Assis (1986)]. La nouvelle gestion gouvernementale de la politique économique, au début de la décennie 80, va donc s'articuler autour de l'impératif de l'ajustement récessif préconisé par l'orthodoxie monétaire, conformément aux anticipations des marchés financiers et des banquiers internationaux.

Politique monétaire et mécanismes de valorisation rentière du capital durant la décennie 80

L'entrée à la décennie 80 marque une période de forte instabilité, à la fois sur le plan économique et politique. Le resserrement de la contrainte externe (avec le moratoire de septembre 1982, la rupture brutale des capitaux externes et la hausse subite des taux d'intérêt internationaux) et l'accélération des tensions inflationnistes (ravivées par les deux grandes maxi-dévaluations de 1979 et 1983, et l'inefficacité de la thérapie monétariste dans une économie où les mécanismes d'indexation sont généralisés) vont conduire le Brésil au bord de l'insolvabilité. Cette instabilité macroéconomique produira une forte instabilité politique comme l'attestent les différents gouvernements qui se sont succédée durant cette décennie. Elle a engendré également, par le bais de l'incertitude que génère l'instabilité des taux d'intérêt et le désalignement des indexateurs, une destruction de la confiance des agents privés dans l'intermédiation financière ainsi qu'une préférence croissante pour la liquidité. Dans ce contexte d'incertitude, la mise en place d'une politique d'ajustement externe et, de façon plus spécifique, *d'un régime monétaire dual* permettra de répondre aux nouveaux critères d'estimation des agents (banques et entreprises), en préservant la liquidité financière (c'est-à-dire la rentabilité des titres financiers).

l'industrie. Par la suite, le capital concentré des euro-marchés va « internationaliser » l'économie d'endettement en plaçant les pays débiteurs du tiers-monde « sous la coupe » du capital rentier.

Tout d'abord, dans ce contexte de forte instabilité macroéconomique, la logique de la politique économique interne sera de désigner le secteur public comme devant être « *l'Agent Ponzi* » [L-G. Belluzzo et J-G Almeida (2002], c'est-à-dire l'agent sur lequel devait reposer l'ajustement externe de l'économie. Les responsables de la politique économique de l'époque jugeant alors prioritaire la préservation de la structure patrimoniale des entreprises privées et la restauration de l'équilibre courant des comptes externes pour que l'économie retrouve, de nouveau, le chemin d'une croissance soutenable. Tout d'abord, l'Etat devait s'ajuster en réalisant une politique d'ajustement structurel qui devrait engendrer une baisse de la demande interne et un accroissement des excédents primaires. Par la suite, l'Etat devait réaliser des excédents commerciaux pour rembourser les intérêts de sa dette externe. La réalisation des excédents commerciaux tout au long de la décennie 80 (ces excédents s'expliquaient, d'une part, par la bonne performance des entreprises nationales privées à l'exportation et, d'autre part, par la baisse des importations liée à la politique de contention de la demande interne) présupposait, d'un point de vu macroéconomique, un endettement de l'Etat auprès du secteur exportateur. Cependant, cet endettement de l'Etat ne pouvait se réaliser qu'à la condition que ce dernier parvienne à préserver la confiance des agents privés dans ce contexte de profonde instabilité macro-économique. La mise en place d'un régime monétaire dual[116], institutionnalisant la fragmentation des différentes fonctions de la monnaie dans des instruments distincts (la fonction de réserve de valeur de la monnaie étant préservée par le biais du développement de la monnaie indexée) en assurant la rentabilité et la liquidité des titres financiers, permettait de préserver la confiance monétaire et de viabiliser ainsi l'endettement de l'Etat. La préservation de la liquidité financière (c'est-à-dire le développement de la monnaie indexée ainsi que le raccourcissement des termes de contrat de dette) répondant aux nouveaux critères d'estimation des agents privés, présupposait une « invention institutionnelle » ou un mode de fonctionnement particulier des institutions monétaires. La Banque Centrale devait agir comme une espèce « de caisse » du système financier pour répondre aux désajustements chroniques (excès/rareté) de liquidité qu'un tel système (tourné vers une plus grande préférence pour la liquidité) engendrait. De façon plus spécifique, c'est à travers le mécanisme du *zeragem automático* ou de monétisation de la dette publique fédérale et d'une intervention de la Banque Centrale dans la détermination du taux O*vernight* qu'ont pu être évités les risques financiers liés au développement de la monnaie indexée et au raccourcissement des termes de ces applications, et qu'a pu émerger, dans le cadre du marché financier organisé, un *référentiel* , une norme sociale fixant le « pouvoir d'achat » (ou la valeur) de la monnaie indexée et validant, par ce biais, sa circulation au sein de la société comme forme particulière de la richesse[117].

[116] La dualité du régime monétaire réside dans le fait que circulaient deux types de monnaie dont le pouvoir d'achat évoluait selon une relation opposée dans un contexte d'accélération inflationniste. Il existait une monnaie dont le pouvoir d'achat se détériorait avec l'accélération des prix (il s'agissait des salaire non indexés ou les moyens de paiement M1 de façon générale). Et une autre, la monnaie indexée ou les « quasi-monnaies » qui se distinguait des autres actifs pas seulement par le rendement qu'elle procurait, mais également par son degré élevé de liquidité. Cette spécificité du Régime monétaire et financier brésilien a permis que soit préservée la fonction de réserve de la monnaie, et par ce biais, que soit évité le scénario d'une hyper-inflation classique tels que l'ont décrit A. Orléan et M. Aglietta (1982).

[117] En ce sens, c'est par le biais des *institutions médiatrices* (les institutions monétaires, marchés financiers organisés et banques) que se créent une évaluation socialement reconnue des créances (liquidité financière),c'est-à-dire des règles ou normes bancaires servant de fondement à l'émission de la monnaie privée (liquidité bancaire) afin de rendre les systèmes monétaires plus efficaces (c'est-à-dire plus aptes à faire face à la préférence pour la liquidité des sujets marchands sans pour autant hypothéquer durablement le développement économique). La liquidité d'un bien ou d'un actif désigne alors sa capacité à devenir une forme socialement acceptée de la richesse, c'est-à-dire sa capacité à se faire accepter comme moyen de règlement au sein d'une communauté donnée.

En substance, l'endettement de l'Etat, dans un contexte d'ajustement externe sera le terrain d'une valorisation rentière du capital dans la mesure ou la préservation de la liquidité financière rendra possible la transformation de cet endettement en accumulation de droits sur la richesse réelle par le secteur privé excédentaire (c'est-à-dire les entreprises exportatrices). En ce sens, la *régulation monétaire des intérêts*[118] s'est exprimée durant la décennie 80 par la désignation de l'Etat comme devant être l'Agent Ponzi et par un dédoublement de la crise monétaire en une profonde crise des finances publiques qui a servi de base à une accumulation rentière du capital. Cependant, dans un contexte d'accélération des prix[119] cette régulation monétaire des intérêts s'est également réalisée au dépend de ceux qui ne disposait d'aucun pouvoir sur la fixation des prix relatifs (c'est-à-dire les travailleurs précaires du secteur informel) et qui subissaient par conséquent l'érosion de leur pouvoir d'achat du fait de l'impôt inflationniste.

Politique monétaire et mécanismes de valorisation rentière du capital durant la décennie 90

A la fin de la décennie 80, le régime monétaire dual atteindra ces limites comme l'attestent l'exacerbation du conflit distributif et l'accélération vertigineuse du processus inflationniste. En mars 1990, lorsque F. Collor est élu à la présidence, le taux d'inflation mensuel s'élève à 81%. Progressivement un nouveau régime de politique économique, épousant les préceptes de l'idéologie néolibérale, va être mis en place. En accord avec B. Sallum (2001) et A. Boito (1999) l'émergence et la consolidation de l'idéologie néolibérale au Brésil ainsi que l'adoption, par la suite, du plan Réal peuvent être analysés sous l'angle des transformations liant le pouvoir politique, la société civile et le mode d'insertion internationale des économies nationales.

L'adoption du plan Réal : les différents mécanismes politiques, économiques et institutionnels.

La forte instabilité macroéconomique (crise fiscale de l'Etat, hausse du taux de chômage et accélération des prix) vont généré une profonde crise politique interne. Celle-ci se caractérisera par une remise en cause de l'Etat développementiste de l'Ere Vargas, et par une fragmentation des représentants de l'Etat autour d'intérêts diverses, ce qui conduira à l'effondrement du régime militaire. Cette évolution du rapport de l'Etat à la société (reflet de la crise politique), dans un contexte international particulier[120] favorisra l'émergence d'un

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[118] La prise en compte des effets de la rentabilité des titres financiers sur la stratégie de ceux qui commandent l'investissement, permet de mettre en évidence un mécanisme de financiarisation perverse de l'économie et donc de rendre compte du phénomène de précarisation du marché du travail dans le cadre spécifique du régime monétaire dual. Ce mécanisme de précarisation du marché du travail s'inscrit également dans la logique de cette régulation monétaire des intérêts. Pour une analyse détaillé de ce point, se référer aux travaux de H. Diawara (2006), chapitre 3, p-113.

[119]Comme le soulignent P. Salama et J. Valier (1990) l'accentuation du transfert net de la dette externe (transfert qui conduira à l'exacerbation du conflit distributif), ainsi que l'orientation récessive de la politique économique sont autant de facteurs d'ordre structurel et conjoncturel qui permettent de comprendre le phénomène d'accélération de l'inflation tout au long de la décennie 80.

[120]Différents éléments peuvent caractériser ce nouveau contexte international: la création du G5 (ou groupe des 5 pays les plus industrialisés) en septembre 1985, et la consolidation des associations patronales européennes et nord-américaines autour du projet néolibéral de déréglementation des droits des travailleurs (dans un contexte de baisse tendancielle du taux de profit), ou le déclin idéologique de l'Union Soviétique par exemple (lequel s'inscrit dans le cadre plus global de la crise idéologique du mouvement socialiste et révolutionnaire). D'autre

nouveau projet politique unissant la bourgeoisie industrielle brésilienne [affaiblie politiquement (du fait de la rupture du front populiste) et économiquement (à cause de la crise de la dette externe)] et les grandes banques autour du projet de développement néolibéral. Les grandes banques s'étaient identifiées, bien avant les grandes corporations industrielles, au discours néolibéral. En effet, depuis la période du gouvernement *Figueiredo* (en vigueur de 1979 à 1985), la Fenabran (la Fédération brésilienne des Associations des Banques) défendait l'idée de privatisation et d'ouverture commerciale et, tentait d'intégrer les autres fractions de la bourgeoisie autour de ce programme. Par la suite, l'échec du plan Cruzado (et des autres programmes de stabilisation qui suivront) et l'élection de F. Collor en 1990 à la présidence, vont attiser les désaccords entre la bourgeoisie locale et les économistes développementistes. A partir du milieu de la décennie 80, c'est dans un contexte de crise politique et de remise en cause de l'héritage *varguiste* que le patronat, allié à la classe moyenne et soutenu par les médias, s'organise autour d'une nouvelle orientation politique. Comme le souligne A. Boito (1999), la campagne menée par le patronat ne visait pas à reconstituer le *« vieil Etat »* et sa base de société autocratique, mais bien au contraire, elle s'éloignait du modèle de développement antérieur à travers une vive critique de la politique interventionniste de l'Etat et réclamait une déréglementation des marchés ainsi qu'un meilleur accueil au capital étranger. Cependant, il faudra attendre la mise en place du gouvernement Collor en mars 1990 pour que pénètrent, au sein des institutions de l'Etat, les changements politiques et idéologiques promus par le grand patronat.

Les stratégies libérales mises en place en 1990 (ouverture commerciale et privatisations) ont été soutenues par les forces politiques et les partis majoritaires qui avaient appuyé le gouvernement d'Itamar Franco. Cependant, il faudra attendre l'élection de F-H. Cardoso en 1994 pour que se construise « une formule politique » rassemblant les forces politiques et que la coalition politique se transforme en bloc hégémonique. Cette *« formule politique* », qui se présente sous la forme d'un référentiel stipulant la stabilisation monétaire, sert de fondement à la *légitimité politique* des gouvernements néolibéraux. Les institutions médiatiques ont joué un rôle prépondérant dans la *légitimation* discursive[121] de ce référentiel, lequel a bénéficié d'une grande adhésion populaire. En effet, les médias ont adhéré au discours idéologique le plus libéral et le plus *internationalisant* du nouveau bloc hégémonique, et le président était présenté comme un brillant intellectuel, et un habile réformateur moralement inattaquable. Le lancement du plan Réal, dans un contexte de reprise des flux de capitaux en Amérique Latine, reflète ainsi le résultat d'une solide alliance politique entre le parti social démocrate brésilien (PSDB) et le parti des forces libérales (PFL). Cette alliance fut soutenue par une grande majorité de parlementaires, de bureaucrates et de cadres du pouvoir exécutif, ainsi qu'une partie de la couche moyenne, de la classe populaire et du syndicalisme urbain. Cette consolidation de l'alliance autour du projet du grand patronat (alliance qui représente les intérêts du grand capital bancaire et financier) conduira à l'adoption des politiques de privatisation et de libéralisation financière et commerciale ainsi qu'à la mise en place d'un nouveau programme de stabilisation monétaire : le Plan Réal.

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part, les gouvernements néolibéraux des pays du centre (la Grande Bretagne, via le gouvernement Tatcher, et les Etats-Unis à travers le gouvernement Reagan) ont fait pression pour enclencher la libéralisation du commerce extérieur et la privatisation des entreprises étatiques des pays périphériques.

[121] On s'inspire ici du concept de *légitimation* développé par B. Jobert et F. Muller (1985), pour introduire la notion de *légitimation discursive.* Selon ces auteurs, les politiques de légitimation visent les actions politiques grâce auxquelles un ordre social sera vécu comme plus juste, plus équitable par les membres d'une société donnée. On peut donc faire l'hypothèse que *la légitimation discursive* puise dans la symbolique du discours et du langage pour présenter une action politique (ou une politique économique) comme juste et équitable.

Un certain nombre de données empiriques illustrent ce processus de libéralisation commerciale et financière. Entre 1990 et 1994, par exemple, les barrières tarifaires dans le secteur industriel passeront de 47,9% à 25,2% [R. Carneiro, (2002)]. Tout au long de la décennie 90 un nombre croisant d'entreprises nationales dans les secteurs clés de l'économie (secteur de l'acier, des transports, de télécommunication et de la distribution d'électricité) vont être privatisées. La modification de la législation du système financier favorisera une entrée massive des capitaux. Ces derniers passent de 4, 3 millions de dollars en avril 1993 à 91 millions de dollars en octobre 1996. Enfin, dans ce contexte d'ouverture des marchés, la gestion de la politique monétaire sera particulièrement active afin de rassurer les investisseurs internationaux par rapport à la monnaie nouvellement mise en place, le réal, et d'assurer ainsi l'ancrage du taux de change nominal par un flux abondant de capitaux externe[122].

Ce nouveau régime de politique économique reflète de profonds changements sociaux et institutionnels. Tout d'abord, le régime de concurrence se transforme, d'une part sous l'effet de l'intensification de la concurrence interne et d'autre part du fait de la profonde restructuration du système financier nationale et du renforcement de la structure oligopolistique du grand capital financier et bancaire qu'a engendré la politique de libéralisation financière. D'autre part, avec la consolidation de l'idéologie néolibérale et la libéralisation des marchés, *l'Etat de la périphérie* se transforme également. Les modes d'intervention de l'Etat par rapport à l'économie sont repensés : l'Etat s'adapte au nouvelles normes financières et de compétitivité qu'impose l'ouverture des marchés à travers un processus de *reformulation/réduction* de son mode d'intervention au sein des différents secteur de l'économie. Son rôle est redéfini par rapport au système productif, à travers les processus de privatisation, de fusion et d'acquisition, et par rapport au marché du travail via le processus de flexibilité et de reformulation juridique du droit du travail. Enfin, dans le domaine social (la santé, le logement et l'éducation) son retrait est légitimé à travers le discours de la décentralisation, déconcentration et focalisation des services publics prônés par les gouvernements néolibéraux. Ce qui détermine ce mécanisme de reformulation/réduction des modes d'intervention de l'Etat sont les nouvelles formes de domination[123] qui structurent les intérêts privés et qui reflète d'une certaine façon le phénomène de *nouvelle hiérarchisation* des formes institutionnelles qu'à mentionné R. Boyer (1998). L'ensemble de ces changements institutionnelles vont engendré un processus de désinflation et une profonde restructuration productive renforçant la précarité du marché du travail (se référer au schéma A de l'annexe p-30)

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[122] Le plan Réal mise en place en juillet 1994 était fondé sur le présupposé théorique selon lequel la valeur interne de la monnaie (dont les variations sont reflétées à travers l'inflation) pouvait être déterminée en fonction de sa valeur externe (qui représente le taux de change de la monnaie locale par rapport à la monnaie externe). La baisse de la dette publique nette, le rééquilibrage des comptes externes (permise par le retour des capitaux externes) sont autant de facteurs d'ordre économique qui ont viabilisé l'ancrage du taux de change et restaurer la confiance en la monnaie. C'est sur ces bases qu'a pu être créée, par la suite, une nouvelle monnaie, le Réal (se référer au tableau A de l'annexe p-29 pour une analyse plus détaillée des différents mécanismes économiques ayant favorisé le retour à la confiance monétaire et l'ancrage du taux de change).

[123] La conception de l'économie mondiale que développe Pierre Salama et G. Manthias (1983), économie mondiale qu'ils présentent comme un « *tout hiérarchisé* » en perpétuel mouvement et à partir de laquelle il déduisent la nature de classe de l'Etat dans le cadre spécifique d'un pays périphérique, est intéressante dès lors qu'elle permet de comprendre que les relations de domination (entre centre/ périphérie et au sein de chaque grand bloc géographique) ne se traduisent pas fondamentalement par une instrumentalisation des Etats de la périphérie par les Etats du centre. En ce sens, il est possible de concevoir que ce dernier puisse s'adapter, par le biais de médiations spécifiques (ou de l'usage de la politique économique) aux différentes transformations qui se produisent dans le cadre de la division internationale du travail sans pour autant remettre en cause l'existence des structures de domination que caractérisent cette économie mondiale.

Normes monétaires et valorisation rentière

Comme on l'a souligné précédemment, la gestion rigoureuse de la politique monétaire (l'élévation considérable du taux de base de l'économie, le taux Selic) avait pour objectif d'attirer les flux de capitaux en assurant la rentabilité des titres financiers. Ainsi, tout au long de la décennie 90, le taux over Selic annuel (exprimé en terme réel) sera toujours supérieur à 20%.[124] Le type d'insertion d'internationale des pays dits périphériques au sein de l'économie mondiale, et de façon plus générale, le mode de fonctionnement du système monétaire international (SMI), est un élément fondamental pour comprendre le mode de gestion interne de la politique monétaire dans la mesure où la détermination du taux d'intérêt de base du système influence les taux des autres systèmes monétaires nationaux. Ce type de fonctionnement du SMI révèle le pouvoir, de plus en plus marquant, des marchés financiers. Les pays périphériques, dans le mouvement de la libéralisation économique et financière, ont mis en place des programmes de stabilisation en accord avec les normes des marchés financiers libéralisés. Ces normes dictent les conditions de création d'une offre attrayante d'actifs. Compte tenu de la fragilité intrinsèque des monnaies nouvellement stabilisées, le taux de rémunération des titres financiers devait assurer des gains élevés en capital en incorporant une forte prime de risque (le *spread*), l'évolution du taux d'intérêt international et les éventuelles anticipations inflationnistes ou de dépréciation du taux de change nominal.

Le processus de valorisation rentière du capital peut alors être mis en évidence dès lors que l'on s'intéresse, dans une première étape, à la nature des normes monétaires qui guident la conduite de la politique économique (et particulièrement la gestion du taux d'intérêt), et que l'on analyse, dans une deuxième étape, le rôle du taux d'intérêt sur la stratégies des acteurs sociaux économiques et particulièrement ceux qui commandent et financent l'investissement (c'est-à-dire les entreprises et les banques). Cette considération nous amène à faire l'hypothèse que dans le cadre du nouveau régime monétaire du plan Real, la Banque Centrale et l'ensemble des institutions monétaires associées (la Commission Monétaire Nationale, et le Comité de la politique monétaire), en accord avec les préceptes des gouvernements néolibéraux, définissent la politique monétaire en adoptant les présupposés implicites aux modèles de crédibilité tels qu'ils sont présentés dans la théorie standard, à travers notamment la référence à la règle de Taylor. De ce compromis institutionnel ressort une gestion rigoureuse et *subordonnée* de la politique monétaire dans le sens où celle-ci devient intrinsèquement liée à l'évolution des anticipations inflationnistes qui émergent dans le cadre des marchés financiers. Ce compromis, qui acquerra un caractère plus formel avec l'abandon de la politique d'ancrage de change (le système de *« crawling-peg »*) et l'adoption du système d'objectif d'inflation (accompagnant le passage à un régime de change flexible en 1999), sera à la base de la création de normes monétaires et conventions financières validant une conduite de la politique monétaire qui reproduit la tendance de la décennie passé: celle de soutenir la liquidité et la rentabilité des titres de la dette publique émis par L'Etat.

Cette préservation de la rentabilité et de la liquidité des titres financiers (ou de façon générale les nouvelles normes financières déterminant les conditions de financement de la dette publique) influe, par la suite, sur la stratégies des agents économiques : les banques, davantage fragilisées dans un contexte de rupture des gains inflationnistes (qu'avait favorisé la mise en place d'un régime monétaire dual et inflationniste durant la décennie 80) et de hausse considérable du taux d'intérêt réel commencent à adopter un comportement

[124] Sauf durant la période 1993/1994 où il se situe aux alentours de 13,3% et durant la période 1996/1997 où il se stabilise autour de 16,7 % (données Banque Centrale du Brésil).

patrimonialiste[125] en réduisant leur distribution de crédits accordées aux entreprises (par le biais d'une hausse du spread sur le taux d'emprunt) et en se livrant davantage à des opérations de trésorerie nettement plus lucratif. L'évolution de la structure patrimoniale des principales banques privées nationales brésiliennes permet de mettre en évidence la hausse croissante de la participation relative des titres financiers dans l'actif bancaire. Selon les données de L-F. Rodrigues de Paulo et alii (2001), durant la période allant de juin 1994 à décembre 1998, les 15 plus grandes banques privés brésiliennes[126] ont doublé la participation de leurs applications en titres et valeurs mobilières dans le total des actifs puisque celle-ci passent de 15,2% à presque 30% durant la période considérée.

Ainsi, dans le cadre de la décennie 90, la régulation monétaire des intérêts s'est exprimée par la mise en place d'un nouveau compromis sociale instituant l'ancrage du taux de change et la désinflation, ainsi qu'une orientation de la politique monétaire rigoureuse, renforçant la précarité du marché du travail (comme le montre le schéma A de l'Annexe p-30) et favorisant les détenteurs de capitaux et le bloc hégémonique au pouvoir.

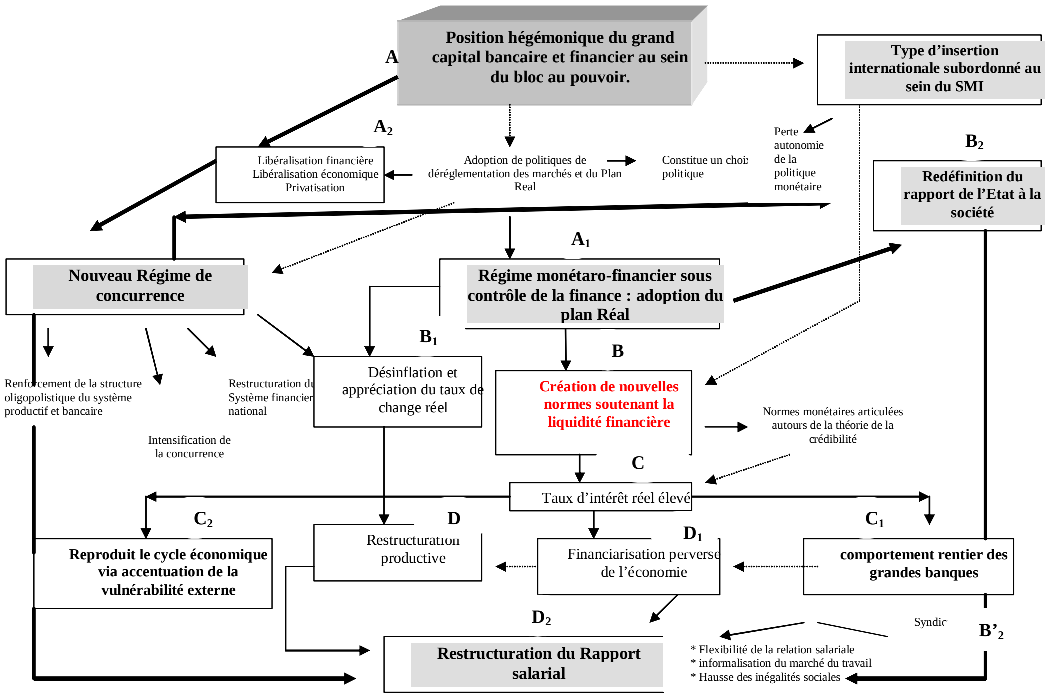
Conclusion : 1a valorisation rentière du capital et la vulnérabilité externe

Cette analyse historique a permis de montrer que la perte d'autonomie de la politique monétaire s'est produite par le biais de l'accélération d'un endettement externe qu'impliquait la nature d'un régime de croissance fondée sur le modèle de substitution aux importations. Progressivement, avec l'autonomisation de la dette par rapport au système productif, la politique économique se détachera des objectifs de croissance économique et la politique monétaire deviendra le terrain d'une valorisation rentière du capital. Cette valorisation rentière du capital se développera durant la décennie 80 (dans le cadre d'un régime monétaire dual où l'Etat est considéré comme l'agent Ponzi) et durant la décennie la décennie 90 (dans le cadre du nouveau régime monétaire articulée autour du Plan Réal), par le biais de normes monétaire et financières préservant la liquidité et la rentabilité des titres de la dette publique. La préservation de la liquidité financière produira par la suite l'instabilité financière compte tenu de ces effets sur la contrainte externe. Cette démarche analytique qui analyse le rôle de la politique monétaire en partant de la dette publique comme support de la liquidité financière permet de mettre en relation les mécanismes de valorisation rentière du capital (Position C1) et le cycle économique (Position C2), comme le montre la schéma B suivant :

[125] Au-delà des facteurs conjoncturels (lié à la gestion de la politique monétaire) il faut également prendre en compte, les facteurs structurels qui expliquent l'évolution des stratégies des banques. En accord avec M. Farhi (2003), l'adoption d'un comportement patrimonialiste des banques s'inscrit fondamentalement dans une perspective de long terme qui retrace les profondes mutations de la finance internationale (avec le passage d'un système déterminé par les banques à un système déterminé par le marché dit *market led finance*) ainsi que les mécanismes de transmission (économiques et politiques) des modes de gestion américaine du risque au reste du monde. En ce sens l'adoption d'un comportement rentier des banques reflète, d'une certaine façon, la « suprématie » ou l'hégémonie d'une finance qui s'est constituée dans la tourmente du processus de libéralisation des marchés. Par la suite, avec les transformations du système financier national, qui accompagneront le processus de privatisation et dénationalisation du système bancaire, les banques étrangères tendent à adopter les normes de conduite des banques privées nationales qui se manifestent par une plus grande propension à l'usage de fonds externes et un plus grand niveau de rationnement de crédit [R. Carneiro (2002)]

[126] Si l'on prend en considération le critère de la participation des dépôts totaux dans le système bancaire.

Schéma B : La logique du cycle économique dans le cadre d'une économie libéralisée :



Encadré B: commentaire Schéma B

L'adoption de la politique économique néolibérale, bien que répondant à différents facteurs d'ordre socio-économique et historique, reste fondamentalement *un choix politique*. Ce choix politique légitime la mise du plan Real et des politiques de libéralisation économique et financière (position A_1 et A_2). Au sein du régime monétaire sont créées des normes financières (articulées autour de la théorie de la crédibilité) qui valideront le maintien de la liquidité et rentabilité des titres financiers par l'usage d'une politique de taux d'intérêt élevé (position C). Le maintien de la liquidité financière dans un contexte de désinflation (position B1) favorise, d'une part, le développement de comportements patrimonialistes des grandes entreprises bancaires et productives (Position C_1 et D_1), et, d'autre part, l'instabilité économique par le retournement des anticipations des marchés financiers lié à l'accroissement de la vulnérabilité externe (Position C_2). L'accumulation de la richesse sous une forme fictive, permise par les conditions de financement de la dette publique, se traduit par une *financiarisation perverse* de l'économie (Position D_1). Le phénomène de déstructuration du rapport salarial (Position D_2), c'est-à-dire l'accentuation de la flexibilité, de l'informalité de la relation salariale ainsi que des inégalités sociales, résulte alors de la baisse des investissements productifs et des emplois liée à la financiarisation perverse de l'économie (Position D_1) et de la restructuration productive provoquée par l'ouverture commerciale, la désinflation compétitive et valorisation du taux de change réel (Position D).Cette précarisation du marché du travail résulte également de la redéfinition du rôle de l'Etat (position B_2) dans le cadre du nouveau régime de concurrence et de la fragmentation de la lutte syndicale (position $B_{2'}$).

Analysons à présent de façon plus précise les différents mécanismes qui nous permettent de comprendre la position C1, c'est-à-dire la logique du cycle économique.

De la vulnérabilité externe au cycle économique

L'analyse des interactions entre la politique monétaire, l'évolution de la contrainte externe et l'évolution des anticipations des marchés financiers permettra de mettre à jour les différents mécanismes du cycle économique (position C1 du schéma B). On commencera cette deuxième partie par une analyse critique du texte de J-Lopez (2001) puis on explicitera cette méthodologie.

Apports et limites des travaux de J. Lopez (2001)

J. Lopez (2001) s'inspire de la théorie du cycle de M. Kalecki (qu'il modifie cependant en y intégrant les relations financières à travers la prise en compte des effets macroéconomiques de la politique de rationnement du crédit) pour décrire le phénomène d'instabilité économique qui touche une grande partie des économies latino-américaines ces dernières années et particulièrement durant la décennie 90. Selon l'auteur, la phase descendante du cycle se produit suite à une dégradation des comptes externes qui implique l'adoption de politiques économiques rigoureuses précipitant le retournement des anticipations des agents privés. Celui-ci (le retournement des anticipations) influe alors sur la trajectoire des investissements privés et de la croissance économique. La phase de récupération est engendrée par un choc externe soutenu par l'Etat. Ce choc *externe positif* influe sur le niveau de la demande effective et permet, par ce biais, le retour à la confiance et à la croissance économique.

Les différents mécanismes en œuvre dans la phase de récession du cycle

L'hypothèse fondamentale défendue par l'auteur est que les chocs externes (et plus précisément, les répercussions de ces chocs sur la conduite de la politique économique et l'évolution des anticipations des agents privés) sont fondamentalement à la source du cycle économique. Ces chocs externes peuvent provenir d'une détérioration des termes de l'échange provoquant une chute des exportations et une amplification du déficit des comptes courants. Cette amplification du déficit des comptes courants conduit les gouvernements à adopter des politiques budgétaires et monétaires restrictives ainsi qu'une politique de dépréciation/ dévaluation du taux de change nominal. La contraction des dépenses publiques et la politique des taux d'intérêt élevés (mise en œuvre via le rationnement du crédit bancaire) accentuent la détérioration des anticipations des agents, ce qui favorise une baisse des investissements privés (c'est-à-dire de l'investissement fixe, du stock de construction résidentielle, ainsi que des machines et équipements). La baisse des investissements privés et, de façon générale des dépenses privées, diminue les perspectives de profit des entreprises, le niveau de la demande agrégée, ainsi que le taux de croissance de l'emploi et du produit. Le ralentissement des dépenses privées n'est cependant pas le seul fait de la rupture du taux d'investissement: il dépend aussi de l'évolution de la consommation. Celle-ci se réduit compte tenu de la contraction des dépenses publiques et de la baisse des salaires produite par l'accélération inflationniste résultant de la politique de dépréciation du change nominal et de ses répercussions sur le prix des biens importés. D'autre part, la baisse du niveau d'emploi se répercute négativement sur l'évolution de la masse salariale. Lorsque la récession se propage, dans un contexte de dévaluation/dépréciation du taux de change, la baisse de la quantité de biens importés étant proportionnellement plus forte que celle des biens exportés, le solde de la balance commerciale à tendance à s'améliorer.

Les différents mécanismes en œuvre dans la phase de récession du cycle

Une condition nécessaire (mais pas suffisante) pour que l'économie chemine progressivement de la phase récessive vers la phase de récupération du cycle est l'existence d'un *choc externe positif*. Celui-ci peut se produire suite à une hausse des prix des marchandises exportées (et donc un rétablissement des termes de l'échange) provoquant d'une part, une augmentation des exportations (et donc une amélioration du solde de la balance commerciale) et, d'autre part, un redressement des recettes du gouvernement (lié à la hausse des impôts à l'exportation) viabilisant un accroissement des dépenses publiques:

« *La croissance des exportations est un facteur important pour déclencher la reprise économique. La croissance des dépenses du gouvernement et, particulièrement, leur augmentation, financée par les impôts d'exportation, paraît être normalement un autre facteur important qui déclencherait la reprise. Comme la dépense publique financée par les recettes venant des exportations ne réduit pas le pouvoir d'achat de la population, elle a un important effet expansionniste et peut contribuer significativement à augmenter la demande domestique, bien que l'équilibre externe et fiscal ne soit pas assuré* » [J. Lopez, (2001), p-306]

La hausse de la demande effective, engendrée par l'effet expansionniste des dépenses publiques, permet alors de stimuler la consommation et les investissements privés. Au final, le taux de profit s'améliore,[127] la demande agrégée aussi et la croissance économique repart. Remarquons que J. Lopez (2001) met également en évidence les effets d'hystérésis produits par la récession économique dans la mesure où la consommation et l'investissement privés, malgré la phase de récupération, peuvent être inférieurs à leur niveau antérieur (c'est-à-dire à leur niveau avant la crise économique). D'autre part, quelque soit la vigueur de la phase d'expansion économique et la reprise des emplois qu'elle suscite, le salaire moyen réel ne se récupère pas intégralement. En ce sens, la récupération de la croissance économique, aussi forte soit-elle, demeure déséquilibrée.[128]

Cette analyse du cycle économique revisitée dans une perspective kaleckienne est intéressante dès lors qu'elle cherche à mettre en évidence le rôle majeur de la politique économique (et notamment les politiques monétaires et budgétaires) sur l'évolution de la demande effective anticipée par les agents privés. Elle souligne, par ailleurs, le rôle des facteurs externes dans l'orientation de la conduite de la politique du gouvernement, ainsi que les implications macroéconomiques de ce choix politique. Cependant, plusieurs éléments

[127] Dans une perspective kaleckienne, le profit macroéconomique dépend des dépenses réelles autonomes que constituent la consommation et l'investissement privés des capitalistes. Lorsque les anticipations de long terme s'améliorent, les capitalistes prennent des décisions d'investissement qu'ils réalisent. Cependant, dans l'analyse développée par J. Julio, la phase de récupération ne suit pas intégralement les normes typiques d'ascension du cycle économique décrit par M. Kalecki. Plus précisément, c'est grâce à l'amélioration de la balance commerciale (et donc au choc externe positif) et à la hausse des dépenses publiques que les anticipations de long terme et le taux de profit s'améliorent, et que l'investissement privé est, par la suite, stimulée: « Une fois initiée, la reprise économique se développe de manière assez proche a celle prévue dans la théorie de Kalecki. Les profits plus élevés stimulent l'investissement privé, l'emploi, les salaires et la consommation privée. De cette façon, à partir d'une certaine étape, la dépense privée remplace les exportations et les dépenses du gouvernement comme principal facteur de la demande dans le processus de reprise » [J. Lopez, (2001), p-295].

[128] Ces effets d'hystérésis peuvent s'expliquer par les changements structurels majeurs qu'apporte l'approfondissement de la flexibilité du marché du travail durant les moments de crise. D'autre part, contrairement à ce que dit l'auteur, l'hypothèse d'un rétablissement de l'emploi à son niveau pré-crise ne semble pas applicable au cas spécifique du Brésil si l'on se réfère à la trajectoire décroissante des séries temporelles sur l'emploi.

doivent être reconsidérés pour appliquer ce modèle au cas spécifique de l'économie brésilienne. Premièrement, il faut rappeler que le poids de la contrainte externe est un déterminant structurel important dans la compréhension des crises financières, mais elle n'explique pas tout. Il faut, en effet, prendre en considération le rôle de l'augmentation du besoin de financement externe sur le retournement des anticipations des marchés financiers.

En ce sens, au-delà des évolutions historiques qui déterminent le caractère structurel de ce que J. Lopez nomme de *choc externe*, il est nécessaire de révéler la nature de cette contrainte externe, qui est, dans le cas d'une économie telle que le Brésil, fondamentalement d'origine *financière*. Deuxièmement, la phase de récupération du cycle ne s'accompagne pas d'une hausse des dépenses publiques améliorant l'état des anticipations, puisque la rigueur budgétaire est généralement imposée comme une condition de l'aide financière provenant des organisations internationales. Enfin, il faut souligner, d'une part, le rôle de l'aide extérieure comme moyen de restauration de la *crédibilité* des gouvernements et, d'autre part, le retour à la confiance des marchés financiers comme élément fondamental dans le passage de la phase récessive à la phase de récupération [(P. Salama, 2004)].

Le cycle économique et la dépendance financière

Si l'on considère que la dépendance financière est un élément fondamental pour caractériser le type d'insertion internationale de certaines économies périphériques, la question du cycle économique implique donc d'expliciter les différents processus à l'origine du retournement des anticipations des marchés financiers, et par ce biais, qui rendent possible le passage d'une phase de croissance à une phase de récession dont les effets d'hystérésis obèrent le potentiel de croissance de long terme.

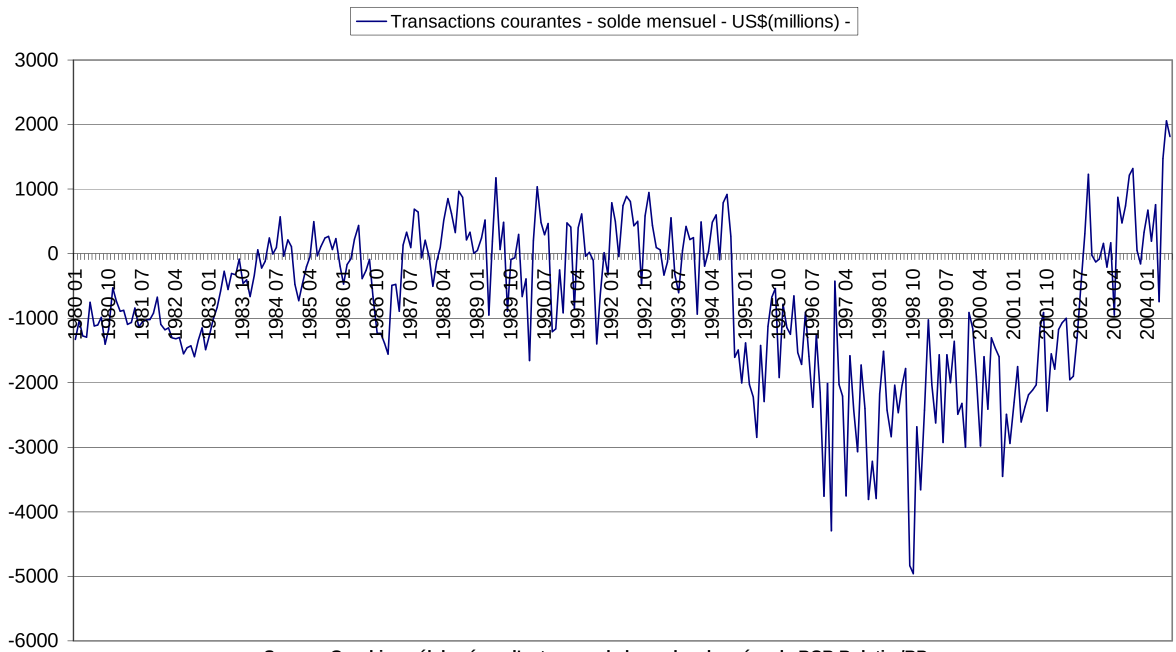
Le rôle spécifique de la politique monétaire

Déséquilibres externes et internes: quelques évidences empiriques

Le régime monétaire, adossé à l'ancrage du change, dans un contexte d'internationalisation des capitaux, a impliqué un déficit de la balance des comptes courants qui accentue la dépendance financière vis-à-vis de l'extérieur. D'autre part la politique des taux d'intérêt élevés, dans un contexte de flux croissants de capitaux et d'augmentation des réserves internationales, accroît, via le processus de stérilisation, la dette interne du secteur public.

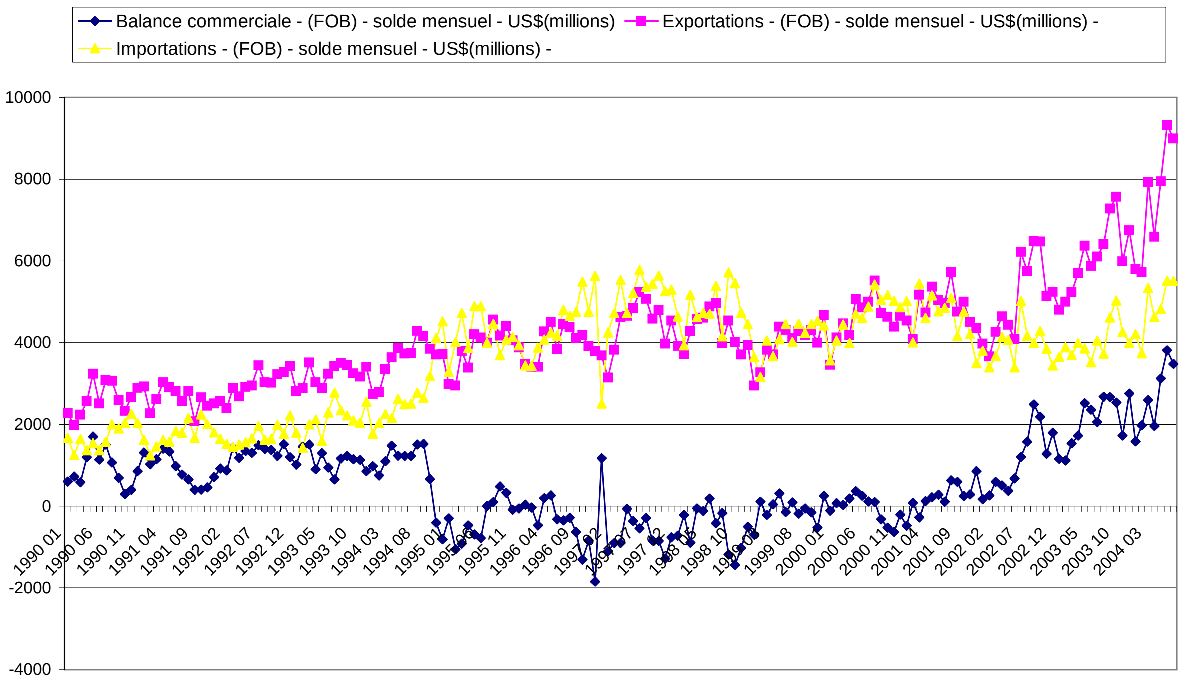
La politique monétaire et l'évolution de la balance courante.

Graphique 1: Evolution de la balance des transactions courantes entre 1980 et 2004 (en millions de dollars)



Source: Graphique élaboré par l'auteur sur la base des données de BCB Boletim/BP.

Graphique 2: Evolution de la balance commerciale entre 1990 et 2004 (en millions de dollars)



Source: Graphique élaboré par l'auteur sur la base des données de la BCB Boletim/BP.

Tableau 1: Décomposition du solde de la Balance des comptes courants entre 1992 et 2000 (en millions de dollars)

	1992	1993	1994	1995	1996	1997	1998	1999	2000
Exportations	35 793	38 563	43 545	46 506	47 747	52 994	51 140	48 011	55 086
Importations	20 554	25 256	33 079	49 858	53 346	59 742	57 743	49 272	55 783
Solde commercial	15 239	13 307	10 466	(3 352)	(5 599)	(6 748)	(6 604)	(1 260)	748
Intérêts	(7 253)	(8 280)	(6 338)	(8 158)	(9 173)	(10 388)	(11 947)	(15 237)	(15 088)
Profits et dividendes	(574)	(1 831)	(2 483)	(2 590)	(2 374)	(5 597)	(7 181)	(4 099)	(3 589)
Voyages internationaux	(319)	(799)	(1 181)	(2 419)	(3 598)	(4 377)	(4 146)	(1457)	(2 086)
Fret	(1 417)	(2 136)	(2 573)	(3 133)	(2 780)	(3 431)	(3 180)	(3 199)	(3 312)
Solde des transactions courantes	6 143	(592)	(1689)	(17 972)	(23 142)	(30 791)	(33 445)	(25 396)	(24 595)
Solde des transactions courantes (en % du PIB)	1,5	(0,1)	(0,3)	(2,5)	(3,1)	(3,8)	(4,2)	(4,8)	(4,2)
Réserves internationales	19 008	25 878	36 471	50 449	59 039	51 359	43 617	35 554	32 949
Dette externe totale	135 949	145 726	148 295	159 256	179 935	1999,998	241 644	241 468	232 290
Investissements directs étrangers	954	954	2 356	4 778	9 580	17,864	26 515	26 903	31 521

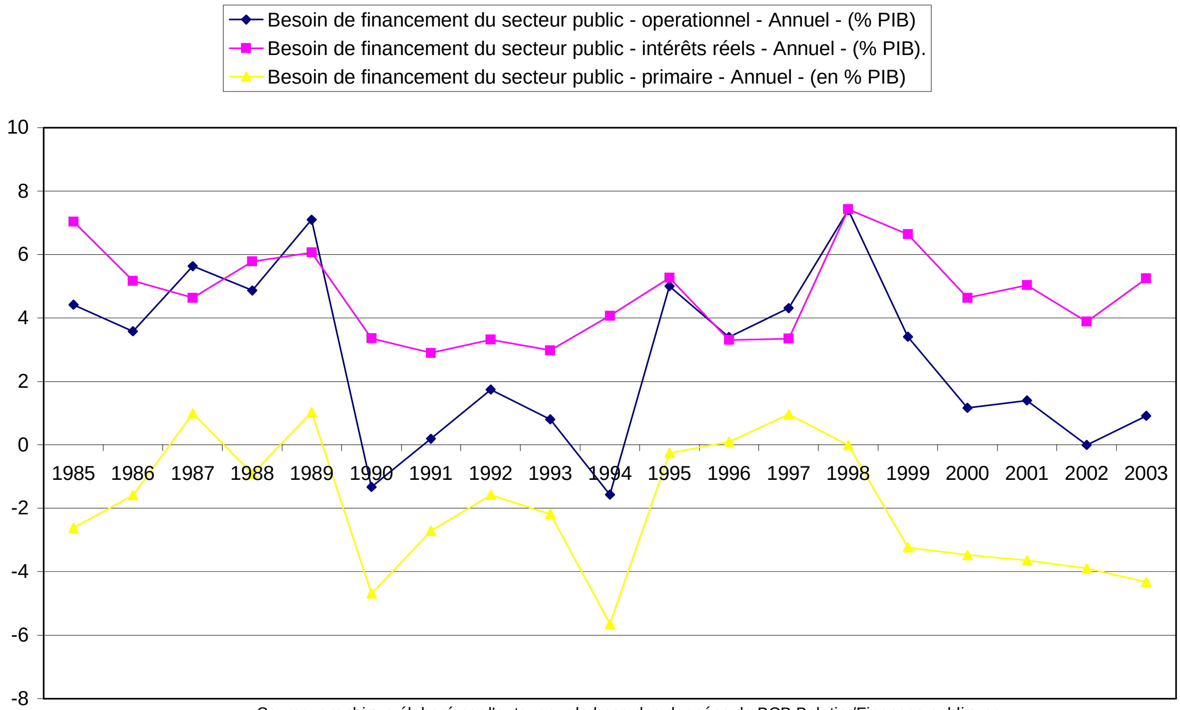
Le graphique 1 montre l'évolution du solde de la balance des transactions courantes entre janvier 1980 et mars 2003. On peut constater qu'entre le mois d'août 1994 et le mois de février 1995, ce solde se dégrade de façon drastique, passant d'un excédent mensuel de 918,9 millions de dollars à un déficit de – 2847,55 millions de dollars. Par la suite, ce déficit structurel s'accentue en décembre 1996 (soit - 4296 millions de dollars) ou en novembre 1998 (- 4959,28 millions de dollars). La dégradation du solde commercial[129] (dans un contexte d'ouverture économique et de surévaluation du taux de change réel) à partir de septembre 1994 (graphique 2) explique, en partie, la trajectoire de la balance des transactions courantes. Cependant, comme l'illustre le tableau 1, l'internationalisation des capitaux (rapatriement des profits et dividendes) et les effets patrimoniaux de la politique monétaire (via l'évolution des intérêts payés sur le stock de dette) expliquent la trajectoire du solde des transactions courantes durant la décennie 90. Il faut donc souligner que la libéralisation du compte de capital et du compte courant ont assuré en courte période la capacité de la politique monétaire à restaurer la confiance en même temps qu'elle impliquait le retour de la défiance quelques années plus tard.

La politique monétaire et la dégradation des comptes publics.

Les notions de déficit opérationnel et de dette nette totale permettent de souligner le lien fondamental entre la gestion de la politique monétaire et l'évolution des comptes du secteur public. Tout d'abord, dans un contexte de taux d'intérêt extrêmement élevé, le déficit opérationnel ne cesse d'augmenter malgré la politique de contraction des dépenses publiques et les excédents primaires qu'elle permet de dégager:

[129] Il faut également prendre en considération le fait que dans la mesure où les IDE se dirigent, pour leur grande majorité, dans les secteurs protégés des services publics privatisés (tels que la communication ou l'électricité) la proportion à importer des multinationales devient relativement importante, ce qui n'est pas sans conséquences sur l'évolution du solde commercial. Ainsi, la supposée relation positive entre le flux des IDE et l'essor des exportations en devient de plus en plus contestable.

Graphique 3: Evolution du déficit opérationnel du secteur public entre 1985 et 2003 (en % du PIB)



Source: graphique élaboré par l'auteur sur la base des données de BCB Boletim/Finances publiques.

D'autre part, la politique monétaire de surévaluation du taux de change réel et de taux d'escompte élevé permet l'accumulation de réserves internationales via l'afflux de capitaux étrangers. Cependant, la stérilisation d'une partie de ces réserves, rendue nécessaire pour éviter qu'une surévaluation excessive du taux de change compromette son ancrage, a pour conséquence d'accroître la dette nette interne du secteur public.[130] En ce sens la vulnérabilité externe implique également une plus grande vulnérabilité interne. Selon les données de R. Carneiro (2002), la dette interne publique augmente considérablement entre 1994 et 1998, passant de 20% du PIB à 35% durant la période considérée.

Déséquilibres macroéconomiques et retournement des anticipations

Il faut donc conclure que le mouvement du cycle exprime les interactions entre l'évolution de la contrainte externe et ses répercussions sur les anticipations des marchés financiers et la gestion gouvernementale de la politique économique (ainsi que les implications macroéconomiques de celle-ci). Ce n'est donc pas qu'une question d'imperfection des marchés financiers.

Lorsque les gouvernements acquièrent une certaine crédibilité et que leur capacité de financement n'est pas remise en cause par une crise (économique ou financière) dans les pays développés, alors l'appréciation du taux de change réel se produit du fait de l'ancrage du taux de change au dollar et de l'accumulation de réserves internationales. Cependant, lorsque les

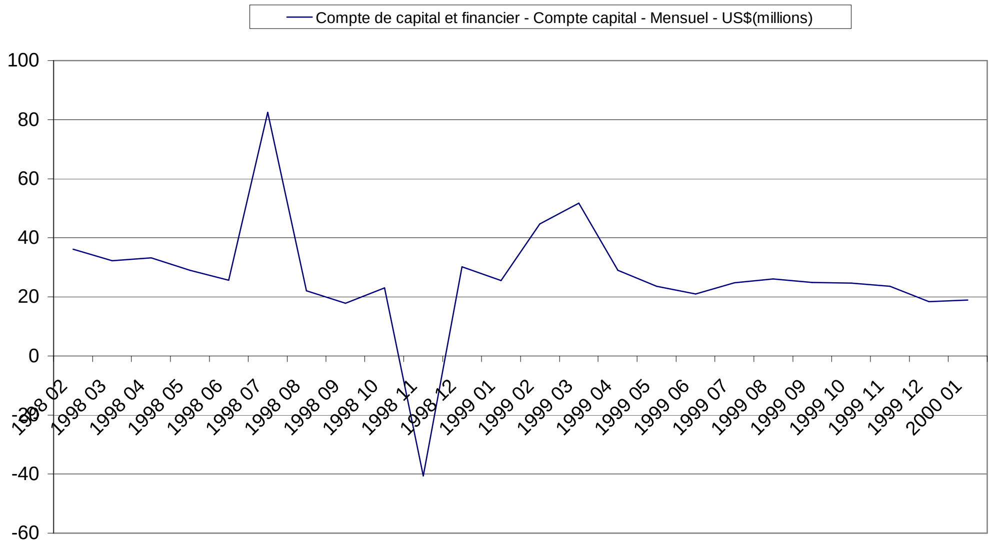
[130] L'endettement net total du secteur public se compose de la dette interne, de la dette externe et de la dette mobilière. De façon générale, le stock de dette va être influencé par l'évolution du taux de change, des taux d'intérêts réels, du PIB et du déficit primaire.

besoins de financement commencent à augmenter (à cause, d'une part, de la politique de taux d'escompte élevé rendue nécessaire pour attirer les capitaux et ses répercussions sur le montant des intérêts à payer, et d'autre part, à cause de l'afflux croissant de profits et dividendes rapatriés) alors commence à s'installer un mouvement de défiance au sein des marchés financiers qui tend à s'accentuer à mesure que s'aggravent les effets macroéconomiques de la politique monétaire (augmentation du poids de l'endettement, accroissement du déficit public et renchérissement du coût des emprunts se répercutant sur la vulnérabilité des banques…).

Lorsque le mouvement de défiance se généralise au point que les marchés financiers finissent par estimer insoutenables les déficits jumeaux (c'est-à-dire le déficit opérationnel du secteur public et le déficit de la balance des comptes courants) alors la crédibilité[131] des gouvernements chute et les capitaux externes commencent à sortir du pays. Pour enrayer cette vague contagieuse de méfiance, les gouvernements tentent de réagir en donnant des signaux forts à travers une gestion encore plus rigoureuse de la politique monétaire (sous hypothèse que la hausse du taux d'escompte devrait permettre de ralentir, voir de stopper, le mouvement de fuite des capitaux). Ainsi, le taux d'intérêt devient la principale « variable d'ajustement » dont la manipulation (destinée à maintenir un différentiel expressif entre les taux internes et les taux externes) devrait servir à calmer les humeurs d'un marché financier devenu trop inquiet. Cette gestion spécifique de la politique monétaire durant les épisodes de méfiance généralisée des marchés financiers peut être illustrée à travers les données suivantes:

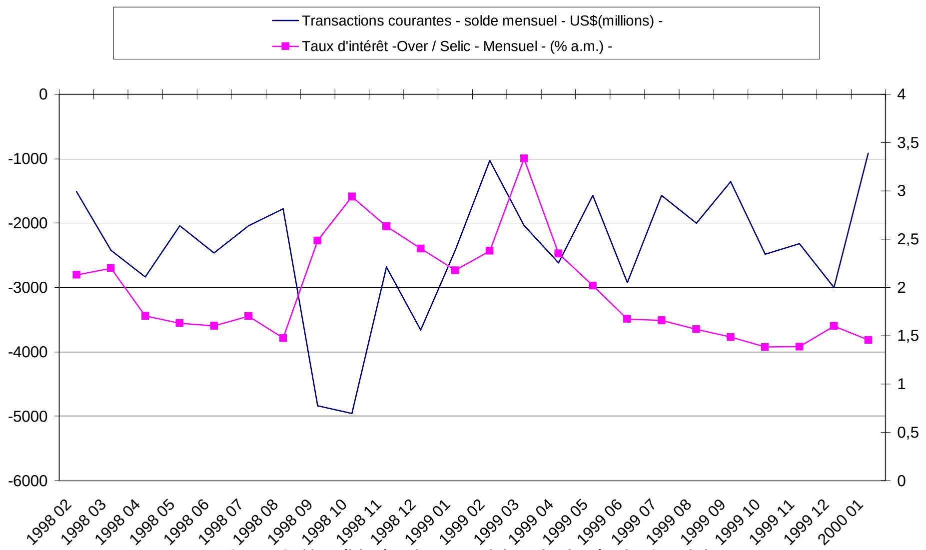
[131] Dans la théorie conventionnelle, ce sont les normes de soutenabilité jugées rationnelles qui déterminent la crédibilité d'une politique économique. Une politique soutenable (ou crédible) est alors définie comme « la bonne politique économique » à suivre parce qu'elle démontre son aptitude à être maintenue telle quelle jusqu'à un terme indéfini. Cette dimension de la crédibilité se fonde implicitement sur une conception spécifique de la totalité sociale que représente la monnaie et qui est dans ce cas précis réduite à une logique contractuelle ou marchande [J-M. Pereira, 2002, p-6]. Cependant, comme le rappelle F. Lordon (1997, p-161), cette évaluation de la politique économique qui se veut « objective » est en réalité soumise à l'influence des jugements conventionnels. Et c'est surtout durant les épisodes de turbulences financières que la supposée rationalité de ces normes semble de plus en plus être remise en cause dans la mesure où le rétablissement de la dite crédibilité présuppose de se soumettre à un ensemble d'exigences dont le seul objectif est de calmer les inquiétudes d'un marché financier devenu extrêmement nerveux et dont on redoute la sanction. Dans ce cas de figure, se conformer aux différents critères de crédibilité apparaît comme une *vis sans fin* [Lordon (1997, p-144)].

Graphique 4: Evolution du montant de flux de capitaux entre février 1998 et janvier 2001. (en millions de dollars)



Source: Graphique élaboré par l'auteur sur la base des données de la BCB Boletim/BP.

Graphique 5: Evolution du taux *Selic* dans un contexte d'accroissement des déséquilibres externes



Source: Grahique élaboré par l'auteur sur la base des données de BCB Boletim.

Le graphique 4 montre le phénomène de fuite brutale des capitaux dès lors que les investisseurs internationaux remettent en cause la crédibilité des gouvernements. En effet, le montant des flux de capitaux externes passe de 82,56 millions de dollars (en terme mensuel) en juillet 1998 à -40 millions de dollars en novembre 1998 (soit une chute spectaculaire de 148% en moins de cinq mois). Pour enrayer cette onde de méfiance, dans un contexte d'accentuation du déficit des comptes courants (soit un montant de - 4837,25 millions de dollars en septembre 1998) le gouvernement renforce sa politique monétaire des taux d'intérêt élevés: le taux Selic passe 1,47% en août 1998, atteint 2,94% en novembre 1998, pour finir à 3,33 en février 1999 (graphique 4.22).

Un des premiers aspects du paradoxe, bien mis en évidence par P. Salama (2004, p19/20), est que c'est justement en voulant sortir de la crise qu'on la précipite puisque la hausse brutale du taux d'intérêt alourdit le service de la dette et rend plus difficile de satisfaire les exigences des marchés financiers.

La crise économique apparaît donc, renforcée par la mise en place de politiques économiques restrictives[132] censées rassurer les marchés financiers. La fuite brutale des capitaux externes et la chute des réserves provoquent une dépréciation du taux de change. Le ralentissement de la croissance économique engendre une baisse de la demande agrégée. Les importations tendent à baisser, ce qui améliore le solde de la balance commerciale (au-delà de l'effet de la dépréciation du taux de change nominal). Compte tenu de la politique économique rigoureuse que le gouvernement a accepté de mettre en place, les institutions internationales consentent à fournir « de l'aide »[133] qui prend la forme d'un nouvel endettement externe public. Cette implication des institutions internationales semble alors être le moyen incontournable pour que les marchés financiers retrouvent leur confiance, et c'est là le deuxième aspect du paradoxe de la politique économique :

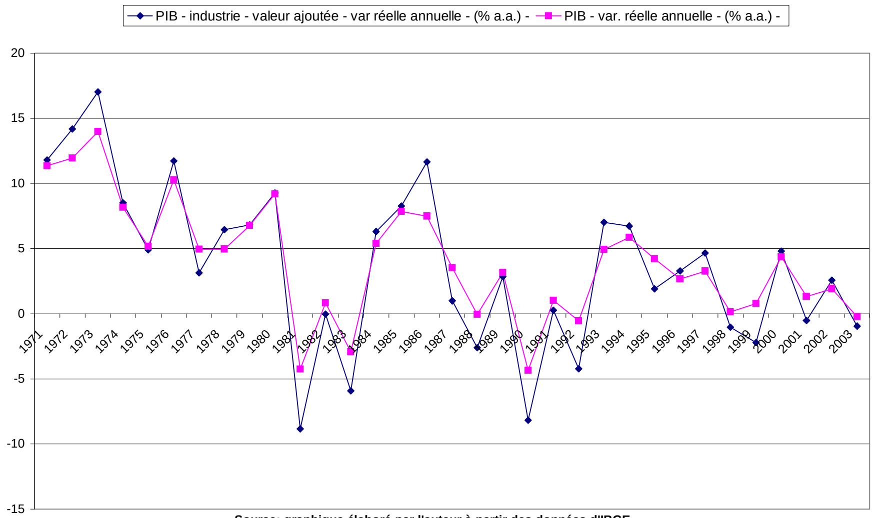
« […] *d'un côté les politiques économiques précipitent la crise au lieu de l'éviter, de l'autre elles sont souvent 'la voie obligée' pour retrouver un soutien de la part des organisations internationales et derrière elles des marchés financiers internationaux*.» [P. Salama (le paradoxe), p-20].

L'instabilité économique mettant à jour les interactions entre la vulnérabilité externe et la gestion gouvernementale de la politique économique dans le cadre du nouveau régime monétaire peut être illustrée à travers le graphique 1 et le schéma B suivants:

[132] En novembre 1998, le ministre des finances, Pedro Malan, présente au congrès un ambitieux programme de stabilisation fiscale sur 3 ans qui se compose d'un ensemble de mesures (telles que la hausse des impôts et des contributions sociales, une baisse drastique des dépenses publiques des Etats et des municipalités…). Ce programme devait rassurer les marchés financiers en affichant la détermination des dirigeants politiques à assurer et à maintenir la stabilité monétaire.

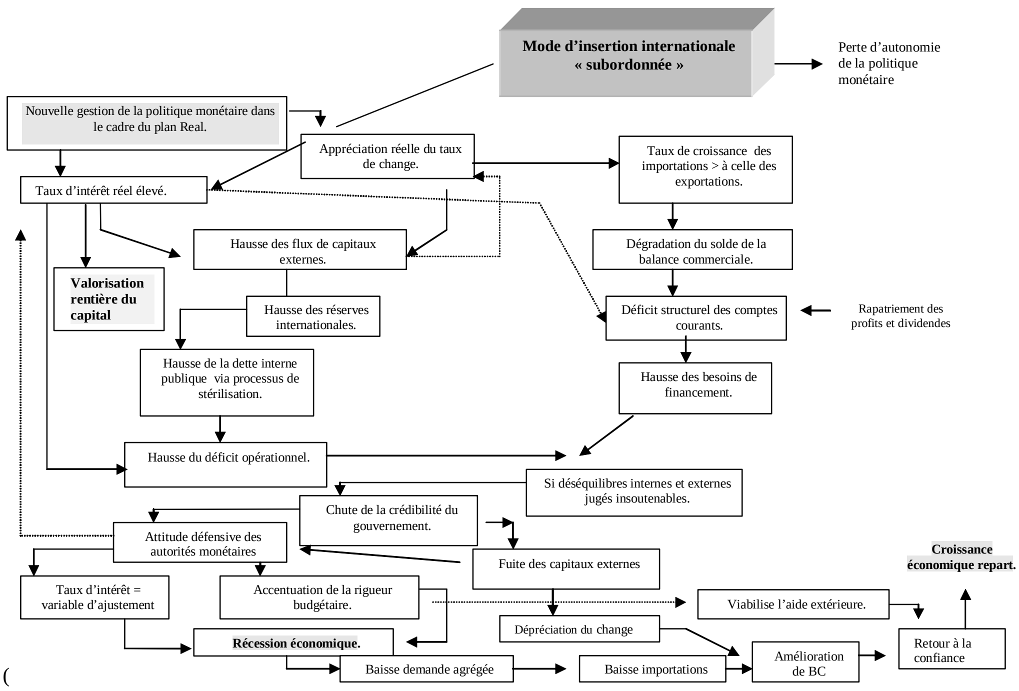
[133] Le FMI (Fond Monétaire International) a débloqué en décembre 1998 un montant s'élevant à 41,5 milliards de dollars pour le Brésil.

Graphique 6: Taux de croissance du PIB entre 1971 et 2003



Source: graphique élaboré par l'auteur à partir des données d'IBGE.

Schéma C: La politique monétaire, les déséquilibres macroéconomiques et le cycle économique.



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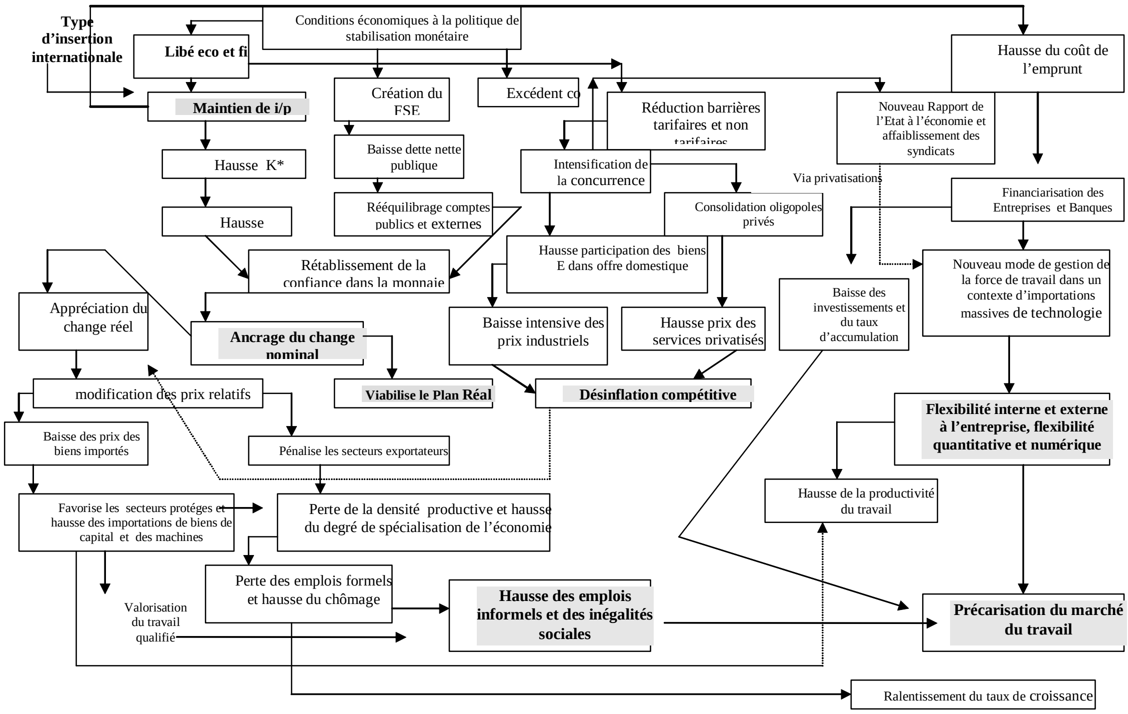
Conclusion

Cette étude, qui analyse le rôle de la politique monétaire en partant de la dette publique comme support de la liquidité financière, permet de conclure que la vulnérabilité externe et le cycle économique pose la question de la *souveraineté monétaire* en terme de perte d'autonomie de la politique monétaire qu'engendre l'endettement externe et dont la contrepartie est la valorisation rentière du capital. Il est clair que cette perception n'est pas celle qui est privilégiée dans la théorie standard qui se borne à aborder cette question sous l'angle du *défaut de paiement*. La souveraineté monétaire se retrouve ainsi automatiquement rattachée à la notion de bonne gouvernance. Cependant, comme le montre l'expérience récente des économies latino-américaines, les fondements politiques et idéologiques que l'on a bien voulu donner à la *crédibilité* et à la *souveraineté monétaire* s'avèrent intrinsèquement fragiles. En partant de l'hypothèse d'une régulation monétaire de la monnaie, on montre que les crises financières ne sont pas qu'un problème d'imperfections des marchés et de croyances ordonnant les anticipations des marchés financiers et des investisseurs internationaux, mais q'elles renvoie fondamentalement à un problème de répartition ou de viabilité d'un régime de croissance dans lequel la monnaie perd ses fonctions traditionnelles de crédit en s'investissant de moins en moins dans le système productif pour devenir un pur actif financier.

Annexe/ Schéma A : Les effets distributifs de la politique monétaire sous le Plan Réal



Encadre A : légende du schéma A

K* = capitaux externes
Reserves* = Réserves internationales
i/p = Taux d'intérêt réel
Libé éco et fi = libéralisation économique et financière
FSE= Fond Social d'Emergence
Dette G liquide = dette publique nette
Excédents co : excédents commerciaux

Biens E = Biens échangeables
Biens NE= Biens non échangeables

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ENGLISH TRANSLATION by Hawa Diawara:

11B. THE LOGIC OF FINANCIAL CRISES IN A FINANCE-LED REGIME OF ACCUMULATION : THE BRAZILIAN SPECIFIC CASE, by *Dr. Hawa Diawara*

INTRODUCTION

In spite of the application of structural adjustment policies during 1980s and liberalisation policies during 1990s, a certain number of developing and industrialised countries has experienced an increase in the precariousness in their labour market since many decades (flexibility, informalization of labour market and a considerable increase in social inequalities). In the same way in this process**,** a strong "auto-balanced" growth, as promised by the defenders of neoliberalism, was not yielded as explained by the recent experiences of financial crises during the 1990s in some developing countries. This is the case, for example, of Brazil which faced in 1998, in the context of important generalised financial turbulence, a deep crisis of confidence leading to a brutal outflow of foreign capital. This later, in fact, achieved the amount of 82.564 million of dollars in July 1998 and decreased to -40.14 million of dollars in November 1998. On the other side, the brutal outflow of capital was occurred in the context of fall-back of production in the industrial sector, i.e., a decrease of 17% (in real terms) between the third quarter of 1998 and the first quarter of 1999[134].

The extent of financial crises[135] (that occurred in some developing countries) and their real effects on the economy, led to a theoretical debate on the causes and mechanisms of so called crises and the ways to protect a country from these crises. Generally, the dominant analysis performed on financial crises considers the imperfection of the financial markets as a principal source of imbalances. The privileged interpretation, among the academics and policy makers, is to take into consideration three factors capable of explaining financial crises that fallowed the liberalisation policies: the faults in the supervision of banking system (that would have led to a significant expansion of internal and external credit and to the degradation of default risk), the errors of management in the functioning of macroeconomic policy (especially, the excessive tolerance of inflation or government deficit) and finally, the errors in the proper management of liberalisation policy (that should have respected certain sequences and should have followed a macroeconomic adjustment and also an enforcement of mechanisms of banking supervision). Beyond different causes that we can attribute to the financial crises, however, it appears to emanate a consensus to say that only a new financial architecture, or in particularly, a mechanism of "banking supervision" (reducing the

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[134] Data of the Central Bank of Brazil, BCB, for the evolution of foreign capital flows and data of Brazilian Institute of Geography and Statistics, IBGE, for the evolution of industrial production.

[135] Going from the consideration of the structure of financial markets, the financial crises can be analysed as crises influencing different segments of these markets or, generally, the financial institutions. Therefore, several types of financial crises can be listed: the exchange rate crises, the banking crises (when these two crises occur simultaneously, we call them the "twin crises"), the stock exchange crises…. In this analysis, we are interested more specifically in the exchange rate crisis, or more generally, the balance of payment crisis that affected the Brazil in the end of 1990s. This crisis led to the implementation of a new exchange rate regime (the system of flexible exchange rate replacing the system of fixed adjustable exchange rate, the crawling peg). On the other side, taken into account the fact that the financial crises produce equally the real effects in the economy, we chose to analyse the crisis of confidence occurred in Brazil under the angle of economic cycle. According to Keynes, a cyclic movement is produced when the system evolves in the upward direction, in this situation "the forces that animate it are at the origin of an increasing intensity and increase cumulatively one another, but these forces depleted progressively until the moment where these are replaced by controlled forces in the other direction (…)" [(J. M Keynes (1969)].

imperfections of the financial markets or the "moral risk") would allow the governments to cushion the effects of so called crises, or to "smooth the cycle".

The implicit theoretical presupposition of the money neutrality and the implicit renewing of the hypothesis of "*temporal incoherence*" (that founds the first generation models through the concept of "*moral hazard*") led to interpret the so called crises as a conflict of interests between lenders and debtors requiring a measure of insolvency in order to arrange the restructuring of debt [J-M. Pereira (2003)].However, this theoretical approach, by hiding the macroeconomic effects of monetary policy (i.e., its role in the evolution of internal and external macroeconomic imbalances) is not able to take into account the specificity of financial crises in an economy such as Brazil, which is characterised by a significant external dependence of financial nature.

The objective of this paper is to analyse the specificity of financial crises in an economy such as Brazil by taking into account the role of cyclic factors (especially the evolution of anticipations) and the structural factors that determine the nature of external constraint. More specifically, we search, by going from the hypothesis of monetary regulation of the interests [J-M. Perreira (1999)], to analyse the specificity of financial crises by revealing the interaction between monetary policy, mechanisms of financial or stockholder accumulation of capital and the economic cycle, in the framework of Brazilian economy. The hypothesis of monetary regulation of interests goes from the reject of the principal of neutrality of the orthodox theorists and searches to unveil how the money, defined as the social relationship or "social totality" [M. Aglietta and A. Orléan (1982)], notions already presented by the Marx and Keynes, constitutes a fundamental way of the social regulation. In the framework of Brazilian economy, this hypothesis is justified if we reconstitute the historical analysis of indebtedness process (and the implicit social and institutional mechanisms that involved a growth regime called "excluding" because it reproduces endogenously the social inequalities) and also the consequences of this indebtedness in term of financial accumulation of capital. During the so called growth regime of import substitution, the expansion of private internal indebtedness (since the 1960s) and then the public external indebtedness (since the 1970s), allowed the State to establish an adequacy between a expansionary market of durable goods and a market of productive goods. However, this synchronisation leading to an important growth regime (known under the term of "*Brazilian miracle*") is done on the price of an endogenisation of external constraint, and, an external over-indebtedness (favoured, besides, in the context of international liquidity expansion). This later will become, afterwards, the support of a financial accumulation of capital. With the "*autonomisation*"[136] of the external debt [P. Salama (1989)], the economic policy loses progressively the objectives of growth, and the monetary policy will become a public space of the private stakes. Thus, this hypothesis allows us to conceive the monetary regime as a ground for the construction of social compromises [J. Marques-Pereira (2005)].

Our fundamental hypothesis is that the role of monetary policy depends essentially on the public debt as a support for the financial liquidity[137]. Financial norms determine the conditions of financing the government debt, and also, its return and liquidity. The

[136] That is to say its exponential growth in relation to the productive sector.
[137] Monetary rules and financial conventions that emerge within the organised monetary system or financial markets assure the profitability and the liquidity of financial securities, i.e., their circulation within the society and their acceptation as a particular form of wealth. In this way, financial liquidity is not an intrinsic property of an asset, but the corollary of an institutional invention [M. Aglietta and A. Orléan (2002)].

preservation of financial liquidity makes a financial accumulation of capital possible, first, by supporting the necessary indebtedness of State in the context of external adjustment (case during 1980s, in the framework of dual monetary regime), on the other side, by modifying the criteria of estimation of agents that command and finance the investment (the banks and the enterprises in general). This preservation of financial liquidity accentuates also the financial dependence.

By going from this implicit analytical framework, the financial crises, analysed through their real effects (i.e., under the angle of "economic cycle" or the reversal of economic growth) reveal the interactions between monetary policy (whose management is "subordinated" to the requirements of profitability that the international investors require), the evolution of financial dependence and the reversal of expectations of financial markets. In this sense, these are the corollary of a stockholder accumulation of capital that is developed in the specific framework of a financed-led regime of accumulation. By departing from this methodology, this paper is composed of three main parts. In the first part, we will analyse, by going from a historical approach, the factors that are at origin of the loss of autonomy of monetary policy by studying the role of indebtedness (also the different social and institutional processes that accompanied this indebtedness) as a way of going beyond the limits of an excluding regime of accumulation and pursuing the capital accumulation and also the industrialisation of Brazilian economy**.** We also show that the financial accumulation of capital has its origin in the monetary norms instituted since 1960s. We will finish this part by an analysis of the specific mechanisms of stockholder accumulation of capital during 1980s (under the dual monetary regime) and during 1990s (under the monetary regime of Real plan) by underlining the role of monetary norms as a mechanism of the preservation of profitability on public debt securities.

This historical analysis of social compromises that crystallise the monetary norms, allows us to illustrate empirically the hypothesis of monetary regulation of interests and to reveal the structural determinants of external vulnerability that lead to financial crises. In the second part, we will analyse the mechanism of economic cycle by going from the specific context of Brazilian economy during 1998/1999. In the first step, we will perform a critical analysis of the text of J. Lopez (2001), then, in the second step, we will show the interactions between monetary policy (subordinated to the interests of financial and banking capital), the evolution of the internal and external vulnerability and the evolution of the confidence of financial markets (that are materialised by their expectations or what we can call the "*external credibility*"). Finally, in the third part, we conclude this research.

The structural determinants of external vulnerability: from the loss of monetary sovereignty to the stockholder accumulation of capital

The analysis of the mechanisms at the origin of the loss of autonomy of monetary policy requires to take into consideration, in the historical perspective, the interactions between the internal factors (related to the nature and dynamic of growth regime founded on the import substitution policy), the external factors (related to the evolution of international conjuncture), and also the role performed by these factors in the mechanism of indebtedness of Brazilian economy and in the progressive passage towards the "over-indebtedness".

During the post-war period, the growth regime founded on import substitution strategy[138] presented endogenous limits to the productive accumulation of capital. These limits resided in the inadequacy between the structure of productive offer and that of industrial demand, inadequacy related to the mode of significant unequal distribution of incomes. In fact, in the context of chronic inflation, the average income of population (including this of middle class) observed a small or insufficient increase for dynamizing the sector of durable goods. The strategy of differentiation of products[139] (whose target is to increase the propensity to consume of the upper-middle class) had a very limited impact during the time period. In long run, the overtaking of these endogenous obstacles by the expansion of durable goods market and the capital accumulation required new norms of accumulation founded on the new schema of financing. The state will perform a central role in the institutionalisation of the new monetary norms, or, more generally, in the new monetary financial regime[140].

More precisely, the monetary reforms during 1964/1970[141] allowed the State to establish the institutional basis on the development of an extra-banking credit market (development that will lead afterwards to an internal financing structure), and the creation of a new capital market and a structure of external financing. Firstly, the expansion of the financial institutions and the emission of financial securities will favour the indebtedness of the middle class and it will imply an increase of their purchasing power and their private consumption. The rise of private consumption of middle class will lead to an expansion of internal demand, and consequently, an expansion of the market of durable goods. In this way, the accumulation of capital could be realised even on the price of an increase in social inequalities[142] and an

[138] M. Tavares (1986) explains that import substitution policy draws its origin in the great depression of 1930s, which led to the collapse of the Brazilian exports sector. Then since, the objective of public authorities was, through a deep transformation of the State's role (i.e., its mode of intervention in the key sectors of the economy, and more specifically, its role in the constitution of a heavy industry.), to produce an endogenous dynamic of accumulation of capital and thus to continue the industrialisation of the economy. The State, through a system of multiple exchange rates, could protect the industry of exports and imports. In the first step, this growth regime (founded around the import substitution policy) depended essentially on the production of non durable consumption goods, then, in the second step (after the Second World War) it was oriented progressively towards the production of the durable consumption goods (capital goods, machines…).

[139] This strategy of « marketing » that was based on an intensification of the monopolistic competition, was used in the beginning of 1960s and favoured the appearance of a second-hand market responding to the needs of middle class.

[140] Going from the holistic vision of society and the hypothesis of differentiation and complexification of modern societies in the order of heterogeneous practices (the economic order and the political order), the concept of monetary financial regime can be defined as: "the result of organisational and institutional structures (public and private) that serve to support the monetary and financial circulation, conferring it a form of regularity determined in relation to economic activities, to State versus economy relations, and to a proper level of development of the accumulation of capital" [B. Thérêt (1982)].

[141] However, it would be suitable to note that in 1964 the Central Bank of Brazil was founded and that the competent monetary authorities were set up for the regulation of banking liquidity.

[142] In fact, in a context of indexation of non generalised incomes (the low incomes were not protected from the inflationary erosions), the acceleration of the prices implied that the indebtedness of middle class transform itself into the mechanism of appropriation of wealth in favour of those who had an effective capacity of savings. M. Tavares (1977) illustrated well the mechanisms of increase in social inequalities through statistical data by showing the evolution of the relative participation to different social groups (listed in 5 main categories) in the total incomes. It follows from this study that during the period 1960/1970, the groups B1 and B2 representing respectively the upper middle class (some liberal professions, high officials and medium scale enterprises) and the urban middle class (the bureaucrats of the public and private sector, and also the small traders) saw a more rapid increase in their relative participation, to the detriment of the group C (that represents the lower salaried

over-exploitation of labour force. Pierre Salama (1973) observed, for example, that during the period 1949/1959, the average income of the industry increased from 31% whereas the labour productivity (in the same sector) increased at the rate of 102%.

Since 1968, the capital markets started developing by means of a reorganisation of traditional financial sector (the investment banks were created) and a deep patrimonial restructuring of the enterprises by an opening of their capital in the stock exchange, opening that favoured, besides, the State's fiscal policy. By the mean of the emission of the public debt securities, the Readjustable Bonds of the National Treasury (ORTN) and the Letters of National Treasury (LTN), the social class having a high income level could obtain highly remunerated mixed securities and become the "semi-stockholders" whose consumption would participate in the expansion of internal market. The accumulation of financial assets (encouraged by the reorganisation of the patrimony of enterprises) stimulated the productive assets in the way that they favoured an expansion of aggregate demand (and similtaneousy the profitability of the enterprises in spite of an increase in their cost of indebtedness). This rise of aggregate demand will lead to an expansion of the durable good market. This expansion could be produced by the enrichment of the middle class, or the "transformation" of the richest population into semi-stockholders of the public debt. In this way, financial accumulation had a direct impact on macroeconomic process of savings and investment.

The internal indebtedness of private origin was a support to the process of capital accumulation, at least in short run (as a high economic growth in Brazil between 1965 and 1970 shows) in spite of the limits consisting of an unequal growth regime with "an restricted payment". In fact, in long run, the Brazilian financial system started to observe atrophy related to the growth of interest rate, growth that is explained by a generalisation of various mechanisms of indexation in the context of gradual acceleration of prices. Therefore, if the increase of interest rate allowed the holders of public debt securities to perceive a comfortable financial income, it penalised, besides, the enterprises in a measure where the accelerated growth of the rate of indebtedness was reducing the prospective of long run profits. As long as, a rise in the financial costs could be absorbed by the dynamism of economic growth, the indebtedness did not pose problem. But, in long run, the problem of incapacity of Brazilian financial system to respond to the increasing demand for long run credit could only be exceeded by a significant diversion (of this demand of credit) towards the exterior. Thus, the public external indebtedness became necessary. It was all the more, that once passed through the second step of import substitution policy (i.e., once crossed to the production of durable or sophisticated consumption goods), the pursuit of this growth regime required the increase of imports and thus the recourse to the external savings. The recourse to the external savings (that started between 1971 and 1973, and that had been facilitated, beside, in an international context of over-liquidity)[143], made possible to bridge the insufficiency of public and private savings, once considered the level of investment that required the maintenance of a high rate of capital accumulation. The increase of the relative participation of the public debt of external origin in the total debt allowed the Brazilian government to procure the necessary financial resources for financing the import of more and more sophisticated inputs, and thereby, to solve (at least temporarily) the problem of its recurrent current account deficit.

class) and the group D (composed of the rural workers, independent urban workers and the fringes of the society).

[143] The acceleration of indebtedness of developing countries was facilitated by the abundance of international liquidity. This one was related to the need of recycling the petrodollars of the developed countries.

Thus, in the context of abundance of international liquidity, the process of indebtedness will find a basis of acceleration. Later on, this debt accumulation will gain an exceptional speed in the track of upheavals brought out by international conjuncture. In fact, during the changes of 1980s, the drastic increase of the American interest rate, the sharp appreciation of dollar and the brutal increase of the prices of petrol accelerated the passage from a process of indebtedness towards a process of "over-indebtedness". This later was characterised by a mechanism of *autonomisation* of the public debt as compared to the productive sphere [P. Salama (1989)]. In the first step, the debt compensated for insufficiency of the necessary currencies for the import of capital goods and also in many cases, the insufficiency of the domestic savings. Thereafter, the debt will "*autonomise itself*" because the relationship between imports and capital goods was modified, the public deficit was endogenised: the rise in the debt served to finance the stock of existing debt and not to finance the productive accumulation of capital. Thus, the evolution of the structure of debt becomes an essential element for understanding the dynamic of indebtedness: the part of public debt (in the total debt) obtained on the fluctuating rate was 22.2% during 1971/73 and it increased to 51.8% during 1974/78, finally it ended at 64.4% during the period 1979/1982 [B. Jùnior (1988)]. With the growth rate of debt, what we can call a monetary regulation of economy is progressively instituted: the monetary policy renounces progressively to the requirements of the economic growth and becomes the ground of a stockholder accumulation of capital. The autonomisation of the external debt described by P. Salama (1989) shows also the social and political phenomenon of the stockholder accumulation of capital. The excessive use of external financing responded to entire interests that related the international banking capital to domestic banking capital [Zini Junior (1982)]. Through the operations of indebtedness, these segments of capital produced substantial profits, in the same way, the domestic financial sector could avoid to constitute a basis of captation of the long run resources. On the other side, the analysis of transformations of international financial system, in a historical perspective, is fundamental for understanding the implicit mechanisms of this stockholder (or financial) accumulation of capital[144]. This is produced when the currency changes into a financial asset, or in other words, when the traditional function of credit described by J. Schumpeter (1935) (function related to development of the productive forces), modifies itself and gives place to a process of accumulation of the type "capital-money", i.e., to an accumulation under the "most fetish" form of capital. Thus, the stockholder accumulation of capital causes a break in the classic schema of the credit cycle: the profitability, or the "financial profit", becomes a deduction on the value added.

The new orientation of the economic policy around the external adjustment, implemented progressively during 1980s, appears as a corollary of the phenomenon of depletion of the excluding growth regime. The exacerbation of external constraint, the persistence of inflationary tensions (and its gradual increase) and finally the external debt crisis (that started with the moratorium in September 1982), constitute, as much elements of economic order that will allow us to understand the progressive renouncement of the policy makers with the fundamental compromise articulate around the imperative of economic growth", which was one of the pillars at the time of Brazilian miracle. This reversal concerning to the requirements of the economic policy signified in reality a loss of sovereignty of the State symbolizing a new form of dependence: the dependence of the

[144] In fact, by means of development of euro-markets, the industrial capital of capitalist countries will found the basis of financial valorization outside the productive sphere in a context of collapse of Fordist growth regime and an decrease of the rate of profit or the profitability of capital invested in industry. Thereafter, the concentrated capital of euro-markets will "internationalise" the economy of indebtedness by placing the debtor third world countries "under the heel" of stockholder capital.

technological order gave way to a dependence of financial nature. This transformation of the nature of the dependence raises the question of the loss of sovereignty of the State in the measure where "the compromises sanctioned by the government authorities limit their initiatives in the key sectors of economic policy". [M. Tavares & J-C. Assis (1986)]. Thus, the new management of economic policy by the government, in the beginning of 1980s, will be articulated around the imperative of recessive adjustment recommended by the monetary orthodoxy, in conformity with the expectations of financial markets and international bankers.

Monetary policy and the mechanisms of stockholder accumulation of capital during 1980s:

The beginning of 1980s marked a period of high instability both on economic and political plan. The tightening of external constraint (with the moratorium of September 1982, the brutal fall of foreign capital, the drastic rise of international interest rates and the acceleration of inflationary tensions revived by the two maxi-devaluations of 1979 and 1983 and the inefficacity of monetarist therapy in an economy where the mechanisms of indexation are generalised) led Brazil towards insolvability. This macroeconomic instability produced a high political instability as attested by different governments that were succeeded during this decade. It led also to a destruction of the confidence of private agents in the financial intermediation and also to an increasing preference for liquidity because of the incertitude that generated the interest rates instability and the misalignment of indexators. In the context of incertitude, the application of a policy of external adjustment and more specifically, the formation of a dual monetary regime, will allow the State to respond to a new criteria of estimation of the agents (banks and enterprises) by preserving the financial liquidity (i.e., the profitability of financial securities).

First of all, in the context of big economic instability, the logic of the internal economic policy will be to designate the public sector as "the Ponzi Agent" (L-G Belluzzo & J-G Almeida (2002)), i.e., the agent on which the external adjustment of economy depends. Thus, the economic policy makers of the time gave priority to the preservation of patrimonial structure of private enterprises and to the restoration of current equilibrium of external accounts so that the economy should find itself again in the way of sustainable growth.

First of all, the State had to adjust by implementing a structural adjustment policy in order to decrease internal demand and rise the primary surpluses. Then, the State had to establish the commercial surpluses in order to pay off the interests on its external debt. The establishment of its commercial surpluses during 1980s (these surpluses are explained, on one side, by a good performance of private national enterprises for exports and on the other side, by a drop of imports related to the policy of contention of domestic demand) presupposed, from the macroeconomic point of view, an indebtedness of the State as compared to the export sector. However, this indebtedness of the State could only be realised on the condition that this later preserves the confidence of private agents in the context of deep macroeconomic instability. The set up of dual monetary regime[145], institutionalising the

[145] The duality of monetary regime resides in the fact that two types of money were circulating, whose purchasing power evolved according to an opposed relationship in a context of the inflationary acceleration. There existed a money whose purchasing power would deteriorate if the prices accelerated (it was the matter of the non indexed salaries or the means of payment M1 more generally). And another, the indexed money or the "quasi-money" that differentiated oneself from the other assets not only by the return that it obtained, but also by its high degree of liquidity. This specificity of the Brazilian monetary and financial regime allowed a preservation of the

fragmentation of different functions of money in distinct instruments (the function of reserve of value of money being preserved by the development of indexed money) by assuring the profitability and the liquidity of financial securities, led to preserve the monetary confidence and to support the government debt. The preservation of financial liquidity (i.e., the development of indexed money and also the shortening of terms of debt contracts) responding to new criteria of estimation of the private agents, presupposed an "institutional invention" or a mode of particular functioning of the monetary institutions. The central bank had to react as "cashier's office" in the financial system in order to respond to chronic imbalances of the liquidity that a such system (turned towards a greater preference for the liquidity) implies. More specifically, the mechanism of "*zeragem automático*" (or the monetization of federal public debt) and the intervention of Central Bank in the determination of overnight rate allowed the governement to avoid the financial risks related to development of indexed money and to the shortening of terms of these applications, and allowed it to promote the creation (in the framework of organised financial markets) of a referential, i.e., a social norm fixing the "purchasing power" (or the value) of indexed money and validating, by this mean, its circulation in the society as a particular from of wealth[146]. In substance, the indebtedness of the State, in a context of external adjustment, will be the basis of a stockholder valorization of capital because the preservation of financial liquidity made possible the transformation of this indebtedness into the accumulation of rights on real wealth by surplus private sector (i.e., the export enterprises). In this sense, the monetary regulation of interests[147] is expressed during 1980s by the designation of State as a Ponzi Agent and by the splitting of the monetary crisis in a profound crisis of public finances that served the basis of a stockholder accumulation of capital. However, in the context of acceleration of prices,[148] this monetary regulation of interests is also realised at the expense of those who did not enjoyed of any power on fixing the relative prices (i.e., the precarious workers of informal sector), and who was subjected to, consequently, the erosion of their purchasing power because of inflationary taxes.

Monetary policy and mechanisms of the stockholder accumulation of capital during 1990s:

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function of the reserve of money, and by this means, allowed the Sate to avoid the scenario of a classic hyper-inflation as described by A. Orléan and M. Aglietta (1982).

[146] In this way, by means of mediator institutions (the monetary institutions, the organised financial markets and the banks) was founded a socially acknowledged evaluation of the debt (financial liquidity), i.e., the banking rules or norms serving the basis of the emission of private money (bank liquidity) in order to make the monetary system more effective (i.e., more capable of doing in front of the liquidity preference of the commercial subjects without, at the same time, strangling durably the economic development). Thus, the liquidity of a good or an asset is referred to its capacity to become a socially accepted form of wealth, i.e., its capacity to be accepted) as the means of payment within a given community.

[147] The consideration of the effect of profitability of financial securities on the strategy of those who command the investment, allowed us to underline a mechanism of perverse financialisation of the economy and thus to take into account the phenomenon of precariousness of labour market in the specific framework of dual monetary regime. This mechanism of precariousness of the labour market is inscribed also in the logic of this monetary regulation of interests. For a detailed analysis of this point, see the work of H. Diawara (2006), chapter 3, p-113.

[148] As underlined by P. Salama and J. Valier (1990) the accentuation of the net transfer of external debt (transfer that will lead to the exacerbation of distributive conflict), and also the recessive orientation of the economic policy are as many factors of structural and cyclical order that allow us to understand the phenomenon of acceleration of inflation during 1980s.

In the end of 1980s, the dual monetary regime achieved these limits as shown by the exacerbation of distributive conflict and the vertiginous acceleration of inflationary process. In March 1990, when F. Collor was elected for the presidency, the monthly inflation rate increased to 81%. Progressively, a new regime of economic policy, adopting the precepts of the neoliberal ideology, will be implemented. According to B. Sallum (2001) and A. Boito (1999) the emergence and the consolidation of neoliberal ideology in Brazil and afterwards the adoption of Real plan, can be analysed under the angle of transformations relating to political powers, the civil society and the mode of international insertion of national economies.

The adoption of Real plan: the different politic, economic and institutional mechanisms

The high macroeconomic instability (fiscal crisis of State, increase of unemployment rate and acceleration of prices) generated a deep internal political crisis. This later was characterised by a reconsideration of the developmentist State of Ere Vargas, and by a fragmentation of the representatives of State around different interests, witch led to the collapse of military regime.

This evolution of relationship of state with society (symbolising the political crisis), in a particular international context,[149]will favour the emergence of a new political project uniting the Brazilian industrial bourgeoisie [politically weakened (due to the break of populist front) and economically (due to the external debt crisis)] and the big banks around the neoliberal development project. The big banks were identified before the big industrial corporations with the neoliberal discourse. In fact, since the period of the Figueiredo government (in force from 1979 to 1985), the Fenabran (the Brazilian Federation of the Association of Banks) defended the idea of privatisation and trade openness and tended to integrate the other fractions of bourgeoisie around this programme. Afterwards, the failure of the Cruzado plan (and the other programmes of stabilisation that will follow) and the election of F. Collor in 1990 on the presidency will provok up the disaccords between the local bourgeoisie and the development economists. Since the mid of 1980, in the context of political crisis and the reconsideration of varguist heritage, the employers (allied to the middle class and supported by the media) organised around a new political orientation. As underlined by A. Boito (1999), the campaign led by the employers did not focus to reconstitute the “old State” and its basis of the autocratic society, but on the contrary, it moved away from the model of anterior development through a strong critique of the interventionist policy of State and reclaimed a deregulation of markets and also a best reception of foreign capital. However, it will be necessary to wait for the implementation of Collor’s government in March 1990 in order to penetrate, in the State institutions, the political and ideological changes promoted by the big body of employers.

[149] Different elements can characterise this new international context : the creation of G5 (or the group of most industrialised countries) in September 1985, and the consolidation of the Europeans and north-American associations of employers around the neoliberal project of deregulation of the workers’ rights (in a context of continual decline of the rate of profit), or the ideological decline of the Soviet Union for example (which inscribed in a more global framework of ideological crisis of the socialist and revolutionary movement). On the other side, the neoliberal governments of the central countries (the Great Britain, via the government of Thatcher, and the United States during Reagan government) put the pressure to engage in the liberalisation of foreign trade and the privatisation of state enterprises of the peripheral countries.

The liberal strategies implemented during 1990 (trade openness and privatisations) were supported by the political forces and the majority parties that had supported the government of Itamar Franco. However, it should be necessary to wait for the election of F-H Cardoso in 1995 in order to construct “a new political formula” resembling the political forces and to transform the political coalition into hegemonic block. This “political formula”, that was presented under the form of a referential stipulating the monetary stabilisation, served the basis for a political legitimacy of neoliberal governments. The media institutions performed a preponderant role in the discursive legitimization[150] of this referential, which benefited from a great popular adhesion. In fact, the media have adhered to the ideological speech the most liberal and the most internationalised of a new hegemonic block, and the President was presented as a brilliant intellectual, and a skilful reformer morally unquestionable. Thus, the introduction of Real plan, in the context of recovery in the capital flows in Latin America, reflects the result of a solid political alliance between Brazilian social democratic party (PSDB) and the party of liberal forces (PFL). This alliance was supported by an important majority of parliamentarians, the bureaucrats, and the officers having the executive powers, as well as the party of middle class, the popular class, and the urban trade-unions. This consolidation of the alliance around the project of great employers (alliance that represented the interests of great banking and financial capital) led to the adoption of the policies of privatisation and financial and trade liberalisation and also to the application of a new programme of monetary stabilisation: the Real plan.

A certain number of empirical data illustrates this process of trade and financial liberalisation. Between 1990 and 1994, for example, the tariff barriers in the industrial sector were reduced from 47.9% to 25.2% [R. Carneiro (2002)]. During 1990s, an increasing number of national enterprises in the key sectors of economy (sector of steel, transport, telecommunication, and the distribution of electricity) were privatised. The modification of the legislation of financial system favoured a massive inflow of capital. This later increased from 4.3 million of dollars in April 1993 to 91 million of dollars in October 1996. Finally, in the context of openness of the markets, the management of monetary policy was particularly active for reassuring the international investors in relation to the newly introduced currency, the Real, and for insuring the anchorage of nominal exchange rate by an abundant flow of foreign capital[151]. This new economic policy regime reflects deep social and institutional changes. First of all, the competitive regime has been transforming, on one side due to the effect of intensification of internal competition and on the other side due to the fact of a deep restructuring of domestic financial system and the reinforcement of oligopolistic structure of big financial and banking capital, reinforcement caused by the financial liberalisation policy. On the other side, with the consolidation of neoliberal ideology and the liberalisation of markets, the State of periphery is being transformed equally. The modes of intervention of the

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[150] We inspire here from the concept of legitimisation developed by B. Jobert and F. Muller (1985), for introducing the notion of *discursive legitimisation*. According to these authors, the legitimisation policies focus on the policy actions according to which a social order will be considered as more just, more equitable by the members of a given society. Therefore, we can make the hypothesis that the *discursive legitimisation* uses the symbolic of speech and language for presenting a policy action (or an economic policy) as just and equitable.

[151] The Real plan implemented in July 1994 was founded on the theoretical presupposition according to which the internal value of money (whose variations are reflected through the inflation) could be determined as a function of its external value (which represents the exchange rate of local currency as compared to the foreign currency). The decline of the net public debt , the readjustment of the external accounts (allowed by the return of foreign capital) are as many factors of economic order that served the anchorage of the exchange rate and the restoration of the confidence on the currency. On these foundations, a new currency, the Real ,will be created, later on, (refer to table A of the annex p-36 for a more detailed analysis of different economic mechanisms that favoured the return towards the monetary confidence and the anchorage of exchange rate in Brazil).

State with respect to the economy are rethought: the State has been adapting to the new financial and competitive norms (imposed by the openness of markets) through a process of reformulation/reduction of its mode of intervention in different sectors of economy. Its role has been redefining in relation to a productive system, though the process of privatisation, fusion and acquisition, and in relation to labour market, through the process of flexibility and juridical reformulation of labour laws. Finally, in the social domain (health, residence, and education) its withdrawal was legitimated by using the discourse of decentralization and focalization of public services exalted by the neoliberal governments. The elements that determine this mechanism of reformulation/reduction of State's intervention are the new forms of *domination*[152]. This later structure the private interests and reflect, in a certain way, the phenomenon of the new hierarchisation of institutional forms as mentioned by R. Boyer (1998). All these institutional changes led to a process of disinflation and a deep productive reorganization reinforcing the precariousness of the labour market (referred to diagram A of the annex p-36).

Monetary norms and stockholder accumulation of capital.

As we discussed previously, the rigorous management of monetary policy (the considerable elevation of the basic rate of economy, the Selic rate) was implemented for attracting the capital flows by assuring the profitability of financial securities. Therefore, during the decade of nineties, the rate over annual Selic (expressed in real terms) will always be superior to 20%[153]. The type of international insertion of the countries called periphery in the world economy, and in general, the mode of functioning of the international monetary system (IMS), is a fundamental element for understanding the mode of internal management of monetary policy in a measure where the determination of basic interest rate of the system influences the rates of other national monetary systems. This type of functioning of IMS reveals a remarkable power of financial markets. The periphery countries, in the movement of financial and economic liberalisation, set up the programmes of stabilisation in accordance to the norms of liberalised financial markets. These norms dictate the conditions of creation of an attracting offer for assets. Taking into account the intrinsic fragility of newly stabilised currencies, the rate of remuneration of financial securities would have to assure the high gains on capital by incorporating a high risk premium (the spread), the evolution of international interest rate and the evolution of eventual inflationary expectations or depreciation of nominal exchange rate.

The process of stockholder accumulation of capital can be considered when we are interested, in the first step, in the nature of monetary norms that guide the conduit of economic policy (and particularly the management of interest rate), and when we analyse, in the second step, the role of interest rate on the strategies of social and economic actors and

[152] The conception of world economy developed by Pierre Salama and G. Manthias (1983), world economy that they presented as "an organized group in hierarchy" in perpetual movement and from which they deduce the nature of the class of State in the specific framework of peripheral country, is interesting when they allow us to understand that the relationship of domination (between centre/periphery and within each big geographical block) is not implied fundamentally an *instrumentalisation* of states of the periphery by the states of the centre. In this way, it is possible to conceive that this later can adapt, by means of specific mediations (or the use of economic policy) to different transformations that can be produced in the framework of international division of labour without, however, negating the existence of the structures of domination that characterise this world economy.

[153] Except during the period 1993/1994 where it is situated in the surroundings of 13.3% and during the period of 1996/1997 where it is stabilised around 16.7% (data by Central Bank of Brazil).

particularly those who command and finance the investment (i.e., the enterprises and banks). This consideration brings us to make the hypothesis that in the framework of the new monetary regime of Real plan, the Central Bank and whole of the associated monetary institutions (the National Monetary Commission, and the Monetary Policy Committee), in accordance to the precepts of neoliberal governments, define the monetary policy by adopting implicit presuppositions to the models of credibility such that these are presented in the standard theory, through especially the reference of the Taylor's rule. This institutional compromise leads to a rigorous and subordinated management of the monetary policy. In fact, this later is intrinsically related to the evolution of inflationary expectations that emerge in the framework of financial markets. This compromise will acquire a more formal character with the abandoning of the fixed exchange rate policy (the system of "*crawling peg*") and the adoption of the system of the objective of inflation (with the passage of a flexible exchange rate regime in 1999). This compromise will be the basis of the creation of monetary norms and financial conventions validating the conduit of the monetary policy that reproduces the tendency of the passed decade: i.e., the one that supports the liquidity and the profitability of public debt securities.

This preservation of the profitability and liquidity of the financial securities (or more generally the new financial norms determining the conditions of financing the public debt) influences, thereafter, on the strategies of economic agents: the banks, more weakened in the context of break of inflationary gains (that had favoured the implementation of a dual and inflationary monetary regime during 1980s) and in the context of a considerable increase of the real interest rate tends to adopt a patrimonialist behaviour[154] by reducing their distribution of credit accorded to enterprises (by means of an increase of the spread on lending rate) and by inducing more in the most lucrative operations of treasury. The evolution of patrimonial structure of the principal banks shows the continual rise of the relative participation of financial securities in banking assets. According to the data given by L-F. Rodrigues de Paulo & Alii (2001), during the period starting from June 1994 to December 1998, the 15 biggest private Brazilian banks[155] doubled the participation of their applications in the securities and stocks and shares in the total assets because this later increase from 15.2% to around 30% during the considered period.

Therefore, during 1990s, the monetary regulation of interests is expressed by the implementation of a new social compromise instituting the anchorage of exchange rate and the disinflation, and also by a rigorous orientation of the monetary policy reinforcing the precariousness of labour market (as showed by the schema A of the Annex p-36) and favouring the holders of capitals and the hegemonic block of power.

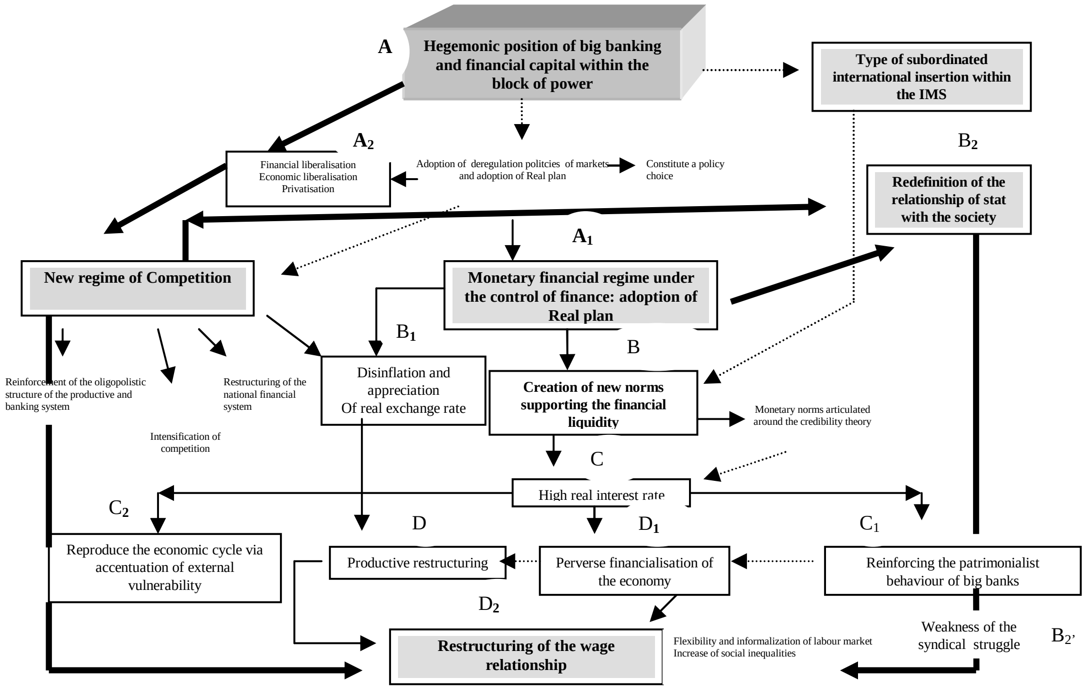
[154] Beyond the cyclical factors (related to the management of monetary policy) we should also take into account, the structural factors that explain the evolution of the strategies of the banks. In accordance to M. Farhi (2003), the adoption of a patrimonialist behaviour of banks is inscribed fundamentally in a long run perspective that retraces the deep mutations of international finance (with the passage of a system determined by the banks to a system determined by the market, called the market led finance) and also the economic and political mechanisms of transmission of American modes of management of risk to rest of the world. In this way, the adoption of a speculative behaviour by the banks reflect, in a certain way, the "supremacy" or the hegemony of a finance that is constituted in the torment of the process of market liberalisation. Later on, with the transformation of national financial system that will accompany the process of privatisation and denationalisation of banking system, the foreign banks tend to adopt the norms of conduit of the private national banks that are manifested by a high propensity to use the foreign funds and a very high level of credit rationing [R. Carneiro (2002)].

[155] If we consider the criterion of the participation of total deposits in the banking system.

Conclusion: The stockholder accumulation of capital and the external vulnerability:

The historical analysis allowed us to show that the loss of the autonomy of the monetary policy is produced by means of the acceleration of external indebtedness that implied the nature of a growth regime founded on the import substitution model. Progressively with the *autonomization* of the debt as compared to the productive system, the economic policy will depart from the objective of economic growth and the monetary policy will become a basis for the financial accumulation of capital. This financial (or stockholder) accumulation of capital was developed during 1980s (in the framework of a dual monetary regime where the State is considered as the Ponzi Agent) and during 1990s (in the framework of new monetary regime articulated around the Real plan), by means of monetary and financial norms preserving the liquidity and the profitability of public debt securities. The preservation of financial liquidity will produce afterwards the financial instability because of its effects on external constraint. This analytical procedure that analyses the role of monetary policy by going from the public debt as a support of the financial liquidity allows us to relate the mechanisms of stockholder accumulation of capital (Position C_1) to the economic cycle (position C_2), as shows the diagram B:

Diagram B: Logic of economic cycle in the framework of a liberalised economy



Box B: Comments of diagram B

The adoption of neoliberal economic policy, in spite of responding to different socio-economic and historical factors, remains fundamentally a policy choice. This policy choice legitimates the implementation of Real plan and the economic and financial liberalisation policies (position A1 and A2). Within the monetary regime, financial norms (articulated around the credibility theory) are created and these norms will validate the maintenance of liquidity and profitability of financial securities by using the policy of high interest rate (position C). the maintenance of financial liquidity in the context of disinflation (position B1) supports, on one side, the development of patrimonialist behaviour of big banking and productive enterprises (position C1 and D1), and on the other side, the economic instability because of the reversal of expectations of financial markets related to an increase of external vulnerability (position C2). The wealth accumulation under a "fictive form", caused by the conditions of financing of public debt, implies a perverse financialisation of the economy (position D1). Thus, the phenomenon of the destructuring of wage relationship (position D2), i.e., the accentuation of the flexibility, informality of wages relationship and also the social inequalities, results from a decrease of productive investments and employment related to perverse financialisation of economy (position D1) and result from the productive restructuring caused by trade openness, competitive disinflation and the valuation of real exchange rate (position D). This precariousness of labour market results also from the redefining of the role of State (position B2) in the framework of a new regime of competition and result from the fragmentation of the syndical struggle (position B2').

Let us analyse more precisely the different mechanisms that allow us to understand the position C_1, i.e., the logic of economic cycle.

From external vulnerability to economic cycle:

The analysis of interactions between the monetary policy, the evolution of external constraint and the evolution of expectations of financial markets allow us to reveal the different mechanisms of economic cycle (position C_1 of diagram B). We will start the second part by a critical analysis of the text of J-Lopez (2001). We will explain this methodology afterwards.

Contributions and limits of the work of J. Lopez (2001):

J. Lopez (2001) inspires from the theory of cycle by M. Kalechi (that he modified however by integrating the financial relations through taking into account the macroeconomic effects of the policy of credit rationing) to describe the phenomenon of economic instability that concerns most of the Latino American economies during recent years and particularly during 1990s. According to the author, the descending phase of cycle is produced following a degradation of external accounts caused by the implementation of rigorous economic policies precipitating the reversal of the expectations of private agents. Then, the reversal of the expectations influences the trajectory of private investments and economic growth. The phase of recovery is produced by an external shock supported by the State. This positive external shock influences the level of effective demand and causes, by this means, the return towards the confidence and the economic growth.

Different mechanisms working in the phase of recession of cycle

The fundamental hypothesis defended by the author is that external shocks (and more precisely, the repercussions of these shocks on the conduit of economic policy and the) evolution of the expectations of private agents) are fundamentally the source of economic cycle. These external shocks can come from the deterioration of the terms of trade which causes a fall of exports and an amplification of the current account deficits. This amplification of the current account deficits conduces governments to adopt restrictive fiscal and monetary policies and also a policy of depreciation/devaluation of nominal exchange rate. The contraction of the government expenditures and the policy of high interest rates (implemented via the rationing of the banking credit) accentuate the deterioration of expectations of agents. This favours a decrease of private investments (i.e., a drop of fix investment, residential construction stock, and also the machines and equipments). The decrease of private investments, and more generally, private expenditures reduces the perspectives of profits of enterprises, the level of aggregate demand, and the growth rate of employment and production. The deceleration of private expenditures is not only the reason of the fall of the investment rate: it depends also on the evolution of consumption. This one is reduced once taken into account the contraction of government expenditures and the decline in the wages produced by inflationary acceleration (which comes from the policy of nominal exchange rate depreciation and its repercussions on the prices of imported goods). On the other side, the decrease in the level of employment reverberates negatively on the evolution of wages. When the recession propagates, in the context of devaluation/depreciation of exchange rate, as the decrease of quantity of imported goods becomes proportionally stronger that the exported goods, the balance of trade will show a tendency of amelioration.

Different mechanisms working in the recession phase of cycle

A necessary condition (but not sufficient) for the economy to go progressively from recessive phase to recovery phase of cycle is the existence of a positive external shock. This one can be produced following an rise of prices of the exported commodities and thus a restoration of the terms of trade. This later involves, on one side, an increase of exports (and thus an amelioration of the trade balance) and, on the other side, a recovery of government receipts (related to an augmentation of import taxes), which imply a_growth in public expenditures:

"The growth of exports is an important factor for trigging the economic recovery. The growth of government expenditures and, particularly, their increase, financed by the taxes on exports, seems to be another important factor that would trigger the recovery. As the public expenditure financed by receipts coming from exports do not reduce the purchasing power of population, it has an important expansionary effect and it can significantly increase the domestic demand, although the external and fiscal equilibrium is not assured" [J.Lopez (2001), p-306].

The increase of the effective demand, produced by the expansionary effect of government expenditures, stimulates the consumption and private investments. Finally, the rate of profit[156] and the aggregate demand ameliorate and the economic growth is restarted.

We can note that J. Lopez (2001) underlines the hysteresis effects produced by economic recession insofar as the private consumption and investment, in spite of the recovery phase, can be inferior to their anterior levels (i.e., their levels before economic crisis). On the other side, whatsoever the vigour of the phase of economic expansion and the recovery of employment may be, the real average wages do not recover integrally. In this sense, the recovery of economic growth, whatever high it may be, remains in unbalanced[157].

This analysis of the economic cycle revisited in a Kakechian perspective is interesting because it underlines the significant role of economic policy (and especially the monetary and fiscal policies) in the evolution of expected effective demand of private agents. It highlights, besides, the role of external factors in the orientation of the conduit of government policy and also the macroeconomic implications of this political choice. However, numerous elements should be reconsidered for applying this model on specific case of Brazilian economy. Firstly,

[156] In a Kalechian perspective, the macroeconomic profit depends on autonomous real expenditures which is constituted by the consumption and private investment of capitalists. When the long run expectations ameliorate, the capitalists take the investment decisions that they achieve. However, in the analysis developed by J. Julio, the recovery phase do not follow integrally the typical norms of ascension of economic cycle described by M. Kalecki. More precisely, by the mean of the amelioration of the trade balance (and thus the positive external shocks) and by an increase in the government expenditures, the long run expectations and the rate of profit ameliorate, and private investment is, later on, stimulated: "once initiated, the economic recovery is developed in a way closer to this anticipated in Kalecki's theory. The very high profits stimulate the private investment, employment, wages, and the private consumption. In this way, from a certain step, the private expenditure replaces the exports and also the government expenditures as a principal factor of demand in the process of recovery" [J. Lopez (2001), p-295)].

[157] These effects of hyteresis can be explained by major structural changes caused by the deepening of the flexibility of labour market during the time of crisis. On the other side, contrary to the author, the hypothesis of a recovery of employment to its pre-crisis level does not seem to be applicable to the specific case of Brazil if we refer to the declining trajectory of the time series of the employment.

it should be noted that the weight of external constraint is an important structural determinant in the comprehension of financial crises. However, it does not explain all. The effect of an increase in external financing requirement on the reversal of expectations of financial markets should also be considered.

In this sence, beyond the historical evolutions that determine the structural character of what J. Lopez calls “external shock”, it is necessary to reveal the nature of this external constraint, that is, in the case of an economy like Brazil, fundamentally of financial origin. Secondly, the recovery phase of the cycle is not accompanied by an increase of government expenditures (which ameliorates the state of the expectations) because the fiscal rigour is generally imposed as a condition of financial aid coming from international organisations. Finally, there must be emphasis, on one side, on the role of foreign aid as a way for restoring the credibility of governments and, on the other side, the return of confidence of financial markets as a fundamental element in the passage from the phase of recession towards the recovery phase. [(P. Salama, 2004)].

The economic cycle and the financial dependence:

If we consider that financial dependence is a fundamental element for characterising the type of international insertion of certain peripheral economies, thus, the question of economic cycle implies to explain the different processes at the origin of reversal of expectations of financial markets that makes possible the passage from the phase of growth towards the phase of recession whose hysteresis effects compromise the long run growth.

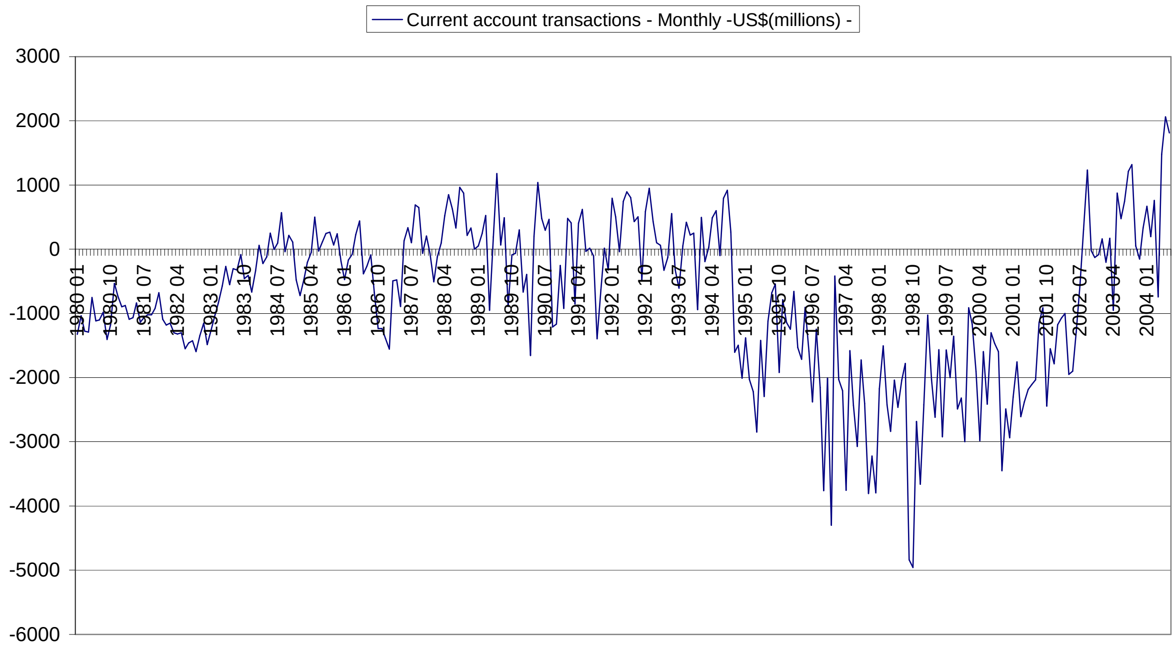
Specific role of monetary policy

External and internal imbalances: some empirical evidences

Monetary regime, using the anchorage of exchange rate, in the context of internationalisation of capital, has generated a current account deficit that accentuates the financial dependence vis-à-vis the exterior. On the other side, the policy of high interest rates, in the context of increasing capital flows and an increase in the international reserves, rises (through the process of sterilisation) the internal debt of the government sector.

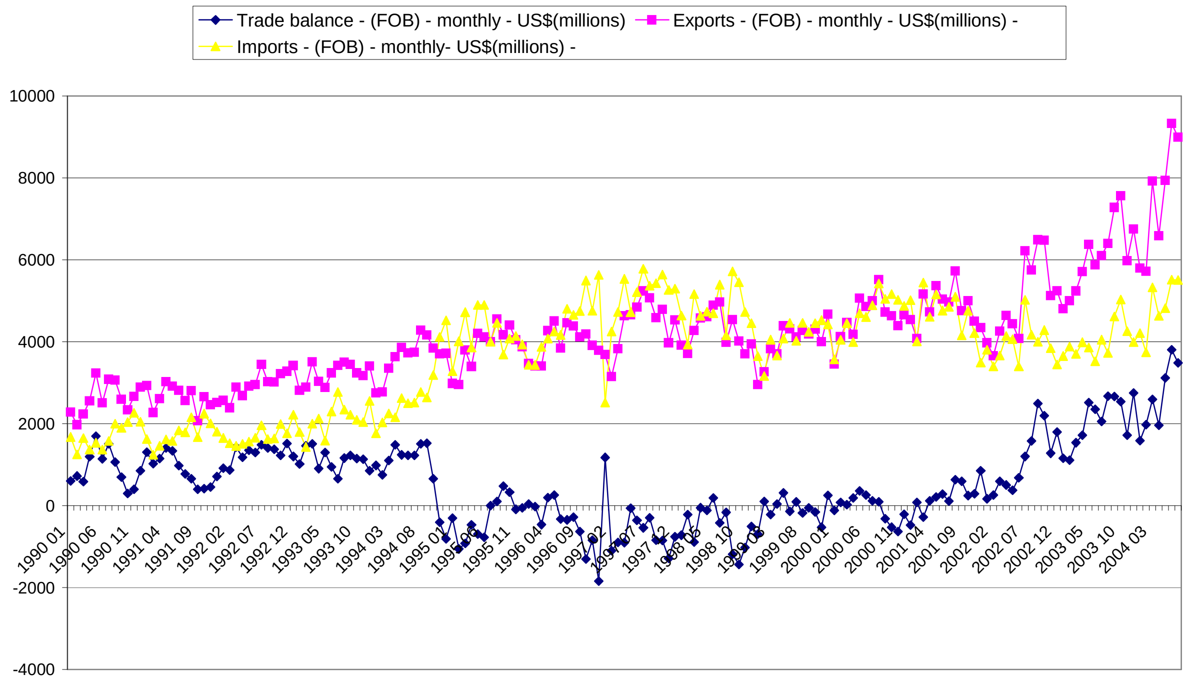
Monetary policy and the evolution of current account balance.

Graph 1: Evolution of current account balance between 1980 and 2004 (millions of dollars)



Source: Graph elaborated by the author from data base of BCB Boletim/BP.

Graph 2: Evolution of trade balance between 1990 and 2004 (millions of dollars)



Source: Graph elaborated by the author from the data base of BCB Boletim/BP.

Table 1: Decomposition of current account balance between 1992 and 2000 (millions of dollars)

	1992	1993	1994	1995	1996	1997	1998	1999	2000
Exports	35 793	38 563	43 545	46 506	47 747	52 994	51 140	48 011	55 086
Imports	20 554	25 256	33 079	49 858	53 346	59 742	57 743	49 272	55 783
Trade balance	15 239	13 307	10 466	(3 352)	(5 599)	(6 748)	(6 604)	(1 260)	748
Interests	(7 253)	(8 280)	(6 338)	(8 158)	(9 173)	(10 388)	(11 947)	(15 237)	(15 088)
Profits and dividends	(574)	(1 831)	(2 483)	(2 590)	(2 374)	(5 597)	(7 181)	(4 099)	(3 589)
International travels	(319)	(799)	(1 181)	(2 419)	(3 598)	(4 377)	(4 146)	(1457)	(2 086)
Freight	(1 417)	(2 136)	(2 573)	(3 133)	(2 780)	(3 431)	(3 180)	(3 199)	(3 312)
Current account balance	6 143	(592)	(1689)	(17 972)	(23 142)	(30 791)	(33 445)	(25 396)	(24 595)
Current account balance (% of GDP)	1,5	(0,1)	(0,3)	(2,5)	(3,1)	(3,8)	(4,2)	(4,8)	(4,2)
International reserves	19 008	25 878	36 471	50 449	59 039	51 359	43 617	35 554	32 949
Total external debt	135 949	145 726	148 295	159 256	179 935	1999,998	241 644	241 468	232 290
Foreign direct investments	954	954	2 356	4 778	9 580	17,864	26 515	26 903	31 521

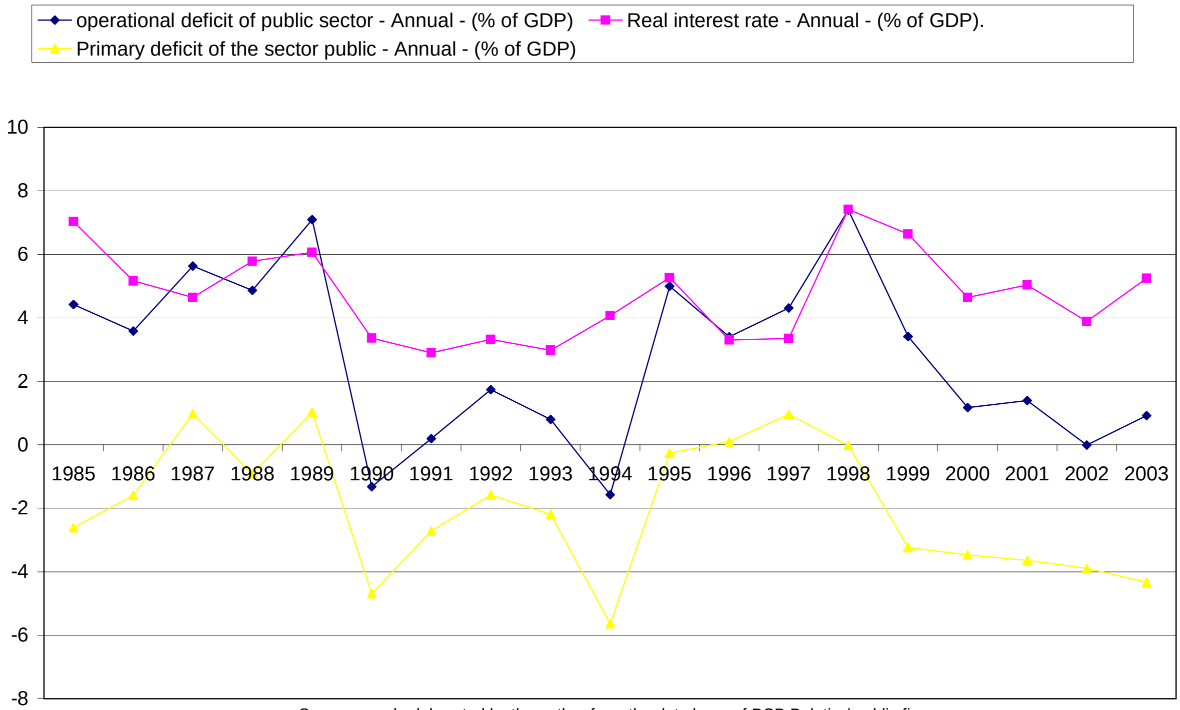
Graph 1 shows the evolution of current account balance between January 1980 and March 2003. We can observe that between August 1994 and February 1995, trade balance deteriorated drastically, declining from a monthly surplus of 918.9 million of dollars to a deficit of -2847.55 million of dollars. Later on, this structural deficit accentuated in December 1996 (to -4296 million of dollars) and in November 1998 (to – 4959.28 million of dollars). The deterioration of the trade balance[158] (in a context of economic openness and overvaluation of the real exchange rate) from September 1994 (Graph 2) explains, partly, the trajectory of current account balance. However, as illustrated in table 1, the internationalisation of capital (repatriation of the profits and dividends) and the patrimonial effects of monetary policy (via the evolution of interests paid on the stock of debt) explain the trajectory of current account balance during 1990s. Thus, the liberalisation of capital and current account have assured, in short run, the capacity of monetary policy to restore the confidence but it will cause the return from mistrust after some years.

Monetary policy and deterioration of public accounts

The notion of operational deficit and total net debt allows us to underline the fundamental relationship between the management of monetary policy and the evolution of public sector accounts. First of all, in a context of extremely high interest rate, the operational deficit continues to increase in spite of the policy of reducing the government expenditures and its corollary in terms of primary surpluses.

[158] we should be considered the fact that in the measure where the FDI lead, for their great majority, in the protected sectors of privatised public services (such as the communication or the electricity) the proportion to import of multinationals becomes relatively important, which is not without consequences on the evolution of trade balance. Therefore, the supposed positive relationship between the FDI flows and the expansion of exports becomes more and more contestable.

Graph 3: Evolution of operational deficit of public sector between 1985 and 2003 (% of GDP)



Source: graph elaborated by the author from the data base of BCB Boletim/ public finances

On the other side, the monetary policy of overvaluation of the real exchange rate and of the high interest rate produces the accumulation of international reserves via the inflow of foreign capital. However, the sterilisation of a part of these reserves (made it necessary to avoid that an excessive overvaluation of exchange rate should comprise its anchorage) causes an augmentation of the internal net debt of public sector[159]. In this context, external vulnerability implies also, a very high internal vulnerability. According to the data by R. Carnerio (2002), internal public debt increased considerably between 1994 and 1998, rising from 20% of GDP to 35% during the period considered.

Macroeconomic imbalances and the reversal of expectations

Therefore, we should conclude that the movement of cycle shows the interactions between the evolution of external constraint and its repercussions on the expectations of financial markets and the management of economic policy by the government (and also the macroeconomic implications of it). Thus, it is not only a question of imperfection of financial markets.

When the governments acquire a certain credibility and when their capacity of financing is not questioned by an economic or political crisis in the developed countries, then, the appreciation of real exchange rate occurs because of the anchorage of exchange rate to dollar and the accumulation of international reserves. However, when the needs of financing start to increase (due to one side, the policy of high interest rate that was necessary for

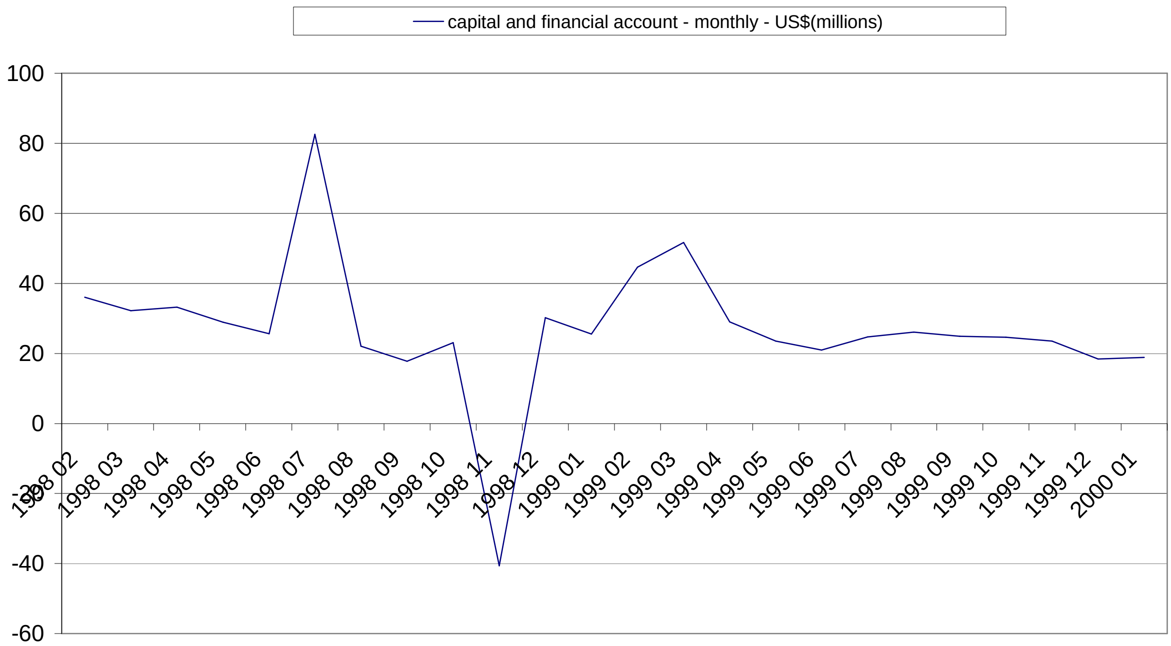
[159] The total net indebtedness of public sector is composed to internal and external debt. In general, the stock of debt will be influenced by the evolution of the exchange rate, real interest rates, GDP and primary deficit.

attracting the capital and their repercussions on the amount of interest to be paid, and on the other side, due to the increasing inflow of repatriated profits and dividends) then a movement of mistrust appears within the financial markets. This mistrust tends to accentuate as the macroeconomic effects of the monetary policy worsen (rise of the weight of indebtedness, rise of government deficits and enhancement of the cost of borrowing with its repercussions on the vulnerability of banks ….).

When the movement of mistrust becomes general to the extent that the financial markets finish by judging unbearable the occurrence of twin deficits (i.e., the operational public sector deficit and the current account balance deficit) in that case the credibility[160] of the government declines and the foreign capital flows start to go out of the country. In order to stop this contagious vague of the distrust, the governments attempt to react by giving the strong signals through a more rigorous management of monetary policy (under the hypothesis that an increase of the interest rate would decelerate, or stop, the movement of capital flight). Therefore, the rate of interest becomes a principal "variable of adjustment" whose manipulation (intended to maintain an expressive differential between the internal rates and the external rates) should calm "the moods" of an excited and very anxious financial market. This specific management of monetary policy during the episodes of generalised distrust in financial markets may be illustrated through following data:

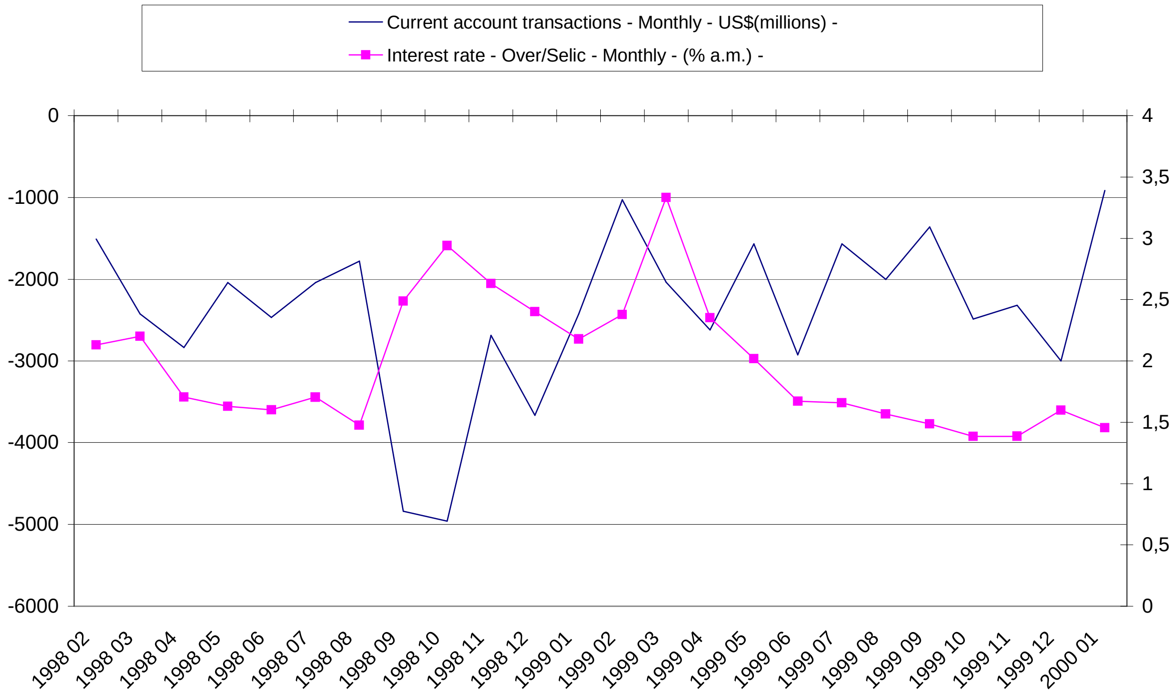
Graph 4: Evolution of capital flows between February 1998 and January 2001 (million of dollars)

[160] In the conventional theory, the norms of sustainability, judged rational, determine the credibility of an economic policy. Then, a sustainable (or credible) policy is defined as "the best economic policy" to implement because it demonstrates its aptitude to be maintained unchanged until an undefined period. This dimension of the credibility is founded implicitly on a specific conception of the social totality represented by the money, which is reduced, in this case, to a contractual or mercantile logic [J-M Pereira 2002, p-6]. However, as mentioned by F. Lordon (1997, p-161), this evaluation of the economic policy that is presented as "objective" is in reality subject to the influence of the conventional judgements. And it's particularly during the episodes of financial turbulences that the supposed rationality of these norms seems more and more contestable in the measure where the restoration of the so called credibility presupposes (for the government) to submit itself to a whole of requirements whose principal objective is to calm the worries of an extremely nervous financial market whose he fears the sanction. In this case of figure, conforming to different criteria of credibility appears as "a screw without end" [Lordon (1997, p-144)].



Source: graph elaborated by the author from the data base of BCB Boletim/BP.

Graph 5: Evolution of the Selic rate in a context of increase of external imbalances



Source: Graph elaborated by the author fron the data of BCB Boletim.

Graph 4 shows the phenomenon of brutal capital flight since that international investors question the credibility of governments. In fact, the foreign capital flows (monthly) decreased from 82.56 million of dollars in July 1998 to -40 million of dollars in November 1998 (i.e., a spectacular decrease of 148% in less than five months). In order to stop this wave of mistrust, in a context of the accentuation of current account deficits (i.e., -4837.25 million of dollars in September 1998), the government tightened its monetary policy of high interest rates: the Selic rate increased from 1.47% in August 1998 to 2.94% in November 1998, and finally reached to 3.33% in February 1999 (graph 5).

One of former aspects of the paradox, well explained by P. Salama (2004), is that it is precisely by searching to go out from the crisis that we precipitate them because the brutal increase of the rate of interest expands the burden of the service of debt and it makes more difficult to satisfy the demands of financial markets. Economic crisis appears thus, reinforced by the implementation of the restrictive economic policies[161] whose supposed role is to reassure the financial markets. The brutal outflows of foreign capital and the decline of reserves cause a depreciation of the exchange rate. The slowdown of economic growth leads to a decrease of aggregate demand. The imports tend to drop; this ameliorates the trade balance beyond the effects of depreciation of nominal exchange rate. Taking into account the rigorous economic policy that government accepted to implement, the international

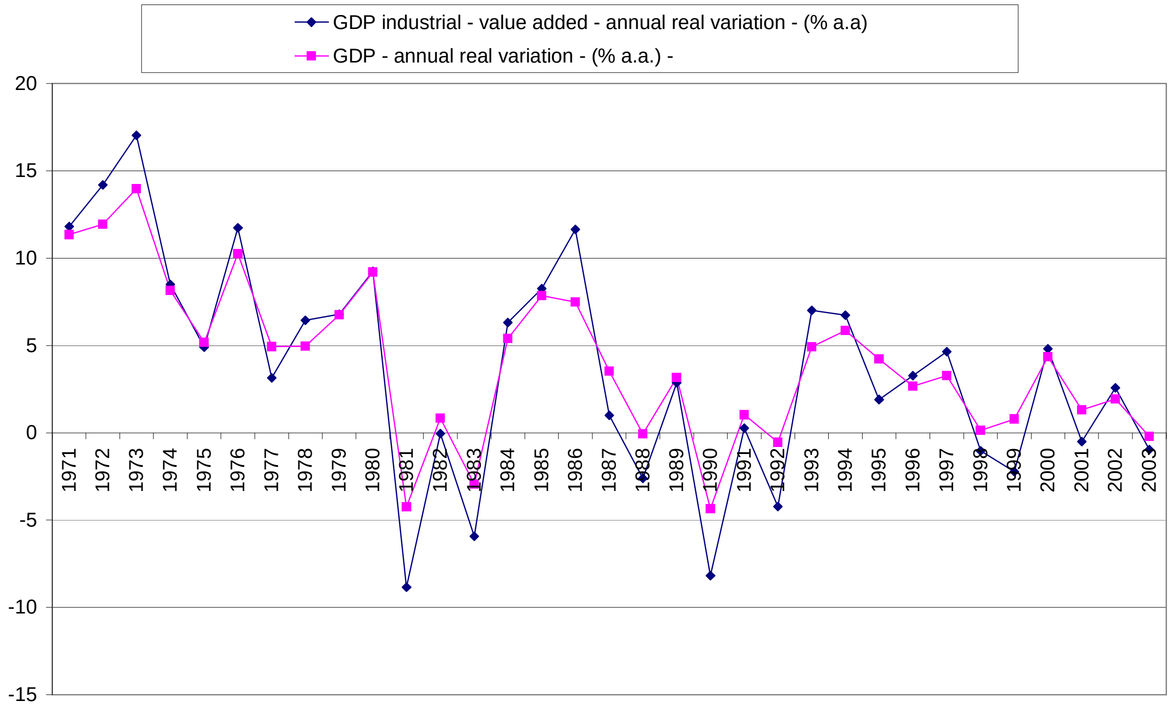
[161] In November 1998, the finance minister, Pedro Malan, presented in the congress an ambitious program of fiscal stabilisation for 3 years which was composed on a series of measures (such as an increase of taxes, and social contributions, a drastic decrease of public expenditures of the states and the municipalities…). This program aimed to reassure the financial markets by displaying the determination of the policy makers to assure and maintain the monetary stability.

institutions agree to give "the aid"[162] that takes the form of a new external indebtedness of government. Thus, this interference of international institutions appears to be an inescapable way so that financial markets to find again their confidence, and this is the second aspect of the paradox of economic policy:

"[…] on one side, economic policies precipitate the crisis instead of avoiding it, on the other side, these are often "the compelling way" for finding a support from international organisations and behind them from international financial markets." [P. Salama (2001), p-20)].

Economic instability revealing the interactions between external vulnerability and management of economic policies by the government in the framework of new monetary regime can be illustrated through the following graph 1 and the diagram B:

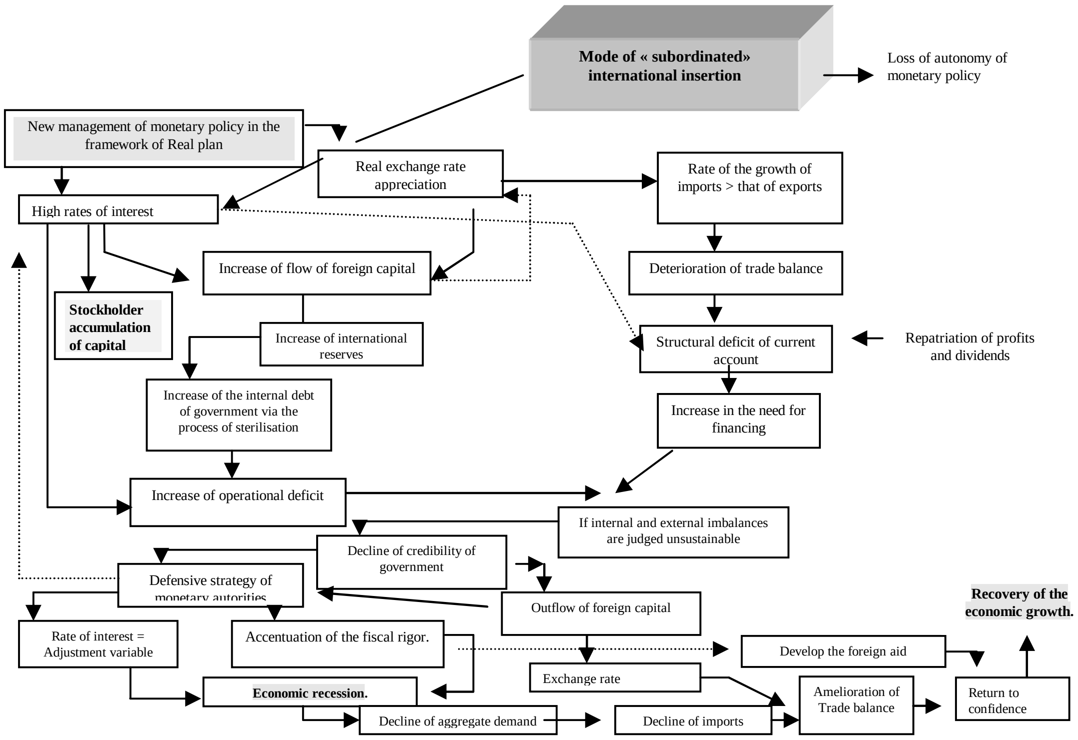
Graph 6: GDP growth rate between 1971 and 2003



Source: graph alaborated by the author from the data base of IBGE.

[162] The IMF (International Monetary Fund) provided in December 1998 an amount reaching to 41.5 billions of dollars for Brazil.

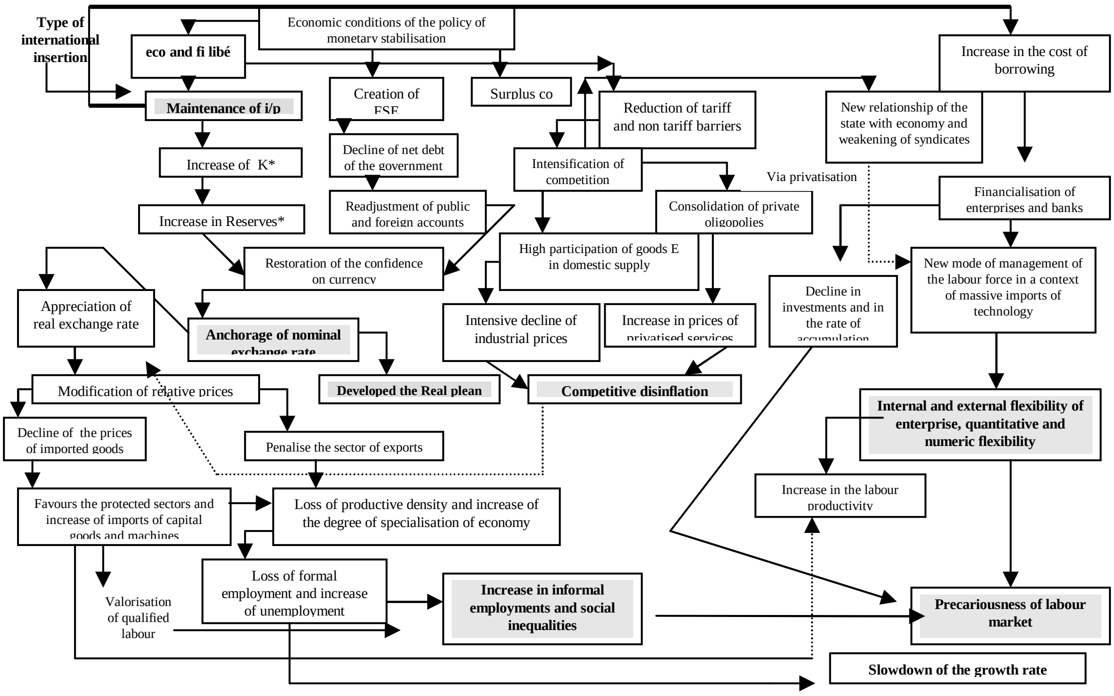
Diagram C: Monetary policy, macroeconomic imbalances and economic cycle



Conclusion

This study analysed the role of monetary policy by going from the public debt as a support of financial liquidity. It concludes that external vulnerability and economic cycle pose the question of monetary sovereignty in terms of the loss of autonomy of monetary policy produced by the external indebtedness whose the counterpart is the stockholder or financial accumulation of capital. It is clear that this perception is not privileged in standard theory. This later is confined to address this question under the angle of default of payment and, monetary sovereignty is found automatically tied up to the notion of good governance. However, as show the recent experiences in Latin-American economies, the political and ideological foundations, that we wished well to give to the credibility and the monetary sovereignty, proves to be intrinsically fragile. Going from the hypothesis of a monetary regulation of interests, we show that financial crises are not only a problem of imperfection of markets or a question of beliefs governing the expectations of financial markets and international investors. Financial crises reflect fundamentally a problem of allocation or viability of a growth regime in which the currency losses its traditional functions of credit by investing less and less in the production system in order to become a pure financial asset.

Annex:/ Diagram A: Distributive effects of monetary policy under the Real plan



Box A: Legend of diagram A

K* = foreign capital
Reserves*=international reserves
i/p = real interest rate
eco and fi libé : economical and financial liberalization
FSE= Social Fund of Emergence
Debt G liquid = net public debt
Surplus co: trade surplus
Goods E = exchangeable goods
Goods NE= non exchangeable goods

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12. REGIME DE ACUMULAÇÃO À DOMINANTE FINANCEIRA NO BRASIL: UMA ANÁLISE REGULACIONISTA DO PERÍODO DE LIBERALIZAÇÃO (Finance-Led Growth Regime in BRAZIL: A “regulationnist” analysis of the liberalization period), *Miguel Bruno*[163] *& Ricardo Caffe*[164]

Introdução

“Há sempre uma alternativa à propriedade de ativos de capital real, notadamente a propriedade de moeda e débitos”. (J. M. Keynes, General Theory)

“Os credores do Estado, na realidade, não dão nada, pois a soma emprestada é convertida em títulos da dívida, facilmente transferíveis, que continuam a funcionar em suas mãos como se fossem a mesma quantidade de dinheiro sonante. Porém, abstraindo a classe de rentistas ociosos assim criada e a riqueza improvisada dos financistas (...), a dívida do Estado fez prosperar (...) o jogo da Bolsa e a moderna bancocracia.”
(K. Marx, O Capital)

Partindo de uma perspectiva regulacionista, o artigo busca identificar as principais tendências macroeconômicas que marcam a economia brasileira no período pós-liberalização. Entre 1950 e 1980, o dinamismo desta economia foi particularmente notável, com uma taxa média de crescimento do produto interno bruto da ordem de 7% a.a. No intervalo 1967-1975, que se tornou conhecido como o período do “milagre econômico brasileiro”, a taxa média de crescimento do PIB foi ainda maior, atingindo a cifra de 10% a.a.. Para muitos observadores, este país parecia, àquela época, rumar definitiva e rapidamente para o rol dos países desenvolvidos. Todavia, a partir de 1980, tornar-se-ía progressivamente claro que esta economia havia perdido sua trajetória de forte expansão, entrando em um período de grandes dificuldades macroeconômicas e estruturais.

Uma das explicações para essa perda de performance encontra-se nas próprias condições estruturais em que o regime de acumulação do “milagre” se reproduzia. Um profit-led growth regime baseado em elevada concentração da renda e da riqueza, onde os ganhos de produtividade não contribuíam significativamente para o crescimento do salário médio real, comprometendo a evolução da demanda agregada. Nestas condições, a continuidade da acumulação dependia do grau em que o aporte de capital externo era capaz de compensar a incompatibilidade dinâmica entre o regime de produtividade e o regime de demanda. Com a queda brusca da entrada de capitais externos, durante a crise da dívida externa dos 80, essa condição não pôde mais ser satisfeita e a crise do próprio regime de acumulação tornou-se patente.

Em conseqüência, as tendências macroeconômicas seriam bem diferentes na década de 1980, marcada pela alta inflação e pelas tendências de estagnação do produto e da renda per capita. Mas as transformações institucionais do período de alto crescimento possibilitaram o

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desenvolvimento das estruturas financeiras com um grau elevado de sofisticação e de acumulação bancária. Quando as condições endógenas de reprodução do regime de crescimento e a conjuntura internacional adversa do período impedem a continuidade do crescimento econômico forte e sustentado, o eixo da acumulação de capital desloca-se, com o apoio do próprio Estado, para o setor bancário-financeiro. A economia brasileira passa então a funcionar sob um regime de crise muito peculiar. De um modo aparentemente paradoxal, a conjuntura estagflacionista convertera-se no ponto de partida de um novo ciclo de acumulação financeira e patrimonial, sem precedentes históricos.

A presente análise busca explicitar as condições macroeconômicas que a partir da liberalização comercial e financeira propiciaram o surgimento de um regime de acumulação muito particular. Posto em movimento por um processo de financeirização usurária, que se desenvolve sob condições de alta concentração da renda e da riqueza, este regime reproduz-se bloqueando os investimentos produtivos e, consequentemente, mantendo a economia brasileira numa trajetória de crescimento lento e instável.

A seção 2 busca abordar as relações entre esse processo de financeirização e o regime de crescimento que lhe corresponde, na perspectiva proposta pela Teoria francesa da Regulação. Esta teoria tem se constituído numa macroeconomia histórica e institucionalista cujo potencial heurístico e explicativo pode ser atestado por uma safra já bastante rica de trabalhos teóricos e estudos de caso. Nesta seção são definidos os conceitos de financeirização e de regime de crescimento ou de acumulação, relacionando-os à noção de regulação e aos conceitos fundamentais de formas institucionais.

Na seção 3 são detalhadas as principais implicações da financeirização da economia brasileira para o processo de acumulação de capital e para o crescimento econômico. O comportamento da poupança empresarial num ambiente caracterizado por elevadíssimas taxas de juros reais é também explicitado. Busca-se apreender as conseqüências macroeconômicas das alternativas de alocação em ativos financeiros de alta liquidez e rentabilidade, com baixo risco. Este fato aponta para a necessidade de se investigar como a composição da poupança das empresas pode tornar-se mais relevante do que sua própria magnitude. Nas atuais condições de liberalização financeira com altíssimas taxas de juros, o problema principal que impede a retomada do crescimento forte e estável não é propriamente a insuficiência de poupança, mas muito mais sua alocação improdutiva ou sua "esterilização" a partir do momento em que se torna, por assim dizer, detida na circulação financeira, e atravessando apenas eventualmente a esfera produtiva.

A seção 4 propõe uma série de indicadores macroeconômicos de financeirização e aplica-os ao caso brasileiro atual. Trata-se de proporcionar elementos empíricos adicionais para o desenvolvimento de pesquisas futuras. Por quase todos os indicadores apresentados, a economia brasileira mostra-se fora dos padrões internacionais do que se considera como uma economia saudável do ponto de vista da acumulação de base produtiva. A seção 5 conclui o trabalho e propõe algumas pistas para novos estudos.

Financeirização e regime de crescimento: uma perspectiva regulacionista

A emergência e consolidação dos regimes de crescimento pressupõem a existência de condições estruturais particulares. Para a Teoria da Regulação, cinco grandes formas institucionais compõem a estrutura macroeconômica necessária ao desenvolvimento do processo de acumulação de capital: a wage-labor nexus (rapport salarial); o regime monetário-financeiro; a forma do Estado e as formas da concorrência e de inserção no regime internacional. A articulação dessas formas institucionais determinará as regularidades macroeconômicas que definem os regimes de crescimento e de acumulação. Por esta razão são consideradas como as componentes do modo de regulação, enquanto estrutura social de base de um determinado padrão de evolução macroeconômica no médio e no longo prazos.

A mobilização do conceito de modo de regulação para o estudo dos processos de financeirização permite reconhecer que um regime de acumulação não tem sua estabilidade garantida automaticamente através de toda e qualquer combinação das cinco formas institucionais. Pode acontecer que a configuração dessas formas institucionais não chegue a constituir-se num modo de regulação, que, por definição, expressa a existência de uma estrutura coerente em termos macroeconômicos e de coesão social com o desenvolvimento sustentado da acumulação de capital.

O processo de financeirização: definição e implicações

A financeirização refere-se ao processo pelo qual a lógica da acumulação financeira e patrimonial sobrepõe-se à lógica da acumulação produtiva do capital, tornado-a menos atrativa ou reduzindo-a a um momento possível, mas não necessário da reprodução dos capitais, em um determinado período histórico e espaço geográfico definidos. Esta definição, portanto, explicita que este fenômeno econômico tem de estar situado no tempo e no espaço, por uma razão básica: os capitais não podem eximir-se de toda e qualquer imobilização sob forma produtiva, já que isto significaria obstar as bases do próprio processo capitalista de acumulação, onde os valores de uso são produzidos como suporte material dos valores de troca. É possível supor que tanto no âmbito da economia nacional quanto da economia mundial, regiões inteiras possam estar dedicadas à acumulação financeira, precisamente porque outras regiões estão voltadas para as imobilizações produtivas, isto é, para atividades reais produtoras de valores de uso. E é exatamente esta possibilidade que a globalização potencializou em escala planetária e por isso a liberalização financeira tem sido estratégica para as nações credoras e para as elites das economias endividadas dos países em vias de desenvolvimento.165

No nível do capital em geral, isto é, ainda sem considerar-se as formas institucionais do Estado e de inserção internacional, um processo de financeirização tende a se desenvolver toda a vez em que a reprodução dos capitais (e, portanto, a acumulação de riquezas) está assegurada preponderantemente por conversão direta da forma monetária, reduzindo consideravelmente a necessidade de conversão indireta através das imobilizações produtivas do capital. Há, portanto um problema de composição referente ao predomínio da forma monetária sobre as demais formas do capital, pois uma participação maior para a primeira pode implicar em uma baixa taxa de acumulação de capital fixo produtivo e, portanto, em baixas taxas de crescimento e de desenvolvimento econômicos.

Para KRIPPNER (2005, p. 174), baseado-se em ARRIGHI (1994), a financeirização pode ser definida como um padrão de acumulação no qual os lucros crescem principalmente

[165] Na análise marxiana, a fórmula $D - D'$, isto é, a conversão direta de dinheiro em mais dinheiro, é a fórmula *par excellence* do movimento do capital, pois traduz a natureza do processo capitalista de acumulação. Isto significa que a passagem pela fórmula $D - M - D'$, que implica a imobilização do capital seja em sua forma-mercadoria, seja em sua forma-produtiva não é sempre necessária e pode mesmo ser deliberadamente evitada quando a alternativa de conversão direta está presente e apresenta-se como a de menor risco e maior rentabilidade para os capitais.

através dos canais financeiros antes que através do comércio e da produção de mercadorias.166 Neste contexto, as finanças incluem as atividades relacionadas à provisão ou transferência de capital líquido (monetário) na expectativa de apropriação futura de juros, dividendos e ganhos de capital.

Três características relacionadas ao atual processo de financeirização são também apontadas por este autor: a) a ascendência do valor das ações como referência para a governança corporativa; b) a dominância crescente dos mercados de capitais em detrimento dos sistemas financeiros baseados em bancos; e c) o crescente poder político e econômico da classe dos rentistas.

Os regimes de crescimento e de acumulação: definição e estatuto teórico

O interesse maior de uma aplicação da Teoria da Regulação ao fenômeno de financeirização da economia brasileira provém de sua metodologia e princípios de base. Um regime de acumulação, compreendido como o resultado macrodinâmico de uma determinada arquitetura das formas institucionais, não surge e se consolida automaticamente por meio de mecanismos puramente mercantis e estritamente econômicos. Não é tão pouco o resultado de algum determinismo tecnológico inescapável que imporia padrões de acumulação completamente estruturados pelos comportamentos individuais de otimização.

Segundo BOYER (1999), um regime de crescimento financeirizado (finance-led growth regime) surge quando os efeitos patrimoniais são muito desenvolvidos e os mercados financeiros levam à generalização de decisões de investimento fortemente determinadas pelas exigências de rentabilidade financeira. Um dos efeitos diretos da financeirização é a elevação das taxas esperadas de retorno dos projetos de investimento, já que a referência ou padrão de rentabilidade está centrado, não nos setores diretamente produtivos, mas no setor financeiro. Conseqüentemente, inúmeros projetos cujos impactos seriam relevantes do ponto de vista social e do desenvolvimento econômico nacional passam a ser descartados pois sua taxa de lucro e risco são avaliados como não satisfatórios pela lógica da acumulação patrimonial. Em outros termos, o retorno financeiro é a variável priorizada e se sobrepõe ao lucro obtido pela alocação diretamente produtiva da poupança das empresas e das famílias.

Uma das hipóteses mobilizadas nesta análise é a de que ao longo dos anos 80 um padrão particular de financeirização da economia brasileira foi a base para o desenvolvimento bancário-financeiro. Mas seguindo a metodologia regulacionista, certas condições institucionais ou estruturais permitiram que a dominância das finanças emergisse a partir do esgotamento e crise do regime de acumulação responsável pelo “milagre econômico” brasileiro dos anos 70.

[166] Dados apresentados em KRIPPNER (2005) mostram que a razão renda de portfólio / fluxo de caixa das corporações dos EUA manteve-se praticamente estável e abaixo dos 10% entre 1950 e 1968, período que pode ser considerado como o de consolidação e auge do modo de desenvolvimento fordista. Com a crise do fordismo enquanto modo de regulação e regime de acumulação, a partir dos anos 70, esta razão entra em uma tendência de forte expansão. Em 1979 atinge os 20% e em 2001, 40%. Para as firmas industriais, o crescimento da razão renda de portfólio/ fluxo de caixa foi ainda maior, ultrapassando os 60% no ano de 2001. A decomposição da renda de portfólio entre dividendos, ganhos de capital e juros, mostra que esta última categoria teve uma participação crescente, atingindo cerca de 75% do fluxo financeiro no ano de 1991 e caindo para 65% no ano de 2001.

O Programa de Ação Econômica do Governo-PAEG de 1964 estabeleceu as bases institucionais para a constituição de um moderno sistema bancário-financeiro, mas também apresentava uma peculiaridade: a criação do dispositivo institucional da correção monetária (CM), que possibilitava a indexação dos ativos financeiros à evolução da inflação. O objetivo governamental com a aplicação da CM era garantir aos credores da dívida pública a reposição das perdas inflacionárias sobre a detenção de ativos e sobre os fluxos de renda correspondentes. Numa economia caracterizada por pressões inflacionárias recorrentes, a CM tendia a reduzir os riscos de perdas no mercado financeiro e seria um fator de promoção do crédito e dos financiamentos em geral.

O problema com esse mecanismo institucional sobreveio com a crise do "milagre econômico" brasileiro, a partir de 1974. Com o ambiente macroeconômico adverso dos anos 80, marcado pela crise da dívida externa, pelas tendências à estagnação e à alta inflação, a prática da correção monetária difunde-se e se torna a base de uma indexação generalizada de preços e salários. Um dos resultados diretos foi a completa perda da função reserva de valor por parte do Estado brasileiro, já que os ativos financeiros privados indexados à inflação substituíam a moeda corrente nesta função. Essa "privatização" da função reserva de valor representava, no entanto, uma base formidável para o desenvolvimento dos lucros bancários – já que sob alta inflação a liquidez passava a ser retida e administrada por essas instituições – e de maneira geral para as demais instituições financeiras.

Um regime monetário-financeiro dual e inflacionista pôde então emergir e se consolidar com base na crise de um regime de acumulação, mas mantendo sem alterações profundas ou significativas, as configurações básicas do modo de regulação. Neste contexto, as funções meio de pagamento e unidade de conta permaneciam com a moeda fiduciária emitida pelo Estado, mas a função reserva de valor fora quase que completamente privatizada, pois passa a ser garantida pela moeda financeira e indexada emitida endogenamente pelas instituições bancárias e financeiras. Uma das peculiaridades desse regime monetário-financeiro foi que essa dualidade monetária evitou a eclosão de uma hiperinflação clássica que teria provocado uma fuga em massa para ativos reais e moedas estrangeiras.167

A década de 80 inaugura na economia brasileira a primeira fase de um processo de financeirização centrado nos grandes lucros do setor bancário, a partir dos ganhos inflacionários legitimamente apropriados por meio do dispositivo institucional da correção monetária. A primeira forma institucional de base desse processo encontrava-se nas especificidades do RMF que lhe correspondia. Todavia, como os demais processos de financeirização observados em outras economias, suas conseqüências sobre a evolução da taxa de acumulação de capital produtivo foram também adversas.168 A chamada "ciranda financeira", um dos resultados macroeconômicos, mantinha a economia em semi-estagnação ao mesmo tempo em que convertia as tendências inflacionárias em uma base da acumulação financeira e patrimonial.

Num tal contexto macroeconômico, a lição que se pode extrair de uma perspectiva regulacionista refere-se ao fato de que um processo de financeirização já existia nos anos 80 e sua emergência pressupunha a existência de configurações particulares das cinco formas

[167] Esta é uma importante diferença com relação ao caso da economia argentina ou de outras hiperinflações clássicas.
[168] Uma ressalva é feita para o caso da economia dos EUA, onde o modo de regulação e as estruturas sociais e econômicas específicas deste país permitem que a financeirização termine por impactar positivamente sobre a taxa de acumulação de capital produtivo.

institucionais. Em outros termos, as especificidades do modo de regulação brasileiro, uma regulação concorrencial, apesar de permanentemente monitorada pelo Estado, criou as condições estruturais para um desenvolvimento financeiro peculiar.169 Um Estado altamente endividado, validando a moeda indexada emitida endogenamente pelo setor bancário-financeiro. Portanto, um regime monetário-financeiro funcionando com base em uma dupla moeda: a de uso corrente e sujeita à corrosão inflacionária, e a moeda financeira indexada e privada, desempenhando a função reserva de valor e ao mesmo tempo sendo o suporte da acumulação financeira e patrimonial sob condições de alta inflação e de quase-estagnação do produto. As formas da concorrência caracterizadas por um alto grau de olipolização das estruturas de mercado e a forma de inserção internacional, ainda sob os mecanismos de proteção do mercado interno. Quanto à relação salarial, permanecia como o fora desde suas origens a partir da crise da economia escravista agrário-exportadora: uma forma institucional hierarquicamente subordinada, altamente concorrencial e caracterizada por um elevado grau de informalização das relações de emprego.170

Na década de 90, o regime de crescimento preservaria seu caráter rentista e patrimonial, mas sob novas condições macroeconômicas e estruturais. O Plano Real fora bem-sucedido em reduzir as altas taxas de inflação, mas a combinação de liberalização financeira e comercial com elevado endividamento público, levou a uma forte pressão por taxas de juros reais extremamente elevadas. Como o regime monetário-financeiro inflacionista fora a base da expansão bancária e financeira da década precedente, o capital financeiro terminou por consolidar sua hegemonia face às demais frações do capital nacional, sobretudo o capital industrial. A pressão política pela liberalização dos fluxos de capital de curto prazo inseria-se nas demandas do capital bancário-financeiro nacional que a considerava um importante canal de acesso aos capitais externos e a novas oportunidades de valorização. Todavia, a queda das taxas de inflação tornar-se-ía estratégica num tal contexto, pois se tratava não só da garantia das margens de rentabilidade real dos capitais, mas também da redução de seus custos de circulação. Em linhas ainda bastante gerais pode-se argumentar que a economia brasileira operou a transição de um regime monetário-financeiro inflacionista para um regime monetário-financeiro à elevada restrição monetária ou à alta taxa de juros. Nessas condições, estariam lançadas as novas condições para a acumulação bancária e financeira tendo o endividamento público como seu principal suporte.

Essa transição, contudo não seria possível sem que um conjunto de transformações estruturais tivesse sido deliberadamente promovido pelo Estado brasileiro, com o objetivo de viabilizar as condições macroeconômicas para uma nova fase sob economia aberta e liberalização financeira. As formas institucionais da economia brasileira, então moldadas pela lógica do modo de desenvolvimento por substituição de importações, foram reconfiguradas num prazo relativamente rápido. Sob condições de democracia política, mas também sob o impulso das forças ideológicas e míticas da globalização nos anos 90, o Estado brasileiro criava as condições institucionais para a emergência e consolidação de um novo modo de regulação. Neste contexto, as promessas neoliberais pautavam-se no argumento de que os regimes de crescimento do período de economia fechada haviam gerado várias distorções de ordem estrutural e macroeconômica. Tais distorções responderiam pelas tendências à estagnação e à alta inflação que marcara os anos 80. Consequentemente, a liberalização

[169] Nesta análise, não serão explicitadas em profundidade as características do modo de regulação brasileiro, apenas aquelas que forem relevantes para a problemática da financeirização. No entanto, um detalhamento maior desta questão pode ser encontrado em BRUNO (2005).

[170] O caráter concorrencial da relação salarial brasileira advém de seu elevado grau de informalidade, baixa taxa de sindicalização, elevado desemprego estrutural

comercial e financeira conjugada com as reformas estruturais da economia brasileira (privatizações, reestruturação industrial; reforma do Estado, etc.) possibilitariam a retomada do processo de crescimento econômico, considerando-se que a poupança externa cuidaria de impulsionar o investimento produtivo.

A abertura comercial e financeira e as reformas estruturais foram, no entanto incapazes de proporcionar as condições para um novo período de crescimento econômico sustentado. A economia brasileira prolongou as tendências à estagnação que marcaram a década de 1980, mas agora sob baixa inflação e taxas de juros extremamente elevadas para uma alocação produtiva do capital.

A renda financeira: definição e fórmula de cálculo

A fim de apreender as condições macroeconômicas que bloqueiam a taxa de investimento, e então de acumulação de capital fixo produtivo, é necessário dispor de uma estimativa robusta da renda financeira proveniente dos ativos que rendem juros. Na economia brasileira atual, podem ser considerados como o principal ativo financeiro por constituírem a base do regime de crescimento financeirizado ou patrimonial pós-liberalização. Além disso, a vigência desse regime, com as configurações das formas institucionais que ele pressupõe, tem aprisionado a política econômica a uma lógica de curto prazo, voltada para a gestão de caixa da União e para os equilíbrios macroeconômicos que respondem às expectativas dos mercados financeiros.

A definição de renda financeira utilizada nesta análise é similar à proposta em EPSTEIN e JAYADEV (2005) e distingue lucros empresariais de retornos provenientes de ativos financeiros. Conseqüentemente, são excluídos os dividendos de empresas não-financeiras. Além disso, não são incluídos os ganhos de capital, em razão da dificuldade de obtenção de séries históricas e de boa qualidade. A renda financeira será então definida como o fluxo total de juros reais recebidos pelo sistema bancário-financeiro e repartido entre empresas não-financeiras e famílias. Trata-se de uma rentier income, porquanto proveniente da renda de juros sobre o capital. Esta definição está coerente com o padrão de acumulação financeira observado no Brasil, onde os títulos de renda fixa ocupam a maior participação nos ativos financeiros totais das empresas e famílias.

Tabela 1 – A Rentier Share Como O Fluxo Total De Juros No Sistema Financeiro Brasileiro Em Percentagem Da Renda Disponível Bruta (1993-2005)

Ano	Renda de Juros Recebidas pelo SF / RDB	Juros Pagos pelo SF às Famílias e Empresas Não-Financeiras / RDB	Juros Apropriados pelo SF / RDB
1993	38,2%	10,0%	28,2%
1994	33,0%	20,4%	12,5%
1995	29,0%	23,3%	5,7%
1996	21,8%	17,0%	4,8%
1997	20,2%	15,6%	4,6%
1998	23,8%	19,1%	4,7%
1999	43,8%	39,4%	4,4%
2000	19,2%	15,5%	3,7%
2001	30,9%	26,2%	4,7%
2002	36,2%	30,9%	5,2%
2003	30,6%	24,7%	5,8%
2004	27,8%	23,0%	4,8%
2005	27,3%	23,9%	3,5%
Média	29,4%	22,2%	7,1%

Fonte: IBGE – Instituo Brasileiro de Geografia e Estatística / Coordenação de Contas Nacionais.

Nota: SF = Sistema Bancário-Financeiro Brasileiro; RDB = Renda Disponível Bruta.

A Tabela 1 mostra em sua primeira coluna, a renda total em juros, correspondente ao fluxo total de juros reais recebidos pelo sistema bancário-financeiro brasileiro. Na segunda coluna, encontra-se o fluxo total de juros pagos às famílias e às empresas não-financeiras. Na terceira coluna, tem-se a parcela correspondente ao montante apropriado pelas instituições financeiras. As três variáveis estão expressas em percentagem da renda disponível bruta (RDB). Observa-se que a parcela média paga pelo sistema bancário-financeiro brasileiro (SF) aos rentistas (famílias e empresas não-financeiras) chega aos 22,2% da renda disponível bruta no período 1993-2005. É uma cifra surpreendente, comparativamente à parcela dos juros apropriados pelo SF e que se mantém em uma média de 7,1% no período 1993-2005. Nesta altura, caberia uma indagação: a rentier share ou renda de juros deveria ser considerada como a totalidade recebida pelo Sistema Bancário Financeiro ou apenas a parcela paga às famílias e as empresas não-financeiras ? EPSTEIN E JAYADEV (2005) consideram a totalidade do produto apropriada sob a forma de juros. Esta forma é a também utilizada nesta análise e pode ser sustentada por duas razões básicas: a) o volume de crédito como percentagem do PIB na economia brasileira é de fato muito reduzido, comparativamente aos padrões internacionais; b) o sistema bancário-financeiro não financia os projetos de investimento de longo prazo, já que a maior rentabilidade deste setor provém das chamadas operações de curto prazo, isto é, as que envolvem precisamente os títulos de renda fixa que proporcionam juros. Pode-se então inferir que os atores propriamente rentistas (empresas não-financeiras e famílias) desenvolvem-se suas atividades em parceria estrutural com as instituições bancárias e financeiras que, no caso brasileiro, desvirtuaram-se de suas operações normais de intermediação, em razão da alternativa mais rentável e de menor risco obtida com ativos de curto prazo conectados direta ou indiretamente à dívida pública.

Uma análise preliminar da configuração das formas institucionais sob o padrão finance-led growth brasileiro

Uma abordagem regulacionista deve explicitar as novas configurações das formas institucionais, pois enquanto componentes da régulation d'ensemble, são elas que determinarão as macro-regularidades que definem o regime de acumulação. Na economia brasileira pós-liberalização e pós-Real destacam-se as seguintes características do novo modo de regulação, por componente:

Uma wage-labor nexus amplamente concorrencial e segmentada, mas permanentemente monitorada pelo Estado

A wage-labor nexus (rapport salarial) brasileira tem sido marcada por sua institucionalidade restrita e incompleta, Restrita porque mais da metade das relações de emprego estão fora da legislação trabalhista e previdenciária. Mas também incompleta porque diversos componentes de proteção ao trabalho e de assistência social permanecem ainda muito pouco desenvolvidos ou mesmo inexistentes. Uma das explicações possíveis refere-se ao fato de que esta forma institucional sempre se caracterizou por seu lugar subordinado na arquitetura institucional que definia os modos de regulação no Brasil. Reflexo das lutas sociais e políticas, dos embates entre capital e trabalho, seu caráter subordinado na hierarquia institucional resultava tanto da baixa representatividade das populações assalariadas e dos segmentos socialmente excluídos no seio do aparelho de Estado quanto da vigência de regimes políticos arbitrários ou de exceção.

O Estado brasileiro tem se limitado a gerir o caráter concorrencial da WLN, no sentido de ajustá-la aos novos equilíbrios macroeconômicos sob condições de abertura comercial e financeira. Suas intervenções e dispositivos de normatização tem na verdade reproduzido e aprofundado uma tendência que se afirmou com o processo de globalização das economias: a predominância de uma gestão do salário como um custo de produção e sua secundarização (ou até mesmo abstração) como um fator básico de demanda efetiva nas sociedades capitalistas modernas.

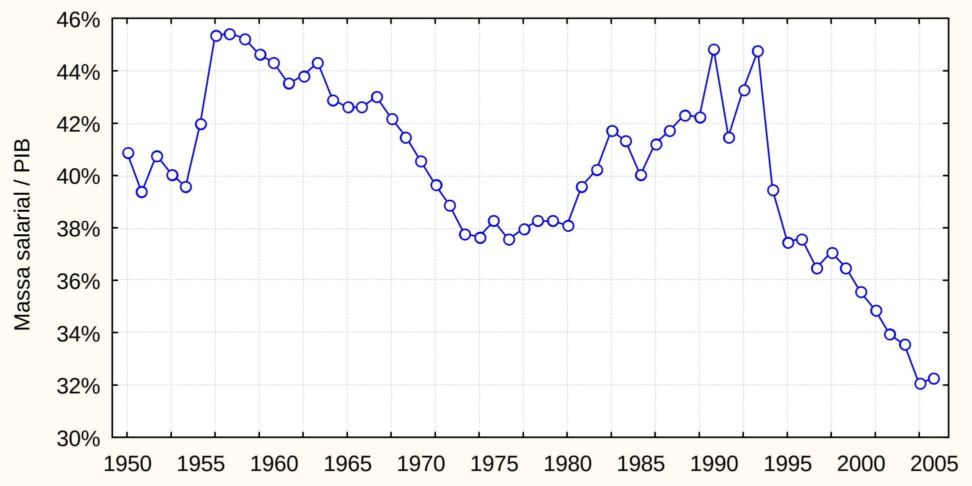
Os dados empíricos apontam para um aprofundamento do grau de flexibilidade quantitativa e salarial. Uma tendência que já havia se manifestado a partir da crise do regime de acumulação profit-led do "milagre econômico brasileiro"171 agravada pela rápida informalização das relações de emprego. Os dados mostram ainda que o eixo informal da WLN brasileira já ultrapassa os 50% das relações de emprego. Paralelamente, observam-se quedas tendenciais acentuadas da wage-share, com uma elevação rápida das taxas de desemprego estrutural e conjuntural. Esta última característica resulta sobretudo do baixo dinamismo econômico provocado pela baixa taxa de acumulação de capital fixo produtivo. Como o Brasil atravessa sua fase de transição demográfica, a participação relativa da população em idade ativa (PIA) na população total tem crescido a uma taxa média de 2% anuais enquanto que o nível geral de emprego tem permanecido com um crescimento inferior numa média de 1,33% anuais. Há, portanto uma grande pressão sobre o capital fixo disponível que se torna então insuficiente para a absorção de uma oferta crescente de força de trabalho. Não seria por outra razão que a violência urbana e a degradação das condições de vida se agravariam a partir dos anos 90.

O Gráfico 1 mostra a evolução da parcela salarial no PIB brasileiro (wage share), onde se pode constatar a tendência de queda acentuada desta variável no período de liberalização

[171] Mais detalhes acerca de uma periodização e taxonomia por metodologia econométrica dos regimes de acumulação no Brasil podem ser encontrados em BRUNO (2005).

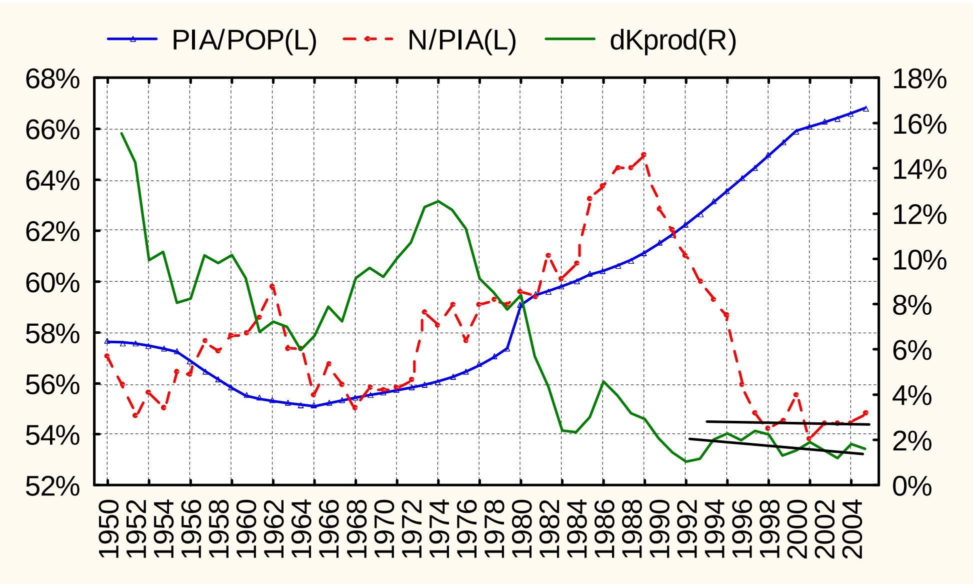
comercial e financeira. A massa salarial em proporção do produto passa de 45% em 1993, para 32% em 2005 e pode ser apreendida como uma das conseqüências do atual padrão finance-led growth brasileiro.

*Gráfico **1** – Wage Share Na Economia Brasileira (1950-2005)*



Fonte: Ipeadata.

Gráfico 2 – Razões Pia / População Total, Nível Geral De Emprego (N) / Pia E Acumulação De Capital Fixo Produtivo (1950 – 2004)



Fonte: ALVES, J.E. D e BRUNO, M. (2006)
Nota: PIA = população em idade ativa; N = nível geral de emprego; d

Kprod = taxa de acumulação de capital fixo produtivo.

O Gráfico 2 a seguir mostra a evolução das razões PIA / População total e nível geral de emprego (N) / PIA. Durante o período de vigência do modo de desenvolvimento por substituição de importações, a economia brasileira apresentava taxas de crescimento e acumulação de capital produtivo excepcionalmente altas, de maneira que a geração de postos de trabalho permitia que a razão N/PIA acompanhasse a tendência de expansão da razão PIA/População total. Em outros termos, a primeira razão oscilava em função dos ciclos e das crises econômicas em torno da segunda, mas as séries não se afastavam significativamente uma da outra. Todavia, no período de globalização as séries divergem e se desconectam.

O Quadro 1 apresenta uma periodização da economia brasileira com base na estimação por análise de co-integração da relação Ln(N) = c1 + c2.Ln(uKprod) + e, onde Ln é o logaritmo do nível geral de emprego e Ln (uKprod) é o logaritmo do estoque de capital fixo produtivo em uso, isto é, ponderado pela taxa de utilização da capacidade produtiva instalada. ε é a elasticidade do nível geral de emprego às variações do estoque de capital fixo produtivo em uso. Os períodos foram identificados pelos testes de estabilidade do Cusum.172

Quadro 1 – Variáveis Fundamentais: Capital Produtivo, Pib, Populaçao E Nível Geral De Emprego

Variáveis / Períodos	d(Kprod)	d(u)	d(uKprod)	d(PIBpc)	d(POP)	d(PIA)	d(N)	$\varepsilon_{N,\ uKprod}$
[1950 -1980]	9,50%	-0,08%	9,42%	4,51%	2,80%	2,89%	3,06%	0,3479
[1984 - 1993]	2,57%	0,40%	2,99%	0,89%	1,93%	2,41%	2,42%	sem relação de ELP
[1996 - 2005]	1,75%	0,11%	1,86%	0,72%	1,49%	2,00%	1,33%	0,7379

Fonte: Elaboração própria a partir de dados do IBGE, Ipeadata e Marquetti (2000).

Nota: d (Kprod) = taxa de acumulação do estoque de capital fixo produtivo; d(u) = taxa de variação da taxa de utilização da capacidade produtivo instalada.

O período 1950-1980 destaca-se por apresentar as maiores taxas de acumulação de capital, tanto no que concerne ao estoque de capital fixo produtivo total quanto ao estoque ponderado por sua taxa de utilização. Observe-se que d(Kprod) e d(u.Kprod) permaneceram muito próximas uma da outra neste período. O PIB per capita (PIBpc) apresentou uma taxa média de expansão de 4,51% anuais, destacando-se ainda o fato do nível geral de emprego ter se expandido à taxas superiores ao crescimento populacional (2,89% anuais) e ao crescimento da população em idade ativa (PIA), com 3,06% anuais.

No segundo período, 1984-1993, a performance da economia brasileira avaliada pela dinâmica dessas variáveis é nitidamente inferior ao precedente. Ressalte-se que os testes econométricos mostraram ausência de uma relação de equilibro de longo prazo, de acordo com a análise de co-integração. Este fato pode estar ligado às tendências macroeconômicas dos anos 80, caracterizado pela vigência de um "regime de crise", onde o desenvolvimento da acumulação bancária e financeira processava-se às expensas da acumulação de capital produtivo. De um ponto de vista teórico, as transformações estruturais observadas são, contudo insuficientes para produzir uma alteração significativa dos parâmetros do modo de regulação. Tudo se passa como se a economia brasileira funcionasse essencialmente sob as mesmas configurações das formas institucionais, exceto pelo fato de que o Estado deixara de ser a forma institucional hierarquicamente superior (FIHS),173 cedendo esta posição para o

[172] Por questões de espaço, não serão apresentados os resultados de todos os testes estatísticos e econométricos desenvolvidos nesta análise.

[173] Uma forma institucional é considerada hierarquicamente superior a uma outra forma institucional quando suas transformações e lógica de desenvolvimento determinam o padrão de evolução desta última. Segundo

regime monetário-financeiro (e naturalmente para o setor bancário e as instituições que lhes corresponde) na arquitetura institucional que define o modo de regulação. As razões para a mudança de hierarquia institucional encontram-se na progressiva perda de autonomia do Estado em face de um endividamento público crescente, paralelamente a forte ingerência do capital financeiro nacional e internacional sobre a política econômica e sobre as prioridades da administração pública.

No terceiro e último período identificado pelos testes de estabilidade estrutural, 1996-2005, o desempenho macroeconômico quando medido pelas variáveis elencadas no Quadro 1 é ainda pior do que o do segundo período. A taxa de acumulação de capital fixo produtivo mantém-se em um média anual de apenas 1,75%, enquanto o nível de emprego permanece em um crescimento médio de apenas 1,33% e abaixo da expansão média da PIA (2,00% anuais).

Outra característica relevante por suas conseqüências macroeconômicas refere-se às elasticidades-estoque de capital do emprego. No terceiro período, a elasticidade mais do que dobra em relação ao valor que apresentava no período de economia fechada ou de vigência do modo de desenvolvimento por substituição de importações. Esta estatística passa de 0,35 entre 1950-1980, para 0,74 entre 1996-2005. Isto significa, em termos macroeconômicos, que sob o atual regime finance-led growth brasileiro da era pós-liberalização, o emprego mostra-se muito mais sensível às variações do estoque de capital fixo disponível nesta economia. Uma expansão de 1% no estoque de capital fixo produtivo em uso (u.Kprod) tenderia a elevar o nível geral de emprego em cerca de 0,74%. Como a PIA vem crescendo a 2% anuais, seria necessário que o nível geral de emprego estivesse crescendo no mínimo a mesma taxa para permitir que a oferta de força de trabalho pudesse ser absorvida pelo sistema econômico brasileiro. Porém, isso exigiria que a taxa de acumulação de capital fixo produtivo em uso estivesse crescendo a um ritmo de 2,8% anuais, mas o valor observado está de fato abaixo em cerca de 1% desta cifra.

A WLN sob o regime de acumulação à dominante financeira no Brasil está, portanto submetida ao baixo dinamismo que este regime impõe à economia e sociedade. Há de fato um problema estrutural maior, pois o ritmo de acumulação de capital produtivo tem permanecido aquém do necessário à expansão suficiente das relações salariais, relativamente às tendências demográficas.

Um outro resultado obtido por análise econométrica diz respeito à elasticidade custo-salarial do emprego e à elasticidade-produto do emprego industrial, ambas de longo prazo, apresentadas no Quadro 2. No período de liberalização comercial e financeira, o valor estimado dessa elasticidade quase dobra, passando de 0,21 para 0,38, mas o sinal é agora negativo, significando que uma elevação dos custos salariais tende a reduzir o emprego no setor industrial brasileiro. Trata-se de um resultado esperado no plano teórico, pois a intensificação da concorrência internacional durante a fase de globalização tem elevado o peso dos salários nas decisões de produção e de investimento produtivo.

Quanto à elasticidade-produto do emprego, seu valor subiu de 0,38 no período de economia fechada, para 0,73 sob economia aberta. Isto implica que a geração de emprego no setor industrial está atualmente mais dependente do nível de atividade econômica. Uma

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BOYER(1998), uma forma institucional será apreendida como FIHS se for capaz de impor restrições estruturais quanto à configuração das outras formas instiucionais.

característica que está em consonância com o padrão de evolução das razões PIA/População e N/PIA, no período pós-Real e pós-liberalização, observado no Gráfico 2.

Quadro 2 – Ajustamento Do Emprego Industrial: Elasticidades De Longo Prazo (1985-2001)

Período	Elasticidade-produto do emprego	Elasticidade-custo salarial do emprego
1985:01 – 1989:12	0,377	0,208
1995:01 – 2001:04	0,726	-0,375

Fonte: BRUNO (2005).

No âmbito da economia total, as elasticidades-custo salarial não foram estatisticamente significativas (Quadro 3). Já as elasticidades-produto do emprego apresentaram os valores de 0,97 e de 0,37, respectivamente para o período de economia fechada e de economia aberta. Destaque-se que o comportamento dessas estatísticas foi inverso do encontrado para o setor industrial. No nível macroeconômico, observa-se perda da sensibilidade do emprego às variações do produto interno bruto, enquanto no nível da indústria constatou-se aumento da sensibilidade.

Quadro 3 - Ajustamento Do Emprego Total Da Economia: Elasticidades De Longo Prazo (1982-2001)

Período	Elasticidade-produto do emprego	Elasticidade-custo salarial do emprego
1982:08 - 1988:12	0,97	-
1992:01-2001:04	0,37	-

Fonte: BRUNO (2005).

A forma institucional do Estado

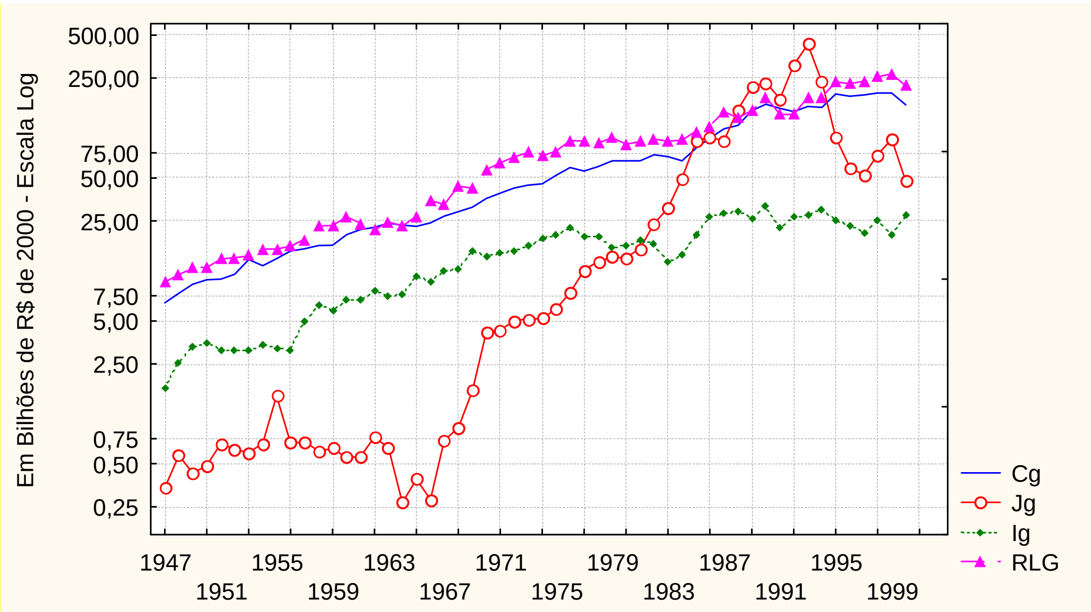
A forma institucional do Estado brasileiro tem se caracterizado por uma presença expressiva no que concerne à viabilidade das condições para o desenvolvimento da acumulação de capital, sobretudo durante o período de substituição de importações. Intervenções no âmbito da política econômica e do planejamento do desenvolvimento marcaram o período 1950-1980. Bem diferente seria o período pós-liberalização. O Estado esvazia o discurso desenvolvimentista, incorpora a ideologia da globalização neoliberal e inviabiliza no plano político-institucional a retomada de um projeto de desenvolvimento nacional autônomo.

Consequentemente, a mudança dos papéis do Estado em finais dos 80 e início dos 90, sinalizava para uma transformação mais profunda na arquitetura institucional que definiria o novo modo de regulação sob economia aberta e finanças liberalizadas. Ao longo da história econômica brasileira, esta forma institucional mantivera-se como uma FIHS, expressando-se em uma sociedade com forte presença do Estado, sem que isto implicasse na afirmação de seu caráter público ou no aprofundamento da cidadania. Pelo contrário, o aparelho de Estado brasileiro tem se caracterizado também por uma forte ingerência dos grandes grupos econômicos nacionais (e também estrangeiros). Neste sentido, trata-se de um "État-inséré" (Estado inserido), porém muito mais para o capital e muito menos para o trabalho.174

A análise de sua evolução de longo prazo mostra que o Estado passaria à condição de forma institucional subordinada com relação ao regime monetário-financeiro já nos anos 80. Todavia, é no período de globalização, nos anos 90, que a subordinação se aprofunda deteriorando sobremaneira a autonomia da política econômica. Ao mesmo tempo, o regime monetário-financeiro passaria à condição de forma institucional herarquicamente superior, submetendo a economia nacional às prerrogativas da liberalização comercial e financeira nos quadros da ideologia neoliberal veiculada pela globalização.

Nessas circunstâncias, o Estado passa sistematicamente a legitimar o "modelo econômico" resultante das transformações estruturais dos anos 90, preservando a liberalização financeira como um dos alicerces inquestionáveis e, no campo ideológico, suposto como necessariamente benéfica para o país. O Gráfico 3 a seguir mostra a trajetória de forte expansão dos juros pagos pelo setor público brasileiro ao sistema financeiro. Trata-se de um indicador do grau de financeirização desta economia, pois significa um comprometimento crescente das finanças públicas com gastos financeiros. Por outro lado, deve ser ressaltado que esse fluxo de juros é apropriado pelas famílias, empresas financeiras e não-financeiras, que passam a ter nos ativos conectados à dívida pública brasileira uma alternativa segura, em termos de risco, rentabilidade e liquidez, para a acumulação patrimonial.

Gráfico 3 - Evolução Da Renda Líquida Do Governo E Dos Componentes Dos Gastos Públicos (1947-2000)



Fonte: BRUNO (2005).

O regime monetário-financeiro

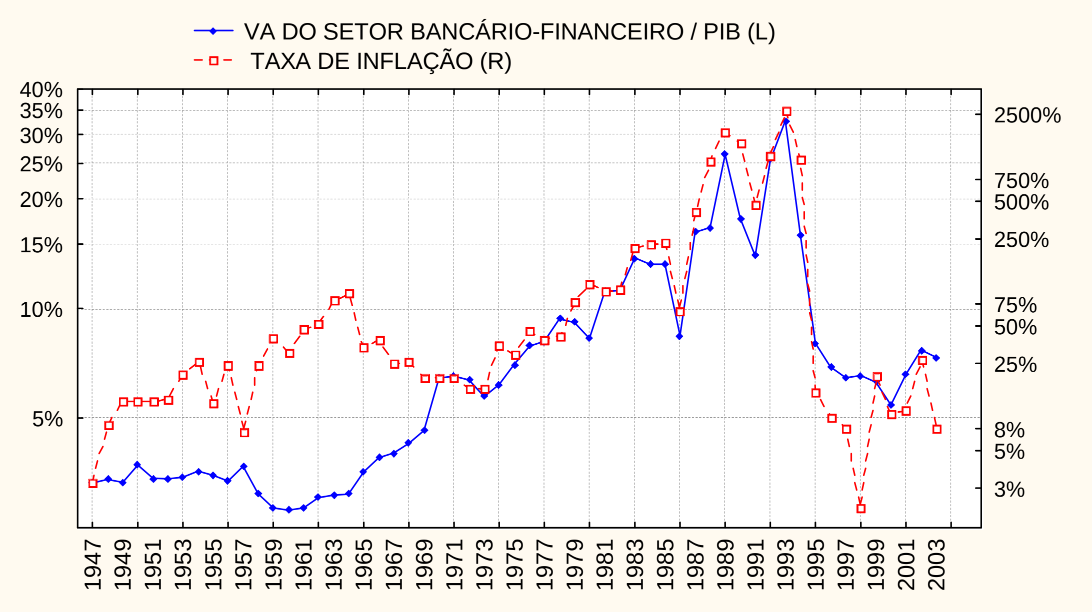
Passando à condição de forma institucional hierarquicamente superior, a configuração do regime monetário-financeiro (RMF) torna-se fundamental ao desenvolvimento da acumulação de capital sob condições de financeirização usurária. Na década de 80, um RMF

174 É possível atestar, com base numa análise dos tributos que incidem sobre o capital e sobre o trabalho, que a carga fiscal é expressivamente maior para o segundo. Esta análise encontra-se em BRUNO (2005).

dual e inflacionista pôde consolidar-se no plano estrutural, com base nas características institucionais particulares da economia brasileira. No plano conjuntural, pôde reproduzir-se a partir das tendências de estagnação do produto e elevação da inflação.

O Gráfico 4 mostra a evolução conjunta da taxa de inflação e da participação do valor adicionado pelo setor bancário-financeiro no PIB, mensurada pelo método SIFIM (serviços de intermediação financeira indiretamente medidos) utilizado pelo IBGE, conforme recomendação do System of National Accounts (SNA). Esta metodologia consiste em se considerar o diferencial entre juros recebidos e pagos pelas instituições financeiras aos demais setores da economia, como uma medida da contribuição do sistema financeiro ao valor adicionado total da economia.175

Gráfico 4– Expansão Financeira E Inflação (1947 – 2003)



FONTE: Elaborado a partir das séries do IBGE relativas ao valor adicionado (VA) das instituições financeiras, mensurado pelo método SIFIM (serviços de intermediação financeira indiretamente medidos) e do Índice Geral de Preços – IGP-DI da FGV.

NOTA: Os eixos verticais estão em escala logarítmica.

Pode-se constatar que a partir de 1970, mais inflação significa maior participação do sistema financeiro no valor adicionado total da economia brasileira. Conseqüentemente, as consideradas "décadas perdidas" certamente não o foram para este setor. Este fato é inclusive reconhecido pelas autoridades monetárias brasileiras.

Uma análise econométrica mostra que de fato existia uma relação de equilíbrio de longo prazo expressa pela co-integração entre a taxa de inflação e a participação do valor adicionado financeiro no PIB, no período de vigência do regime monetário-financeiro dual e inflacionista, 1970-1993. A equação estimada foi especificada como LVAFIN = ß1 + LINFLA. ß2 + ε, onde LVAFIN é o logaritmo da participação do valor adicionado (VA) financeiro no PIB brasileiro e LINFLA é o logaritmo da taxa de inflação, medida pelo índice

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[175] Adiciona-se também a parte do excedente operacional dos bancos que corresponde à cobrança por serviços que não são diretamente ligados às atividades-fim, como as receitas provenientes de tarifas bancárias. Embora no período pós-Real as receitas de tarifas tenham crescido muito, elas representam apenas 8 a 10% do valor adicionado total conferido aos bancos pela metodologia do SIFIM .

geral de preços-disponibilidade interna (IGP-DI). A periodização foi também efetuada mediante testes de estabilidade estrutural do CUSUM.

Quadro 4 – Estimativas Da Elasticidade-Inflação Do Valor Adicionado Financeiro (1948-1993)

[1948-1969]	ß2 = -0,068*
[1970-1993]	ß2 = 0,301**

Fonte: BRUNO (2005).

Nota: (*) estimação em primeiras diferenças, pois as variáveis não-cointegraram. (**) elasticidade de longo prazo obtida por estimação em níveis, pois as séries co-integram..

Os valores das estimativas das elasticidades apresentadas no Quadro 4 permitem as seguintes considerações: a) entre 1948-1969, quando a economia brasileira ainda não dispunha de estruturas bancárias e financeiras suficientemente desenvolvidas, a inflação não podia constituir-se na base para a acumulação bancária e financeira. A elasticidade-inflação do valor adicionado financeiro é reduzida e de sinal negativo. Todavia, no período subseqüente, 1970-1993, as instituições financeiras já dispunham de um moderno sistema de rede bancárias e do conjunto de estruturas necessárias à gestão monetária por parte do Estado brasileiro. Mas como já foi descrito mais acima, a existência de um regime monetário-financeiro dual permitiu que a inflação se convertesse no suporte da acumulação bancária e financeira. A elasticidade estimada passa ao valor de 0,30, significando que a cada 1% de aumento na taxa de inflação, o valor adicionado financeiro como percentagem do PIB expande-se 0,30%. Considerando-se o longo período de alta inflação com forte componente inercial, pode-se compreender como a expansão financeira foi possível nessas condições macroeconômicas.

A explicação para a relação de equilíbrio entre essas variáveis reside na vigência do regime monetário-financeiro dual, ele mesmo um resultado de configurações institucionais específicas.176 Essa correlação positiva entre inflação e VA financeiro responde pela forte acumulação bancária e financeira observada neste período da história econômica brasileira.

No período subseqüente, marcado pela liberalização comercial e financeira, a acumulação financeira se desenvolveria sobre novas bases institucionais e num ambiente caracterizado por baixa inflação, mas com elevadas taxas reais de juros. Do ponto de vista da acumulação patrimonial e financeira, houve de fato uma substituição dos ganhos inflacionários pelos ganhos provenientes dos ativos de renda fixa conectados à dívida pública. É esta a principal razão para os enormes lucros das instituições bancárias e financeiras no período pós-Real e pós-abertura.

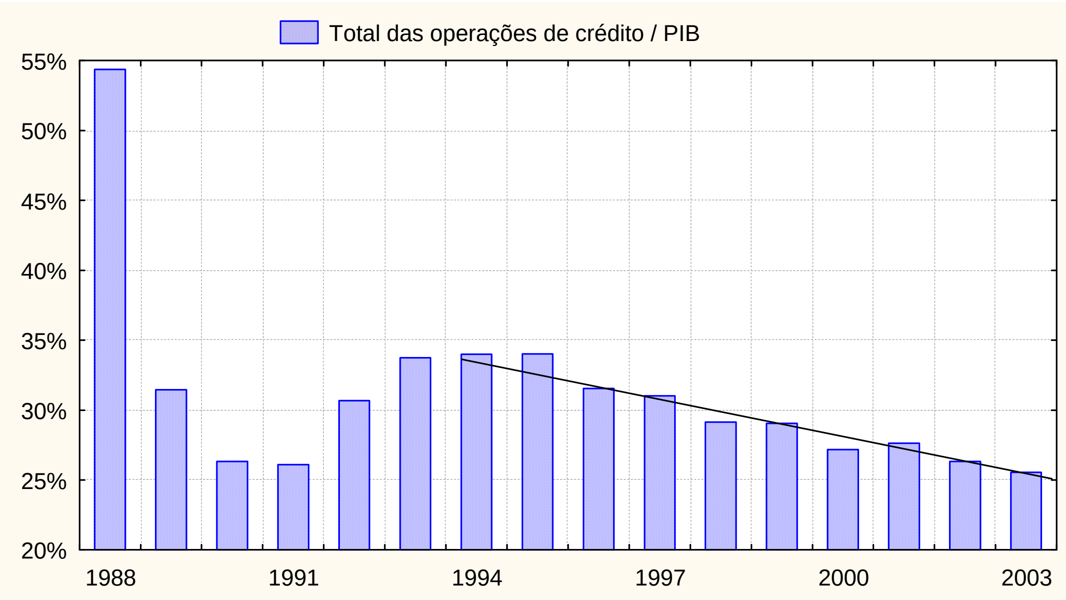
O problema maior com esta configuração estrutural que suporta esse regime de crescimento é que ela reproduz a acumulação financeira às expensas da acumulação produtiva, daí a baixa taxa de crescimento do estoque de capital fixo produtivo da era do Real, 1,5% anuais, em termos líquidos. A economia brasileira mantém-se sob a mesma trajetória de crescimento lento e instável iniciada nos anos 80, porque o modo de regulação atual eleva drasticamente o custo de uso do capital produtivo. Além disso, a elevada

[176] Numa abordagem regulacionista, os valores dos parâmetros dos coeficientes são determinados institucionalmente, isto é, as regularidades macroeconômicas identificadas pelos testes econométricos são um resultado das configurações das formas institucionais que definem o modo de regulação.

rentabilidade com baixo risco proporcionada pelas finanças é um desestímulo permanente aos investimentos em máquinas, equipamentos e infra-estrutura.

Um indicador da elevada restrição monetária imposta pelo atual regime monetário-financeiro pós-liberalização pode ser observado no Gráfico 5. A partir da vigência do Real, as operações de crédito declinam tendencialmente como percentagem do PIB brasileiro. Nestas condições, os investimentos produtivos e o regime de demanda são penalizados, o que termina por reduzir significativamente o dinamismo dessa economia. Esse declínio do volume de crédito como percentagem do produto interno é um resultado da elevada rentabilidade proporcionada pelas operações com títulos da dívida pública, sendo uma das particularidades do regime de acumulação financeirizado no Brasil.

Gráfico 5 – Evolução Do Volume De Crédito Como Percentagem Do Pib (1988-2003)



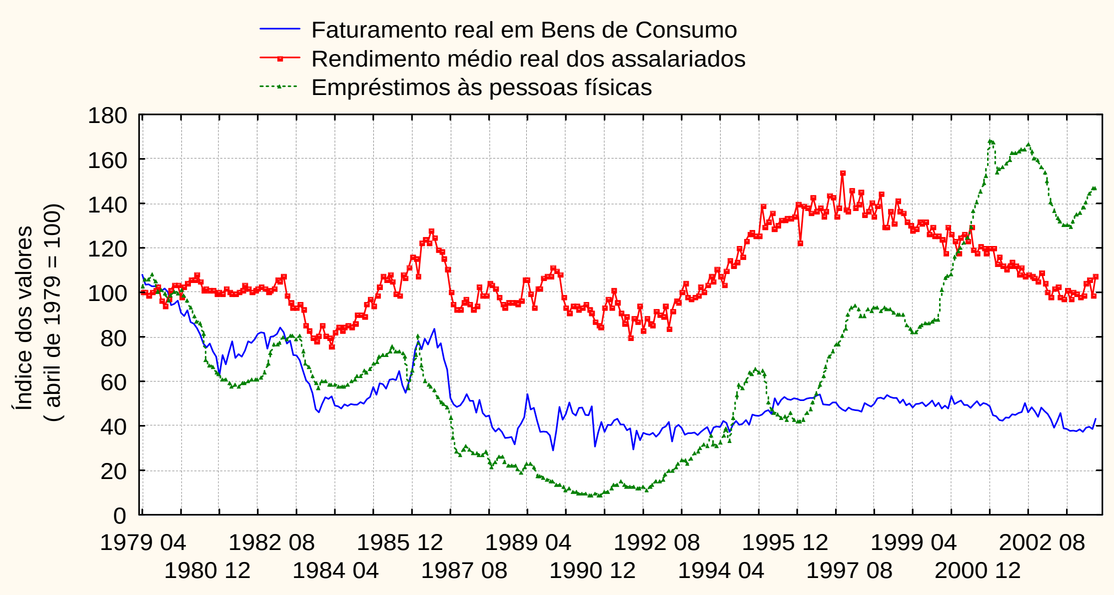
FONTE: Para os dados sobre o total de empréstimos do sistema financeiro, o Banco Central do Brasil; para o PIB, o IBGE. Ambas as séries foram obtidas no Ipeadata.

NOTA: A série dos empréstimos foi deflacionada pelo IGP-DI da FGV e a do PIB pelo deflator implícito do PIB.

Uma outra conseqüência das transformações do regime monetário-financeiro brasileiro no período pós-liberalização refere-se ao aumento do endividamento das famílias sem uma contrapartida da expansão do consumo. Trata-se de uma das conseqüências da configuração desta forma institucional sobre o comportamento da wage-labor nexus. O Gráfico 6 mostra a evolução do rendimento médio real dos assalariados, dos empréstimos às pessoas físicas e do faturamento do comércio em bens de consumo. Há uma nítida correlação da renda salarial com os empréstimos até a implementação do Plano Real, em 1994. Entre 1979 e 1987, as séries parecem ser, inclusive, co-integradas. Sobretudo, com relação às séries da renda salarial e do faturamento de bens de consumo. Mas no período de vigência do Real, os empréstimos entram em uma trajetória de forte expansão, se desconectando tanto dos salários quanto do consumo. Este fato pode estar sinalizando uma mudança no modo de consumo, provocada tanto pelas transformações do RMF impostas pelo Plano Real, quanto pela reconfiguração da forma institucional de inserção no regime internacional.

Estudos recentes detectaram um aumento do endividamento das famílias, fato que já se tornou uma característica do período pós-Real. Segundo relatório divulgado pelo Instituto de Defesa do Consumidor (IDEC) com base em pesquisa de 2002, “as altas taxas de juros cobradas pelos bancos, pelas financeiras e pelas empresas de crediário estão desequilibrando o orçamento dos consumidores. Pesquisa da Associação Nacional dos Executivos de Finanças, Administração e Contabilidade (Anefac) mostra que as despesas financeiras correspondem, em média, a quase 30% (29,83%) dos gastos das famílias paulistanas, compondo o item que mais pesa no orçamento.”

Gráfico 6 – Consumo, Salário E Empréstimos Às Famílias (1979-2002)



FONTE: Dados originais obtidos no IPEADATA.

NOTA: Séries mensais do faturamento do comércio em bens de consumo e do rendimento médio referem-se à região metropolitana do Estado de São Paulo e foram deflacionadas, respectivamente, pelo IPA-DI e pelo INPC; série dos empréstimos às pessoas físicas foi deflacionada pelo IGP-DI e refere-se à economia nacional. Todas as séries foram dessazonalizadas pelo método X11/2000 – Census 2.

A razão apontada pelos analistas é a maior facilidade de concessão de crédito a famílias de baixa renda, pois o sistema financeiro vem reduzindo as exigências de garantias nessas operações. Contudo, como as taxas reais de juros cobradas permanecem em patamares excessivamente elevados, a inadimplência tende a aumentar. Os gastos financeiros das famílias de mais baixa renda (que ganham entre R$ 260,00 e R$ 1000,00) correspondem em média a 30% do total de rendimentos. Esse comprometimento da renda salarial tem como contrapartida o aumento do valor adicionado apropriado pelas instituições financeiras. Mas a questão macroeconomicamente relevante refere-se a sustentabilidade de um modo de consumo baseado em endividamento crescente.

As formas da concorrência e de inserção no regime internacional

Pode-se considerar que essas outras duas grandes áreas da regulação macroeconômica, foram estratégicas para a montagem das estruturas internas do regime de acumulação à dominante financeira no Brasil. Sem a liberalização dos fluxos de capitais de curto prazo, a poupança interna teria sido insuficiente, face às exigências de rentabilidade real dos mercados financeiros, para permitir a continuidade da acumulação bancária e financeira num ambiente de baixa inflação. A alternativa poderia constituir-se numa outra configuração das formas institucionais que proporcionasse as condições estruturais e macroeconômicas para o desenvolvimento sustentável da acumulação produtiva, o que implicaria em manter em patamares inferiores a rentabilidade dos ativos financeiros, dissuadindo a alocação improdutiva dos capitais.

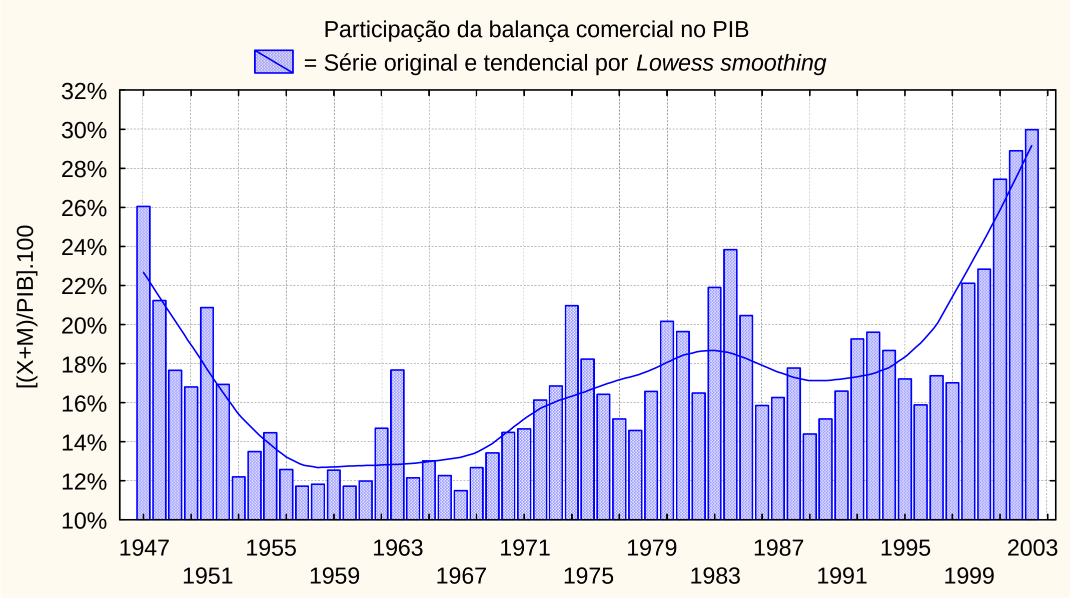
O aprofundamento da liberalização comercial e financeira nos anos 90 pressupunha um ambiente macroeconômico de baixa inflação para permitir a livre circulação dos fluxos de capitais sem perdas maiores para os proprietários de ativos financeiros. A fim de que pudesse ser o receptáculo dos capitais “globalizados” e obter os recursos necessários à manutenção de seus compromissos internacionais, a economia brasileira deveria dar provas do controle do processo inflacionário. A implementação do Plano Real cumpriu essa função ao reduzir e manter as taxas de inflação em patamares bem inferiores aos observados em períodos anteriores da história econômica brasileira. E como observou MARQUES-PEREIRA (2004) a redução e controle da inflação legitimou a liberalização financeira e, portanto, a lógica de uma inserção neoliberal no processo de mundialização do capital na década de 90.

A questão da necessidade da abertura comercial parece estar fora de discussão, à medida que seu papel como fator básico para a reestruturação industrial e para a obtenção de maiores níveis de eficiência encontra suporte teórico e empírico abundante. Todavia, não se pode dizer o mesmo no que concerne às formas possíveis de implementá-la, considerando as especificidades nacionais e as condicionantes geoeconômicas e geopolíticas. O problema com relação ao processo de abertura brasileiro refere-se à sua grande velocidade de implementação e aos fins políticos e econômicos de curto prazo a que serviu no contexto da preservação da estabilidade de preços da era pós-Real. Uma era marcada pela submissão do Estado às prerrogativas dos organismos internacionais e ao receituário do Consenso de Washington. A contrapartida dessa ingerência e subordinação foi a renúncia à implementação de uma política econômica compatível com o crescimento e seu redirecionamento para a gestão de caixa da União. Uma era enfim, particularmente notável como momento de reafirmação da hegemonia do capital bancário-financeiro na economia brasileira, cujo ponto de partida iniciara-se nos anos 80 com a crise fiscal do Estado. Conseqüentemente, as análises que ressaltam as virtudes estritamente econômicas ou contábeis do processo estão, portanto, automaticamente convidadas a explicitarem os reais custos econômicos e sociais de uma abertura rápida e não inserida num projeto autêntico de desenvolvimento.177

O Gráfico 7 oferece uma perspectiva da evolução de longo prazo da balança comercial como percentagem do PIB brasileiro. O padrão observado a partir de 1999, aponta para uma expansão do volume transacionado, mensurado pela soma das exportações com as importações. Mas a questão verdadeiramente fundamental refere-se às destinações das reservas acumuladas pela expansão das exportações. A boa performance do setor exportador não tem sido capaz de puxar a demanda interna de forma suficiente para relançar a economia numa nova trajetória de crescimento forte e sustentável. Ressalte-se que, em razão da própria lógica do modo de desenvolvimento por substituição de importações, a economia brasileira jamais teve um padrão do tipo export-led growth ao longo de sua fase industrial. Para os proponentes do pensamento neoliberal, com as transformações estruturais voltadas para uma nova forma de inserção no regime internacional, esse padrão emergiria naturalmente da abertura econômica. Todavia, não tem sido esta a evolução recente, pois a economia brasileira apresenta grandes dificuldades para retomar uma trajetória de crescimento econômico forte e sustentado.

[177] Em uma comparação do processo de abertura brasileiro com o da Coréia, LACERDA (2002, p.146), mostra que uma diferença fundamental refere-se à política cambial. “Enquanto o Brasil, desprezando as experiências anteriores proporcionadas pelos outros países, valorizou sua moeda ao mesmo tempo em que reduzia as alíquotas de importação e as barreiras não tarifárias, a Coréia desvalorizava sua moeda, criando um mecanismo que, combinado com as demais políticas, forneceu proteção às empresas locais”.

Gráfico 7 – Evolução Da Participação Da Balança Comercial No Pib (1947-2003)



FONTE: Dados da FUNCEX, obtidos no IPEADATA.

Estimando-se a elasticidade de curto prazo do PIB brasileiro com relação às exportações de bens e serviços, constata-se que se seu valor é de fato muito baixo, (0.06). Um crescimento de 1% nas exportações brasileiras leva a um aumento de apenas 0,06% no Produto Interno Bruno. O Quadro 5 exibe essas estatísticas, onde também se pode constatar o reduzido valor de R2. Muito embora se possa argumentar que isto é uma conseqüência esperada de uma especificação com apenas uma variável explicativa, o valor do coeficiente é, contudo muito pequeno para uma economia que tem apresentado um bom desempenho exportador.

Quadro 5 – Estimativas De Curto Prazo Da Elasticidade-Exportação Do Pib (1991-2006)

Dependent Variable: D(LY)
Method: Least Squares
Sample(adjusted): 1999:1 2006:3
Included observations: 31 after adjusting endpoints

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.004738	0.001559	3.039544	0.0050
D(LX)	0.056631	0.023376	2.422673	0.0219

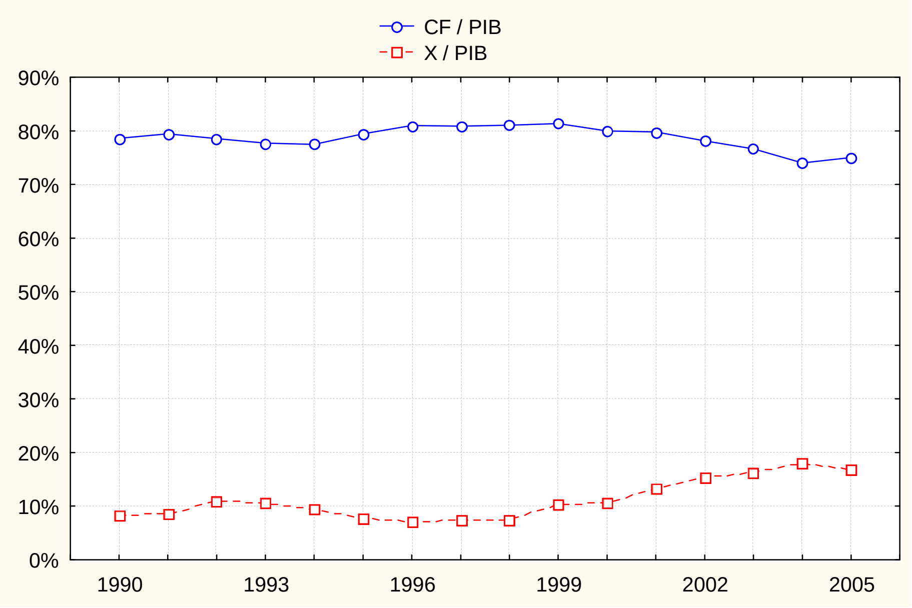
R-squared	0.168324	Mean dependent var	0.006243
Adjusted R-squared	0.139645	S.D. dependent var	0.008583
S.E. of regression	0.007961	Akaike info criterion	-6.766106
Sum squared resid	0.001838	Schwarz criterion	-6.673590
Log likelihood	106.8746	F-statistic	5.869345
Durbin-Watson stat	1.796189	Prob(F-statistic)	0.021882

Fonte: Séries originais do Ipeadata, em índice, com base 1990=100 e dessasonalizadas.

Nota: D(LY) = primeira diferença dos logaritmos nepperianos do PIB; D(LX) = idem para as exportações de bens e serviços.

A fraca elasticidade-exportação do PIB brasileiro é também uma decorrência das especificidades do atual regime de acumulação à dominante financeira. O recente crescimento das exportações resulta em grande parte do aumento da demanda externa pelas commodities brasileiras e por uma substituição do consumo doméstico pelas vendas ao exterior. Como o regime monetário-financeiro à elevada restrição monetária mantém baixo o consumo final das famílias, as empresas voltam-se para os mercados externos. É esta uma das razões que explicam porque a participação do consumo final no PIB tem caído a uma taxa média de -1,3% ao ano, enquanto a participação das exportações tem crescido a 8,9% no período 1990-2005. O Gráfico 8 exibe essas participações relativas.

Gráfico 8 – Participação Das Exportações E Do Consumo Final No Pib (1990-2005)



Fonte: Ipeadata.

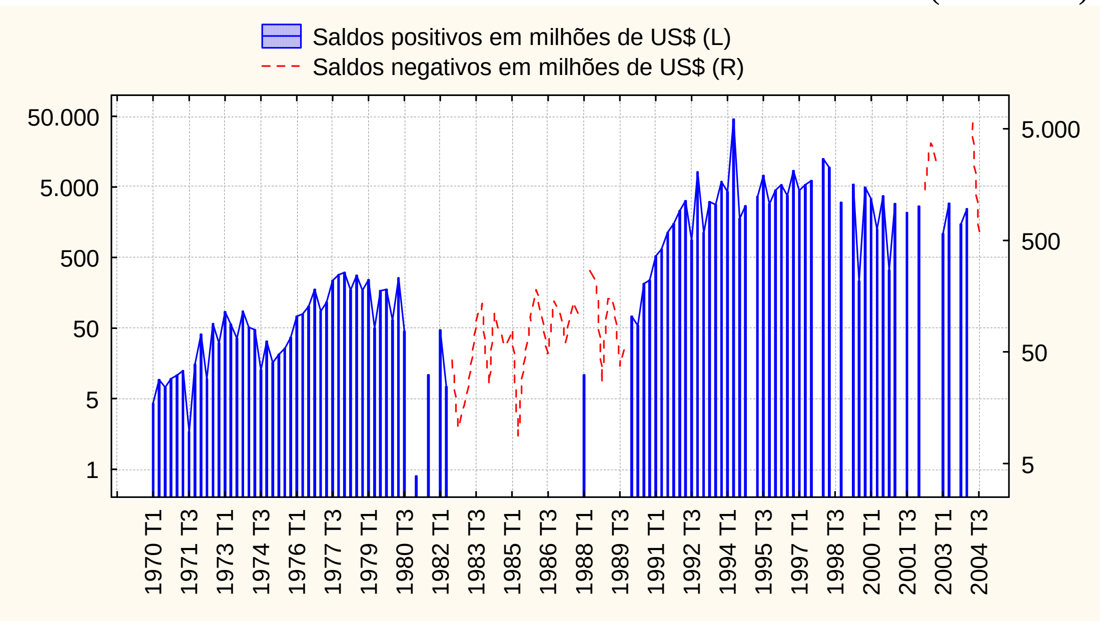
Nota: X = exportações de bens e serviços; CF = consumo final; PIB = produto interno bruto.

Os Gráficos 9 e 10 mostram o comportamento dos investimentos em carteira178, onde se pode constatar o incremento dos níveis dos saldos, a partir de 1990. No que concerne às aplicações estrangeiras em carteira ("investimentos" em carteira), os níveis dos saldos observados a partir da liberalização financeira, mas sobretudo a partir da vigência do Real, são historicamente sem precedentes. As cifras atingem o patamar médio de 5 bilhões de dólares no trimestre, isto significa praticamente 100 vezes a média vigente nos anos 70. A década de 80 foi marcada por saldos negativos em razão tanto dos dispositivos de controle de capitais quanto das dificuldades macroeconômicas da época. Os saldos voltam a ficar momentaneamente negativos a partir do segundo trimestre de 2001, quando o capital financeiro passou a especular sobre o futuro da economia brasileira sob um governo teoricamente de oposição à liberalização radical dos fluxos de capitais. Mas como o governo

[178] Os investimento em carteira ou em portfólio são destinados às aplicações, basicamente de curto prazo, em ações e no mercado financeiro. Neste último caso, tratam-se de títulos de renda fixa, debêntures, derivativos, etc.

respondeu segundo a mesma lógica do governo anterior, ou seja, aumentando as taxas básicas de juros SELIC em 2002 e em 2003, os capitais retornaram e os saldos passaram a ser novamente positivos. O governo foi então muito elogiado pela mídia e pelo mercado bancário-financeiro por ter implementado uma política tão sábia de preservação dos fundamentos econômicos do país. Fundamentos que desprezam o fato lógico de que não pode haver estabilidade macroeconômica durável se a rentabilidade financeira não se conecta com os setores diretamente produtivos de forma a contribuir efetivamente com a expansão da taxa de acumulação de capital.

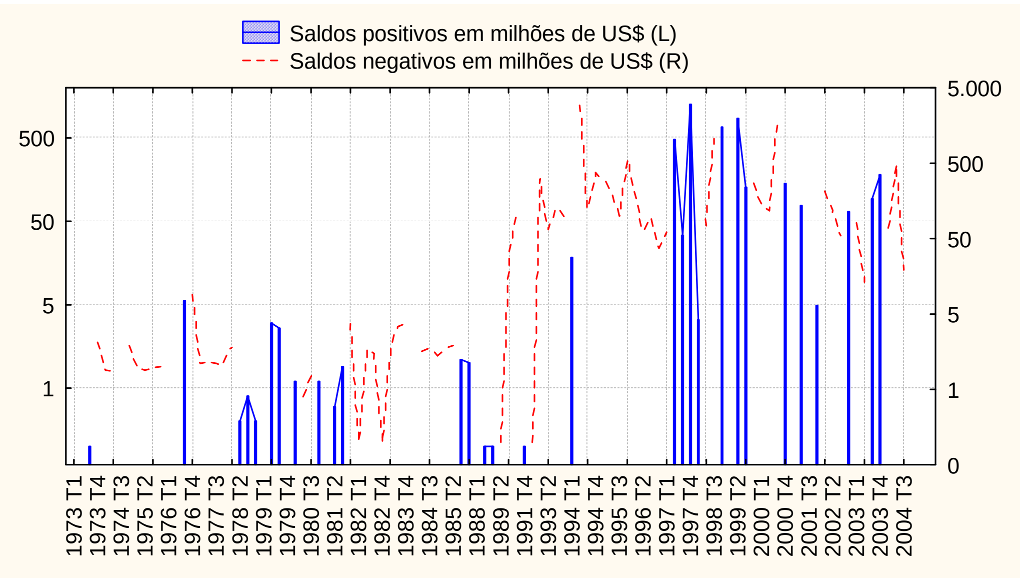
GRÁFICO 9 – INVESTIMENTOS ESTRANGEIROS EM CARTEIRA (1970-2004)



FONTE: Séries originárias do BACEN, obtidas no IPEADATA.

NOTA: Os dados referem-se aos investimentos em ações e renda fixa. Os eixos do Gráfico estão em escala logarítmica.

Gráfico 10 - Investimentos Brasileiros Em Carteira (1970-2004)



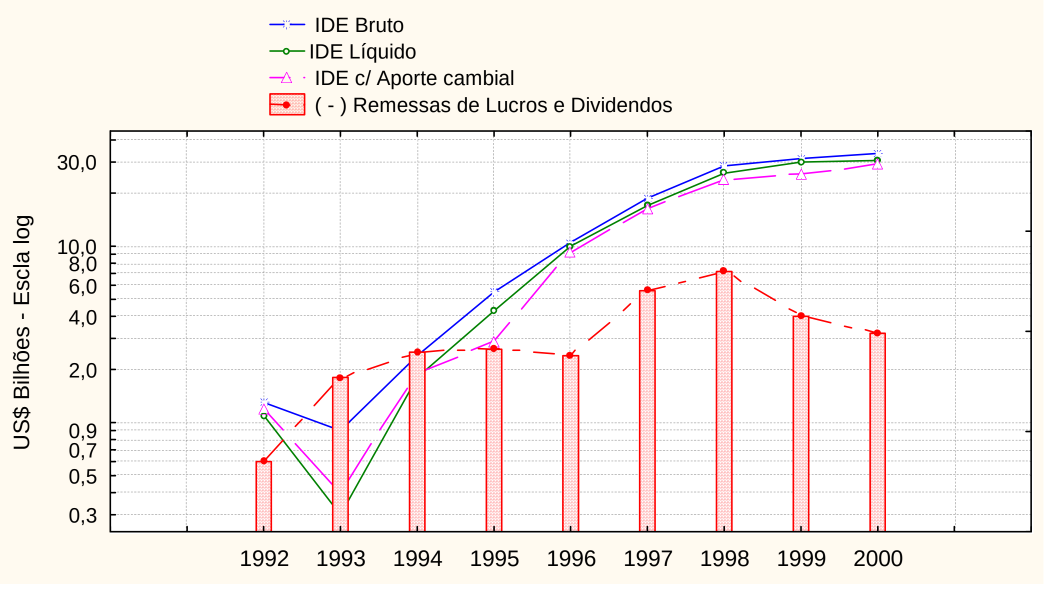
FONTE: Séries originárias do BACEN, obtidas no IPEADATA.

NOTA: Os dados referem-se aos investimentos em ações e renda fixa. Os eixos do Gráfico estão em escala logarítmica.

No segundo e terceiro trimestres de 2004, os saldos são negativos, mas este comportamento integra os comportamentos especulativos de curto prazo não sendo, necessariamente, um sinal de que os agentes estejam apostando em uma mudança de regras com relação ao funcionamento do mercado financeiro brasileiro. E a razão principal é que o atual e novo governo optou pela governabilidade, pressupondo que esta condição política depende, fundamentalmente, da reprodução da lógica de um modelo econômico.

No que tange aos investimentos diretos estrangeiros (IDE), as análises para a década de 90 mostram que o processo de privatizações respondeu por grande parte dos incentivos para o ingresso dessa modalidade de capital no país (Gráfico 11). Foram privatizados os setores industriais de siderurgia e petroquímica, entre 1992 e 1994. Após 1995, o governo privatizou os serviços de utilidade pública, como telecomunicações e energia elétrica. No âmbito do setor bancário-financeiro, privatizou também os bancos públicos estaduais, abrindo o mercado financeiro ao capital bancário estrangeiro.

Gráfico 11 – Investimento Direto Estrangeiro E Remessas De Lucros E Dividendos (1992-2000)



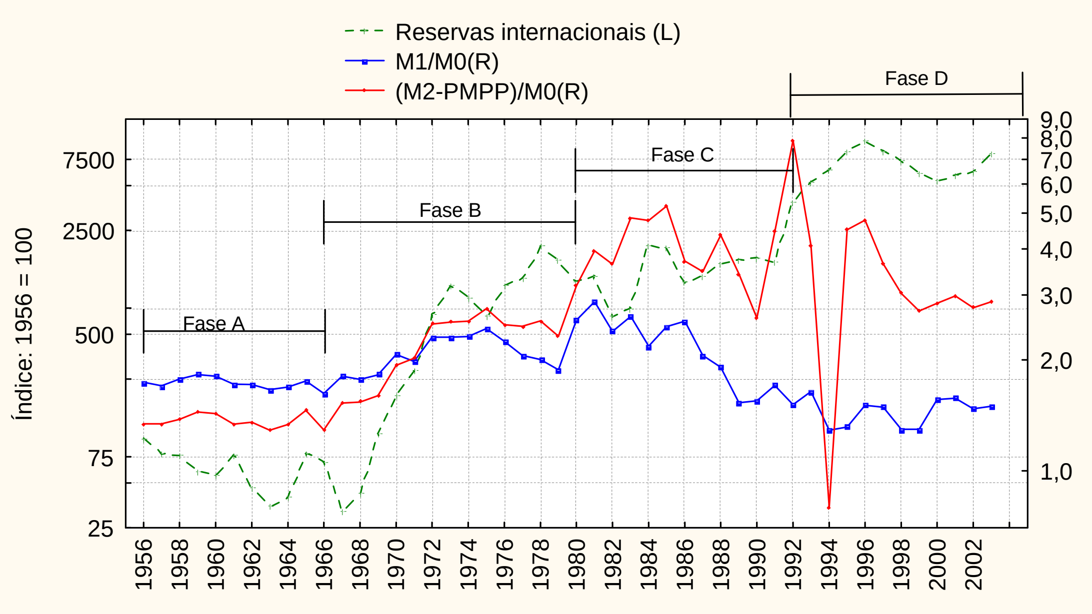
FONTE: Banco Central do Brasil, apud CARNEIRO (2004).

A observação do Gráfico 12 permite a identificação de comportamentos contrastados ou fases do regime monetário-financeiro, resultantes das alterações na configuração da forma de inserção internaciona (FII)l da economia brasileira. Essas mutações poderiam ter sido analisadas na seção anterior sobre o RMF, mas implicariam por sua vez, o exame das configurações da FII. Utilizou-se a diferença (M2 – PMPP) que representa o estoque de recursos financeiros que o público mantém sob guarda no sistema bancário financeiro. A relação (M1 / M0) representa o multiplicador monetário tradicional. Destaca-se o fato de que no intervalo 1956-1966, Fase A, essas relações mantêm-se relativamente estáveis como proporção da base monetária M0, enquanto as reservas internacionais declinam tendencialmente. As análises históricas mostram que nesta fase, que corresponde aos anos de implementação do Plano de Metas, o Estado brasileiro recorreu também a políticas monetárias expansionistas para financiar os investimentos produtivos.

A partir de 1968, inicia-se a Fase B, onde as reservas internacionais entram em uma trajetória de expansão acelerada, porque os capitais externos são canalizados para financiar os investimentos do "milagre".

Com o término do crescimento acelerado dos anos 70, inaugura-se a Fase C, [1980-1992], de crescimento tendencial das reservas internacionais. Mas desta vez para a rolagem da dívida pública, segundo a lógica da "ciranda financeira" característica da década de 80, como revela o indicador (M2-PMPP)/M0. Aliás, é a partir de 1980 que este indicador financeiro se afasta do multiplicador da base monetária, uma expressão de que a liquidez da economia passa a ser progressivamente retida na esfera bancária-financeira. Este fato pode estar indicando a vigência de um processo de financeirização da economia brasileira e cuja origem deve ser buscada nas transformações conjunturais e estruturais dos anos 80.

Gráfico 12 – Evolução Das Reservas Internacionais E Indicadores Financeiros (1956-2003)



FONTE: Dados do BACEN obtidos no IPEADATA.

NOTA: M0 é a base monetária; PMPP é a quantidade de papel-moeda em poder do público; M1 e M2 são os agregados monetários convencionais.

Na Fase D, anos 90, as dinâmicas de M1/M0 e de (M2-PMPP)/M0 se descolam das reservas, sinalizando que o ingresso de capitais agora não se destina ao financiamento da acumulação produtiva de capital. Uma outra constatação relevante refere-se ao comportamento dos indicadores monetários nesta década. (M2-PMPP)/M0 permanece elevado com um valor médio de 3,0, enquanto M1/M0 permanece no nível mais baixo de toda a série. Como o primeiro indicador capta os recursos que o público mantém sob a guarda do sistema bancário-financeiro, sua elevação neste período não é um indício apenas de que a confiança no sistema foi preservada sob o Real, mas também de que a moeda está sendo desviada dos gastos em consumo e investimento produtivo.

A economia brasileira em "financeirização forçada"

Em um trabalho original que já se tornou famoso por suas contribuições, CASTRO e SOUZA (1985)179 sustentaram a hipótese de que a economia brasileira foi levada a ingressar num longo período de "marcha forçada", para responder à crise de 1974. Este processo implicou na manutenção por parte do Estado de taxas excepcionalmente altas de investimento, apesar das dificuldades trazidas pelo esgotamento do regime de crescimento do "milagre". Em razão dessa opção, os bons resultados macroeconômicos em termos do balanço de pagamento puderam ser colhidos em inícios dos anos 80.

A presente análise procurará mostrar que no período pós-abertura e pós-Real, a economia brasileira encontra-se num outro tipo de "marcha" que, contrariamente ao anterior,

[179] Antonio Barros de Castro e Franciso Eduardo Pires de Souza. *A Economia Brasileira em Marcha Forçada*. 3ª edição. Paz e Terra, 2004.

não se traduz por um esforço de novos investimentos em ampliação da capacidade produtiva. Parafraseando CASTRO e SOUZA, a economia brasileira da era do Real é uma economia em "financeirização forçada" e incapaz de encontrar as condições estruturais para uma retomada sustentada da taxa de acumulação de capital e então, do crescimento econômico. Pode crescer por períodos curtos e sob taxas historicamente inferiores à média histórica. Mas não pode garantir taxas crescentes de acumulação, sem o aval das expectativas dos mercados financeiros com sua pressão para a elevação periódica das taxas de juros. Consequentemente, nas atuais condições estruturais não há garantias de que a economia brasileira possa desfrutar de uma expansão forte e durável, necessária à retomada de seu processo de desenvolvimento.

O conceito de "financeirização" das economias difunde-se a partir do processo de globalização na década de 90, quando uma sucessão de crises financeiras [México (1995), Ásia(1997), Rússia(1998), Brasil(1999)] ao expor sua dimensão desestabilizadora, levantaria dúvidas quanto às possibilidades de um crescimento forte e durável sob condições de liberalização ampla da conta de capitais. Desde então vários autores [AGLIETTA (2001); CHESNAIS(1997); ORLÉAN (1999), BOYER (2000); LORDON (2000); STIGLITZ (2002)] passariam a assumir uma postura mais crítica quanto aos aspectos supostamente positivos desse processo, sobretudo no que concerne à constituição de regimes de crescimento macrodinamicamente estáveis.

Em outros termos tratava-se de investigar as condições macroeconômicas de viabilidade de regimes de acumulação à dominante financeira ou regime de crescimento financeirizado180. As economias teriam de enfrentar uma nova configuração sistêmica onde a gestão da "poupança" coletiva convertera-se numa forma institucional que permite às finanças impor sua lógica aos demais atores econômicos. Neste contexto, as margens de rentabilidade dos setores diretamente produtivos são pressionadas para cima, de maneira a responder a "ponction rentiste" (punção rentista) dos mercados financeiros, com conseqüências diretas sobre as decisões de investimento e portanto sobre o ritmo de acumulação de capital.

A idéia de "ponction rentiste" tem sido utilizada pelas análises em termos de regulação para caracterizar a dependência estrutural dos setores não-financeiros com relação às finanças. MIOTTI (1991), por exemplo, a mobiliza no contexto da economia argentina para explicitar o modo como as transferências financeiras líquidas (endividamento novo menos encargos de juros) se constituem em uma punção rentista que limita a gestão do Estado ao reduzir drasticamente a autonomia da política econômica. No mesmo sentido, FURTADO (2003) chamara a atenção para o fato de que a economia e o Estado brasileiros estariam funcionando prioritariamente para pagar juros.

A análise do período 1998-2005, sob regime de câmbio flutuante, mostra também que tanto o investimento em máquinas e equipamentos por trabalhador quanto o investimento total por trabalhador permaneceram em queda média anual, respectivamente, de 2,58% e de 0,44%. Como um resultado direto, a taxa média de crescimento do PIB, neste período, não ultrapassa os 2,2 % a.a. Uma tendência de origem estrutural que não é passível de remoção

[180] Segundo CHESNAIS, « *le 'coup d'État' qui a ouvert la voie à la 'dictature des créanciers', au sens élargi d' André Orléan (1999), aurait été impossible sans les politiques de libéralisation, de déréglementation et privatisation, pas simplement dans le domaine de la finance, mais aussi des IDE et des échanges de marchandises et de services* ». No período 1980-1995 observa-se a devolução ao mercado de setores ou grandes atividades de serviços que haviam sido incluídos no setor público desde o pós-Segunda Guerra. Para CHESNAIS, numa perspectiva neo-marxista, « la prétention à l'autonomie de la finance a pour fondement une extension très forte à la sphère géopolitique, mais aussi sociale, du 'règne de la marchandise' ».

através da simples mudança de política econômica. Como então explicar essas evoluções tão desfavoráveis e o fim dos regimes de alto crescimento na economia brasileira ? A hipótese de vigência de um padrão finance-led growth pode proporcionar uma explicação satisfatória, a partir da investigação empírica proposta nesta análise. Os dados mostram que uma das particularidades do caso brasileiro é que a financeirização se expressa na tendência de alocação da poupança das empresas e das famílias principalmente em ativos financeiros conectados à dívida pública e remunerados por taxas reais de juros extremamente elevadas181.

Como se pôde observar na Tabela 1, para o período [1993-2005], cerca de 29,4 % do PIB brasileiro foram absorvidos por juros recebidos pelo sistema bancário-financeiro, dos quais 22,2%, em média, foram transferidos para pessoas físicas e empresas do setor não-financeiro. Trata-se de fato de uma elevada carga financeira sobre o produto total da economia brasileira.

Consequentemente, a financeirização da economia brasileira se desenvolverá preponderantemente em ativos de renda fixa, o que levará ao surgimento de um regime do tipo finance-led growth no período pós-liberalização. O atual regime de crescimento caracteriza-se por sua dependência com relação às expectativas dos mercados financeiros, no sentido de que a dinâmica da acumulação de capital fixo produtivo, base do crescimento econômico, passa a ser fortemente influenciada pela rentabilidade alternativa proporcionada por operações bancárias e financeiras de curto prazo. Em outros termos, a possibilidade de apropriação de valor adicionado através da simples detenção de ativos financeiros vis-à-vis os retornos dos projetos de investimento produtivo, tende a aumentar demasiadamente o custo de oportunidade inerente às imobilizações de capital que a produção real exige. Nestas condições macroeconômicas, a taxa de acumulação de capital tende a permanecer em níveis muito baixos e insuficientes para permitir um crescimento forte e sustentado.

Taxa de lucro e taxa de acumulação de capital produtivo sob finanças liberalizadas

O Gráfico 13 mostra a evolução de longo prazo da taxa de acumulação de capital fixo produtivo juntamente com a taxa média de lucro bruto da economia brasileira. A taxa de lucro é um dos principais determinantes do investimento produtivo e então da taxa de acumulação de capital no longo prazo. Trabalhos empíricos recentes mostram que essas variáveis são co-integradas, expressando a existência de uma relação de equilíbrio de longo prazo entre lucro e acumulação.182 Além disso, na maioria desses estudos, a taxa de lucro causa-Granger a taxa de acumulação de capital fixo produtivo, o que significa, do ponto de vista econométrico, que variações da primeira variável precedem as variações na segunda.

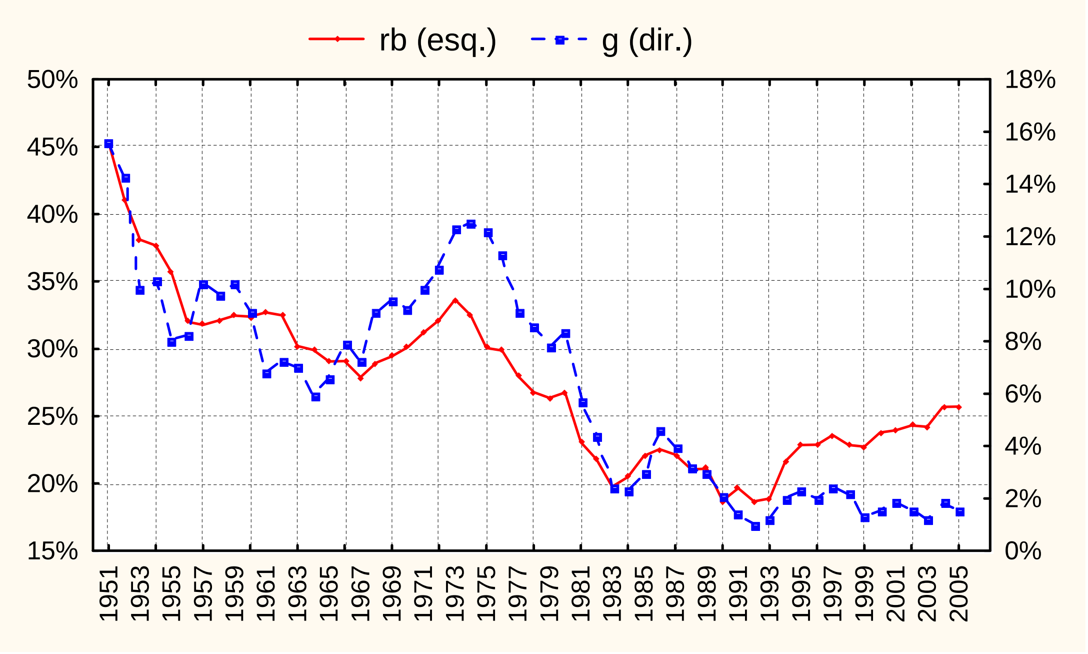
A taxa média de lucro bruto (rb) é calculada como a razão entre o lucro bruto total (LB) e o estoque de capital fixo produtivo defasado em um período (K-1). Formalmente, tem-se que: $rb = \dfrac{LB}{K_{-1}}$. Por sua vez, a taxa de acumulação de capital pode ser formulada como a

[181] Trata-se de um padrão *finance-led* diferente do analisado por BOYER (2000) para o caso dos EUA, onde a financeirização se desenvolve com base, principalmente, nos ativos de renda variável.

[182] Mais detalhes sobre a relação macrodinâmica entre taxa de lucro e taxa de acumulação podem ser encontrados em M. BRUNO (2005), para o caso do Brasil; UEMURA (2000), para o caso do Japão e MIOTTI (1997) para o caso da Argentina.

razão entre o investimento (INV) e o estoque de capital produtivo, também defasado em um período: $g = \frac{INV}{K_{-1}}$.

Gráfico 13- Taxa De Lucro Bruto (Rb) E Taxa De Acumulação De Capital Fixo Produtivo (G) [1951- 2005]

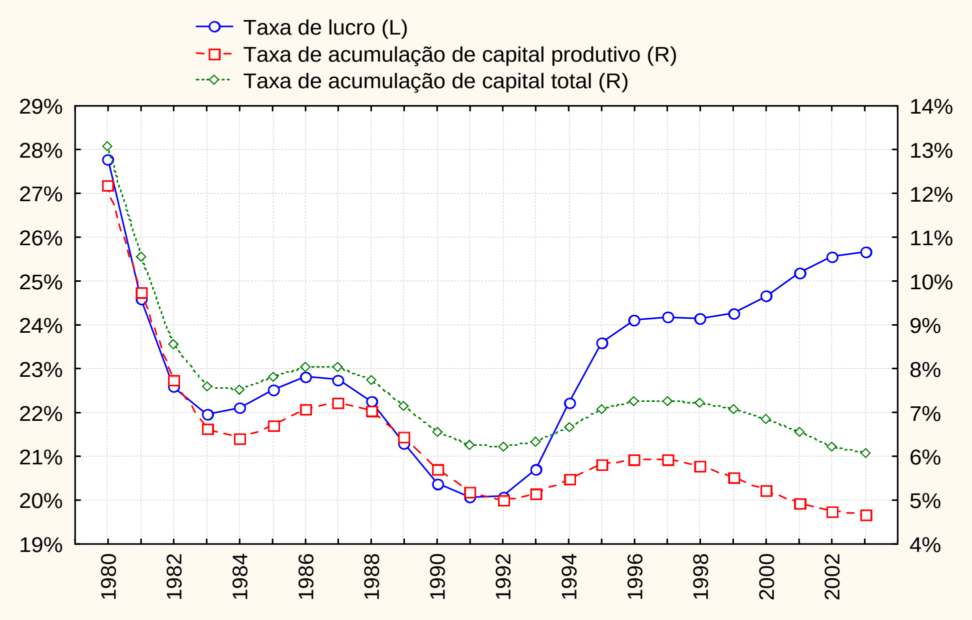


Fonte: Ipeadata e Marquetti (2000) para nível geral de emprego e massa salarial no período [1950-1966].

O fato surpreendente no caso brasileiro é justamente a desconexão entre essas variáveis a partir da vigência do Real, que pode ser constatada também no Gráfico 13. Precisamente a partir de 1994, a taxa média de lucro bruto entra em uma trajetória de crescimento. No entanto, a taxa de acumulação de capital fixo produtivo permanece estagnada em uma taxa média de aproximadamente 1,8% a.a. Se for considerado somente o período do Real com regime de câmbio flutuante [1999-2005], a taxa de acumulação produtiva é de apenas 1,5% a.a. Uma cifra medíocre para um país com tantas mazelas sociais derivadas da insuficiência da renda e de emprego para um contingente amplo da população em idade ativa.

O Gráfico 14 permite uma visão do comportamento tendencial das taxas de lucro bruto, de acumulação de capital fixo produtivo e de acumulação de capital total. O destaque novamente é o período de liberalização, onde as taxas de lucro entram em uma trajetória de expansão, mas concomitantemente, as taxas de acumulação produtiva e total entram em declínio tendencial. De um ponto de vista teórico, essa configuração expressaria uma anomalia pois se a taxa de lucro está em crescimento, os investimentos produtivos deveriam responder positivamente. Mas a resposta deve ser buscada no processo de financeirização usurária e em suas conseqüências sobre a formação, mas, sobretudo, sobre a composição da poupança. Uma problemática que será analisada na próxima seção.

Gráfico 14 - Lucro E Acumulação: Um "Zoon" Nas Décadas De 80 E 90



Fonte: Metodologia de construção dos dados no anexo.

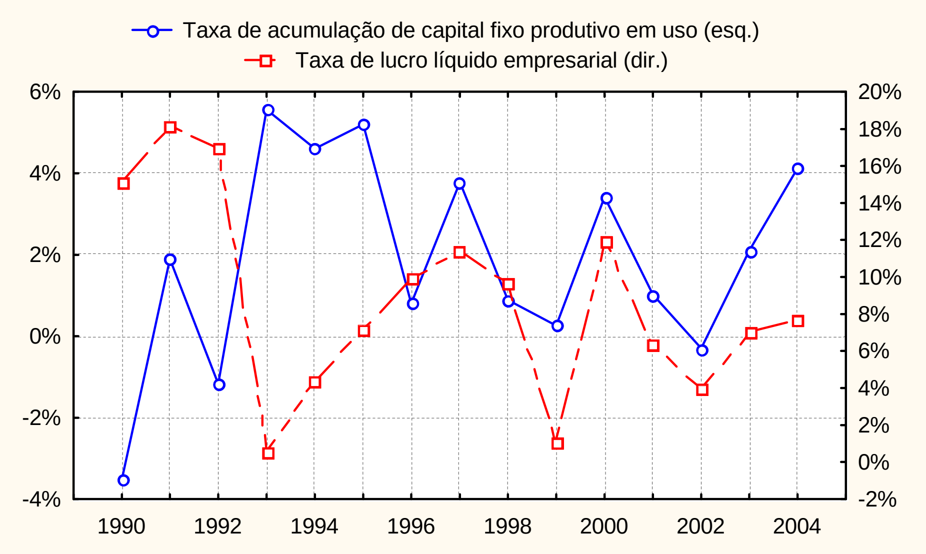
Nota: As três séries foram filtradas pelo filtro 4253H para se obter um comportamento tendencial.

A explicação para essa dissociação entre duas variáveis fundamentais no processo de crescimento econômico reside na forma como o produto total é repartido entre os diversos setores e classes sociais de produção. Desde que a carga financeira e/ou a carga fiscal líquida sobre o PIB brasileiro atinge níveis muito elevados que desestimulam a alocação produtiva dos capitais, a taxa média de lucro bruto deverá subir para preservar a rentabilidade média dos capitais imobilizados nos setores produtivos. Todavia, em um ambiente macroeconômico onde os custos financeiros são elevados, a carga tributária expansiva e a concorrência intensificada com a liberalização comercial, os ajustes necessários para manter a margem de lucro das firmas tendem a reduzir a participação dos salários no produto. 183 Porém, se for considerada apenas a taxa média de lucro líquido empresarial, isto é, deduzindo-se os juros totais recebidos pelo sistema financeiro e os impostos184, pode ser constatado que a correlação positiva entre lucro e acumulação subsiste e, portanto, permanece de acordo com a teoria econômica. O Gráfico 15 busca elucidar essa questão plotando as séries da taxa de lucro líquido empresarial e da taxa de acumulação de capital produtivo, para os anos 90.

[183] É esta a razão pela qual a *wage share* na economia brasileira pós-liberalização passa de 48% no ano de 1993 para apenas 33% em 2005. Ressalte-se que a média internacional da participação dos salários no PIB situa-se em torno de 60%, segundo HARRISON (2002).

[184] O valor correspondente à depreciação do estoque de capital fixo permanece incluído no lucro empresarial total. Portanto, o termo "líquido" refere-se a líquido de impostos e juros.

Gráfico 15 – Taxa De Lucro Líquido Empresarial E Taxa De Acumulação De Capital Fixo Produtivo [1990-2004]



Fonte: Ibge e Ipeadata.

NOTA: A taxa de acumulação de capital fixo produtivo é a taxa de crescimento do estoque correspondente. A taxa de lucro empresarial líquido é calculada como a razão entre o lucro líquido de impostos (deduzidos os pagamentos de juros) e o estoque total de capital fixo produtivo. O estoque de capital está ponderado pela taxa de utilização da capacidade produtiva instalada, daí a denominação "acumulação de capital produtivo em uso", que capta apenas a parte do estoque de capital responsável pelo produto efetivo ou corrente.

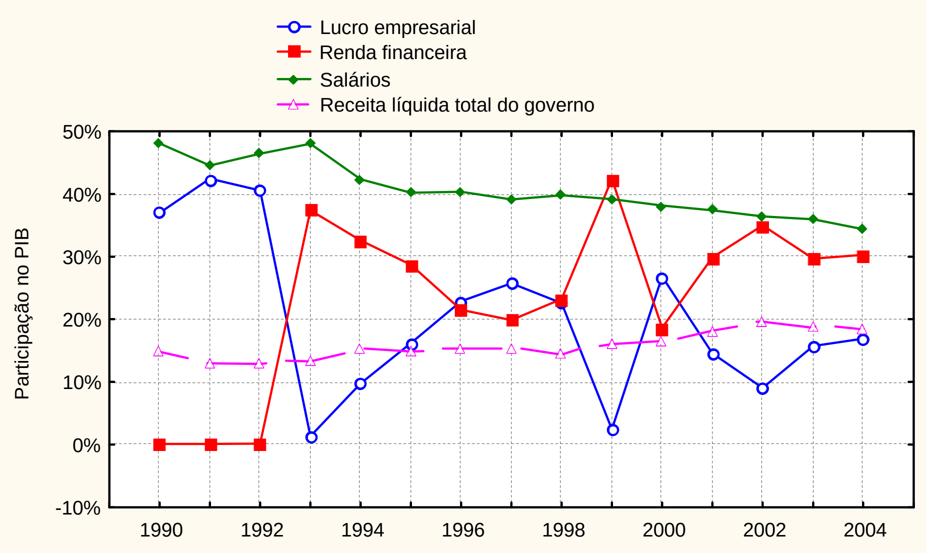
Com exceção dos anos de 1993 e 1994, fase de implementação do Plano Real, a taxa de acumulação de capital fixo produtivo evolui em correlação positiva com a taxa média de lucro líquido empresarial. Fato empírico que está de acordo com a teoria do crescimento econômico em modelos neo-estruturalistas.185 Mas a taxa de lucro empresarial também depende da carga tributária e então não se poderia considerar a renda financeira como a única variável que afeta a rentabilidade média do capital produtivo. No entanto, uma análise da repartição do PIB entre lucro empresarial, salários, renda financeira e receita líquida total do governo revela que, no caso brasileiro, a carga tributária não responde pelas bruscas oscilações da taxa média de lucro líquido empresarial, embora, a afete.

Pelo Gráfico 16 pode-se observar a evolução das parcelas do PIB brasileiro apropriadas pelos setores não-financeiros (lucro empresarial), a renda financeira, a massa salarial e a receita líquida total do governo. A parcela salarial decresce em 1994 e 1995, conhece uma relativa estabilidade entre 1996 e 1999, mas entra em uma trajetória de queda a partir de 1999. A carga tributária líquida (receita líquida total do governo como percentagem do PIB) cresce a partir do Real, mas não ultrapassa os 20%. Por outro lado, há um nítido trade-off entre o lucro empresarial e a renda financeira que em percentagem do PIB pode ser apreendida como uma "carga financeira" sobre o valor adicionado total da economia. Os anos em que o lucro empresarial cai (sobe) são precisamente os anos em que a carga financeira avança (cai). Isto é particularmente notável em 1993, 1997, 1999, 2002 e 2003. Consequentemente, ao nível macroeconômico, a baixa taxa de acumulação de capital no Brasil, que é uma decorrência da instabilidade da taxa média de lucro empresarial líquido, tem

[185] Por exemplo, em modelos propostos por BOWLES e BOYER (1990; 1995) e em BRUNO (2003; 2005), além da taxa de utilização da capacidade produtiva instalada, a taxa média de lucro surge como uma variável explicativa do investimento.

sua origem fundamentalmente na elevada carga financeira sobre o PIB e não na carga tributária. Esta última tem sido compensada com a redução dos salários e com os ganhos de produtividade que foram expressivos entre 1990 e 1996.

Gráfico 16 – Repartição Do Pib Sob A Ótica Das Remunerações [1990-2005]



Fonte: Ibge.

Nota: Os valores correspondentes aos dividendos, aluguéis e outras rendas não financeiras estão incluídos no lucro empresarial. Como em toda a análise proposta neste artigo, utiliza-se a definição de renda financeira proposta em EPSTEIN e JAYADEV (2005), que corresponde ao fluxo total de juros recebidos pelas instituições financeiras mais outros ganhos financeiros não derivados de ativos de renda variável. Esta estatística no caso da economia brasileira, atinge cifras bem superiores à média internacional.

Poupança empresarial e regimes de acumulação à dominante financeira

Como observa AGLIETTA (2001, p.21), o atual desenvolvimento dos mercados financeiros permite um enriquecimento privado sem encorajar o investimento produtivo. A liberalização financeira tem permitido uma acumulação de riqueza privada bem mais rápida que em períodos pré-globalização. Mas o vetor principal do aumento da riqueza não tem sido a produção de bens e serviços novos, já que a taxa de crescimento da produção baixou. Este autor tem apontado para o caráter não-neutro das finanças que afeta a alocação da poupança. A poupança investida nas transferências de propriedade sobre os ativos existentes é improdutiva; a poupança investida no financiamento dos investimentos das empresas é produtiva. As finanças não são neutras mesmo no longo prazo, porque elas influenciam a alocação da poupança entre essas duas formas (destinações). Em crescimento endógeno, o deslocamento da poupança para ativos improdutivos afeta desfavoravelmente a taxa de crescimento econômico. Segundo AGLIETTA, "conclui-se que esse duplo aspecto da liberalização financeira, o desenvolvimento dos mercados de ativos financeiros e a institucionalização da poupança (através dos investidores institucionais), pôde favorecer o enriquecimento privado em detrimento do crescimento da renda para a totalidade da sociedade."

Para se investigar as mudanças no padrão de acumulação de capital na economia brasileira, pode-se considerar as formas possíveis de alocação do lucro líquido total ou macroeconômico. A massa de lucro líquido empresarial (LL) pode ser calculada partindo-se da repartição do produto total da economia (Y): $Y = LL + W + F + T$ (1), onde W, F e T são, respectivamente, a massa salarial, a renda financeira e a receita tributária líquida do governo. O lucro líquido empresarial será então LL = Y – W – F – T e que se repartirá entre a parcela retida que constituirá a poupança (lucro retido) das empresas e a parcela distribuída aos proprietários e acionistas (lucro distribuído). Considerando-se que, por hipótese esta última será totalmente destinada ao consumo, tem-se que: $LL = S_e + CK_e$ (2), onde S_e é a poupança das empresas e CK_e é a parte consumida dos lucros ou consumo dos proprietários de capital.

A questão-chave do ponto de vista macroeconômico diz respeito às formas de alocação da parte retida que não é consumida. Quais as alternativas que as empresas dispõem para resguardar a fração do valor adicionado que não é destinada nem ao consumo nem ao investimento? Em geral, os mercados financeiros são capazes de proporcionar diversos produtos e serviços que não só respondem a essas necessidades operacionais, mas funcionam de modo aparentemente paradoxal. Por um lado facultam o acesso a recursos financeiros que possibilitam a expansão do investimento produtivo, mas de outro, e a depender das especificidades do regime monetário-financeiro vigente, proporcionam também o acesso a ativos imateriais que permitem adiá-lo por tempo, a priori, indeterminado. Esta segunda modalidade implica numa alocação não produtiva da poupança das empresas ou em sua financeirização.186 O investimento das empresas e então, a taxa de acumulação de capital fixo, depende da poupança das empresas, ou seja, dos lucros retidos. Todavia, em um ambiente macroeconômico caracterizado pela existência de alternativas mais atraentes - em termos de liquidez, risco e rentabilidade – do que as proporcionadas pela alocação produtiva dos recursos empresariais disponíveis, não é certo que a poupança das empresas financie, em sua totalidade, a acumulação de capital.

Formalmente, $S_e = INV_e + AF_e$ (3)187, onde INV_e é o investimento empresarial produtivo (formação de capital fixo) e AF é a parte da poupança empresarial que não é investida, nem consumida, ela é alocada para ativos financeiros para proporcionar ganhos alternativos à alocação produtiva. Conseqüentemente, o lucro líquido empresarial pode ser formulado como $LL = INV_e + AF_e + CK_e$ e se obtém uma expressão para o investimento das empresas: $INV_e = LL - AF_e - CK_e$ (4) 188. Dividindo-se a equação (4) pelo estoque de capital fixo produtivo (K), tem-se que:

[186] Vários autores falam em um processo de "financeirização da riqueza" ou de seus componentes mais significativos. Ver por exemplo, POCHMANN (2004).

[187] Por simplificação, não se considera a parte do investimento destinada à depreciação do valor do estoque de capital. Assim, tanto o investimento quanto o valor do capital são tomados em termos líquidos de depreciação.

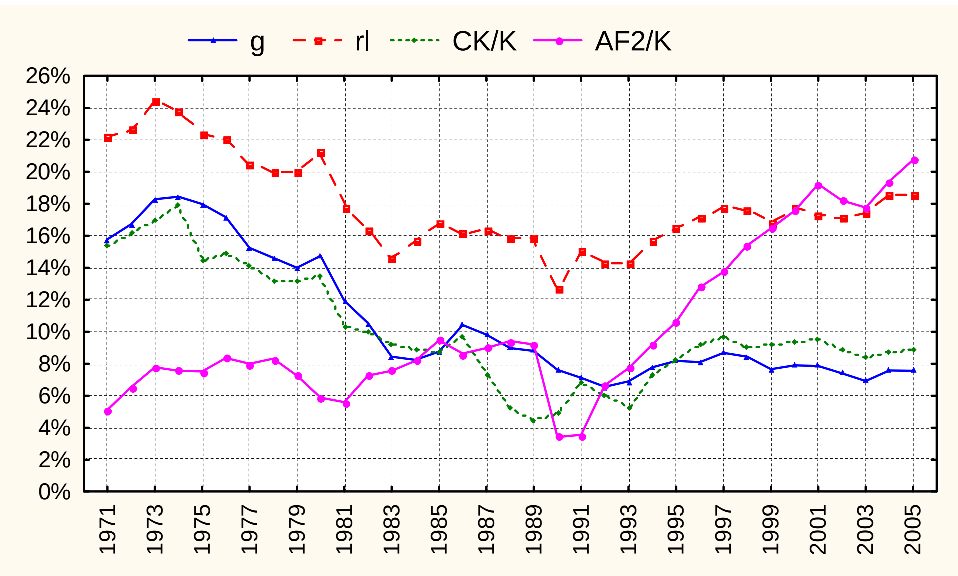
[188] A expressão (4) assemelha-se à formulada por KALECKI, exceto pelo fato de considerar explicitamente a possibilidade de alocação financeira (*AF*) da poupança das empresas. As alternativas financeiras ao investimento produtivo constituem uma característica marcante das economias em uma época de globalização. Mas num ambiente macroeconômico, como o brasileiro, caracterizado por taxas de juros extremamente elevadas pelos padrões internacionais, elas atingem um paroxismo.

$$\frac{INV_e}{K} = \frac{LL}{K} - \frac{AF_e}{K} - \frac{CK_e}{K}$$, onde $g = \frac{INV_e}{K}$ é a taxa de acumulação de capital fixo produtivo; $rl = \frac{LL}{K}$ é a taxa de lucro empresarial; $\lambda = \frac{AF_e}{K}$ é a taxa de financeirização das empresas e $\gamma = \frac{CK}{K}$ é a relação entre o consumo dos proprietários de capital e o estoque de capital produtivo disponível. Portanto, pode-se reescrevê-la como:

$g = rl - \lambda - \gamma$ (5). A equação (5) mostra que dada uma taxa de lucro rl, a taxa de acumulação de capital fixo produtivo será tanto maior quanto menores forem a taxa de financeirização e o consumo dos lucros como proporção do estoque de capital. Esta relação pode explicar também por que, na economia brasileira pós-Real e pós-liberalização, a taxa de acumulação permanece em um nível muito baixo, apesar da recuperação da taxa média de lucro observada neste período.

A análise gráfica a seguir procurará detectar os padrões de comportamento dessas variáveis para o caso brasileiro. Em razão da dificuldade de obtenção de dados para os ativos financeiros, utilizou-se a diferença entre os agregados monetários M4 e M1, como uma proxy da parcela da poupança empresarial que está alocada em ativos financeiros. Esta variável será denominada doravante como AF2. Na última reformulação dos meios de pagamento realizada pelo Banco Central do Brasil (Notas Técnicas, nº3, de agosto de 2001), M1 = papel-moeda em poder do público + depósitos à vista; M2 = M1 + depósitos especiais remunerados + depósitos de poupança + títulos emitidos por instituições depositárias; M3 = M2 + quotas de fundos de renda fixa + operações compromissadas registradas no Selic (Serviço Especial de Liquidação e Custódia); e M4 = M3 + títulos públicos de alta liquidez. Consequentemente, a diferença entre M1 e M4 pode ser uma medida razoável da proporção do fluxo de riquezas que está sendo alocada sob a forma financeira. Deduz-se M1, a moeda propriamente dita, porque se trata dos meios correntes de pagamento e não do estoque em ativos financeiros.

Gráfico 17 – Lucro, Acumulação De Capital, Consumo Capitalista E Taxa De Financeirização (1971-2005)



Fonte: Ipeadata.

Nota: g = taxa de acumulação de capital fixo produtivo; rl = taxa de lucro empresarial; CK/K = razão consumo capitalista / estoque de capital fixo produtivo; taxa de financeirização = AF2/K = razão estoque total de ativos financeiros / estoque de capital fixo total.

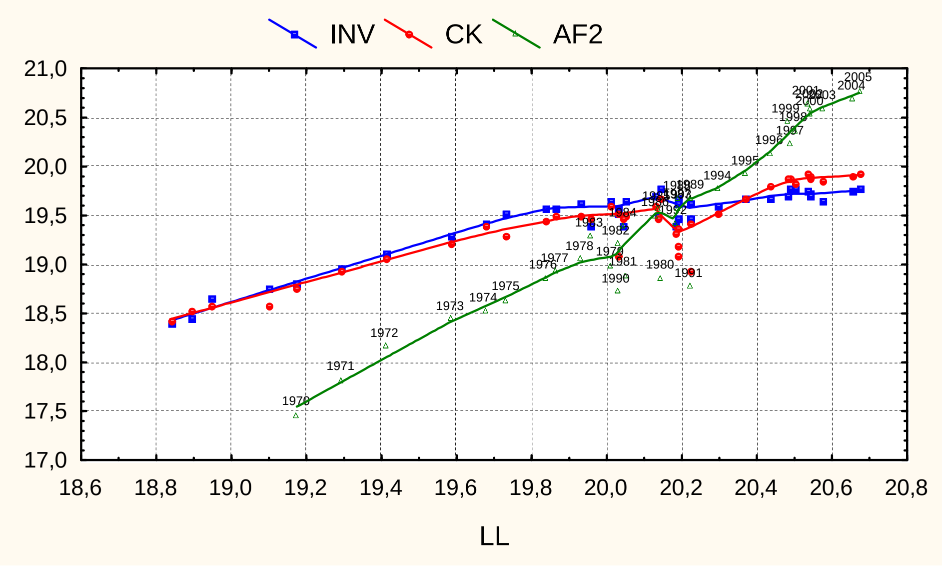
No Gráfico 17 pode-se observar como evoluíram a taxa de acumulação de capital fixo produtivo (g), a taxa de lucro empresarial líquido (isto é, deduzindo-se os impostos diretos), a razão consumo capitalista / estoque de capital fixo produtivo (K) e a razão AF2 / K. Constata-se que a trajetória de rápido crescimento desta última razão é uma característica do período pós-liberalização (1990-2005). Nos últimos anos do "milagre econômico", 1973-1975, a razão AF2/K permanecia muito próxima dos 8% , mas em 2005, ela atinge os 21% do estoque de capital fixo produtivo da economia brasileira. A expansão desta relação foi de fato muito grande e justamente num período em que a taxa de crescimento do PIB permaneceu estagnada em 2,54 % a.a. Como o baixo crescimento econômico foi um resultado da baixa taxa de investimento (e, portanto, baixa taxa de acumulação de capital produtivo), pode-se inferir que este fato foi decorrente do predomínio da alocação financeira em detrimento da alocação diretamente produtiva dos capitais.

O Gráfico 18 exibe uma dispersão múltipla entre o lucro líquido empresarial (LL), o consumo dos proprietários de capital (CK) e o investimento total (INV), onde se pode observar as tendências das séries obtidas por regressão local (lowess smoothing). A idéia básica é verificar o modo como evoluíram o consumo e o investimento produtivo em sua associação com o lucro empresarial líquido, já que a poupança das empresas (lucros retidos) poderia financiar a acumulação de capital ou ser alocada em ativos financeiros (AF2).

Considerando-se que a razão $\frac{g_e}{rl}$ corresponde à parcela efetivamente investida da poupança das empresas, pode-se indagar sobre a evolução das demais parcelas destinadas à alocação financeira (AF2) e ao consumo dos proprietários de capital (C). Para se obter uma visualização da evolução dessas variáveis foram utilizados os saldos em finais de período dos depósitos a prazo como proxy dos montantes destinados às aplicações em ativos financeiros. Para se chegar a uma série que expressasse de modo mais aproximado a evolução do consumo não assalariado, deduziu-se da série do consumo final das famílias, o valor correspondente à massa salarial.189

[189] Aqui se faz uma hipótese simplificadora que é de fato kaleckiana, ou seja, os trabalhadores gastam tudo o que ganham. Sabe-se, todavia, que em razão da elevada concentração da renda e da riqueza na economia brasileira, existe uma parte dos assalariados que podem alocar parte significativa de suas remunerações para ativos financeiros. Deixaremos esse caso para análises futuras.

Gráfico 18 – Dispersão Múltipla: Investimento, Consumo Capitalista E Ativos Financeiros [1966-2005]



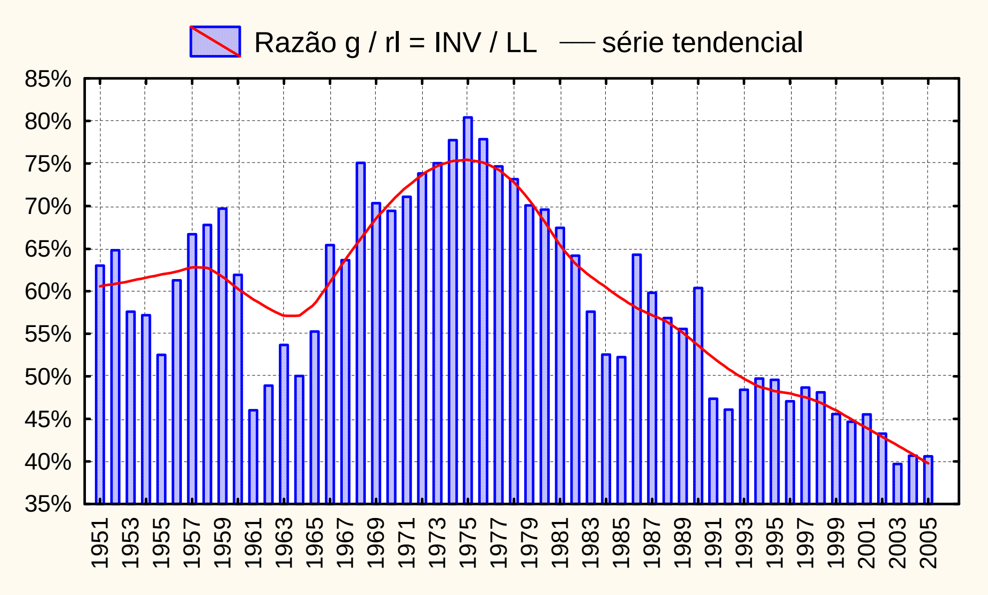
Fonte: Ipeadata

Nota: INV = investimento total ou formação bruta de capital fixo; CK = consumo capitalista; LL = lucro líquido empresarial.

No período de alto crescimento econômico [1967-1976], a elasticidade-lucro do investimento produtivo (expressa pela inclinação da linha de tendência) permanece próxima à elasticidade-lucro do consumo dos proprietários de capital190. Em outros termos, uma expansão nos lucros líquidos empresariais expande o investimento produtivo e o consumo em proporções semelhantes. Mas a partir de 1977, é nítida a mudança estrutural, com as quebras de tendência nas trajetórias de INV e CK. No entanto, a partir de 1994, a linha de tendência em CK é mais inclinada do que a linha de tendência em INV, atestando o fato de que, no período pós-Real, uma expansão dos lucros líquidos empresariais desencadeia aumentos do consumo superiores aos aumentos no investimento. Consequentemente, no período de alto crescimento do PIB, as propensões a consumir e a investir dos lucros empresariais permaneceram praticamente equivalentes. Após 1994, a propensão a investir cai consideravelmente enquanto a propensão a consumir dos lucros aumenta. Esta constatação empírica explica as razões da elevação da taxa média de lucro bruto enquanto a taxa de acumulação permanecia estagnada, tal como se pôde observar no Gráfico 13.

[190] Evidentemente, aqui não se trata de uma estimação precisa das elasticidades em questão, mas tão somente de uma primeira análise mediante a mera inspeção gráfica das séries que compõem os gráficos de dispersão. Numa segunda abordagem deve-se proceder aos testes econométricos para se chegar aos valores dessas elasticidades.

Gráfico 19 – Proporção Do Lucro Empresarial Investida Em Formação De Capital Fixo Produtivo [1951-2005]



Fonte: Ipeadata.

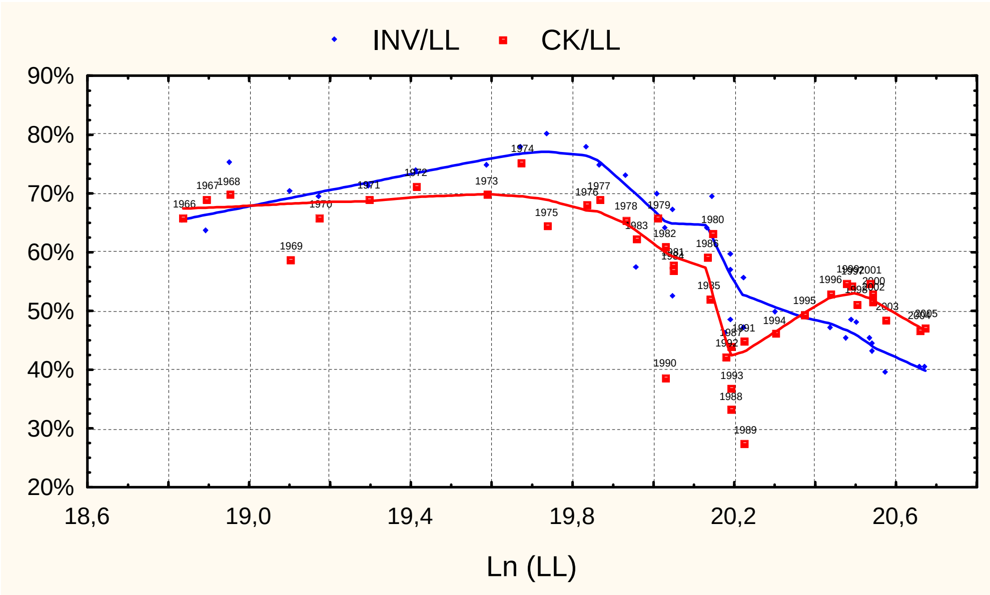
Nota: INV = investimento produtivo ou formação bruta de capital fixo em máquinas e equipamentos + infra-estrutura. Série tendencial obtida por regressão local (lowess smoothing).

Como a taxa de acumulação é a taxa de crescimento do estoque de capital fixo, chega-se à seguinte formulação: $g_e = \frac{INV_e}{K} = \frac{LL - AF_e - CK_e}{K}$ (5). A equação (5) mostra que, dado o estoque de capital fixo produtivo K, a taxa de acumulação de capital varia diretamente com o lucro líquido empresarial e inversamente com a parcela da poupança empresarial alocada para ativos financeiros (AF) e com a parcela correspondente ao consumo dos proprietários do capital. Consequentemente, quanto maiores forem as propensões a aplicar em ativos financeiros e a consumir, menores tenderão a ser as taxas de acumulação de capital fixo produtivo. Mas a razão entre a taxa de acumulação e a taxa média de lucro empresarial líquido ($\frac{g_e}{rl}$) expressa também a parcela do lucro líquido empresarial que foi efetivamente investida, pois $\frac{g_e}{rl} = \frac{\frac{INV}{K}}{\frac{LL}{K}} = \frac{INV}{LL}$ (6).

Pode-se então visualizar no Gráfico 19 a evolução de longo prazo dessa relação (6). A proporção investida dos lucros ultrapassa os 80% no ano de 1975, mas desde então entra em uma trajetória de queda tendencial, expressa pela linha suave também gerada pelo método lowess smoothing sobre as séries originais em barras. Ressalte-se que essa proporção declina para os 41% no ano de 2005.

O Gráfico 20 gera um diagrama de dispersão múltipla onde se destacam dois períodos na evolução dessas variáveis. No primeiro período [1966-1974], à medida que o lucro empresarial (LL) se expande, o consumo dos proprietários de capital (CK/LL) e a proporção investida do lucro empresarial (INV/LL) também se expandem, mas esse crescimento processa-se a uma taxa inferior à taxa média de expansão do investimento produtivo. Trata-se de um período onde a acumulação financeira ainda não põe limites significativos às alocações produtivas do capital.

Gráfico 20 – Dispersão Múltiplica: Parcelas Investida E Consumida Do Lucro Empresarial [1966-2005]

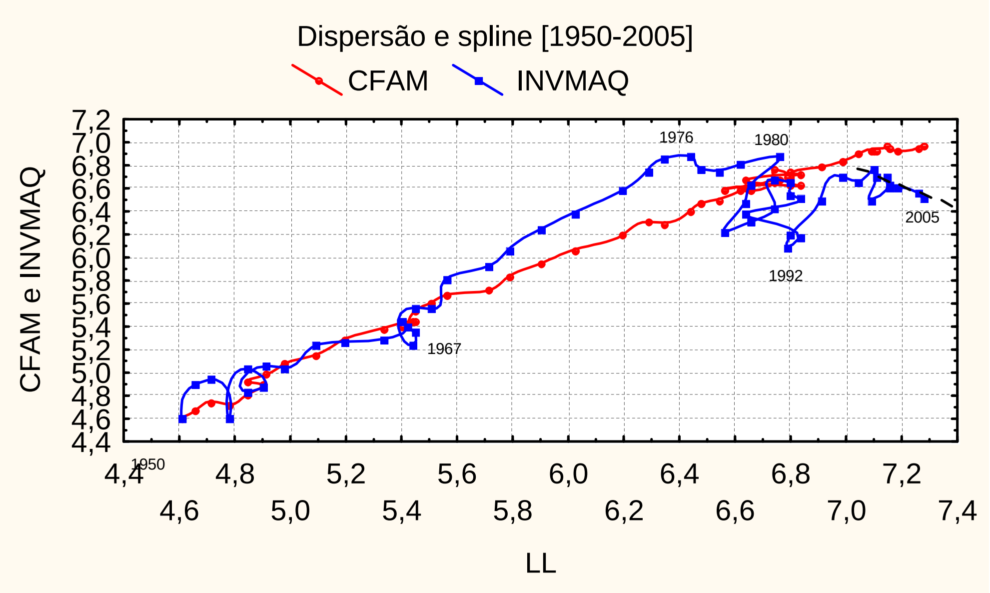


Fonte: Ipeadata

Nota: INV = investimento total; LL = lucro empresarial; CK = consumo dos proprietários de capital estimado como o consumo final das famílias menos a parte equivalente à massa salarial. LL está em logaritmo natural. Observe-se que o consumo capitalista neste gráfico não corresponde ao consumo capitalista empresarial ou das empresas não-financeiras. Trata-se de uma proxy para o consumo capitalista total, ou seja, incluindo todos os setores da economia, inclusive o setor financeiro. Por esta razão, no gráfico acima, as proporções não somam 100%.

O Gráfico 21 gera também um diagrama de dispersão múltipla, mas considerando o consumo familiar total (CFAM) e o investimento em máquinas e equipamentos (INVMAQ). Há uma nítida quebra estrutural nos anos 80 e 90, quando INVMAQ se desestabiliza e entra em uma trajetória de declínio entre 1999 e 2005.

Gráfico 21 – Dispersão Múltipla: Consumo Familiar E Investimento Em Máquinas E Equipamentos (1950-2005)



Fonte: Ipeadata.

Nota: CFAM = consumo familiar; INVMAQ = investimento em máquinas e equipamentos; LL = lucro líquido empresarial (deduzidos os impostos diretos). As séries estão em logaritmo.

Essas considerações permitem sustentar a pertinência da hipótese de um regime do tipo finance-led growth na economia brasileira atual, onde as decisões de investimento permanecem subordinadas a uma lógica financeira rentista.191 Conforme observa BOYER (1998), para as teorias econômicas tradicionais, a liberalização financeira favoreceria o investimento produtivo, os mercados de derivativos repartiriam os riscos e a especulação promoveria a estabilidade do processo de crescimento. Mas é precisamente o contrário que se tem observado desde os anos 90: expansão do consumo das camadas de alta renda mais do que o investimento produtivo. Um regime do tipo finance-led growth não tem sua estabilidade garantida, pois a predominância das finanças sobre as decisões de investimento produtivo tende a elevar sobremaneira a taxa interna de retorno para justificar as imobilizações de capital face às alternativas de menor risco e alta rentabilidade proporcionada pelos mercados financeiros.192

[191] É claro que as decisões de investimento produtivo sempre são referenciadas às oportunidades de ganhos financeiros, de acordo com a própria lógica do cálculo capitalista. Mas a especificidade do caso brasileiro reside precisamente na composição do ganho financeiro alternativo ao investimento produtivo e onde a proporção derivada de ativos de renda fixa atingiu cifras muito acima da média internacional. Esse tipo de financeirização baseada preponderantemente em juros tem como contrapartida a atrofia do mercado de capitais e uma perda acentuada de autonomia da política econômica.

[192] Para mais detalhes sobre os condicionantes macroeconômicos impostos aos setores produtivos pelos regimes de crescimento à dominante financeira (*finance-led growth*) ver BOYER (1998), CHESNAIS (2003), AGLIETTA (1999) e AGLIETTA (2001).

Para se analisar, ainda que preliminarmente[193], os determinantes do investimento sob o finance-led growth regime brasileiro foi estimada a seguinte relação macroeconômica:

LINVT = c0 + c1.r + c2.LU + c3.TXJUR + e, onde LINVT é o logaritmo do investimento total; r é a taxa média de lucro real; LU é o logaritmo da taxa de utilização da capacidade produtiva instalada, uma variável que capta os movimentos de curto prazo da demanda efetiva; e TXJUR é a taxa de juros reais dos empréstimos para capital de giro, utilizada como uma proxy do custo de uso do estoque de capital fixo.

Quadro 6 – Vector Error Correction Model Para A Relação (1984-2003)

Sample: 1984 2003	
Included observations: 20	
t-statistics in parentheses	
Cointegrating Eq:	CointEq1
LINVT(-1)	1.000000
LU(-1)	4.135107
	(-7.18630)
TXJUR(-1)	0.210823
	(1.89561)
C	11.75277
	(4.45031)
Error Correction:	D(LINVT)
CointEq1	1.302286
	(-4.09770)
D(LINVT(-1))	0.668757
	(2.10536)
D(LU(-1))	-4.171280
	(-2.55276)

[193] Pois novas especificações devem ser propostas para uma análise mais abrangente dos impactos da financeirização sobre as decisões de investimento e de acumulação de capital fixo produtivo.

D(TXJUR(-1))	0.739687 (-3.31302)
R-squared	0.550719
Adj. R-squared	0.466479

Fonte: M. BRUNO (2005)

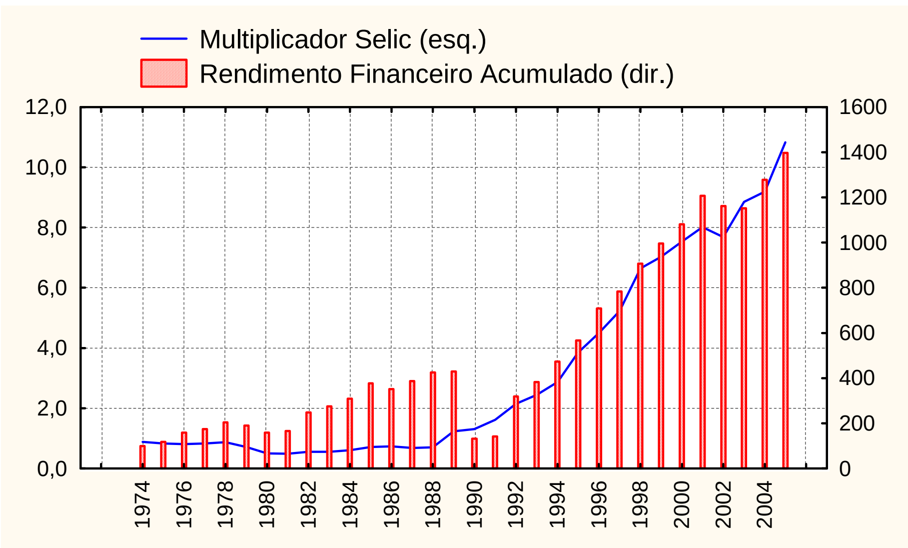
Os resultados da estimação do modelo de correção de erros no Quadro 1 sugerem não haver influência estatisticamente significativa da taxa de juros sobre as decisões de investimento de longo prazo, no período [1984-2003]. Como a taxa de lucro (r) não se apresentou estatisticamente significativa neste período, a equação foi estimada sem incluir esta variável como explicativa. O investimento responde preponderantemente às variações da taxa de utilização da capacidade produtiva instalada com uma elasticidade elevada (1,49). Contudo, as elasticidades de curto prazo são todas estatisticamente significativas, destacando-se o coeficiente das taxas de juros com um valor de -0,74. Isto significa que, no curto prazo, as taxas de juros influenciam negativamente as decisões de investimento e, consequentemente, bloqueiam a taxa de acumulação de capital fixo produtivo da economia brasileira.

Indicadores macroeconômicos de financeirização

Os indicadores propostos são macroeconômicos e permitem observar-se o modo como a renda financeira proveniente de ativos de renda fixa evoluiu em diversos períodos da história econômica brasileira. A utilização de indicadores macroeconômicos de financeirização decorre da dificuldade de se obter dados setoriais e por ativos das famílias e das empresas brasileiras.

No Gráfico 22, utiliza-se o multiplicador da taxa real de juros Selic (a taxa básica de juros da economia brasileira) ao invés da própria taxa, pois permite expressar a evolução das taxas de juros segundo o sistema de capitalização composta que é a modalidade praticada no mercado bancário-financeiro. Como neste sistema as taxas de juros no período t+1 incidem sobre o capital que já incorporou a taxa de juros no período t, o processo traduz a lógica da acumulação capitalista em seu desenvolvimento sob forma monetária.

Gráfico 22 – Multiplicador Da Taxa Real De Juros Selic E Rendimento Financeiro Acumulado (1974-2005)



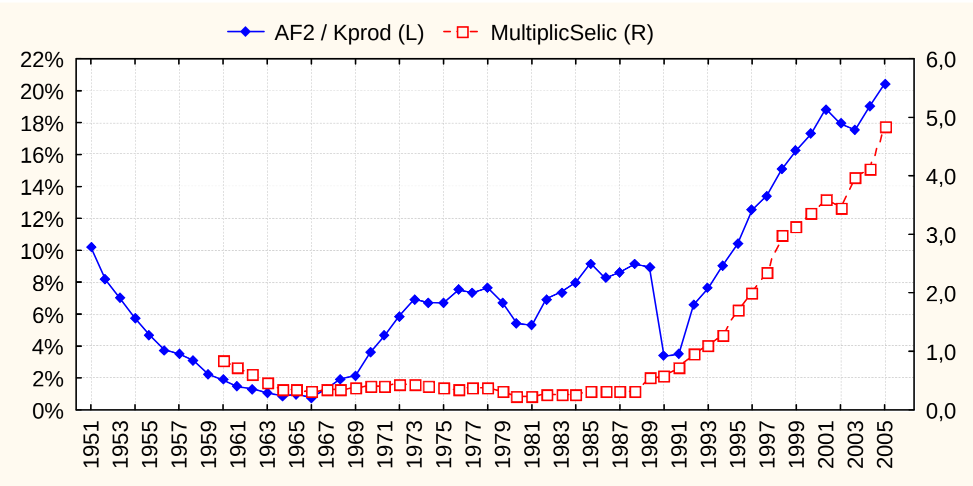
Fonte: IPEADATA

Nota: O multiplicador da Selic é calculado a partir das taxas reais de juros Selic mensais anualizadas. Para o cálculo da taxa real utilizou-se o IGP-DI. O rendimento financeiro acumulado refere-se à variação dos saldos reais de AF2 = [M4 –M1], utilizado como proxy dos ativos financeiros da economia brasileira e obtidos deflacionado-se os saldos nominais pelo deflator implícito do PIB.

No Gráfico 23 pode ser observadas as evoluções da taxa de financeirização – calculada como a razão entre o estoque total de ativos financeiros e o estoque total de capital fixo produtivo – e do multiplicador da taxa Selic. Este último é uma proxy da rentabilidade básica acumulada em ativos que rendem juros. Há dois momentos principais a serem destacados para análise: O primeiro é o período 1967-1990, onde a taxa de financeirização expande-se para o patamar próximo aos 8% (até 1979) e em seguida para o patamar dos 9%. Todavia, pode ser argumentado que esse crescimento foi decorrente das transformações institucionais promovidas pelo Estado brasileiro. Através do PAEG (1964-1966), o governo lança as novas bases estruturais para o funcionamento do mercado bancário-financeiro e de capitais, bem como o dispositivo institucional da correção monetária. Consequentemente, o crescimento de AF2 / Kprod expressou o aumento dos números de operações envolvendo ativos financeiros, mas como um resultado seja da expansão das instituições bancárias e financeiras, seja através do surgimento de novas empresas neste setor. Outras pesquisas apontam a vigência de um processo de concentração bancária neste período, que contou deliberadamente com os incentivos governamentais.

O segundo momento refere-se ao período 1991-2005. a taxa de financeirização cresce rapidamente com o crescimento da taxa de juros básicos da economia brasileira, a taxa Selic, fixada pelo Banco Central do Brasil. Esta correlação positiva entre essas duas variáveis é um indício de que a financeirização da economia brasileira seria promovida principalmente pela elevada rentabilidade proporcionada por ativos que rendem juros. Trata-se de um padrão de financeirização diferente do observado em economias desenvolvidas, sobretudo bem diverso do existente na economia dos EUA. À falta de uma melhor denominação, pode-se classificá-lo como um processo de financeirização usurária, para contrastá-lo com o padrão vigente nos EUA onde a financeirização baseia-se no mercado de capitais ou em títulos de renda variável.

Gráfico 23 – Taxa De Financeirização E Multiplicador De Juros (1951-2005)

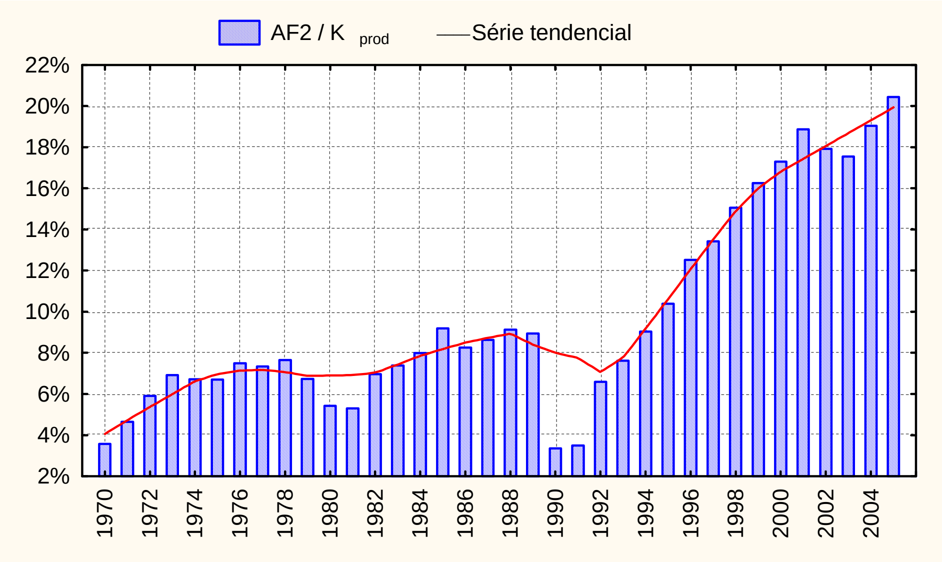


Fonte: Ipeadata e Ibge.

Nota: AF2 / Kprod = razão entre o estoque total de ativos financeiros e o estoque total de capital fixo produtivo ou taxa de financeirização; multiplicSelic = multiplicador da taxa de juros Selic; é uma proxy da rentabilidade básica acumulada dos ativos que rendem juros.

O Gráfico 24 mostra a mesma taxa de financeirização, a partir de 1970, mas com uma série tendencial onde se pode constatar a forte expansão desta variável durante a fase de globalização da economia brasileira. A liberalização financeira certamente está por trás deste comportamento, mas também a elevação das taxas reais de juros neste mesmo período.

Gráfico ***24*** – Taxa De Financeirização E Tendência [1970-2005]

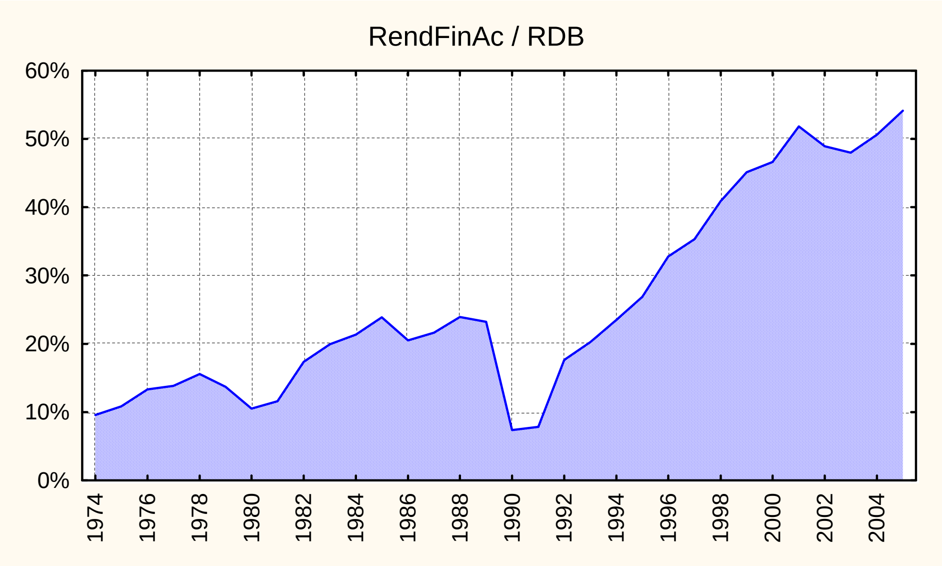


Fonte: Ipeadata e Banco Central do Brasil.

Nota: AF2 é uma proxy do total de ativos financeiros, calculada como a diferença entre os agregados monetários M4 e M1, em final de período, deflacionados pelo deflator implícito do PIB e Kprod é o estoque de capital fixo produtivo. Ambas as séries em valores de 2005. Série tendencial obtida por regressão local (lowess smoothing).

Outra estatística relevante para uma análise do processo de financeirização usurária da economia brasileira pode ser observada no Gráfico 25. A variável agora é o rendimento financeiro acumulado, calculado como a diferença acumulada entre os saldos médios representados por AF2, como proporção da renda disponível bruta (RDB). A simples diferença permite estimar os fluxos de renda financeira obtidos entre os períodos de tempo t e t-1. Acumulando-as pode-se chegar ao valor total dos fluxos de renda financeira acumulada.

Gráfico 25 – Rendimento Financeiro Acumulado Em Proporção Da Renda Disponível Bruta **(1974-2004)**



Fonte: Ipeadata e Banco Central do Brasil.

Nota: RendFinAc é o rendimento financeiro acumulado, calculado como a diferença acumulada entre os saldos médios representados por AF2.

Conclusão

Mesmo que preliminares esses resultados apontam para a necessidade de se investigar com mais precisão as especificidades do atual regime de crescimento “finance-led” brasileiro. As evidências empíricas apontaram para a existência de um processo de financeirização sob alta inflação nos anos 80. No período pós-liberalização, nos anos 90, e após a economia brasileira ter alcançado a estabilidade de preços, o processo de financeirização se reconfigura, mas sob alta taxa de juros reais. Em ambos os casos, o setor bancário-financeiro e as classes detentoras de ativos financeiros conectados à dívida pública puderam beneficiar-se de uma forte expansão financeira. No primeiro caso, via ganhos inflacionários e no segundo, via ganhos financeiros proporcionados pelos ativos de renda fixa.

Os mecanismos de legitimação difundidos com o apoio do próprio Estado brasileiro, consolidaram o novo modelo de crescimento financeirizado. Isto foi possível porque o Estado, através das transformações das formas institucionais de base da regulação, estabeleceu as condições estruturais e macroeconômicas para um regime de acumulação centrado na acumulação financeira e patrimonial e não na acumulação de capital produtivo. Por esta razão as taxas de crescimento do produto são bens inferiores à média histórica e bem aquém do potencial produtivo do país.

A atual política econômica é uma política de regime, isto é, seu papel é monitorar e revalidar as macro-regularidades induzidas pela nova arquitetura institucional que define o atual modo de regulação sob liberalização comercial e financeira. Em outros termos, a ação do Estado via política monetária e fiscal visa preservar a rentabilidade financeira real, mantendo a atratividade da economia aos capitais financeiros de curto prazo. Por isso o controle inflacionário é prioritário, trata-se de manter reduzido os custos de entrada e de saída dos fluxos de capitais do país, condição considerada estratégica para a rolagem da dívida pública. Mas também é uma exigência das classes detentoras de capital, cujas opções de alocação financeira foram ampliadas com a globalização.

Esta análise procurou identificar um conjunto de fatos estilizados do desenvolvimento econômico brasileiro, destacando-lhe sua evolução recente, e explicitando algumas de suas principais conseqüências macroeconômicas. Novos estudos devem ser propostos para aprofundar esta problemática, sobretudo, porque o processo de financeirização brasileiro difere fundamentalmente dos observados nos países já desenvolvidos. Numa economia de alta concentração da renda e da riqueza, a imensa maioria da população está fora das opções oferecidas pelo capital bancário e financeiro. Isto implica que, diferentemente do padrão finance-led growth de uma economia como a dos EUA, o regime de crescimento financeirizado brasileiro não é capaz de estimular o consumo agregado de maneira suficiente para permitir o reingresso desta economia num círculo virtuoso de acumulação de capital e crescimento econômico forte e sustentado.

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PART FIVE: GLOBALIZATION, CHINA AND CRISIS

13. EXAMINING THE ROLE OF 'STATE-LIKE' STRUCTURES IN FACILITATING THE GLOBAL ACCUMULATION PROCESS[194], *Emlyn Nardone*[195]

Introduction

Mainstream international relations (IR) and economics have had the unique distinction over the years of both being termed as 'dismal sciences'. Part of the reason for this unflattering description has come about as a result of their inability to be able to persuasively describe or explain current trends and events which make up much of the subject matter of their disciplines. This is not to say that they have lacked influence in areas such as the globalisation debate, in fact many of their theories have become so accepted that they are almost transparent when they appear. Many social science theorists for example, take the existence of the already predefined concepts of 'states' and 'markets' as given in their own disciplines explanations of globalisation. This oftentimes instrumentalist understanding of such important terms has frequently led to the obscuring of how and why states and markets operate in ways that are not necessarily consistent with their orthodox accounts. In short, there is a gap between what the theories say and what actually transpires in matters relating to the international system (Perraton, 2000, Palan, 2000). However there is a large body of literature -mainly within the heterodox sections of both disciplines- that can help recast our understanding of the principle elements within the world system. The purpose here will be to incorporate some alternative elements from both IR and economics so as to be able to examine and assess the extent and manner of the structural and institutional transformations that are taking place and, furthermore to explore the tensions that exist between conventional state institutions on the one hand and the emergence of global 'state-like' institutions on the other.

State/Market relationships in mainstream IR and Economics

The Poverty of IR

Mainstream IR theory and its related subfields have been found wanting in some respects. This has occurred mainly through a lack of theoretical sophistication in understanding the sudden end of the Cold War (Risse, 2002) and the issues that the processes of globalisation have raised for its traditional realist, neo-realist[196] and other nation-state-centric conceptions of the inter 'national' system (MacLean, 2000).[197] IR theorist's obsession with the nation-state has also been unhelpful in assessing the form of global restructuring by contributing to the "global-national dualism", which is still prevalent in much of the global studies literature (Robinson, 2001). This dualism revolves around the idea of the strong and

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[196] For a discussion on the tensions between these various schools see (Keohane, 1986).
[197] MacLean himself does not however see this as an inherent problem of the discipline. To him IR theory "rather than offering a secure basis for understanding and explaining globalisation, instead operates as a disciplining device within the discipline –a hegemony within a theory- which polices in generally a quiet way, what might be said or thought about globalisation and leads to a misrecognition of it" (MacLean, 2000, p. 5)

weak state theses with the former referring to the continued importance and primacy of nation-states while the latter accentuates the loss of nation-state importance due to the unyielding power of the forces of globalisation. One of the underlying reasons for these problems is caused by IR's (mis)interpretation of the territorial nation-state.

Whilst in many respects, the nation-state is still arguably the most important unit in the world political system, its role and function in the world's economy has been problematised by occurrences such as the globalisation of capital,[198] the increasing influence of non-state actors[199] and various technological and ideological revolutions which have led to the large-scale reorganization of Western manufacturing and service industries. Examples of these are the shift from a fordist to a post-fordist model of industrial production, the privatisation of state enterprises and various other forms of production and commodity chain restructuring including industry relocation and financial deregulation (Bernard, 1993, Cox, 1987, Jessop, 1993, Houston, 1992). To include such elements as have just been outlined even within IR's subfield of international political economy (IPE) would until relatively recently, have almost been considered heresy. Many of the definitive texts on the subject, (for example, Gilpin, 1975) make absolutely no reference whatsoever to matters such as commodity chains or circuits of production. A possible explanation for this was provided by Susan Strange who suggests that "the literature of contemporary IPE has, firstly, been too much dominated by the American academics and has therefore been permeated by many hidden and even unconscious value-judgements and assumptions based on American experience or on American national interests" (Strange, 1994, p. 12). Another less contentious explanation is that the subject has asked very specific questions which have limited the capacity of the discipline to analyse events outside of the scope of economic negotiations that take place between the governments of nation-states. The level of investigation only examines occurrences at the 'inter' national level which is 'public' thus ignoring the agency of other actors involved in the 'private' sphere.[200] This lapse can be accounted for by IR's lack of sophistication in understanding the nature of the main unit of its analysis, namely that IR has no theory of what a nation-state actually is. Mainstream IR generally views the international system in a rigid Hobbesian fashion in that it is an anarchical system of nation-states competing for hegemonic power.[201]

There are further explanations for the role of production being sidelined in IR/IPE theory. This has been largely due to the fact that Marxist theories which give production a central role in their analyses have either largely been weaned out of IR and IPE because of various institutional biases during the Cold War and more interestingly, Marxist theorists themselves have purposely snubbed a subject area where the actions of the unchallengeable liberal democratic nation-state (or capitalist state) is the only basis for possible explorations. This omission of Marxist analysis in IR and IPE has been termed, "a strange case of mutual neglect" (MacLean, 1988). However, efforts have been made by some IPE theorists to include other agents and agencies such as the firm in their analysis by making them equally as

[198] By this I mean the globalisation of financial markets (where international financial activity exceeds international trade by over 50 times), production chains and commodity chains (Helleiner, 1993, Robinson, 2001, Gereffi, 1999).
[199] This includes but is not limited to Transnational Corporations and non-governmental organisations and various other facets of global civil society.
[200] This conception of public and private spheres comes from John Locke's Two Treatises on Government which posits the idea of a strong private sphere which will hold the public sphere, i.e. the government in check. This differs from the Hobbesian Leviathan which justifies the need for an authoritarian state with no checks on its powers. (Rush, 1992).
[201] The idea of an anarchical system of nation-states trying to form order in the international system is very prevalent although it manifests itself to varying degrees. See (Bull, 1977, Morgenthau, 1985, Waltz, 1979).

important as the territorial state in the structure of the world economy (Strange, 1994). While the standard analysis has expanded its scope through the inclusion of multiple actors, the mere accommodation of these elements is not sufficient in itself as Bernard explains: “Changes in production however are not located within particular domestic politico-economic structures and, hence, the internal/external dichotomy of classical international relations theory is preserved. Nor is attention focused on the organizational or ideational aspects of production, or how these may differ or be linked across national borders” (Bernard, 1993, p.218).

Further to Bernard’s observations it is also important to stress that because the interaction between nation-states is the prevalent mode of analysis in IPE, most theories of global governance within the subject are still bound to the nation-state paradigm and the terms and ideas that are associated with it. It therefore follows that as the nation-state changes and transforms our conceptualisation of what global governance actually is must also adapt accordingly. Moreover, while globalisation and ideology in their various guises have come from agents and agencies nested within the territorial state, they still have had an instrumental role in creating the new circumstances for which the territorial state itself must acclimatize to. In a sense the nation-state is caught in a double bind. Elements from within its borders are threatening its sovereignty but not from within its own territory but from the global space that has been created outside its jurisdiction. Most IR and IPE protagonists fail to appreciate this complexity due to their analysis’s deficiency in conceptualising the differences between *what a nation rooted in territory is* and *what the role of a state is*. The concept of ‘state’ represents various actors and interests both within and outside that nation’s boundaries. In order to fully appreciate this *problematique* it would seem that broader scopes of inquiry need to be used. Underhill asks “should it [IPE] focus on the special nature of the system of states, along the lines of traditional IR, or should it develop its roots in the intellectual movements which emerged as radical/classical political economy, in turn developing branches across a broad range of social science traditions?” (Underhill, 2001, p.2). In addressing Underhill’s proposition this paper opts for a radical political economy approach towards conceptions of the state which will be developed later in section 2.

The Poverty of Economics

With regard to economics, if you were to accept Marx’s adage of the ‘economy being the motor of history’ then the discipline, which is currently largely dominated by the neo-classical school, tends to have little to say about the progression of globalization other than calling for the removal of all manner of fetters to the global ‘market’ (Perraton, 2000). This is despite the fact that many economic theories have either influenced or provided justification for the capitalist accumulation process that has long been the driving force of technological and social revolutions over the past five centuries (O’Boyle and Nardone, 2006). Economics, in its current orthodox form, even though it is categorised as a social science, has seemingly become more and more ‘scientific’ and is therefore increasingly abstracted from social reality. This has come about as a result of its ever increasing emphasis upon economic modelling and regressions which have led to it becoming almost a purely technical and mathematical method of academic investigation (Blaug, 1998, Ekelund and Hébert, 1997). These methodological criticisms aside, the subject has a tendency to approach globalisation from the point of view of measuring various data relating to trade flows, currency movements and market growth among others. While such techniques are useful to some extent they are only a single element in understanding what is a terribly complex process.[202] Moreover, economists' vigour in attempting to be as methodical and scientific as possible has meant that subjective issues such as economic power, markets and wealth accumulation have been subverted to a purely rational, technical and value free type of assessment which does not fully capture the complexities of these elements (Strange, 1994).

Like the state in IR, the market in economics is an often under theorised and contestable concept which is often unknowingly accepted without challenge by globalisation analysts. The market ideology that is being purveyed is one of objective entities that are independent of society. Markets are governed by scientific laws and rules and are thus treated in a similar manner to 'hard' scientific phenomena such as gravity. In this sense the market becomes depoliticised and serves mainly as a technical function of 'efficient' resource allocation. This concept of the depoliticised market of course, serves a very useful ideological purpose and fits in neatly with the orthodox accounts given earlier regarding IR/IPE and the state. To elaborate, we must begin by accepting that neo-classical economics is based upon the premise that the maximisation of utility will lead to markets having greater efficiency in the allocation of resources. This efficiency transpires through the speedy dissemination of information for buyers and sellers through prices and other signals, which enhance the markets' dynamic efficiency and powers of co-ordination through its various decentralised market mechanisms. It would then follow that the most competitive markets are the best markets judged by the aforementioned criterion, namely that such markets will maximise utility or said another way will be most likely to contribute to the general welfare (Gill, 1993).

Following this argument on it is not difficult to see why doctrines of neo-liberalism use neo-classical economic arguments to advocate the removal of as many state barriers as possible, such as protectionist tariffs, industry regulations and labour laws, which can act as a hindrance to the free operation of markets and the free flow of capital. The state (be it based in a specific territory or in a global space), of course remains necessary for the purpose of providing 'public' goods (especially in national settings), mediating conflicts of interest and enforcing contracts and other legal aspects of the market, as well as implementing structural transformation on national levels and international levels. As Gill notes, "economic liberalism is not simply a theoretical doctrine. It is also a form of political action that has tended to justify and promote the ascendancy of the capitalist class in the societies where it is practised – that is, in capitalist market societies…Economic liberalism is more a doctrine of the primacy of market forces rather than of the state" (Gill, 1993, p.79-80). Furthermore by promoting 'private' interests of particular classes the role of the 'public' or democratised elements of society becomes diminished.

In this instance Gill is correct to assert the importance of the market within neo-liberal doctrine but it is contentious to do so at the expense of the state from a more general analysis. Simply subjugating the state to market logics is as misleading as giving the state primacy *over* markets. While individual nation-state governments may cede their economic authority in certain areas through various multilateral trading agreements, constitutional amendments and so on, [203] the co-ordination of their markets is merely being transferred to another authority which acts in a 'state-like' manner. Hirst and Thompson note that "[c]ompanies may want free trade and common regimes of trade standards but they can only have them if states work together to achieve common international regulation" (Hirst and Thompson, 1995, p. 426). It

[202] An example of such work would be Baldwin *et al*, (1999)
[203] See for example (Howse and Nicolaidis, 2000), who discuss the boundaries that should be drawn between constitutional sovereignty and market deregulations.

seems therefore that governance of markets is not simply being dispensed of but more that the role of governance is being sited in a new transnational space operating from outside the constraints of a nation-states territory. It is important to reiterate that this process has not all of a sudden appeared from outside of the territorial state. The process of capitalism has begun *within* the territorial nation-state (national capitalism). It has gradually moved outside of its borders and consequently and concurrently, moved from within the international system (international capitalism) to a new global space (global capitalism), which is outside of the explicit remit of the territorial nation-states. From this global space capitalist logics have thereby begun to mould national-state apparatuses to the new circumstances and practices of global production and accumulation structures. In order to fully understand this process, the role of actors (i.e. classes, companies and institutions etc.) traditionally associated and melded with the functions of the nation-state need to be re-examined as do the institutional mechanisms that underpin markets and give them stability.

Reuniting the Approaches

In essence the shortcoming of both disciplines that have been discussed so far, partly have come about, through increasing specialisation within their specific fields with the resultant side effect of separation from other related disciplines studying the same types of phenomenon. In fact it is mainly practitioners from other fields that have questioned the relevance of the accounts given by IR/IPE and economics (Strange, 1994, Underhill, 1993). In the case of examining global capitalist reorganisation, a phenomenon which transcends many fields of intellectual inquiry, the inability for IR to analyse capitalism and the failure of mainstream economics to understand the concepts of global governance for markets have led to both disciplines being sidelined in an academic debate in which they should be at the forefront. Aspects of globalisation have so far been grappled with mainly by political scientists, sociologists, geographers and various studies relating to business, international law and finance. Thus the aim here is to try and combine the coherent elements from IR/IPE with the theoretical framework of social structures of accumulation theory (SSA) from economics, through arranging their marriage under the auspices of the 'church' of what I propose to term, transnational political economy (TNPE).

To sum up my earlier arguments, on the one hand, IR/IPE has traditionally concentrated on the interactions between individual nation-states on an 'international' basis. This is due to the fact mentioned earlier, that IPE is an outgrowth of traditional IR theory and sits comfortably with those who still believe in the primacy of the territorial nation-state. Representing the weak-state thesis, global political economy (GPE) almost completely dismisses the existence and roles of nation-states emphasising instead elements such as global civil society (private sphere) and the activities that take place outside the auspices of the traditionally conceived of nation-state system (public sphere). Their analysis is therefore 'global' as opposed to 'international'.[204] On the other hand, economics gives the ideas of markets precedence over states which are seen as fetters on the attainment of greater welfare and utility. This conclusion can be reached if the market is viewed as an objective depoliticised structure independent of society. Furthermore the emphasis of market superiority logics over the state can lead to a failure in understanding the actual function of state-like institutions in underpinning the existence of global markets. Conversely, TNPE not only examines the institutional transformation from one structure (the international in this current

[204] Such opinions are broadly held by scholars such as Ohmae, (1995) who sees the nation-state as having less and less relevance.

instance) of accumulation to another (an emerging global structure) but furthermore is able to include a broader range of actors and institutions in its analysis, such as production, class and various transnational forms of organisation, such as companies, supranational institutions and various global forums, all of which for one reason or another are outside of the range of enquiry for IR/IPE and economics (Risse, 2002; van der Pijl, 1998; Robinson, 1996, 2000, 2002, 2005; Gill, 1988, 1990, 1994; Cox, 1987, 1994). Through integrating radical transnational approaches into SSA theory the possibility arises of gaining a thoroughly original and more sophisticated analysis of globalisation by utilising elements from both the economic and IR/IPE approaches so as to be able to better understand the role of 'state-like' institutions in governing and managing global accumulation processes.

SSA Theory and the State.

Theory and Globalisation

While SSA theory has traditionally been a state-centric mode of analysis (McDonough, 2005, Robinson, 2001), this is not due to any flaw with the theory in itself. This has come about more as a result of the relative newness of the approach and the fact that its initial application has been only to individual nation-states. Moreover, much of the earlier SSA literature has focused on conceptualising a United States specific SSA (Gordon et al, 1982). This factor was partly contributed to by the nationality of its investigators and the specific targets of their studies. While the broad framework has recently also been applied to various different nations; India, South Africa and South Korea (Harriss-White, 2003; Heintz, 2002; Jeong, 1997) the end analysis has yielded very different results in that there is not necessarily a commonality between various specific national SSA's.[205] This outcome was already alluded to previously by one the schools main theorists (Kotz, 1994) who argued that each nation-state would most probably have a distinctive and unique SSA.

If however, globalisation (or capitalism) is viewed as a force that has come from within nation-states, and moved beyond their explicit jurisdictions, thus starting a process of disciplinary restructuring from outside the 'inter' national system, then the forms of restructuring should have a common element in that institutional re-organisational pressures will most probably be implemented to serve the interests of global production and accumulation logics. It therefore appears surprising that mainstream SSA has not had much to say about the seeming emergence of global SSAs. As McDonough comments, "the SSA school has often been lumped with longwave and regulationist theories which do make international claims" (McDonough, 2005, p. 11). It is therefore even more important to establish a clear difference between the SSA school's views on an emerging global SSA that is distinctive from other related approaches such as the Regulation and Long Wave schools[206]. Tentative studies in this area have already begun with Went's description of globalisation as a new stage of capitalism (Went, 2002) and McDonough's initial explorations into SSA theories and their application in understanding global neoliberalism (McDonough, 2003, 2005 McDonough and Nardone, 2006) and various work undertaken by the spatialisation school

[205] Possible explanations for this are not the subject matter of this paper but a plausible explanation could be that each of the aforementioned studies is based upon developing states in distinctive cultural settings. In many ways such nations are still being integrated into global circuits of accumulation and have their own specific modes of production in certain industries.
[206] Such differences revolve around diverse explanations for the shift from fordist to post fordist production techniques where the SSA theorists site the impetus as having come from class struggles while the Regulation school gives a more structural explanation. See (McDonough and Nardone, 2006).

whose analysis is based on the U.S. in particular but highlights forms of labour control that are applicable to any modern capitalist economy. These include but are not limited to capital flight, outsourcing of production and industrial relocation (Grant and Wallace 1994, Brady and Wallace, 2000).

However there is a part justification for the school's emphasis of the United States economy. If one is to accept an historical progression of capitalism through the ages concomitant with the rise of globalisation through various stages of development then the explicit study of the United States economy is a must in a contemporary setting (Block, 1977, Kennedy, 1987). It is entirely consistent with the preceding arguments that capitalism, through its various stages of development has been sited in different hegemonic states during history (Pax Britannica and Pax Americana for example) and has used various forms of state power to further accumulation efforts. However, mystification can be caused if the United States as a territorial nation-state is confused with the various configurations of actors sited within U.S. borders. To simply analyse the actions of U.S. governments alone is simply conducting a study of U.S. foreign economic policy. While of course such an analysis yields some useful results it does not entirely explain the motivations for various policies and fails to identify the principal beneficiaries of such plans of action (Robinson, 1996)[207]. Likewise to only study an U.S. SSA is to delineate the importance of the web of connections that exist between national and global 'state' structures and agents. By merely concentrating on the U.S. domestic structures of accumulation and market relationships themselves is to overlook the importance and new found prominence of such supranational institutions as the WTO, regional agreements such as NAFTA or inter-regional agreements such as APEC, not to mention the various mergers and joint ventures undertaken by various transnational corporations which have effects far beyond the borders of their indigenous HQ's. These contemporary phenomena have come about through domestic U.S pressures but not necessarily in the interest of the U.S. as a nation-state. So rather than focusing solely on the institutions themselves and their specific roles in global governance, accumulation and production, a more cogent approach is to focus on the elements that go into the construction of these various institutional arrangements, emphasising the role of national governments, market actors, global civil society and most importantly examining the role of classes which act in a manner to influence and forge these arrangements from various spaces located throughout the globe (Robinson and Harris, 2000, Sklair, 2001). By following the traditional mode of analysis for an SSA we can briefly examine: 1) The Capital-Labour accord; 2) the Capital-Citizen Accord; 3) Pax Americana[208]; and 4) Containment of Inter-capitalist Rivalry.[209] As Houston notes, "SSAs are usually seen as *national* structures, though there may be no theoretical imperative for this" (Houston, 1992, p. 60). In an effort to transnationalise the SSA analysis it is useful at this point to introduce a neo-gramscian perspective on class relations which will add to the depth of the theory without disturbing any of its underlying elements. This will be the focus of the next section.

[207] Robinson's argument centres on how the U.S. state apparatus can be utilised by various factions to implement change in 'under' developed nations using the guise of democracy promotion.
[208] Following the globalisation of production and capital and the emergence of global capital classes the idea of Pax Americana is less relevant and will not be analysed in the same way as the other tenants which have been mentioned.
[209] These are the key elements of SSA analysis that Houston attributes to Bowles, Gordon and Weisskopf (Houston, 1992).

SSA and The Neo Gramscian Approach

Unlike other meanings of hegemony that are often used in respect to international relations theory, Gramsci's use implied a domination of contexts and ideas. With that in mind the importance of elites (or intellectuals in Gramscian terminology) becomes apparent. These elites role is to ensure "the economic organisation and political organisation of their class" and furthermore to "preserve the hegemony of their class over society as a whole by means of a justifying ideology of which they are the agents" (McClellan, 1998, p. 202). Therefore the formation of historical blocs, and in the context of global capitalism, specifically the formation of a neo-liberal bloc, is necessary in forging an ideology with the aim of changing the course of society through the coalescence of social and economic agents who have a shared a world view and position. Gramsci defined a historical bloc like this,

"The dominant group is co-ordinated concretely with the general interests of the subordinate groups, and the life of the state is conceived of as a continuous process of formation and superseding of unstable equilibria (on the juridical plane) between the interests of the fundamental group and those of the subordinate groups, equilibria in which the interests of the dominant group prevail, but only up to a certain point, i.e. stopping short of narrowly corporate interests" (Gramsci, 1971, p. 182).

Thus the dominant view of the ruling class is so diffused that it becomes consensually accepted by society as a whole. In assessing the possibilities of a global capitalist SSA, which would consist of integrated national and regional circuits of accumulation through a global financial and production system, one must explore the possibility of a transnational capitalist class (TNCC) that underpins this process (Robinson, 2001, 2005). The TNCC can be defined as the controllers of global finance and production and would also include the principle agents in the governing and operating of supranational institutions that underpin such a global accumulation process. This grouping would be complemented by various politicians, charismatic figures and academics that would lend legitimacy to such a system (Robinson 2005). Various strata of other classes would also emerge under this elite class. According to Robinson,

"Below this transnational elite would be a small layer, shrinking in some locales (the U.S.) but expanding in others (China and India), of old and new middle classes, highly paid workers, and highly cosmopolitan workers who exercise very little real power but who -pacified with mass consumption- form a fragile buffer between the transnational elite and the worlds poor majority" (Robinson, 2005, p. 7).

The integration and allowance for the existence of such a class fractionation potentially expands the main tenants of SSA analysis, namely the capital-capital relation, the capital-labour relation and the capital-state relation, by opening up spaces outside of the nation-state thus allowing for a more thorough conceptualisation of globalisation. For example, global production has allowed for the fragmentation of what were previously national working classes. This has resulted in the loss of national union powers, the erosion of wages and the geographical segmentation of labour which lacks the resources and technological innovations to unionise and act globally. The erosion of state regulations on industry and labour coupled with the erosion of welfare programmes and privatisations of public services has increased the potential for greater efficiencies and possibilities for further capital accumulation by the TNCC. It has also provided opportunities for the new found mobility of capital to nest itself in short-term hotbeds of profit whilst also acting as a disciplinary tool to ward off any wage demands or increases in labour regulations. Furthermore, through the opening up of new markets and new spaces capital no longer competes on national levels against foreign competitors but increasingly transnational capital competes to replace national capital therefore often giving global operations an advantage over local operators.

Following on from the criticisms of global versus nation-state and state versus market dualisms that were made earlier, the transnationalisation of classes allows us to have a concept of the transnationalisation of hegemony (Robinson, 2005). The point here being that transnational classes are not necessarily just national classes integrating externally with one another in a transnational space but that they are TNCC's that have achieved a transnational hegemony which allows them to capture the 'state-like' functions of the nation through the erosion of sovereignty concomitant to the growing powers of supranational institutions that are more suited to co-ordinating the demands of global circuits of accumulation, production and finance. The principal difference between the TNCC and national classes is that TNCCs are involved in capitalist accumulation processes at the global level while national classes are still rooted to national and international processes. This means that nation-state policies are more frequently tailored to those with a transnational outlook no matter what territory they come from at the expense of indigenous capital which may not be able to offer the same levels of investment as global competitors. When the powers that nation-states have ceded are bundled together in various collective supranational authorities the possibility exists to conceive of an emergent transnational state apparatus (TNS) which acts as a forum for a TNCC and whose institutions can be utilised to exert pressures on national-states to implement change to grease the wheels of global capitalist accumulation practices thus distinguishing the TNCC further from national capitalist classes[210]. To conclude we will examine the idea of a TNS apparatus and assess its compatibility with the idea of an emerging global SSA.

Conclusions: An Emerging Transnational State?

SSA theory is as Reich describes[211], "above all an investigation of the qualitative distinctions that demarcate different periods, different stages of capitalism, with a particular focus on the transformative processes that led from one SSA to another" (Reich, 1997, p. 2). In the assessment of whether a global SSA is actually consolidating it is useful to examine the scale and magnitude of state restructuring efforts. If there is indeed an emerging global SSA it seems plausible that such a regime will require the transformation of some or many of the structures that underpinned the previous framework. As profit rates have been generally stable or rising for a TNCC in recent times (Van der Pijl, 1998, p.57-63), this class fraction has sought to consolidate these gains and make new opportunities through institutionalising globalisation processes so as to be able to co-ordinate future accumulation efforts. In other words global capitalist logics firstly, need to be formulated into policies and secondly, need to be administered by, and on behalf of a TNCC. This would involve the creation of a TNS apparatus to carry out policies when possible or at least provide leverages to get other agencies and institutions to act on its behalf. Such institutional progressions are transforming the previously more nationally orientated arrangements that were created for and mediated the

[210] Of course the prominence and scope of power of the TNCC is debateable, see (Tabb, 2004).
[211] Of course Reich is referring to SSA theory as a U.S. centric theory explaining U.S. accumulation processes. I am viewing SSA theory to be a framework of analysis which seeks to understand the processes of global capitalism.

capital-labour relationship, the capital-capital relationship and the capital-state relation of an international economy.

The nation-state phase of capitalism meant that capitalist production relations consolidated over specific territorial areas. Class struggles were in this sense confined to those national boundaries and resulted in Polanyi's two-fold movement of deregulation (laissez-faire) followed by re-regulation (welfare-state) of markets (Polanyi, 1944). This re-regulation was possible due to the territorial limits of capital mobility and the ability of working classes to exert pressure on national governments to use state intervention mechanisms to redistribute surplus more evenly. Hence there was a consolidation of certain configurations of classes world wide but expressed through a system of nation-states and mediated by their respective social structures of accumulation. This nation-state system of accumulation has gradually been superseded in recent times by tendencies towards global production which have resultantly fragmented previous structures and allowed for the creation of TNCCs that have utilised the existing institutions of the nation-state system and the Bretton Woods system that underpinned circuits of international accumulation. "As national productive structures now become transnationally integrated, world classes whose organic development took place through the nation-state are experiencing supranational integration with 'national' classes in other countries" (Robinson, 2001, p. 168).

As Tabb states "[t]he erosion of state capacities, loss of legitimacy as governments have been less able to deliver basic security, economic and in many cases even physical security, or even hope reflects the workings of the global regimes of our times" (Tabb, 2004, p. 20). The rise of a TNCC through the globalisation of finance and then production, and the growing powers of global state-like institutions relative to existing sovereign nation-state institutions is indicative of how the process of globalising capitalism is separating the 'state' from the nation-state as the most important unit in a newly globalised system. If the institutions that once co-ordinated national SSAs are being sited in global locations with global capacities it would therefore indicate the emergence of a truly global SSA which would accumulate wealth on behave of the owners of a non-national means of production. Although the emergence of a TNS apparatus is only tentative, the increasing importance of global institutions concomitant to a decline in national institutions (especially economic ones) is indicative of the growing ideological hegemony of a TNCC wishing to consolidate a global structure of accumulation.

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14. CAPITALISM WITH ZERO PROFIT RATE?: LIMITS TO GROWTH AND THE LAW OF THE TENDENCY FOR THE RATE OF PROFIT TO FALL, *Minqi Li*[212]

Introduction

Capitalism is a socio-economic system that rests upon the endless pursuit of profit and capital accumulation. Its normal operations lead to as well as require the infinite growth of material production and consumption that are in turn based on the limitless exploitation of human labor and natural resources. However, after centuries of relentless capitalist accumulation, resources depletion and environmental crisis have reached the advanced stage.

The current global capitalist system depends on the abundant supply of non-renewable fossil fuels that provide for 80 percent of the world's energy supply. But now there is convincing evidence that the global production of oil and gas will soon reach the peak and start to decline thereafter. Further, to prevent or alleviate global warming with its potentially catastrophic consequences, it is necessary to phase out nearly all fossil fuels before the end of this century.

Mainstream environmental studies and environmental reformist movements have put their hope on renewable energies and improvement in energy efficiency.[213] However, this perspective has been subject to growing criticisms. A number of critics have conducted careful studies and find that it is highly unlikely that the renewable energies can meet the enormous and ever-growing demand for energy of global capitalism in a post-fossil fuels era and there are definite limits to the improvement of energy efficiency.

Without the ever-growing supply of energy and other resources, there is no way for capitalism to maintain limitless economic growth. To the extent the normal operations of capitalism necessarily result in as well as require growth and accumulation on increasingly larger scales, the contradiction can only be resolved through a fundamental social change that replaces capitalism with an alternative social system that is compatible with the requirements of environmental sustainability.

The first part of this paper discusses the depletion of fossil fuels and the likely effects of various renewable energies and the nuclear energy on the future energy supply. The second part discusses the limits to improvement in energy efficiency. The third part discusses the depletion of other resources and the constraints imposed on economic growth. The fourth part relates the limits to growth to Marx's hypothesis on the "law of the tendency for the rate of profit to fall." It can be established that if the growth rate falls towards zero, then either the profit rate or the net investment has to fall towards zero. The last part concludes the paper, seeing the coming crisis as the expression of the conflict between the "productive forces" and the "existing relations of production" and discussing the historical constraints and possibilities for the post-capitalist society.

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213 For example, see Lovins and Von Weisacher (1997), Hawken, Lovins, and Lovins (2000) and Brown (2003).

Limits to Growth: Energy Supply

Fossil Fuels and Global Warming

The current global capitalist economy depends on non-renewable resources for 87 percent of its total energy supply. Oil accounts for 34 percent of the worlds' total primary energy supplies, coal accounts for 25 percent, natural gas accounts for 21 percent, and nuclear energy accounts for 6.5 percent. Among the renewable energies, combustible renewables and waste (wood, other biomass, animal products, municipal waste, and industrial waste) account for 10.6 percent. These sources of energy are mainly used for burning that generates greenhouse gases and other air pollution. The environmentally preferable renewable energies are hydro, solar, wind, geothermal, tide, and wave. By far hydro electricity is the most important, accounting for 2.2 percent of the world's total primary energy supplies and all others account for a mere 0.4 percent. [214]

For advanced capitalist countries (OECD countries), oil accounts for 41 percent of the total primary energy supplies, natural gas accounts for 22 percent, coal accounts for 21 percent, nuclear energy accounts for 11 percent, combustible renewables and waste account for 3.4 percent, hydro electricity accounts for 2 percent, and all others account for 0.7 percent.

Therefore, oil and gas combined account for 55 percent of the global energy supply or 63 percent of the total energy supply of advanced capitalist countries. Oil and gas are non-renewable resources that will eventually be depleted. Now there is convincing evidence suggesting that global oil and gas production actually is likely to peak very soon, possibly within a decade, and start to decline thereafter.

According to Colin J. Campbell, global oil discovery peaked back in the mid-1960s. Since 1980, new discovery has been less than depletion for every year and the gap has tended to grow. Global conventional oil production was likely to have peaked in 2005. Unconventional oil sources (heavy oil, deepwater oil, polar oil, gas liquids) are unlikely to make a significant contribution. Global production of all oil liquids is expected to peak around 2010 and gas production is expected to peak around 2025. By 2050, the total production of oil and gas is expected to fall by about 40 percent from the peak level in 2010.[215]

Trainer (2006a) counts a total of 61 estimates of the world's total conventional oil resources and concludes that there is a considerable agreement on a figure under two trillion barrels (implying about one trillion barrels remaining since the world's total production so far has been about one trillion barrels). Campbell's current estimate is about 1.9 trillion barrels. The US Geological Survey put forward a very optimistic but widely citied figure of three trillion barrels that has been criticized by Campbell (2005c). Even if one accepts the US official estimate, it would only postpone the peak date of global oil production by about twenty years.

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[214] The world energy statistics cited in this paper, unless stated otherwise, are from IEA (2006).

[215] Campbell conducted careful studies to "backdate" the official revisions of reserves in each oil field to their original date of discovery to get a true picture of the discovery pattern. For complete discussions of peak oil estimates, see Campbell (2005a and 2005b). For mathematical models that apply the Hubbert's method to the global situation, which correctly predicted peak oil production in US, see Korpela (2005). For popularized discussions of peak oil theories and the critiques, see Heinberg (2003 and 2004) and Kunstler (2005). The Association for the Study of Peak Oil and Gas Ireland (ASPO Ireland) publishes monthly newsletters at www.peakoil.ie, which provides updated oil and gas production profiles and estimated dates of peak production.

Coal is the other major source of energy global capitalism relies upon. Coal is relatively abundant. The world's current rate of production is approximately 5 billion tons a year. Assuming the total potentially recoverable coal being two trillion tons (cited from Trainer 2006a), the world's remaining coal could last 400 years.[216] Moreover, coal can be converted into oil and gas (though with some energy loss). However, if one assumes that to support world economic growth, coal production grows at an annual rate of 2 percent, it can only last 110 years. If one further assumes that coal production needs to grow more rapidly to replace the declining oil and gas so that the annual growth needs to be increased to perhaps 4 percent, then the world's total remaining coal can only last about 70 years. These estimates do not take into account that as production moves to increasingly more difficult fields, rising costs of production and declining energy return ratios could substantially reduce the amount of coal that is practically recoverable.

The use of fossil fuels and other human activities release large and growing amounts of greenhouse gases that have contributed to global warming. Between 1973 and 2004, the world's total emissions of carbon dioxide (or CO_2, the main greenhouse gas) increased by about 70 percent, or at an annual rate of 1.7 percent. At the current growth rate, the world's total CO_2 emissions would rise to more than 200 percent of the current level by 2050 or nearly 500 percent by 2100.

The potentially catastrophic consequences arising from global warming have been widely discussed, including rising sea levels, flood, drought, heat waves, spread of human and crop diseases, decline of food production, and a possibility to trigger the next ice age. The Intergovernmental Panel on Climate Change estimates that to stabilize the concentration of CO_2 in the atmosphere at twice the pre-industrial level it is necessary to cut global annual CO_2 emissions to 8-12 billions tons by 2100. The current global emissions stand at about 27 billion tons. This suggests that the global CO_2 emissions and the use of fossil fuels need to be cut by at least 55-70 percent by the end of the century. However, to prevent catastrophes such a level of emissions could be too high. Even if we stop burning all fossil fuels immediately, the planet would continue to heat up for 150 years and oceans would continue to warm up for 1,000 years. Extreme reductions of greenhouse gas emissions may be required to prevent global warming from triggering a process of unstoppable chain reaction (Goldsmith 2005).

Both the reality of resources depletion and the necessity to prevent or moderate global warming suggest that the consumption of fossil fuels, on which the global capitalist economy depends for 80 percent of its energy supply, will have to be nearly completely phased out by the end of this century. To sustain unlimited economic growth, global capitalism would have to rely upon nuclear or renewable energies.

Nuclear Energy

The generation of nuclear electricity uses uranium (composed of two isotopes: U-235 and U-238) that is a non-renewable resource. The nuclear reactors under the current technology are burner reactors that use U-235 to generate enriched uranium. U-235 is not

[216] By comparison, the world's remaining recoverable conventional oil can last only about 40 years at the current rate of production, using Campbell's estimate, or 80 years using US Geological Survey's estimate.

abundant, accounting for only 0.7 percent of the naturally occurring uranium. If the current technology is used, the world's total recoverable uranium would provide an energy supply that amounts to 150 billion tons of coal equivalent. Under the current rate of production, it could last 120 years. However, if nuclear energy is to be relied upon as the sole source of electricity production, the rate of production would have to be increased by six times and the remaining uranium can only last about 20 years.

A few countries (US, UK, France, Japan, and Russia) have experimented with breeder reactors that combine U-238 and U-235 to produce plutonium (which can be used to make nuclear weapons). Since the breeder reactor uses much less U-235, if successful it could increase the potential energy supply that can be derived from the world's uranium up to seven trillion tons of coal equivalent. Even such an enormous amount of energy will not allow the world economic growth to last very long. Suppose the world energy demand keeps growing at 2 percent a year using the remaining fossil fuels and suppose that by 2100, fossil fuels are completely phased out and the world energy demand is to be met by nuclear energy using breeder reactors. As the world's total energy demand by 2100 would be 6-7 times as much as today (or approximately 120-140 billion tons of coal equivalent a year), the world's remaining uranium could only support the world economy for about 50 years.

Nuclear energy of all kinds would cause serious environmental and safety problems. There is no good solution to the problem of nuclear wastes that have radioactive effects lasting thousands of years. Although there have been no major nuclear accidents since the Chernobyl accident in 1986, if nuclear energy is used on a very large scale over a long period of time, then some human failure will be inevitable, and any nuclear accident could lead to catastrophic consequences with long-lasting effects.

The breeder reactors have much more serious safety problems than the conventional reactors. Plutonium is regarded as the most poisonous material known on earth. With an accident, it could explode like an atomic bomb. Liquid sodium, the coolant used by breeder reactors, explodes on contact with air or water. Because of these problems, breeder reactors are expensive to build and maintain and are susceptible to long shutdowns. The French Superphenix reactor, the world's largest breeder reactor, operated for less than one year during its ten years of service. Currently only Russia continues to support the further development of breeder reactors.[217]

Nuclear fusion is the only proposed technology that theoretically has a chance to provide virtually limitless supply of energy. Nuclear fusion is the reaction that takes place in the sun and has been achieved by human beings in the form of hydrogen bombs. To use it for economic purposes, however, the reaction has to be controlled. To initiate a fusion reaction, temperature of more than 100 million degrees have to be reached and no known materials on earth are capable of containing such temperatures. So far scientists have attempted to confine the reaction through different processes. But each process requires more energy than the reaction itself generates and has succeeded in sustaining the reaction for no more than a fraction of a second.[218]

[217] On the prospect and limitations of nuclear energy, see Heinberg (2003: 132-139); Kunstler (2005: 140-146); Aroman and Cruzet (2005); and Trainer (2006a)

[218] There is another proposed nuclear fusion technology that uses lithium and is somewhat more promising. Lithium, however, is not very abundant. Trainer (2006a) suggests that it would yield only about as much energy as remains in fossil fuels (about 3 trillion tons of coal equivalent). This would make nuclear fusion using lithium

Wind and Solar

There are a variety of renewable energies, but wind, solar, and biomass are the three that are likely to make a significant contribution to the future energy supply.

Wind optimists claim that electricity derived from wind could be three to four times of present US electricity use. Trainer conducted a careful and detailed study and found that using reasonable assumptions of capacity, wind farm size, and exclusion factors (prior uses and distance from electricity grids), wind can meet no more than half of the present US electricity demand. In Australia, Trainer concluded that wind is unlikely to make a considerable contribution. A study by the Commission of the European Communities found that wind had a "realizable on shore technical potential" to meet about a quarter of Western Europe's electricity demand in 1990. A serious problem with wind is variability. In summer the output is likely to fall to only half the annual average. The average capacity utilization is no more than 25 percent. It takes large area of land and the capital cost is very high (Trainer 2005: Chapter 4).

Solar energy can be converted directly into electricity through photovoltaic cells. If photovoltaic plants are used to generate electricity, taking into account the need to store electricity in the form of hydrogen for the nighttime, the sunlight collecting area could be as large as 87 square kilometers for a plant that has a capacity of one thousand megawatts. The capital cost could be 130 billion Australian dollars or 47 times of the cost of an equivalent coal plant plus fuel for lifetime.[219] Photovoltaic cells can also be integrated into residential roofs. Trainer estimates that if all of the residential roofs are used, it may be able to meet 10 percent of Australia's current electricity demand (Trainer 2005: Chapter 2). McCluney estimates that if all of the solar energy falling on the US rooftops can be collected, it could meet about 80 percent of the current US energy demand (McCluney 2005a). This does not take into account the loss of energy due to conversion and some rooftops may be shaded. Suppose photovoltaic cells are installed on all of the US rooftops (with a total area of 18,000 square kilometers), the average solar incidence is 4.5 kilowatt-hour per square meter per day, and the average efficiency of photovoltaic cells is 10 percent (after taking into account variability in solar incidence and allowing for rooftops under less than ideal conditions), then the annual total production of electricity from this source could be up to 3 trillion kilowatt-hour or about 10 percent of the US present total primary energy supplies.[220]

Trainer (2005: Chapter 3) believes that the solar thermal system is probably the most promising solar electricity option.[221] The solar thermal system has advantage over the solar

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a smaller contribution to possible future energy supply than breeder reactors. On nuclear fusion, see Craig, Vaughan, and Skinner (1996: 205-207) and Heinberg (2003: 157-160).

[219] Trainer assumes an indeal site for Australia but for the winter season, with an average solar incidence of 4.25 kilowatt-hour per square meter per day. This is comparable to the average annual solar incidence for the US cited by McCluney (2005a).

[220] The average solar incidence and the total area of rooftops in the US are from McCluney (2005a). According to Trainer (2005: Chapter 2), using the current technology, the photovoltaic cells peak efficiency is about 13 percent.

[221] Trainer did not explain solar thermal electricity in detail. Based on the discussion of Craig, Vaughan, and Skinner (1996: 181-190), solar thermal electricity is about using certain devices to concentrate the solar rays that would generate heat, which could in turn be used to drive a conventional electricity generator (using steam to drive a turbine that generates electricity).

photovoltaic system in energy storage. Under the solar photovoltaic system, to deliver electricity in the nighttime, electricity generated in the daytime has to be stored in hydrogen, with an energy loss of 70 percent (the conversion from electricity to hydrogen results in about 30 percent loss of energy and the conversion from hydrogen to electricity results in about 60 percent loss of energy). By contrast, under the solar thermal system, heat collected in the daytime can be stored in oil, molten salt, or crushed rock, with an energy loss of less than 15 percent.

Suppose the average solar incidence is 8 kilowatt-hour per square meter per day (using the solar incidence in some good sites), and efficiency is 10 percent, then each square kilometer could receive enough solar energy to generate an amount of electricity that equals 23,897 tons of oil equivalent. The world's total land surface has an area of about 150 million square kilometers, about 17 percent of which is covered by deserts (Craig, Vaughan, and Skinner 1996: 428). If all of the world's deserts (25.5 million square kilometers) are used to generate solar thermal electricity, it could generate sufficient electricity to meet about 55 times of the present world energy demand.

In fact, obviously not all of the world's deserts can be used and the average solar incidence for the world's deserts could be far below what is suggested above. Like wind, solar thermal electricity also has a serious problem of variability. Trainer suggests that the winter output could be as low as 20 percent of the summer output. Significant seasonal difference would exist even in deserts close to the equator, such as in North Africa and West Asia. To build plants in these deserts would require very long transmission lines covering thousands of kilometers to meet the energy demand in Western and Northern Europe. The stable flow of electricity output that can actually be utilized is likely to be a fraction of the total annual electricity output.

Water is probably the greatest constraint on the large-scale application of the solar thermal system. Currently industry uses about 20 percent of the world's total water consumption. Within the industrial sector, the power plants, which use water to cool electricity generators, are among the largest users. In the US, the cooling of power plants accounts for nearly 40 percent of all industrial use of water (Brown 2003: 25; 128). Suppose for the solar thermal plants to generate an amount of electricity comparable to the world's current total electricity consumption (or about 11 percent of the world's present total primary energy supplies), it would need to use an amount of water that equals about one-third of the world's current industrial water consumption. Then to generate an amount of energy more than 50 times the world's present energy supply, it would take about 450 times of the world's current water consumption by the power generation industry, 150 times of the world's current water consumption by the industrial sector, or 30 times of the world's total current water consumption.

In the coming century, with global warming, shrinking rivers and lakes, depletion of aquifers, and spreading water pollution, even the current rate of water use would be unsustainable. The world would have to struggle to meet the demand for water by the agricultural and the residential sector (Brown 2003: 23-41). Where would the additional water come from? Even if somehow the desired amount of water is made available, how to deliver it into the desert?

Biomass, Hydrogen, and Liquid Fuels

Nuclear, wind, and solar energies can be used to generate electricity, which however cannot be directly used as liquid fuels. Electricity accounts for 16 percent of the world's total final consumption of energy. By contrast, liquid fuels account for about 25 percent of the world's total final consumption of energy.[222] Liquid fuels are indispensable inputs for modern transportation. They also play an indispensable role in powering heavy equipment in mining, construction, and agriculture (Heinberg 2003: 137; Kunstler 2005: 123-131; 145).

Biomass (from wood, corn, sugarcanes, and other plants) is the only renewable energy source that can be used to directly produce liquid fuels in the form of ethanol or methanol. The growth of biomass is subject to the natural limit on plant yields set by the process of photosynthesis. Under natural conditions, only about 0.07 percent of the solar energy received is stored within plant material as energy.

Trainer (2005: Chapter 5) estimates that if all of Australia's present demand for oil and gas is to be met from biomass, it would take about four times all of Australia's cropland or twice all of the good forest area. To meet the US transportation demand for energy, it would take about five times the total US cropland or four times the total forest. The global potential biomass production might be able to meet about 20 percent of the world's current crude oil consumption.[223] All of these estimates do not take into account the fact that much of the land has already been committed and overused, and the biomass production potential could fall sharply without the energy subsidy from fossil fuels. The existing evidence therefore decisively rules out the possibility that the future world demand for liquid fuels can be met by biomass.

Electricity can be converted into hydrogen, which can be stored in fuel cells generating electricity to power cars and other vehicles.[224] The production of fuel cells uses scarce materials such as platinum. The large-scale use of fuel cells therefore may be limited by the availability of the scarce materials.

Trainer (1995: Chapter 6) argues that the physical nature of hydrogen largely rules out the possibility of a large-scale hydrogen economy. Hydrogen is very light. Very large volume of hydrogen is needed to carry a given amount of energy and it easily leaks through joints, valves, and seals. All of these make it very expensive to transport and store hydrogen and the overall energy returns end up being very low. A forty-ton truck is only able to carry an amount of hydrogen that is equivalent to less than 300 kilograms of petrol or less than 3 tons of petrol if hydrogen is liquefied (but there would be a large energy loss in liquefaction). The storage tank must be heavy and expensive and could weigh as much as 115 times of the hydrogen stored. Taking into account all of the energy losses that would incur in the conversion from electricity to hydrogen and then back into electricity, liquefying or pumping, transportation and storage, only 10-20 percent of the electricity generated ends up as useful energy for final consumption.

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[222] This is estimated by the oil and gas used in the transportation sector and therefore has not included the liquid fuels used by the industrial and agricultural equipment.

[223] This is based on an assumption of an average productivity of ten tons per hectare over a total area of 600 million hectares. The world's total arable land is about 1,600 million hectares.

[224] There are electric cars can powered by batteries. But conventional batteries have to be recharged frequently and do not allow continuous long-distance traveling.

Limits to Growth: Energy Efficiency

It would be possible for economic growth to continue with constant or declining energy supply if energy efficiency keeps growing indefinitely. Energy efficiency is defined as the ratio of output over the inputs of energy. Output can be measured by GDP in constant dollars. The inputs of energy can be measured by standard energy units, such as oil equivalent or coal equivalent. Given the wasteful pattern of production and consumption of global capitalism, it is not surprising that there could be substantial scope for improvement in energy efficiency. However, in the long run, growth of energy efficiency is subject to certain definite and insurmountable limits.

The economy-wide energy efficiency depends on three factors: the ratio of final consumption to total production; the allocation of energy in different economic sectors; and the technical or engineering efficiency within each sector:

$$E = (F/Q) * \Sigma_{i = 1, \dots n}(w_i e_i)$$

Where E stands for overall energy efficiency, F stands for final consumption of energy, Q stands for total production of energy, w_i stands for the share of sector "i" in the final consumption of energy, and e_i stands for the technical or engineering energy efficiency within sector "i".

F/Q represents the ratio of final consumption to total production. Final consumption is typically substantially below total production because some energy has to be used for the production of energy and some energy is lost in the transformation of energy from one form into another and in the transmission of energy from the sites of production to the sites of consumption. In principle, energy efficiency can be improved if the above losses can be reduced.

The world's total final consumption of energy accounted for 69.1 percent of the total production in 2004. This actually represents a fall from the ratio of 76.3 percent in 1973. The ratio depends on technologies in energy production, transformation, and transmission as well as the physical and chemical properties of energy sources. The limits to technical efficiency in energy production and transformation sectors are in essence the same as the limits in other sectors and will be discussed later.

The physical and chemical properties of energy sources largely determine the energy return ratio (also known as energy returned on energy invested, the energy yield ratio, or the energy profit ratio), that is, how much energy would be produced with the input of one unit of energy. Oil is by far the most intense or the most efficient source of energy ever known. In the early stages of production, oil had an energy return ratio of over 100. One relatively recent study suggests that oil has an energy return ratio of 8-11, compared with 7-10 for natural gas, 10 for hydroelectricity, 4.5 for nuclear electricity, 2.5-9 for coal-fired electricity plant. The non-hydro renewable energies generally have very low energy return ratios. Wind electricity has an energy return ratio of about 2 and ethanol has a ratio of 0.7-1.8. The energy return ratio for solar photovoltaic electricity is somewhat controversial. But some suggest that if all of the energy expended in the building of plants and equipment as well as transportation is taken into account, the ratio could fall below one (that is, yielding negative net energy return).[225]

Over the past two centuries, the successive industrial revolutions have led to the transition from sources of energy with lower energy return ratios to sources with higher energy return ratios, first from traditional renewable energies (wood, wind, hydro-power, animals, human labor) to coal and then from coal to oil and gas. In the coming years, we are going to see this process being reversed. Increasingly, the sources with higher energy return ratios (oil, gas, and coal) will have to be replaced by the sources with lower energy return ratios (nuclear and renewable energies) and the energy return ratios for fossil fuels are likely to fall as depletion leads to rising costs of exploration and production. Therefore, without major breakthroughs in technical efficiency, the ratio of final consumption to total production is likely to fall in the future.

Now consider the second factor: the allocation of energy in different economic sectors. Statistically, the overall energy efficiency for the whole economy can be improved if energy is re-allocated from sectors with lower output per unit of energy to sectors with higher output per unit of energy. However, there are definite limits to such an approach of energy efficiency growth. First, at the extreme, if all of the energy is allocated to the sector with the highest output per unit of energy, this will exhaust all the possibility to improve efficiency through further re-allocation of energy. Secondly, the possibilities of energy re-allocation are limited by the technical complementarities and the limited possibilities of substitution between economic sectors. Suppose sector A has lower output per unit of energy and sector B has higher output per unit of energy, but sector A produces the inputs required for the production of sector B, or suppose both sector A and B produces final consumer goods but they cannot be substituted for each other, then energy input cannot be re-allocated from sector A to sector B. Thirdly, under capitalism, re-allocation of energy and other resources between sectors can take place only as a result of the process of profit rate equalization. Capital tends to move out of those sectors with lower profit rates and into those sectors with higher profit rates. There is no guarantee that the process of profit rate equalization would be consistent with what is required for the improvement of the economy-wide energy efficiency.

Industry accounts for 28 percent of the world's total final consumption of fossil fuels and electricity, transport accounts for 31 percent, other sectors (agriculture, commercial and public services, and residential) account for 30 percent, and non-energy use accounts for 11 percent. Suppose the economy can function perfectly well without industry and the overall level of output and consumption would stay unchanged without any energy input in the industrial sector, then at most the overall energy use can be reduced by 28 percent, and the energy efficiency may be improved by about 40 percent. This probably represents the limit to efficiency gains through re-allocation between sectors.

Finally, consider the potential for improvement in technical or engineering efficiency. All economic activities involve certain physical, chemical, or biological transformations and therefore must consume some energy. Given the nature of the transformations required by the economic activity, there is an absolute minimum amount of energy required by the laws of physics. For example, there is a minimum amount of energy that would be required to carry certain amount of weight over certain distance. No matter how much technology advances, the actual amount of energy consumed cannot fall below the minimum.

[225] Statistics for energy return ratios are cited from Heinberg (2003: 152-153).

If all of the energy input directed towards a specific task is translated into useful "work" so that the amount of energy input is reduced to the theoretical minimum, then there is 100 percent of efficiency. In practice, some waste of energy is inevitable and the maximum attainable efficiency is likely to be far below 100 percent. This sets an insurmountable limit to progress in energy efficiency. Suppose an energy device has a technical efficiency of 40 percent, then no matter how much technology advances in the future, the total improvement in energy efficiency in the entire future can never exceed 125 percent of the current level of efficiency. [226]

Technology optimists claim that a "Factor Four" reduction in energy use is achievable without lowering living standards in advanced capitalist countries (Lovins and Von Weisacher 1997). Trainer (2006b) points out that most of their arguments and cases indicate 50-75 percent reductions and believes that a potential of 50 percent reduction is plausible. On the other hand, if fossil fuels are going to be largely replaced by nuclear and renewable energies, most likely the energy returns ratios will fall and could fall precipitously if hydrogen is used on a large scale to store electricity.

Table 1 presents the selected energy indicators of the world's major regions and economies. Among the world's large economies, Western Europe and Japan set the standard in term of energy efficiency. If the world as a whole can accomplish the same level of energy efficiency as Western Europe and Japan, then there is a potential for the world-wide energy efficiency to improve by about a third. To put the more optimistic claims in perspective, if a four-fold increase in energy efficiency is possible in advanced capitalist countries, then the OECD countries must manage to maintain the current level of economic activities with the per capita energy use of China or Latin America. For the world as a whole, if a four-fold increase in energy efficiency is possible, then the world must manage to maintain its current level of economic activities with about two-third of the per capital energy use of Africa or South Asia.

The average energy intensity for the capitalist world-economy as a whole probably will never fall to what prevailed in pre-modern societies. There is no large-scale pre-modern economy left in today's world. However, the economic conditions of some low-income countries may be considered to be close to pre-modern conditions. In fact, Myanmar has the world's most "energy efficient" economy, with a GDP to energy use ratio about four times as high as the world average. Thus, a four-fold increase in energy efficiency probably represents the limit to what future improvement in energy efficiency can accomplish.

In the post-fossil fuels world, how much could be the sustainable level of world economic output? Suppose wind, solar photovoltaic, and solar thermal each can generate an amount of energy about 10 percent of the world's present energy supply (that is, assume each of them can generate about as much electricity as the world's current total electricity consumption). Suppose fossil fuels continue to provide an amount less than 20 percent of the world's present energy supply. Biomass and other renewable sources may provide 10-15 percent. Thus, the above sources combined could approximately generate an amount about two-third of the world's present energy supply.

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[226] On an introduction of the laws of thermodynamics and how they impose limits to improvement of energy efficiency, see Fisker (2005).

Given the enormous environmental and safety problems of the nuclear energy, it would be wise to use it as no more than an insignificant supplementary source of energy. Further, the world's potentially recoverable uranium cannot last very long using the conventional burner reactors. However, if the world struggles to generate about as much energy as the present total energy supply, based on the above calculations, there would be a gap equaling about one-third of the world's present energy supply that has to be filled by nuclear energy. To fill this gap, the production of nuclear electricity would have to be increased by about five-fold. Most likely, this would have to be based on the very dangerous and problematic breeder reactors.

Using the more optimistic estimates, suppose energy efficiency can be improved by 100-300 percent, then the world economic output at most could rise to two to four times of the present level and there will be no more economic growth beyond this maximum. By comparison, if the world economy grows at its current rate of about 3 percent a year, then the world economic output should quadruple the present level by around 2050 and reach about 16 times of the present level by around 2100.

The above discussions have not taken into account the limitations that may arise from the high financial costs of nuclear and renewable energies. The failed French Superphenix breeder reactor (with a capacity of 1,200 megawatts) was reported to have cost 7.7 billion Euros during 1986-1996 before it was taken out of service (Aroman and Cruzet 2005). By comparison, Trainer (2006b) reports that a coal plant (with a capacity of 1,000 megawatts) plus fuel for lifetime cost 3.7 billion Australian dollars.[227] Comparison would be sensitive to time and exchange rates used. But a rough comparison (assuming 1 Euro = 1.7 Australian dollars) would suggest a breeder reactor would cost at least 3 times as much as a coal plant. Trainer (2006b) also estimates that the capital cost of wind electricity and solar thermal electricity would respectively be three times and six times as expensive as coal plant plus fuel over lifetime.

The modern transportation depends on the abundant and ready supply of liquid fuels. As is discussed above, there is no real good solution to the problem of liquid fuels in the post-fossil fuels world. If this problem cannot be effectively addressed, then the nature of the world transportation would have to be fundamentally transformed and its volume would have to be cut drastically.

The inter-continental transportation over sea and air would largely disappear. With the exception of some remaining ships and airplanes powered by the dwindling supply of fossil fuels, inter-continental transportation would by and large return to the pre-19th century conditions.[228] The current system of global economic division of labor would collapse as a result.

Electrified railways could experience a great revival and play an important role in intra-continental long-distance transportation. Intra-city transportation would be dominated by public transportation, electric cars, as well as various pre-modern vehicles. But overall transportation is likely to be much more expensive given the expensive electricity generated by nuclear and renewable energies.

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[227] Trainer (2005) earlier suggested that the cost for a coal plant with the same capacity plus fuel for lifetime would be 2.8 billion Australian dollars.

[228] Some ships may be powered by nuclear reactors installed on board. But that probably would be very expensive and not economical for civilian purposes.

Thus, even if aggregate energy supply may be adequate to support a level of output two to four times as the present, the inadequate supply of liquid fuels could become an insurmountable bottleneck. Few nation or region is able to meet its own demand for most (not to say all) of the resources required to run a modern economy from domestic supply. With the inter-continental commercial transportation largely disappearing and intra-continental transportation becoming much more expensive, production and consumption would have to largely depend on the availability of local resources and in effect be bound by the least abundant resources. This would almost certainly lead to a dramatic cut of global production and consumption.

Limits to Growth: Other Resources

A global capitalist economy that pursues limitless growth and accumulation demands not only ever-growing supply of energy but also ever-growing supply of many other resources, such as mineral resources, water, timber, and food.

Mineral Resources

Mineral resources are essential inputs for modern industry and construction. The nonmetallic minerals are considered to be generally abundant. There are only six metals (silicon, aluminum, iron, magnesium, titanium, and manganese) considered as “abundant metals,” individually making up at least 0.1 percent of the Earth’s crust by weight. All the other metals are geo-chemically scarce metals. Between 99.9 and 99.99 percent of the total amount of any given scarce metal is distributed in common rocks and only a tiny fraction occurs in ore minerals. It takes ten to one hundred times as much energy to recover metals from the richest common rocks as to recover from the lowest grade of ore deposits. Therefore, only ore deposits may be economically exploited (Craig, Vaughan, and Skinner 1996: 209-298; Trainer 2006a).

Table 2 lists the current rates of production, the reserve base (including current reserves and probably recoverable resources), and the resources (including all potentially recoverable resources) for the world’s 32 basic metals. At the current rates of production, all the probably recoverable resources for 14 out of the 32 basic metals would be exhausted in less than 100 years. If the world’s resources consumption keeps growing at 2 percent a year, then all the probably recoverable resources for 25 basic metals would be exhausted in less than 100 years and all the potentially recoverable resources for 16 basic metals would be exhausted in less than 150 years.[229]

The production of energy using renewable and nuclear sources presupposes the existence of a modern industrial and construction sector that is capable of producing the required capital structures and equipment. However, without the abundant supply of a wide variety of metallic minerals, the post-fossil fuels world may not have the capacity to produce the required structures and equipment and its ability to produce energy from renewable and nuclear sources would therefore be limited.

[229] Trainer (2006a) suggests that if the world population grows to 10 billion and the 10 billion people use the minerals at the present rich world per capita rates, one third of the 36 basic minerals (in term of potentially recoverable resources, defined as 10 percent of the minerals within the top 4.6 kilometer depth of the earth’s crust) would have been completely exhausted in about 35 years.

Energy, Water, and Food

Agriculture is the basis of all human civilizations. Rural population still accounts for about 51 percent of the world population. But agriculture accounts for only 4 percent of the world GDP and in OECD countries, agricultural employment has fallen to only 4 percent of the total labor force.[230] These numbers do not give a fair representation of the importance of agriculture to our world.

Modern agriculture is extremely energy and water intensive, and therefore is fundamentally unsustainable. To produce one calorie of food, it took a tiny amount of fossil energy (less than 0.1 calorie) under the traditional Asian agriculture. As late as in 1910, the US agriculture still managed a one-to-one energy return ratio from fossil fuels to food. Under the contemporary modern agriculture, it takes ten calories of fossil fuels to produce just one calorie of food (McCluney 2005a).

Modern agriculture depends on oil and gas for the production of chemical fertilizers and pesticides, operation of farm machineries, packaging, and transportation of agricultural produces. Even with the enormous subsidy of fossil fuels, modern agriculture has already been suffering from diminishing returns. Soil erosion has undermined the effectiveness of fertilizers. Insects have developed generic resistance to pesticides. There are signs that the global food production may peak in the near future (Goldsmith 2005; Heinberg 2003: 21).

Figure 1 presents the world's total and per capita grain production. The world's per capita grain production peaked in 1984. The total grain production has continued to grow but the growth rate has fallen since the 1960s.[231]

Water is another essential input for agriculture. Modern agriculture depends on large-scale, perennial irrigation to maintain high productivity. Worldwide, the amount of water for agricultural irrigation is doubling every 20 years and consumes nearly 70 percent of all the water used. About 11 percent of the world's cropland is under perennial irrigation and supplies 40 percent of the world's food. The worldwide depletion of aquifers now amounts to 160 billion cubic meters a year. If the world's main aquifers are completely depleted, world food production would fall precipitously. The world's main rivers provide another major source of water for agriculture. But with global warming and glaciers retreating, the flow of rivers can be reduced by up to 25 percent. Modern irrigation has also led to waterlogging and salinization, reducing the area of productive land available (Goldsmith 2005; Kunstler 2005: 157-161).

Without the abundant supply of fossil fuels and once it becomes no longer possible to over-extract the aquifers, the world food production would almost certainly fall substantially below the current level. Given that the world population is likely to increase from the current 6 billion to between 8 and 9 billion by 2050, there would be a very serious world food shortage. The geopolitical conflicts and chaos that are likely to follow could lead to catastrophic consequences beyond imagination.

[230] The Economist, *Pocket World in Figures*, 2007 Edition, p. 244.
[231] Data for the world's grain production are from Earth Policy Institute (2006).

In the long run, the sustainable level of world food production and population will be much lower than the current level. Some suggest that the world population may need to fall to 2 to 3 billion to be sustainable (McCluney 2005b).

In the post-fossil fuels world agriculture has to become much more labor intensive and labor productivity would have to fall accordingly. The enormous growth of labor productivity in the agricultural sector has allowed the massive transfer of labor force from agriculture to industry and services over the past two centuries. Without the technological revolution in the agricultural sector there would have been no industrialization and the so-called "services economy". If the labor productivity in the agricultural sector returns more or less to the pre-modern levels, then the share of rural population and agricultural labor force must rise to 80-90 percent of the total population and labor force. Such a transfer of labor force implies a fall of the world non-agricultural output by 60-80 percent (and 80-90 percent for advanced capitalist countries). As nearly all of the value of output now derives from the non-agricultural sectors, the economy-wide productivity as a result must fall by 60-80 percent.

The above discussions suggest that agriculture could prove to be the weakest link in the post-fossil fuels world. When the resources constraints on agriculture are taken into account, the long-term sustainable world economic output could fall to less than one quarter of the current level (and the per capita output less than half).

Zero Growth and the Law of the Tendency for the Rate of Profit to Fall

Therefore, at best, the world economy may grow to several times of the present level and then stabilize. There will be no more economic growth afterwards. The potentially attainable level of output would be substantially lower if one takes into account the constraints of liquid fuels and mineral resources. At worst, the world economy and population would have to fall to a fraction of the current levels. The humanity is confronted with the most difficult challenge of how to complete the transition from the current unsustainable levels of output and population to the future sustainable levels while making effort to avoid or at least alleviate the nearly inevitable ecological and human catastrophes.

In any case, for the post-fossil fuels (or the post catastrophe) society to be viable, it must rest upon sustainable relations with the environment, which would in turn require a stable and reasonable flow of material production and consumption that is sufficient to meet the populations' basic needs. In other words, it has to be a society of zero growth. What would be the implications for capitalism of all of these? Can a zero growth society be compatible with an economic system based on the pursuit of profit and accumulation? To address these questions, it would be useful (and interesting) to revisit the traditional Marxist debate on the "law of the tendency for the rate of profit to fall."

In *Capital* (volume 3) Marx advanced the famous hypothesis: "the law of the tendency for the rate of profit to fall." Marx argued that capitalist technological progress tends to be characterized by rising organic composition of capital (that is, falling output-capital ratio), which in turn leads to falling rate of profit. As capitalism is an economic system based on the pursuit of profit and accumulation, in the long run, the fall of the profit rate would undermine the foundation of capitalism and contribute to its final demise (Marx 1967[1894]: 211-266).

Marx recognized that there are various "counteracting influences", the most important of which is the "cheapening of elements of constant capital." However, Marx believed that in the long run, these counteracting tendencies are not strong enough to prevent the "law" from asserting itself. The validity of the "law" has been intensely debated by Marxists. The empirical evidence has been mixed.[232] The rest of this section discusses what are the implications for Marx's hypothesis if the world economy is moving towards permanent zero growth (and possibly negative growth) in the coming century.

The profit rate equals the product of the profit share and the output-capital ratio. In the long run, given certain profit share, the profit rate depends on the value of the output-capital ratio:

$$\mathrm{Lim}_{t\to\infty}R = (\Pi/Y) * \mathrm{Lim}_{t\to\infty}(Y/K) \qquad (1)$$

Where R is the profit rate, Π/Y is the profit share in the output, and Y/K is the output-capital ratio. Moreover, it can be shown that in the long run, the output-capital ratio depends on the marginal output-capital ratio, that is, the ratio of the change in output over the change in capital stock:

$$\mathrm{Lim}_{t\to\infty}(Y/K) = \Delta Y/\Delta K \qquad (2)$$

To see why equation (2) holds, consider that if $\Delta Y/\Delta K > Y/K$, the output-capital ratio would tend to rise until $\Delta Y/\Delta K = Y/K$. Similarly, if $\Delta Y/\Delta K < Y/K$, the output-capital ratio would tend to fall until $\Delta Y/\Delta K = Y/K$. From (1) and (2), the following can be derived:

$$\mathrm{Lim}_{t\to\infty}R = (\Pi/Y) * (\Delta Y/\Delta K) = (\Delta Y/Y) / (\Delta K/\Pi) \qquad (3)$$

Therefore, in the long run, the profit rate depends on the economic growth rate ($\Delta Y/Y$) and the share of net investment in profit ($\Delta K/\Pi$), which may be referred to as the net investment share.

There are two possible scenarios under which the profit rate would tend to fall in the long run. First, holding the economic growth rate constant, the net investment share tends to rise (or the net investment share rises faster than the economic growth rate). Under capitalism, individual capitalists and capitalist nation states are in constant competition with each other. To survive competition and to enrich themselves, capitalist corporations, states, and small businesses must engage in capital accumulation to expand the scales of production and to increase productivity. Therefore, normally a portion of the profit should be committed to net investment.

However, there is no particular reason why the net investment share should keep rising. In the first place, the net investment share can never be greater than one. There are, moreover, limits to the increase of net investment share. The capitalists have to pay taxes to the state and some of the capitalist profit has to be used for capitalist consumption.

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[232] For earlier studies on the trend of the output-capital ratio and the profit rate in the US economy in the post-WWII period, see Moseley (1991 and 1997) and Shaikh and Tonak (1994). Dumenil and Levy (1993 and 2004) studied the long-term movement of the output-capital ratio and the profit rate in the US economy between 1869 and the late 20th century and found that during two historical phases (between the 1870s and the 1890s and between the 1940s and the 1970s) both the output-capital ratio and the profit rate tended to fall. However, over the entire period the output-capital ratio and the profit rate fluctuated around essentially constant trends. A recent study by Li, Xiao, and Zhu (2006) finds that there has been a strong tendency for the output-capital ratio to fall in Japan and the long-term trend for the output-capital ratio in UK has been slightly downward.

Second, holding the net investment share constant, the economic growth rate tends to fall (or the economic growth rate falls faster than the net investment share). Empirically, until now there has not been a long-term tendency for the growth rate of the global capitalist economy to fall. As a result, until now there has not yet been strong empirical evidence in support of Marx's hypothesis.

However, after centuries of limitless accumulation and growth, the global capitalist economy has expanded to the point that the underlying material foundation (the earth's resources and the ecological system) for accumulation has been largely undermined by accumulation itself. If the analysis presented in this paper turns out to be largely correct, then the world economy will stop growing and possibly enter into a period of prolonged contraction at some point after the mid-21st century. That is, the world economic growth rate would fall towards zero and possibly become negative.

What would happen to the profit rate? Given positive net investment share, zero or negative economic growth rate implies that the profit rate would have to fall towards zero. This would confirm the "law of the tendency for the rate of profit to fall" (though under a very different context).

Can capitalism survive with zero profit rate? Ironically, the scenario of zero profit rate would be consistent with the "golden rule steady state" in the neoclassical Solowian model where the marginal product of capital equals the rate of depreciation and consumption is maximized. But if the profit rate does fall to zero, then what's the point of being a capitalist?

What could be the "counteracting influences" to such a scenario? If the economic growth rate falls towards zero, then the profit rate will not fall towards zero if and only if the net investment share falls towards zero or become negative. [233]

It is not clear how the net investment could ever fall towards zero so long as the profit is positive and the capitalist system functions normally. Capital accumulation could bring about more profit in the future and those who do not engage in capital accumulation risk losing their status as capitalists. Therefore, under normal conditions, it seems always "rational" for individual capitalists to use a portion of their profit for the purpose of accumulation. One might say that the capitalist class as a whole faces an insoluble "prisoners' dilemma."

It is conceivable that as the profit rate falls, the net investment share would also tend to fall. However, given the unstable nature of the capitalist economy, instead of leading to a stable state with zero net investment, the fall of the profit rate could lead to a general collapse of the investors' confidence. In that case, the net investment share could become negative, that is, the investment level would fall below what is required to replace the depreciation of capital. Not only there would be no more capital accumulation, but capitalism would also fail to maintain simple reproduction.

Hypothetically, if the net investment does fall to and manages to stabilize at zero, it means the entire capitalist profit is absorbed by capitalist consumption. In other words, the profit completely degenerates into the rent, and the capitalist class completely degenerates

[233] Note that in equation (3) the long run equilibrium profit rate does not depend on the profit share so long as both ΔY and ΔK are positive.

into a parasitical exploiter class. Can such a purely parasitical capitalism be politically and socially viable? No exploiter class could ever exist and rule the society if it does not play certain objective social function. The prosperity of the Egyptian and the Chinese empires depended on their effective management of the large-scale water works on the Nile and the Yellow River. The rule of the Catholic Church depended on its monopoly over education and knowledge in the medieval Europe. For capitalism, "development of the productive forces of social labour is the historical task and justification of capital." (Marx, 1967[1894]: 259)

The word "justification" is not used in the moral sense. The basic argument is that no social system can exist and be stable for a long period of time simply based on repression or deception. To be "sustainable", a ruling class has to play certain indispensable function required by the mode of material production at the time. From this perspective, the capitalist class has played a historically useful role through its unique tendency to use surplus product for the purpose of capital accumulation, thus having contributed to the development of productive forces. Once it becomes a purely parasitical class (and therefore becomes "dispensable") there would be nothing that can prevent the exploited great majority from rising up.

One might argue that even a static capitalism could still be justified on the ground it is more "efficient" than any alternative social system. This immediately raises the question how efficiency is defined and measured. Presumably, a non-capitalist society defines and measures it rather differently from a capitalist society. Even if one accepts the capitalist criteria of efficiency, it is not clear capitalism is necessarily more efficient than other social systems.

The theoretical case for the efficiency of capitalism largely rests upon the neoclassical ideal of perfect competition. In reality, capitalist markets are flawed in many ways (monopolies, externalities, public goods, asymmetric information, moral hazards, etc.). At the macro-level, capitalist economies are characterized by enormous wastes (unemployment, idle production capacity, advertisements, and artificial obsolescence). If all inputs (such as intensity of labor) and costs (human and environmental costs) are measured correctly, it is not obvious at all that capitalism is more efficient than non-capitalist systems that have historically existed or could conceivably exist in the future.

A stronger case can be made for capitalism regarding its constant drive towards technical innovation. But under capitalism, technical innovation is inseparable from capital accumulation. Both are driven by the pursuit of profit and the pressure of competition. If the net investment has fallen to zero, then presumably either the competitive pressure or the profit motive or both have become so weak that they could no longer motivate capital accumulation. What would be the unique capitalist motivation for technical innovation then?

In any case, without growth (and therefore the promise and the prospect of better life in the future), why would the exploited great majority continue to tolerate all of the social ills of capitalism, such as inequality, poverty, unemployment, slavery-like working conditions in much of the world, and other failures in meeting basic social needs (health care, education, care of children and old people)?

All of these, however, could prove to be purely academic and unnecessary speculations. It is quite possible that the capitalist system will not be able to survive the coming great crisis and will never reach the "steady state".

The Endless History

For Marx, all social systems are historical in the sense that every social system can exist only under certain historical conditions (certain level of development of "productive forces"), but as the underlying historical conditions inevitably tend to change (the "productive forces" tend to develop), sooner or later a point would be reached when the existing social system becomes no longer historically viable (the "existing relations of production" become "fetters" of development of the "productive forces") and has to be replaced by a new social system that is appropriate for the new historical conditions.

The "productive forces" have to do with how human beings interact with the nature to produce and reproduce their material conditions of life. Under certain conditions, human beings may transform the nature to enhance the ability to meet their own needs. The transformation, however, can only take place within the limits of physical and ecological laws.

Capitalism, through its pursuit of endless accumulation and growth, has fundamentally transformed the relationship between the human beings and the nature. The human activities of material production and consumption have expanded to the point that the very existence of human civilization is at stake. There cannot be a more acute expression of the conflict between the "productive forces" and the "existing relations of production," and the conflict can only be resolved by rejecting the existing socio-economic system (assuming the humanity will survive the coming crisis).

It is not the purpose of this paper to elaborate on the possible forms of post-capitalist societies. However, some broad historical constraints and possibilities may be outlined. The post-capitalist society must manage to meet the population's basic needs in ways that are compatible with ecological sustainability. This suggests that market relations must not play a dominant role in allocating goods, services, and resources because the dominance of market relations (even under conditions of simple commodity production or "market socialism" where the owners of the means of production are the workers, or the state, or various "collectives") would inevitably force the economic players (individuals, businesses, and states) to engage in relentless competition against one another and as a result pursue profit-making and capital accumulation. The economy, therefore, must be re-organized to be based on the production for use value or basic needs. In other words, it has to be some form of planned economy.[234]

More importantly, there is the question whether the post-capitalist society would be a classless society where people are freed from all forms of exploitation and oppression (that is, communism). There is a distinct possibility that the enormous difficulties that the humanity has to go through in the transition from capitalism to post-capitalism could lead to a return to some form of pre-capitalism.

[234] Of course, the planning may be centralized or decentralized (with local communities being the planners) and the planning process may be democratic, undemocratic, or bureaucratic but subject to some democratic checks. It can be debated whether market relations should continue to play an insignificant role in the economy. I personally do not consider market relations to be indispensable for delivering high quality of life in the post-capitalist society.

On the other hand, capitalism will leave us with some positive legacies. Much of the world's labor force has been transformed into proletarianized workers. The world's exploited classes are much better educated than their predecessors. It is widely accepted by the world's population that a legitimate government must govern through some form of democracy and some imperfect democratic political institutions have been established in much of the world. The world's exploited classes have been influenced by various Marxist and socialist ideas and have been under different degrees of political and economic organization. The collective political strength and potential of the world's exploited is probably stronger than any previous exploited classes at comparable historical moments.

Unlike in pre-capitalist societies, it is unlikely for the post-capitalist rulers to justify their rule on religious grounds (though this cannot be completely ruled out). Moreover, the requirements of ecological sustainability would deprive them of the justification of growth. In this context, could any ruling class manage to rule without at least pretending to rule for the benefit of society as a whole?

Despite all of the resources constraints discussed above, a substantial part of the technology and knowledge developed in the capitalist era may be preserved. It is possible that the post-capitalist society can have a level of labor productivity substantially above what was attained by pre-capitalist societies. Without the pressure of capital accumulation, the relatively high level of labor productivity may be used to greatly reduce the population's labor time that has to be committed to the production of necessities. This could in turn greatly expand the scope and potential of popular political participation. These historical conditions and possibilities suggest that there could be great hope for the post-capitalist society to be more egalitarian, less exploitative and oppressive, and possibly become one with zero exploitation and oppression.

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PART SIX: PROPERTY AND ITS LIMITS

15. THE DISCOURSE OF PROPERTY: CONTINUITY WITHIN TRANSFORMATION, *Ann Davis*[235]

Abstract

Property is a social relationship between the individual and the state, which varies considerably historically. Capitalist forms of property, including the treatment of land, labor, and capital as commodities, constitute a "fiction," according to Polanyi, and are contradictory, according to Marx. By taking a long run historical perspective, the transformation of these property forms, and their contradictory aspects, can be highlighted. Further, the institutions of "property" can help to provide a consistent theme in long-term institutional analysis, and can make explicit the structure of liberal institutions within and against which a successful SSA operates. As one specific example, the relatively widespread distribution of land in the early decades of the United States provided an independent means of support outside of the market, which validated the notion of individualism. The gradual commercialization of agriculture and the post war development of residential real estate transformed land use in the United States to a platform for consumer display. The relatively widespread ownership of single family homes in the current period maintains the appearance of individual autonomy, even while the value of that property is subject to considerable market fluctuation. That is, invidious conspicuous consumption further divides individuals and renders them more dependent on the market economy with this type of "ownership," effectively undermining the original meaning of individual private property. On the other hand, as the collective dimensions of property become more visible in periods of relatively intense market oscillations, it becomes possible to consider more explicit forms of collective management, as in Polanyi's "double movement." In this manner, the ongoing transformations of property forms can add a dimension to SSA analysis.

Introduction

Although usually considered a material object, property is a relation between the individual and the state. That is, there is a permitted use of an object, or a right to income from such use, that is protected by the state. For example, in the medieval period, the status of "freeman" was a right to practice a trade, to vote in a guild or medieval corporation, to use a plot of land, or all of the above. By focusing on property as a relation, the relationship that appears singular, between the individual and the object, is clearly social and institutional. That is, the property relation is recognized by others and protected by the state, with a specific set of privileges or responsibilities. By focusing on the property relation, the social and institutional dimensions become more visible, as well as the historical transformations.

The discourse of property has been used to legitimate the market economy. Although forms of property have changed, the rhetoric has provided a basic rationale for capitalism in terms of individual freedom and countervailing power with respect to a centralized, expropriating government. This defense was part of the appeal of the original liberal ideology (Locke 1980; Smith 1994) as well as to contemporary defenders (Milton Friedman 1962;

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Douglass North 1961). Given a republican form of government, the success of this discourse depends on a relatively wide distribution of property, even as the forms of property have changed from land and labor, to finance, in distinct periods.

Individualism and individual private property have been jointly constituted in liberal political theory (Locke 1980; Hegel 1977, 1896). The liberal state and the individual were the joint products of social contract theory (MacPherson 1962; Pateman 1988). Individual private property, rather than intermediating social institutions, purportedly supports the independence of the individual, without which individual autonomy is not possible. The liberal state operates by the relative emphasis on the individual and the state, at the expense of intermediate institutions (Frug 1980, 1999; Putnam 1993, 2000). To maintain the individual's stake in the system of political economy, nonetheless, the government in turn distributes, supports, and regulates the individual private property. Given diverse forms of property, the conflicts among contending "rights" involves the government in essentially political conflict resolutions among owners of various types of property.

While the classical economists, including Smith and Locke, based a theory of value on property in one's own labor, Hegel and Marx also discuss property as control over resources and means of production, necessary for individual expression and the development of personality. Marx clearly differentiated between forms of property such as land, labor, and capital, and defined distinct social classes by that relationship, with an emphasis on the collective nature of class rather than individual autonomy. Marx predicted, and helped to organize, social intermediate institutions among workers, to counterbalance the power of capital. Others predicted the eventual dominance of financial institutions of property (Lenin 1988; Hilferding 1981). One contemporary residue of this focus on different types of property in the history of economic thought is the Gross Domestic Product accounts, which still differentiate income by source, or type of property (wage, rent, interest, dividends, and transfer payments).

While liberal theorists emphasize the autonomy and mobility of the individual, critics tend to focus on the risk and the insecurity of the individual associated with the rise of the market economy. The requirement of disciplining the "individual " is emphasized by labor and institutional historians, such Reich, Gordon, and Edwards, as well as by postmodern critics such as Foucault (1978, 1990, 1991), Beck (1992), and Bauman (2005). The expansion of disciplinary institutions, such as state (and corporate) bureaucracies, can ironically increase role of government in a "laissez faire" economy (Polanyi 1944).

Transformation of Property Forms

In Volume I, Marx talked about the unique form of the commodity, and the transformation of property from individual to capitalist private property, and then to socialized production (Marx 1967, 763-764). There is a more specific literature on the transformation of property forms, and the associated legal institutions, with the development of market economies (Horwitz 1977; Nedelsky 1990; Rose 1994). Some of the conundrums associated with the development of property institutions, and the intermediation among various types of property have been noted by Coase (1969) and Libecap (1989), with Libecap's specific term for negotiations for changing property forms, or "contracting."

The specific forms of property, and the associated periods of relative ascendance, include:

Land (and semi-feudal colonial corporations): Founded in the colonial period by merchant corporations, the U.S. economy first acquired and distributed land widely in the late 18th and 19th centuries, most prominently in the Homestead Act, facilitating the transition from feudal corporation to individual private property in land;

Labor (homogeneous): the conditions of free wage labor were established after the Civil War, along with the doctrine of “freedom of contract,” and subsequent legalization of unions and the regulation of corporations in the first third of the 20th century, in terms of market power and labor rights.

Corporations: the consolidation of modern private corporations occurred in the late 19th and early 20th centuries in the U.S., and their early movement to international operation by 1914.

Consumer durables: advertising and mass production promoted the mass consumer society of cars, appliances, processed food, mass media, and single family houses in the early 20th century; after World War II, the support of government in terms of mortgage interest deductions and construction of federal highways lead to the explosion of suburbanization.

Entitlements: the welfare state after the New Deal developed support by income distribution in terms of entitlements from the 1930s to the 1960s, and by equal rights, although increasingly contingent since the 1980s.

Human Capital: differentiated, educated labor, which is the object of investment by the individual, firm, and the government; with the development of services and increasing technical and scientific requirements of production, individuals are able to obtain increasing control over their wages and work experience by acquiring more education, while also contributing to the further differentiation among individuals. After World War II, an increasing share of the workforce attained college degrees, and after 1980, an increasing share of women.

Finance: from the development of railroads and the corporate consolidation of the late 19th century, corporate stocks become widely traded; again in the 1980s, the tax cuts, financial deregulation, and limited government policies encouraged private investment in finance and real estate; these trends accelerated after the 1990s stock market bubble and the 2000 real estate boom, with low interest rate policies to avoid deflation. The transformation of the Soviet Union in 1989 opened many countries to global investment and production networks, enhancing the internationalization of finance. The “ownership society” promoted by President George W. Bush was part of an effort to further reduce government transfer programs for the elderly, and increasingly costly government-provided health benefits.

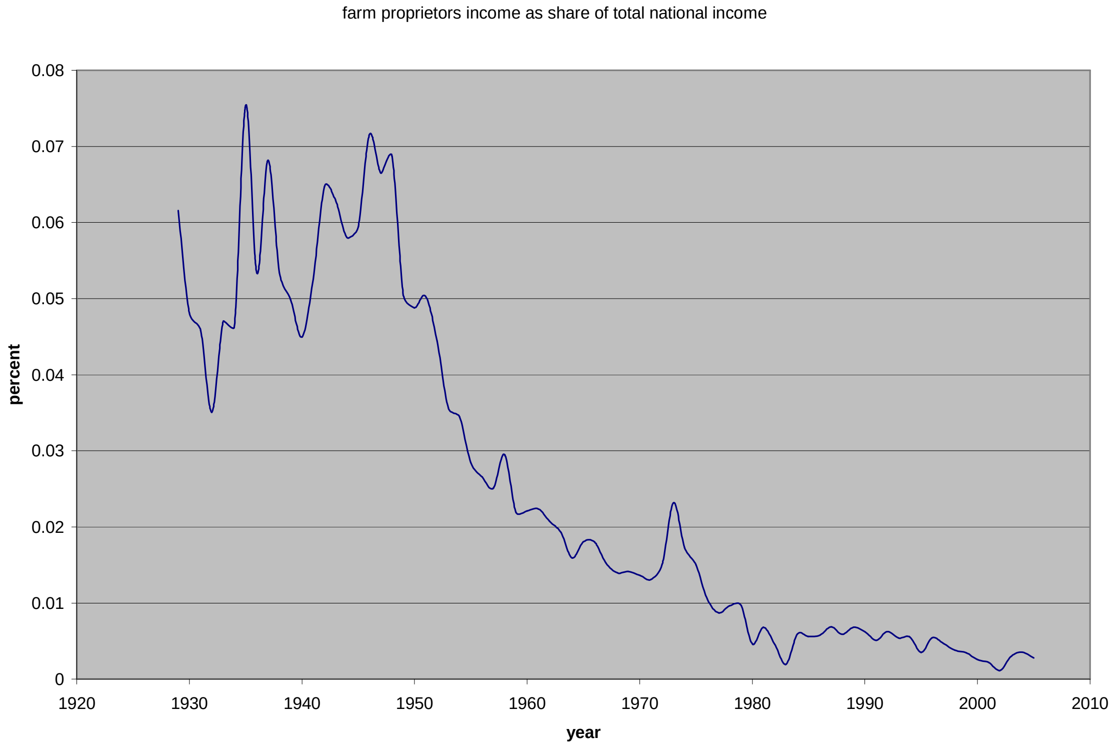
Skilled Labor Collaboratives: while still an insignificant fraction of the labor force in the early 21st century, there are new forms of self-organized cooperatives which have been facilitated by the internet, such as Linux and other open source software programmers.

Some scholars focus on distribution to achieve legitimation and to avoid disaffection, following the logic of Madison's Federalist paper #10 on factions (James O'Connor 1973; Kevin Phillips 1990).

The focus here is on the forms of property. That is, the shift from land and labor to entitlements and finance increases the vulnerability of individual property to larger economic trends and cycles. Rather than direct means of production like land and labor, forms such as government entitlements and financial assets depend on political and macroeconomic variables beyond the direct influence of the individual "owner." Rather than a direct "producer," the individual becomes the prototypical consumer, "claimant," or "investor." The associated insecurity and vulnerability of the financial investor has been the subject of widespread commentary since the 17th century financial revolution in England (Pocock 1975).

One indication of the shift in property forms is the share of national income from farm proprietors, which has declined significantly since 1950. See Figure 1. below (author's compilation from the National Income and Product Accounts (BEA)).

Figure 1: Farm proprietors income as share of the total national income

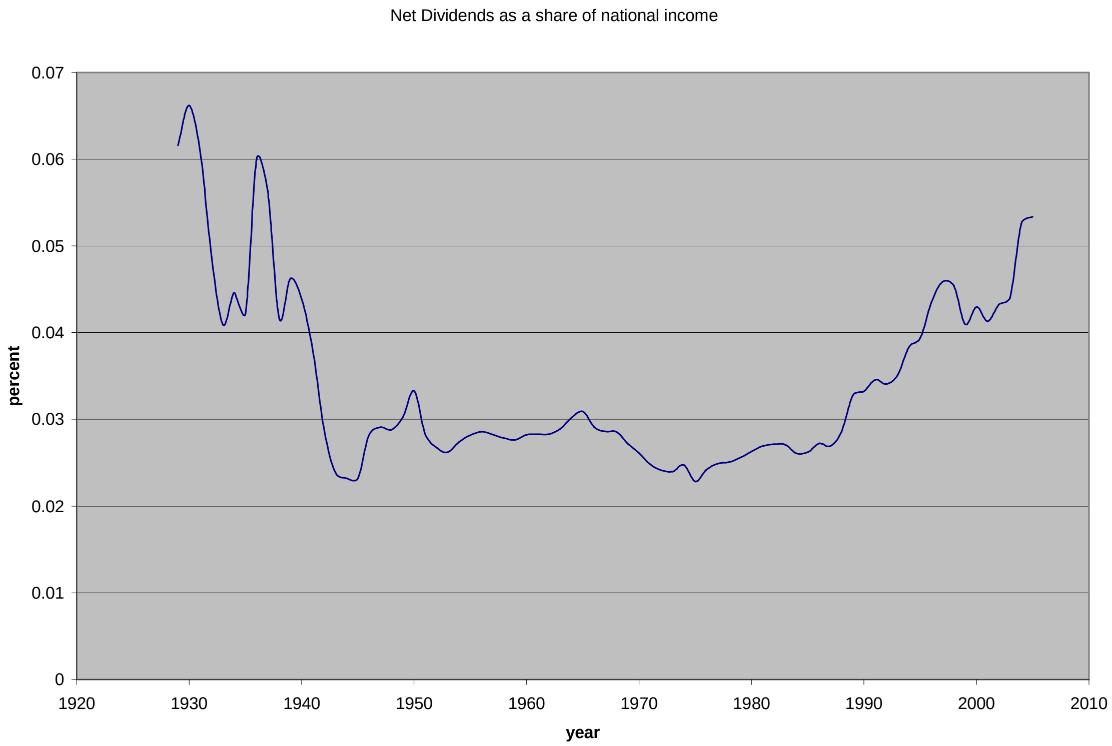


Nonetheless, the share of income to wages and salaries (not including benefits) is remarkably stable over this entire period, until recently, since the challenge to US hegemony with OPEC price increases in 1970 (author's compilation of data from NIPA, BEA), as shown in Figure 2 below.

Figure 2: State of Wages in National Income

While the share of wages has declined since 1970, the share of income to net dividends has nearly recovered to its pre-Depression peak over that same period, indicating the growing returns to financial property. See Figure 3 below (author's compilation of data from NIPA BEA).

Figure 3.



Politics and the Role of Government Vary According to the Type of Property.

Management of property shapes politics and government, while governmental institutions in turn shape the types and the relative distribution of property.

For the period of land as the prototypical form of property, the role of government was defense and geographic expansion of the national territory, distribution of land ownership, formation of new territories and states, and support of transportation infrastructure (canals and railroads in the 19th century). Water infrastructure support was also necessary for much of the arid west.

For the period of labor, the role of government was to regulate immigration and to consolidate of the legal infrastructure, first with the abolition of slavery and "bound" labor, then with the doctrine of "freedom of contract", assuring the competition of workers as individuals. The formation of large corporations in the late 19th century was accompanied by price and anti-trust regulation, as well as the recognition of the rights of labor to organize. During and after the Depression, the role of government was to stabilize the economy, provide employment at the macro level, distribute income by individual criteria, and improve the infrastructure, by which individual productivity at the workplace was enhanced. That is, individual workers felt entitled to a "job."

For the post war period, the macro stabilization policies aimed for full-employment, and wage increases were set in relation to productivity growth rates (the "capital labor accord"). For the period of corporations, the role of government was first to establish the legality of corporations (19th century), the period of anti-trust, and then the period of regulation. In the 20th century, government policies supported corporate consolidation, and globalization by favorable tax treatment of profit, transfer pricing, and reimportation from foreign affiliates.

For the period of entitlements, the role of government was first the establishment of the suffrage, from white men with property to all white men, to blacks, to women (in 1917), and the distribution and allocation of votes by geographic constituency. The government provided a rationale for income distribution in the Depression era, and subsequently the development of means-tested and targeted benefits in the 1950s.The definition of the extent of "equal rights" to race, gender, and ethnicity in the 1960s and 1970s in terms of employment, education, working conditions, benefits, and wages was significant, as well as regarding sexual preference in the 1990s and early 21st century.

For the period of human capital, government at all levels was involved in financing education, and improving access. While individuals were able to increase their control over their status in the labor market and contribute to productivity gains in the macro economy, individual workers were also more differentiated by education attainment, whether "signaling" or substantive.

In the period of financial property, the role of government was to reduce its own regulatory role, its specific commitments and benefits to individual citizens, and to encourage the distribution of ownership of financial assets. For example, in the post war period, the established independence of the Federal Reserve from the U.S. Treasury helped to separate inflation policy from the obligation to stabilize the market for government securities (the

"Treasury –Federal Reserve Accord of 1951"). In the late twentieth century, government-supported equity corporations (GSEs), such as Fannie Mae and Freddie Mac, helped stabilize the secondary market for mortgage-backed assets, to assure the security of housing investments. By globalization of its own financial system (including actual "dollarization" in some countries), the U.S. federal government was in a position to support transnational firms, and the assumption of individual investor risk.

The formal consolidation of a national financial system was accomplished with the Federal Reserve Act of 1913, and the consolidation of global financial management in the Bretton Woods institutions of 1944. The more aggressive role of the IMF after the end of Bretton Woods period helped to consolidate a global financial system based on the alliance of the advanced industrial countries, such as the G7, to facilitate global investment by multinational corporations.

Requirements of Periodic Social Structures of Accumulation

To be consistent with the ideology of property, a successful Social Structure of Accumulation (SSA) reinforces individualism, at the same time as it divides and segments class-based organizations. In addition, the SSA facilitates management of the aggregate economy and mediation among specific property forms.

For example, the founding theorists of the SSA approach emphasized the emergence of "bureaucratic control" of labor within the corporate hierarchy (Braverman 1974; Edwards 1979; Marglin 1974; Gintis 1976; Gordon, Edwards, Reich 1982), and the development of internal labor markets (Osterman 1984, Burawoy 1979). These institutions emphasized an individualistic and competitive mentality, facilitating individual investment and advancement, at the same time that the corporation maintained detailed control of individual workers, even as such a system became increasingly costly (Gordon 1996).

This same dynamic of individualization as a form of control, and the hierarchical segmentation to provide a stake in the system, can be seen in subsequent forms of property. Particularly in wage goods, the wide distribution of "property" as consumer durables, along with the increasing segmentation and vertical differentiation, provides a solution to the twin problems of underconsumption and relative surplus value. That is, the widespread distribution helps resolve the problem of aggregate demand (Baran and Sweezy 1968), and the vertical differentiation helps address the need to discriminate among various classes of consumers, while also keeping labor costs within manageable levels.

Evidence of this dual dynamic of distribution and differentiation can be demonstrated in home ownership, educational attainment, and stock ownership, as well as land and labor.

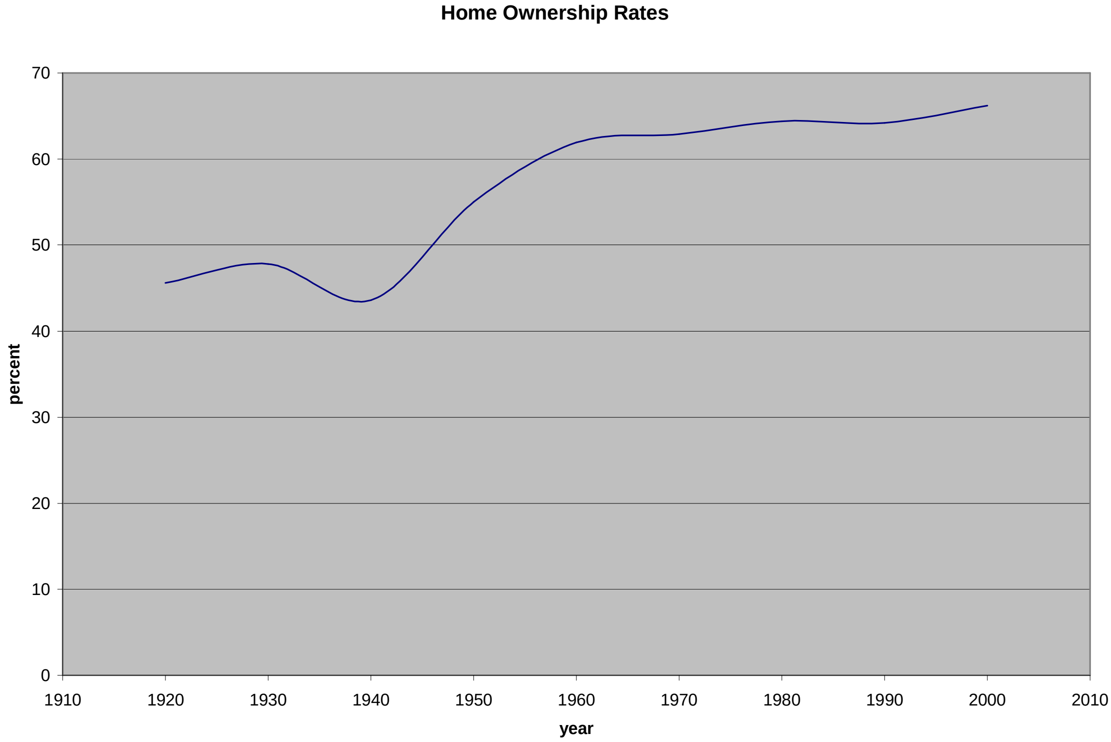
Land and Housing

Land and housing in the U.S. provides an illustration of the dual dynamic of distribution and differentiation of forms of property within a liberal capitalist economy.

In the colonial period, housing was a joint product with access to land (Blackmar 1989). Increasingly commoditized along with the formation of the "free" wage labor force, direct provision of housing for the poor was only briefly considered the responsibility of the federal government after World War II (Logal and Molotch 1987, 167). Rather than provide government housing assistance in competition with the private sector, individual home ownership became a specific strategy to address the threat of underconsumption, (Edel, Sclar, Luria 1984; Checkoway 1984, 163-165).

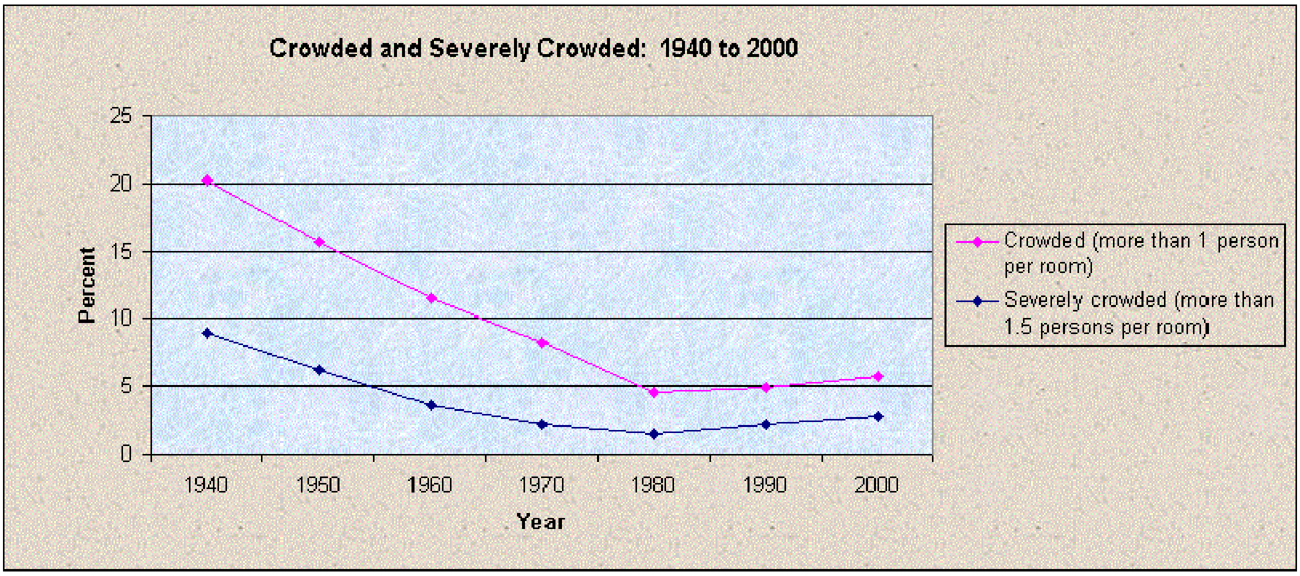
As shown in Figure 4. below, aggregate home ownership rates increased steadily after World War II (author's compilation of data from U.S. Census).

Figure 4: Home Ownership Rates



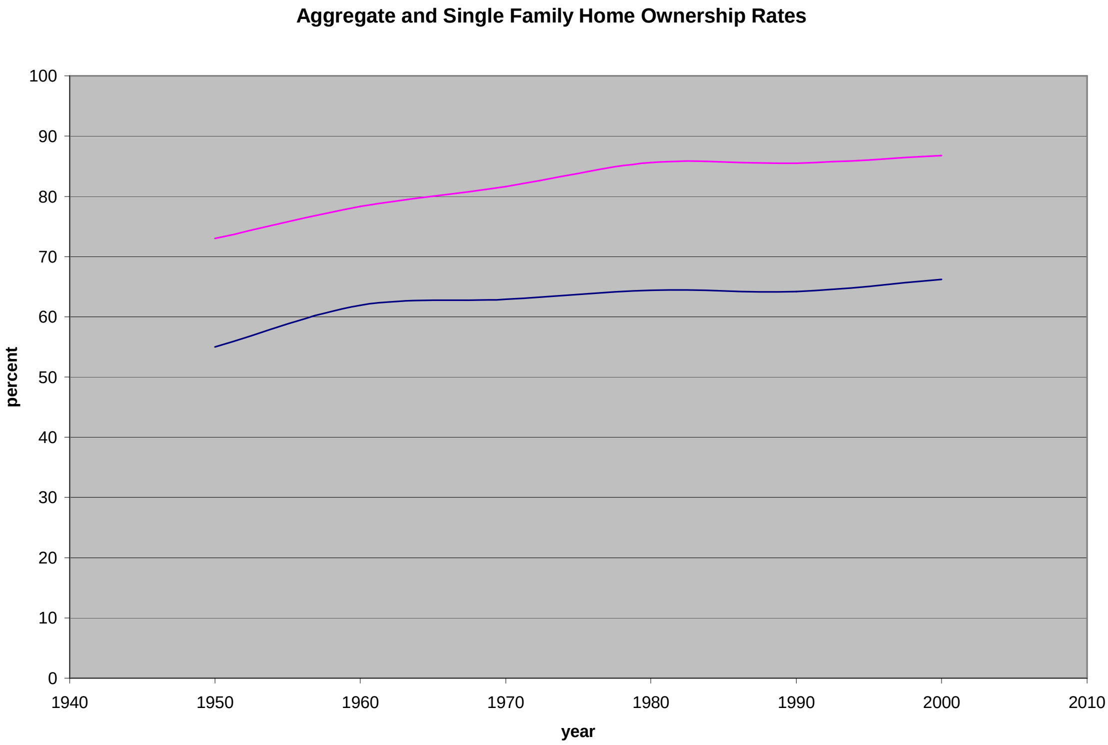
At the same time, standards of living increased, and crowding declined during the post war period, as shown in Figure 5 below (Data are from the U.S. Census).

Figure 5.: Crowded and Severely Crowded: 1940 to 2000



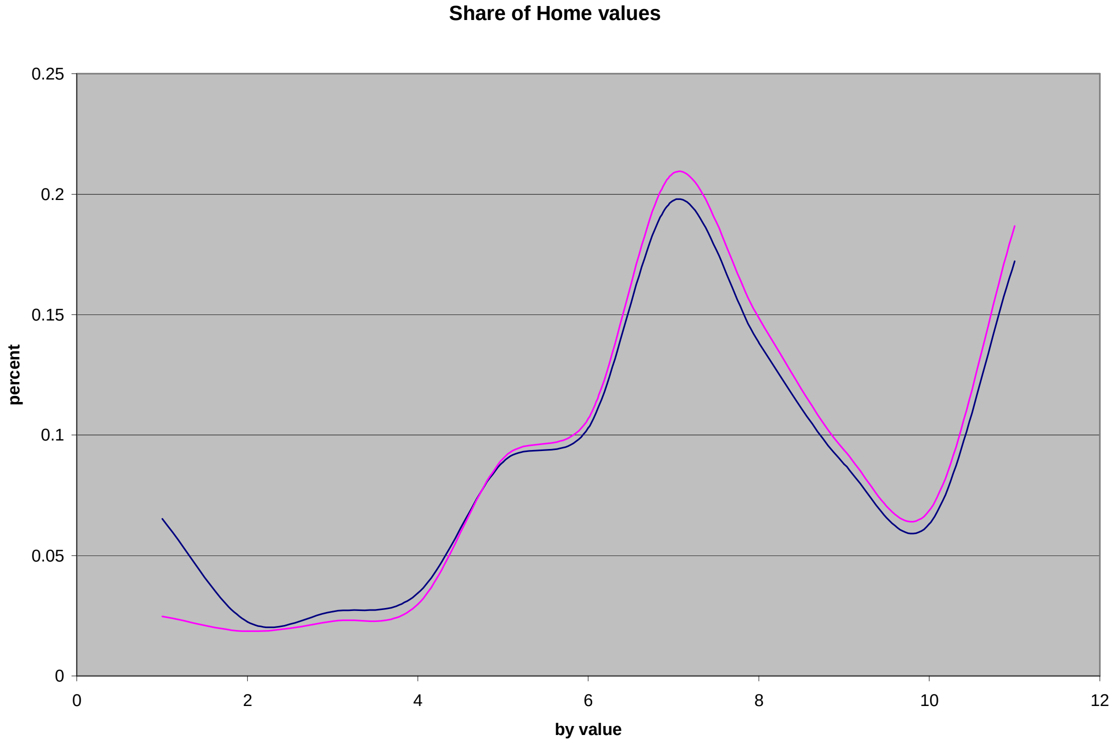
It is predominantly in single family homes that homeownership rates approach 90% in the current period (pink). See Figure 6. below (author's compilation of data from the Federal Reserve Survey of Consumer Finance).

Figure 6: Aggregate and Single Family Ownership Rates



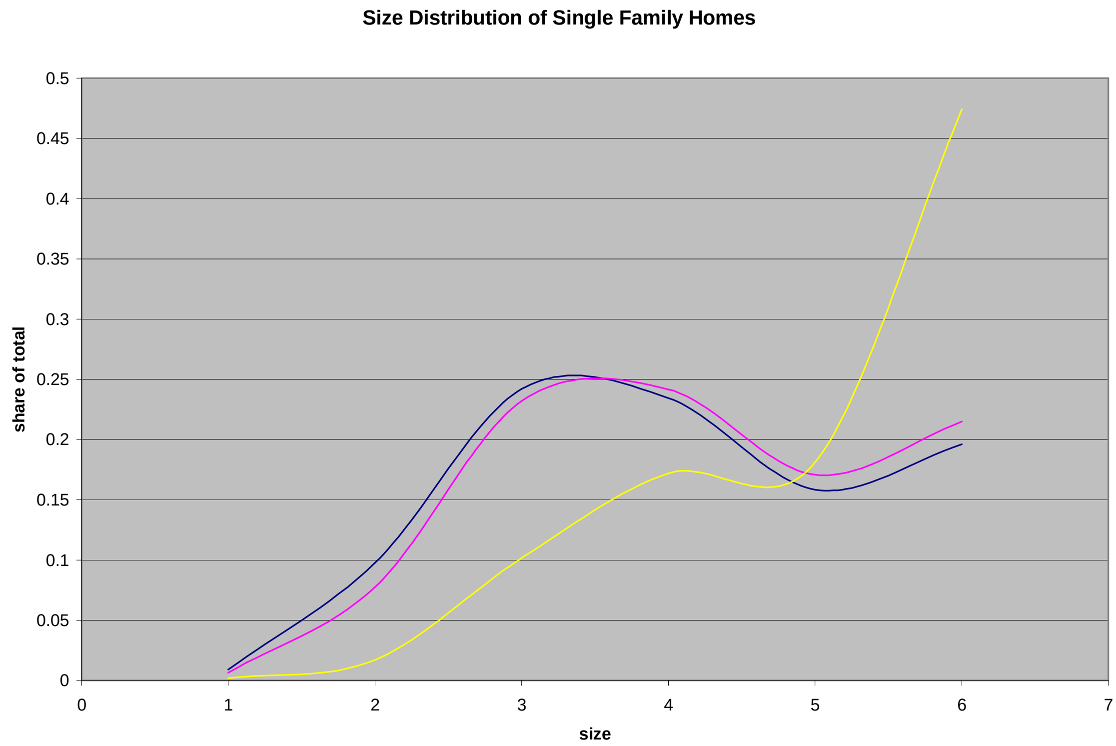
There is a bi-modal distribution of home values, in terms of all housing (blue) and single-family detached housing (pink), as shown in Figure 7 below (values range from less than $30,000 to more than $300,000; author's compilation of data from American Housing Survey, 2003).

Figure 7: Share of Home values



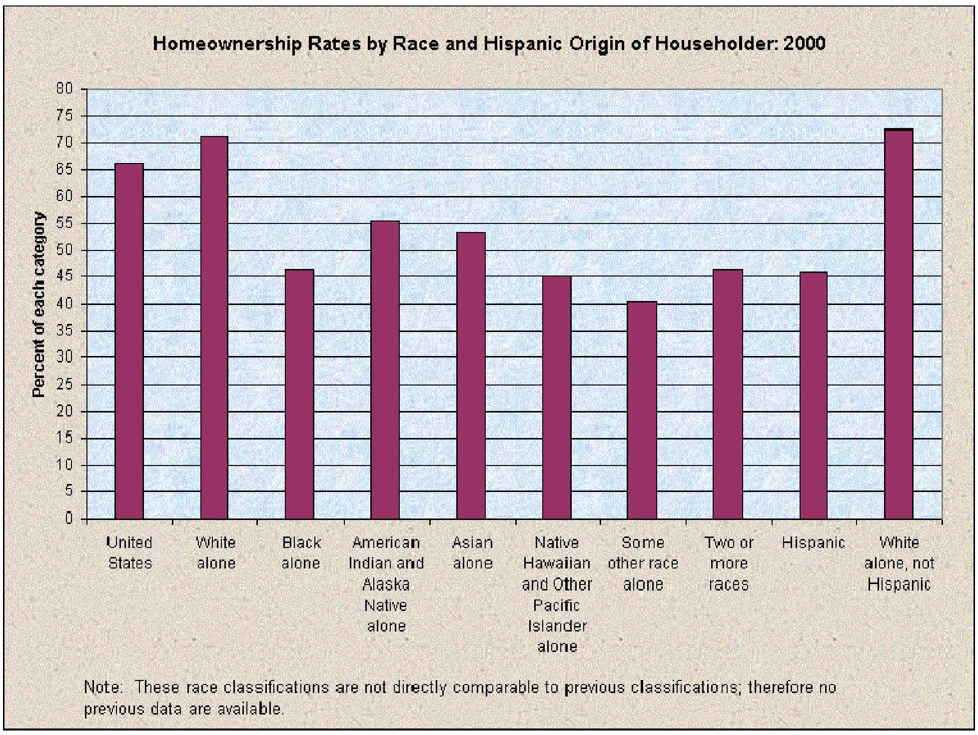
As shown in Figure 8. below, there is also a distinct differentiation by size among all homes (blue), single-family detached homes (pink), and homes in excess of $300,000 (yellow) (the size distribution ranges from less than 500 sq. ft. to more than 2500 sq.ft.; author's compilation of data from American Housing Survey, 2003).

Figure 8: Size Distribution of Single Family Homes



There is also inequality of homeownership rates among various ethnic groups, as shown in Figure 9 below.

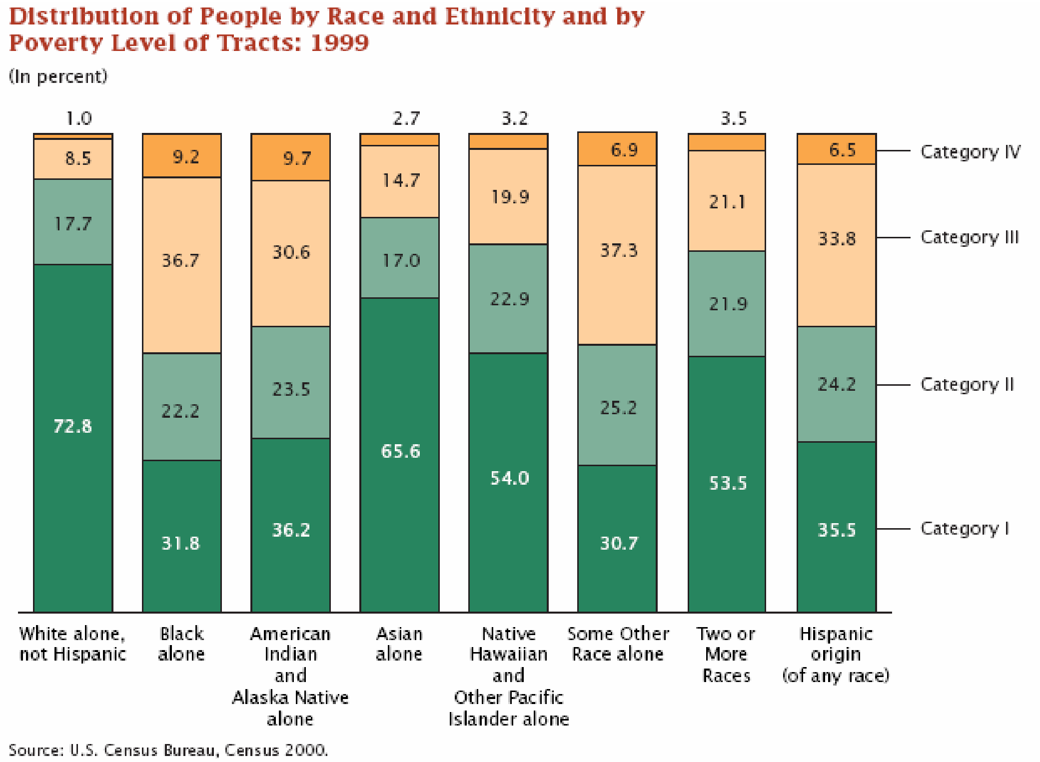
Figure 9.: Homeownership Rates by Race and Hispanic Origin of Householder: 2000



There is persistent spatial segregation by income and race, in spite of the increase in single-family ownership. For example, in Figure 10 (Bishaw 2005, 8) below, a higher percent of the black and American Indian populations (over 9%) live in census tracts with more than

40% poverty (Category IV) than for the other ethnic or demographic groups (data from the U.S. Census). Nearly half of the black population lives in census tracts which have more than 20% poverty rates (Categories III and IV). Spatial segregation of that degree in turn reinforces labor market segmentation (Wilson 1987).

Figure 10.: Distribution of People by Race and Ethnicity by Poverty Level Tract: 1999



Homeownership is the single most significant asset in the portfolios of most households in the U.S. (Wray 2006). The phenomenon of suburbanization, with respect to the spread of single-family, detached housing, is so significant as to transform the landscape, leading to a majority of the U.S. population living in suburbs as of 1990, to the contested issue of "sprawl", and to a major cause of deforestation in the U.S.

Record low interest rates after the recession of 2001 helped stimulate a housing boom, a major contributor to economic growth in the subsequent years (Shiller 2006). The growth rate of homeownership accelerated in the period after 1994, as shown in Figure 11 below (chart from Doms and Motika, 2006).

Figure 11: Homeownership rate, 1984-2006

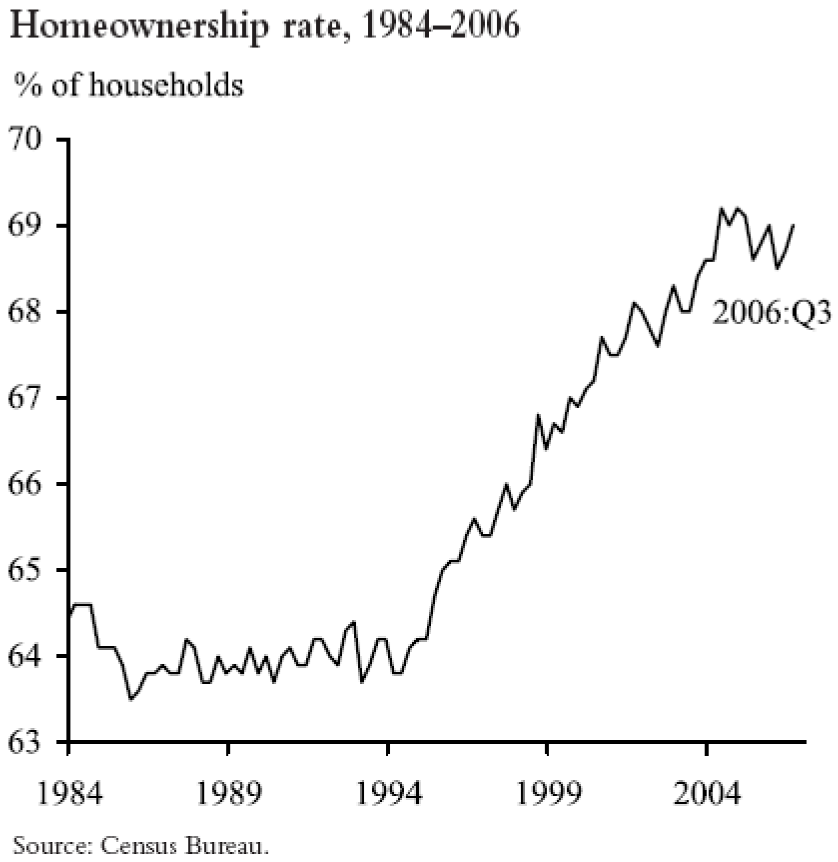
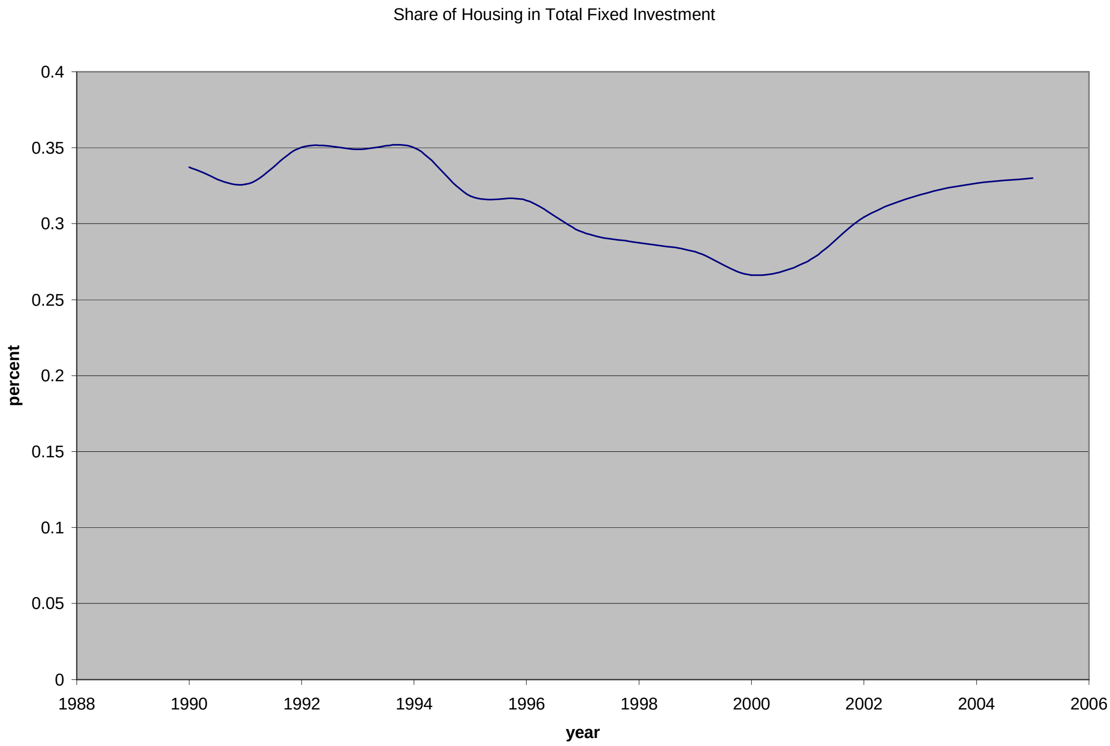


Figure 12 below indicates the share of residential investment in total private fixed investment, which has increased since 2001 (author's compilation of data from BEA NIPA), from a postwar low of 20% in 1982 (not shown on this graph).

Figure 12: State of housing of Total Fixed Investment



Finally in October, 2006, the stock market regained its previous peak, although not yet in real terms. The possible subsequent collapse of a housing bubble within five years underscores the fragility of the distribution of non-productive types of property and the associated speculation, while nonetheless engaging the individual as “financier” in terms of arbitrage related to his “own” home.

Cultural Values and Ideology

Although significant as the ideological underpinning of “freedom,” the form of individualism vary, as well as the policies needed to underpin its operation.

Individualism in the 18th and 19th centuries was supported by the early and consistent distribution of landed property, and the government financing of water and transportation infrastructure. Individualism was enforced by the doctrine of “freedom of contract”, in the late 19th and early 20th century. In the post World War II period, individualism was supported by labor market segmentation (Braverman 1974; Marglin 1974; Gordon, Edwards, Reich 1982; Burawoy 1979), mass consumerism (Bourdieu 1984, Veblen 1943, Galbraith 1958, Schor 1992, Frank 1999), with tax and subsidy policies to support suburbanization, such as federally funded highways and mortgage interest deductions. In the 1960s and 1970s, individualism was supported by equal rights and government income distribution, and by government support for education. From the 1980s, individual financial investment was supported with favorable tax treatment of capital gains, while the originally progressive income tax was increasingly “flattened.”

These shifts are reflected in the federal budget (author's compilation of data from the Economic Report of the President). While the share of total federal outlays which are payments to individuals increased steadily from 14% in 1953 to 60% in 2005, the portion of those payments which represented payments to poor families with dependent children declined from 25% in 1944 to 1.4% in 2005. Payments to social security (old age and survivors' insurance) increased from 11% of total payments to individuals in 1944 to 29% in 2005, down from a peak of 50% in 1966. The other types of payments to individuals include health, veterans' pensions, government pensions, student loans, housing and food support, and unemployment insurance.

Forms of property can also be linked with contrasting values. For example, from early visions of "manifest destiny," the U.S. viewed itself as a "chosen" empire, bringing democracy and civilization tso the rest of the world, as it expanded its land mass "from sea to shining sea" (Gates 1979). In the 18th century, yeoman values of independence prevailed; in the late 19th and early 20th, workman values; while in the late 20th, consumer values of conspicuous consumption took hold with the support of advertising as a major industry. Another indication of this transformation is the value of the "family farm" transformed into the single-family detached house as the "American dream" (Jackson 1985).

In the 21st, as in the 17th, the norms and roles associated with finance are based on appearances, trends, "credulity," and herd behavior (Pocock 1975; Poovey 1998; Keynes 1964; Stanfield 1995).

"Double Movement"

As noted by both Marx and Polanyi, the extension of the commodity form can engender resistance. In the example of land, the new republic of the United States distributed land from the public domain rapidly and widely. Of the 233 million acres obtained by the cession of western lands from the original thirteen states, 84 million were initially offered for sale under the auspices of the original Homestead Act of 1862, ultimately transferring 270 million acres to private ownership in related efforts (Gates 1979, 75, 435, 797). At the same time, a countermove was developing, concerned with the depletion of timber and other natural resources, and the dwindling stock of public lands. Even before 1900, four million acres were protected as national parks (Gates 1979, 566-67), reaching a total of 84 million acres at present (http://www.nps.gov). A conservation movement began in the late 19th century, under the leadership of John Muir, Gifford Pinchot, and Aldo Leopold, culminating in protective federal legislation by Presidents Harrison, Cleveland, and Theodore Roosevelt (Robbins 1942, 302-337). The liberal approach of the Reagan era emphasized the private purchase of land for preservation, with the specific method of Purchase of Development Rights (or PDR; see Opie 1987, 172-180). The modern environmental movement has been more visible in terms of clean water and air legislation beginning in the 1970s, and the Kyoto Protocol of 1997 (taking effect in 2005) articulated concerns with global climate change.

Other examples of double movement include the following:

A. Farmers and workers organized politically in the late 19th century, in a widespread movement of populism (Livingston 1986, 1994, 2001), with support for unionization in the late 19th and early 20th century. The Populist and the subsequent Progressive movements helped support regulation of corporations, beginning with the regulation of railroads and the Sherman Act of 1890 (Kolko 1963, Weinstein 1968, Williams 1961).

B. Civil rights, students, and women's movements in the 1950s-1970s.

C. Income distribution policies of post World War II oscillated with tax cuts for the wealthy to increase income for investors, after 1980 (O'Connor 1973, Piven and Cloward 1993, Krugman 2002, Phillips 1990).

D. In the post World War II period, U.S. competitors were the U.S.S.R. and capitalist countries like Germany and Japan. Since the 1970s, competitors within the capitalist framework include the increasingly oppositional resource supplying countries, like OPEC, Venezuela, and Russia, and industrial competition from emerging nations and their corporate national champions in Asia, such as Singapore and Korea, as well as China and India.

E. With the increase of the U.S. trade deficit, and U.S. domination of world financial institutions, resistance has taken the form of the formation of alternative currency units, such as the euro, and increasing numbers of regional trade agreements outside the U.S.

F. Worker cooperatives mediated by the internet, such as Linux and other open source collaborations provide non-corporate forms of worker organization.

Resistance to commoditization and financial property in the 21st century takes a variety of forms, in a myriad of pockets and alliances, while not necessarily coherent or coordinated:

- Islamic radicalism;
- Religious fundamentalism
- Unions; worker cooperatives;
- Indigenous movements around the globe;
- Countercultural movements in advanced industrial countries;
- Environmental movements; community farms, local food;
- NIMBYs among real estate owners; co-housing;
- Self-organized software communities; open source; bloggers;
- Creation of new forms of property (pollution permits) and markets
- Anti-corporate movements;
- Anti-globalization NGOs.

In some respects, Islamic radicalism is an apparent rejection of modernity and individualism, as well as the capitalist liberal state (Vahdat 2002).

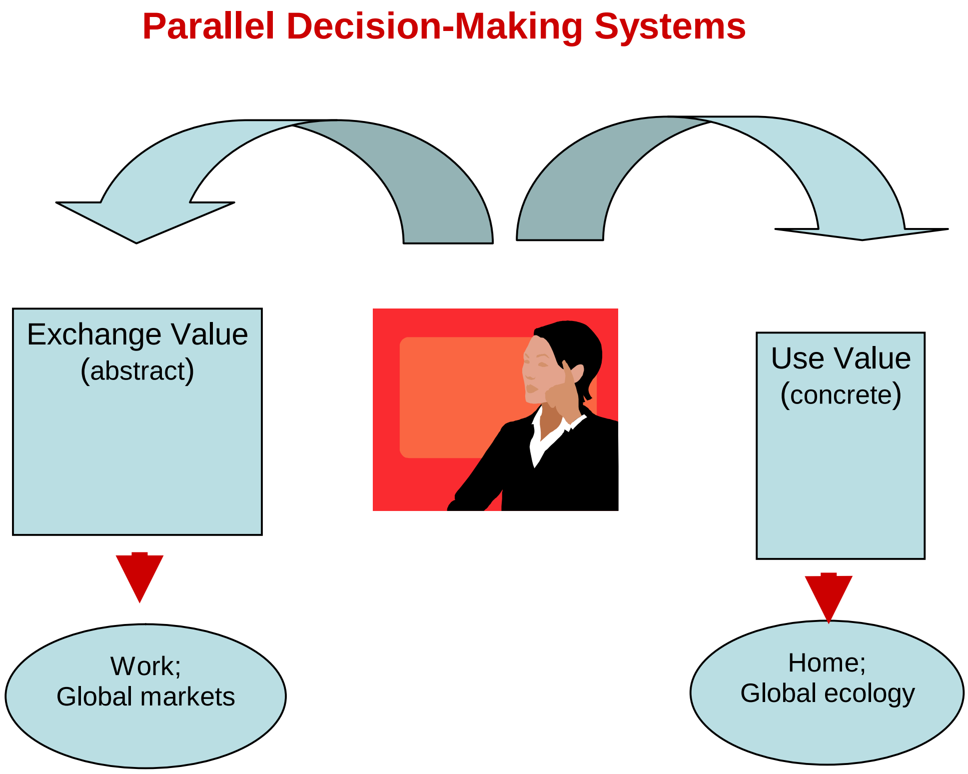
Alternative Forms of Property

In the 21st century, new forms of cooperatives and collectives are becoming more visible, as in the late 19th century period of farmer/labor populism. Also more visible are forms of group decision-making beyond the market, such as skill-based groups (like Linux, the internet-based collaborative), online user communities such as Second Life, non-profits, or natural resource user collectives. Researchers such as Elinor Ostrom (1990, 2000), David Ellerman (1990), Gerald Frug (1980, 1999), and Avner Greif (2005, 2006) (along with Alexis de Tocqueville) have raised awareness of intermediate institutions and forms of governance in between the individual and the corporation or state. Commentators such as Lawrence Lessig

(2001), Steven Weber (2004), and Ghosh (2005) have called attention to the associated change in property forms, including intellectual property.

A shift from abstract exchange value, defined within the market system of production and exchange, to concrete use value, such as the conditions for life, nonetheless requires a wholesale transformation of social forms, systems of coordination, and consciousness.

Figure 13.: Parallel Decision-Making Systems



At present, methods of managing global use values are not well developed, although issuance of tradable permits (in pollution, or natural resources) is a method which seems to be gaining increasing acceptance. Developing such a new property form will require increasing awareness of the collective nature of modern production and exchange, widespread consensus, and new institutional structures of management and enforcement, to be viable.

Implications

An improved specification of property by period would contribute another dimension to the Social Structure of Accumulation approach, with a deep grounding in liberal political theory, as well as critical theory. Metrics of property forms and distribution, in addition to profit and growth rates, would help provide empirical verification for distinct SSA periods.

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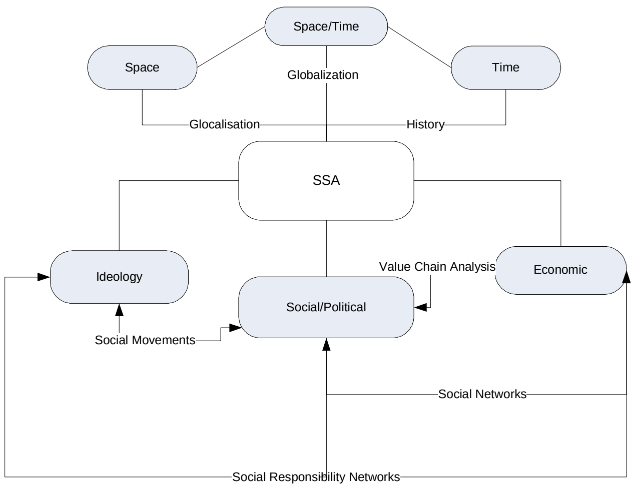
16. CORPORATE SOCIAL RESPONSIBILITY AS A FORM OF TRANSNATIONAL REGULATION , *Maria-Alejandra Gonzalez-Perez*[236]

Introduction

As a consequence of the demands for responsible corporate social and environmental behaviour by civil society actors and organisations in consumer markets, the establishment and development of matrix of norms and institutions for legitimisation and accountability of firms' practices with both local and transnational representation has been stimulated. Social and environmental market entry regulations enforce a systematic approach for economic growth and employability of civil society across value chains and production networks. The interconnectedness of the local and the global due to the evolution of information and communication technologies has facilitated the development of transnational networks, and hence increased the representation of economically and socially marginalised groups on consumer markets. The replication of transnational dynamics in local scenes and the traceable impact on individuals of global changes, require social responsibility networks for the co-evolution and integration of diverse forms of socio-economic integration.

Productive wealth creation as a social, political and ideological process requires for its understanding a mapping of its social structures of accumulation (SSA). This paper uses concepts from SSA theory to describe the emerging social responsibility networks (SNR). Figure 1 illustrates the incorporation of the research methodologies while preserving the framework of SSA for the explanation of SRN.

Figure 1: Research Methodologies Preserving SSA as Theoretical Framework Explaining SRN



The Social Structure of Accumulation (SSA) is an approach to the understanding and theorisation of capitalist growth and economic differences among countries, providing explanations for their accumulation and production of wealth (Kotz *et al.*, 1994). An SSA is

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a set of mutually-reinforcing social, economic and political institutions and cultural and ideological norms which interact with and facilitate rapid and stable capital accumulation over specific historic periods (idem). Thus an SSA is defined by the institutions which interact in a specific period time providing a multiple command/responsibility structure, and supporting mechanisms for wealth generation and accumulation.

The emergence of a global structure of accumulation has transformed production relations, especially with regards to labour issues in so-called developing countries. There is evidence that many people have not benefited from the increased levels of growth brought about by the economic globalisation (Amin & Houtar, 2002; Stiglitz, 2002). Globalisation and economic restructuring in developing countries have intensified many social problems (see for example Antón, 2000; Castells, 1997, 1999; Dhoauadi, 1994; Drakakis-Smith, 1996; IFG, 2002) and it is widely held that this same globalisation has undermined the capacity of the state to ameliorate these problems through intervention.

The negative impact of globalisation on communities, workers and the environment along with the decline in the capacity of traditional political strategies to address concerns has led challenges to non-state actors (Anheier et al., 2001; Anheier, 2005; Edwards, 2004; Florini & Simmons, 2000; Sklair, 1995; Taylor, 2002). Unions and other organisations sympathetic with workers and local communities have adopted strategies of direct pressure on corporations and the pursuit of collective bargaining around non-traditional issues (i.e. climate change, environmental dumping). These new strategies and the corporate response have contributed to new struggles and discourses around issues of "corporate social responsibility" (CSR). It is to be expected that any new strategy will be accompanied by both benefits and costs.

Civil Society and SSA

In recent decades, the resurgence of the term 'civil society' seems to reflect the idea of international capitalist development and democracy as a strengthening panacea, attributing to it generational, catalytic, vehicular, representational, and inspectoral powers. There are several definitions of civil society. However, the definition of civil society as a sphere of human activity and set of institutions outside the state and government (Cohen & Arato, 1992; Gellner, 1995; Hall, 1995) seems to be common denominator in the discussions. The idea of civil society, either as a specific product of the nation-state and capitalism, which ensues spontaneously to restore traditional bonds of kin and community in order to mediate conflicts between social life and the market economy; or as a universal expression of the collective life of individuals, appears to be a socially accepted alternative to compensate for both the individualistic nature of capitalistic systems, and the nature of the state. This civil society consists of the institutions needed to structure governance of democratic forces – governments- to meet public needs

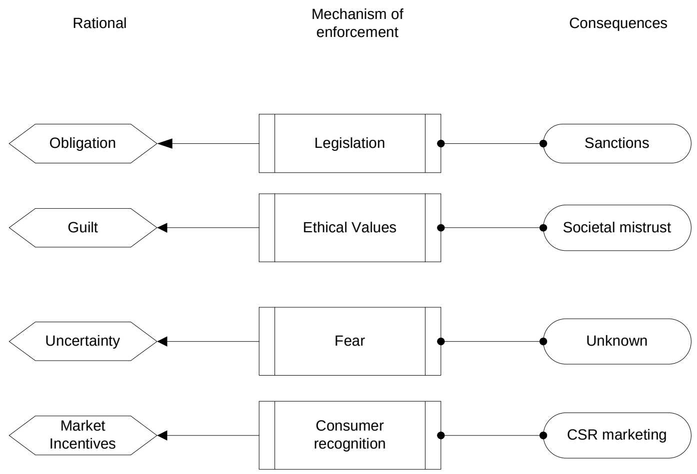
Perceived decline in state and market influence

It can be argued that the crisis of a decline in societal governance associated with the perceived decline of influence of authoritative institutions of the 'public sector', but also a shortfall in the market institutions, could explain the renaissance of a re-distribution of the response-ability of actors in society. For instance, in the United Kingdom (UK), Corporate Social Responsibility (CSR) was identified as an inclusive potential ameliorator of the governance deficit to meet the needs that other traditional structures have failed to meet. This has been facilitated for the government "networking mode"[237], in which the state and have initiated, developed and established alliances with the private sector and non-state actors (NSA), in which inter-dependency is dictated neither by authority nor by market relations, but by recognition of shared values and interests.

Throughout history, "pre-regulated stages" are characterised by informal structures, in which institutionalisation might or might not necessarily happen, either through traditional or innovative channels. Either the development or the failure of pre-regulated stages into institutionalised structures depends on a combination of factors which vary by country, political circumstances, periods of time, historical precedents and different analytical perspectives.

In most countries, it has traditionally been the role of government to enact and enforce legislation. Accordingly, CSR practices and mechanisms seem to be forms of pre-institutionalised measures operating in pre-regulated phases. Nevertheless, CSR seems to maintain the status-quo of informal arrangements [as opposed to regulated structures]. Therefore, measures of social responsibility that were initially created as temporary structures by private organisations (businesses) to evolve towards regulated and legislated institutions find legitimisation as flexible institutions with multiple nodes [networking] of shared governance. Thus, traditionally business (private sector) is engaged in non-market, non-legal responsibilities, non-profit driven (CSR) on a discretionary basis; temporarily covering the provision of social goods which have traditionally been the responsibility of governments. This can be condensed into three points; business is engaged in social responsibility because of the: (a) obligation; (b) moral/ethical responsibility; (c) uncertainty, and (d) market incentives. The following graph is a simplified model of business engagement in social responsibility.

Figure 2: Reasons for Engagement in CSR



History of CSR

[237] This can be illustrated, for example, by the increased number of partnerships between government and other non-government actors.

The origin of the concept ’corporate social responsibility‘ (CSR) is not associated with a single author or a specific date. The notion of corporate social responsibility is as old as the enterprises themselves; Fauchere (2004) pointed out that CSR had took on other names such as paternalism, at other times. Organisations have been related to the ’public‘ for centuries; the 1920s witnessed the most dramatic changes in the public relations field, and likewise, the emphasis of firms’ role in society (Clark, 2000). Berkowitz and Daniels (1963) defined social responsibility as the social norm that dictates people’s sense of obligation and duty to help those who are dependant upon them. The rise of CSR has coincided with an increased concern for firms’ image (Clark, 2000: 364), and firms have adopted CSR initiatives based on the assumption that consumers actively reward socially responsible firms (Levy, 1999; Maignan and Ferrell, 2003; Becker-Olsen et al., 2006). Eilbirt and Parket (1973) in an empirical study of the United States found that after 1968 most major corporations established a social responsibility officer who reported directly to the chief executive. Bowman and Haire (1976) conducted a study using a database of eighty-two food-processing corporations and found evidence of social impact disclosures in annual reports. In the same year, Shanklin (1976) revealed a developing trend in attitudes among executives who questioned the business results in this early social responsibility era of the 1970s.

In the current stage of CSR development, several factors have become interconnected. Three scenarios have facilitated the development towards the current stage of CSR:

1. The formulation of ‘Business Ethics’ by academics, policy makers and business firms since the 1960s
2. The perceived decline in state influence over social welfare and the consequent transposition of its power in the public stage towards the civil society which traditionally has acted in the private space
3. The rapid economic globalisation with its effects over societies, the environment and business strategy.

Corporate social responsibility is one of the responses to the social disparities resulting from the hastening of globalisation (Swift and Zadek, 2001). Hopkins (1999) suggests that in order to reverse these negative tendencies, there is a need for a ’planetary bargain‘ between the public and the private sectors. Continuing with the argument, Michael Edwards (2004) suggests that there is a mutual relationship between economic actors and civil society. No modern society can develop and keep sustainable social goals without access to the surplus that market economies create, and he clarifies this further by saying that “*a civil society cannot survive where there are not markets, and markets need a civil society to prosper*” (Edwards, 2004: 50). In this sense, the perceived diminishing power of the nation-state in the era of globalisation leads to a shift in power and emphasis on the social spheres and gives the concept of civil society new meaning and importance. Civil society encompasses all social institutions which are beyond state control, including social movements, academic and religious institutions, families and firms.

Friedman (1970), when considering the social responsibilities of business, stated that firms, being artificial entities, only have artificial responsibilities because “*only people can have responsibilities*”. He asserts that discussions on the social responsibilities of business are loose, lack rigor, and that business ought only maximise profits maximisatin and obey the laws. Goodpaster and Matthews (1982), take a similar line of reasoning to reach a different conclusion. They explain that if a group can act as a person in some ways, it could also be expected to behave like a person in other ways; consequently, if people act responsibly only if they are aware of the repercussions of their actions on others, then the same conclusion may apply to firms who should also utilise this knowledge when making decisions.

Maignan and Ferrell (2003) distinguish two research streams in corporate social responsibility. One classifies CSR into four types of responsibilities: economic, legal, ethical and philanthropic (Carroll, 1979); the second describes corporate stakeholders' responsibilities, suggesting that firms are not responsible to the society as a whole but only to actors who can affect or be affected by corporate activities. Quazi and O'Brien (2005) described two categories for classification of the study of CSR. The first category is the orthodox paradigm in which corporations are single dimensional entities of profit maximisation; in the second category corporations are multi-dimensional and serve societal interests.

Notions of corporate social responsibility have long been articulated by managers and scholars (Sheldon, 1924; Gray and Smeltzer, 1989; Dunham and Pierce, 1989; Bredgaard, 2003; Quazi and O'Brien, 2005), but the modern evolution of the term seems be dated from H.R Bowen's book, *Social Responsibilities of the Businessman* (Acquier and Gond, 2005). Bowen (1953) postulated that business managers have an obligation "to pursue those policies, to make those decisions, or to follow those lines of actions which are desirable in terms of the objectives and values of our society" (Bowen, 1953: 6). Succeeding scholars tried to define the term more precisely. Keith Davis (1980) posited that social responsibility refers to "businessmen's decisions and actions taken for persons at least partially beyond the firm's direct economic and technical interest" (Davis, 1980:70). Similarly, Joseph W. McGuire (1963) stated that "*the idea of social responsibilities supposes that the corporation has not only economic and legal obligations but also certain responsibilities to the society which extend beyond these*" (McGuire, 1963).

In the eighteenth century, in early industrial societies, before the welfare state, some private and paternalistic enterprises internalised responsibilities for their employees, on the basis of a social contract, habitually motivated by both the religious and ethical beliefs of the proprietor or fear of labour discontentment and radicalism (Bredgaard, 2003). At the beginning of the twentieth century, there were few corporate acts of charity (Dunham, and Pierce, 1989). Instead, wealthy businesspeople made donations from their personal funds to charitable causes. Frederick, Davis and Post (1988) proposed two principles which provided the foundation for contemporary views on corporate social responsibility. The first is the principle of charity, which is rooted in the biblical tradition and suggests that those who have plenty should give to those who do not have. Under this principle, members of the business community decided to use their corporate power and wealth for the social good. For example, Henry Ford adopted a paternalistic style of management and made recreational and health programs available to Ford employees. Over time, business leaders adopted and disseminated the idea that business has responsibility to society beyond simply providing necessary goods and services (Heald, 1970). The increasing number of high profile donors in recent years has been made evident to the broader public in Matthew Bishop's (2005) 'survey of wealth and philanthropy' published by *The Economist* in which the enthusiastic philanthropic tendency is explained in large part as a consequence 'of the rapid wealth-creation of recent years, and of its uneven distribution' (Bishop, 2005:3).

A second principle that shapes corporate social responsibility is the principle of stewardship. This principle asserts that organisations have an obligation to see that the public's interests are served by corporate actions and the way in which profits are spent

(Dunham, and Pierce, 1989). Because corporations control vast resources, because they are powerful, and because this power and wealth came from their operations within society, they have an obligation to serve society's needs. In this way managers and corporations become the stewards, or trustees, of society (Frederick, Davis and Post, 1988).

Contemporary CSR

In the 1990s and early 2000s, the discourse about CSR became noticeable in company, government and civil society publications (Michael, 2003). During the 1990s, with privatisation and corporate globalisation of the economy, some firms began to recognise their role in the social welfare of their stakeholders and assume greater responsibility towards sustainability and equalitarian development. CSR initiatives spread through Europe, giving a consistent approach to the social responsibility of the company. CSR has been proposed, at least at the rhetorical level, as one way to reach the ambitious strategic goal adopted by the European Union in the Lisbon Summit of March 2000, "*to become by 2010 the most competitive and dynamic knowledge-based economy in the word, capable of sustainable economic growth with more and better jobs and greater social cohesion*". The European Council made an appeal to companies' sense of social responsibility regarding best practices of lifelong learning, work organisation, equal opportunities, social inclusion and sustainable development. The Lisbon European Council (2000) strategic target requires a dynamic interaction of economic, employment and social policy in which CSR may be one example, at least at the oratorical level, to balance the needs of employers, employees and the unemployed (Bredgaard, 2004) . The European Commission's support for Corporate Social Responsibility (CSR) can be traced to the early 1990s when the Commission President, Jacques Delors, issued an appeal to European business to join the fight against social exclusion (InfoBASE Europe, 2003). In July 2001, the European Commission published a Green Paper, the aim of which was to launch a wide debate on how the European Union could promote corporate social responsibility at both the European and the international –global- level. During the following six months, responses from international organisations, such as EU institutions, NGOs, social partners' organisations, individuals and other interested stakeholders, were submitted to the European Commission. A year later, in July 2002, the European Commission on CSR proposed a new strategy based on the responses to the Green Paper, designed to enhance the commitment of business to sustainable development; and proposed the establishment of a CSR Multi-stakeholder to discuss CSR in Europe. The first CSR Multi-stakeholder Forum took place in October 2002, and brought together enterprises with other stakeholders including NGOs, trade unions, investors and consumers. The purpose of the Forum was to promote innovation, convergence and transparency in CSR practices and tools such as codes of conduct, labels, reports and management instruments. Four themes were proposed: (1) improvement of CSR knowledge and facilitation of exchange of experience and good practice; (2) aspects of small and medium-sized enterprises (SME), including how to foster the concept of CSR among SMEs; (3) diversity convergence and transparency of CSR practices and tools; and (4) development of CSR. (InfoBASE Europe, 2003).

The European Commission defines CSR as "*a concept whereby companies integrate social and environmental concerns in their business operations and their interactions with their stakeholders on a voluntary basis*" (European Commission, 2002: 3).

Denmark's the Ministry of Social Affairs launched an official program in 1994, which won general acceptance by the social partners, NGOs, all political parties and the business community; focused on labour market responsibilities, whose main objectives were to improve labour market integration for the long-term and marginalised unemployment and reduced workplace exclusion; its vision was to create a more Inclusive Labour Market (ILM) (Bredgaard, 2003, 2004). In December 2003, Canada's government announced an initiative on corporate sustainability, reporting that in their words would challenge Canadian businesses to report on their social and environmental practices and performance. This initiative was sponsored by the Minister of the Environment, the Minister of Industry, the Minister of Foreign Affairs and the Minister of International Trade, and the content of the tool is based on an assessment of industry needs undertaken by an Ottawa-based consultancy, Stratos Inc. in consultation with Environment Canada, the Department of Foreign Affairs and International Trade (DFAIT) and Industry Canada.

In the UK, since Thatcher's administration and the institutionalised privatisation of social goods can be interpreted as a mechanism for government relief of fiscal responsibility, it is also a response to consumer demands related to the supply of traditional social goods. This can be interpreted as an interrelation of the two, in the sense that government [deliberately] reduces public expectations of its capacity to supply necessary and satisfactory social goods and services, and as a consequence citizens demand those services to be fulfilled by [private] providers in the market. One example is the decline in the provision of pensions, transportation, and other social services, and the institutionalisation of NGOs and private business as providers of social goods and services. CSR also has been institutionalised in the UK through ministerial leadership, incentives given for formation and development of employers' organisations, subsidising CSR practices, and facilitating 'soft' regulation. For instances, in 2002 the UK government introduced the "Climate Levy" which is a fiscal incentive to elicit a CSR effort on environmental practices.

In 1977, France promulgated Law 769 and eight complementary decrees for the implementation of a model of an annual 'Bilan Social' (Social Balance Sheet) from 1982 for all the companies and workplaces with more than 300 employees (Cardozo Brum, 2003:10; European Foundation, 2005). In May 2001, the 'New Economic Legislation' obligated companies to report a set of qualitative and quantitative indicators on social (and labour) indicators, and their annual reports must include information on how companies assume social and environmental responsibility to expedite the consequences of their actions (European Commission, 2006).

In 1999, United Nations Secretary-General Kofi Annan[238] asked for demonstrations of good global citizenship in human rights, labour standards, and environmental protection by joining the U.N. Global Compact actions and reporting guidelines; many of the companies who are leaders in CSR and sustainable development were in crisis and were targets of criticism for their abuses in the past. Among these companies were Gap, Nike Corporation, Chiquita Brands, Shell Oil, Novartis, Levi-Strauss, Reebok, Timberland, Ford, BP, Tesco, McDonald's, and Coca Cola.

Business and social responsibility often seem incompatible. There are demands and suggestions for balance between the two, between moral responsibilities and economic necessities; to assume responsibilities beyond the scope of commercial relationships and to measure success in arenas other than financial ones, such as human rights, business ethics,

[238] "Let us choose to unite the powers of markets with the authority of universal ideals. Let us choose to reconcile the creative forces of private entrepreneurship with the needs of the disadvantaged and the requirements of future generations". Kofi Annan in the launch of the Global Compact Initiative in 2001

environmental protection and contributions, community development, corporate governance, health and safety and commitment to diversity. Especially, in times of economic downturns, failures and breakdowns in accountability, the “bursting of the high-tech bubble” (Bronchain, 2002) and other corporate misdemeanours have contributed to undermine trust in companies. More critical and supposedly political consumers, citizens and investors are on the rise, in conjunction with civil society organisations and social movement claims. The information technologies to expose incorrect political and social behaviour of business pledge new demands on the products and behaviours of the private enterprises, and the ability of the media (Bredgaard, 2003, 2004). CSR then becomes a means to improve corporate image and reputation. The business case for CSR has persuaded enterprises to assume CSR with arguments such as social and responsible behaviours and attitude enhance economic performance; since improvements in working and living conditions has repercussions on the positive image of the company, therefore it affects brand value.

CSR has become a buzzword, possibly because no one knows exactly what it means, and because the concept of CSR is nonetheless vague, ambiguous, multidimensional and changing (Bredgaard, 2003, 2004), As Stone (1997) quoted in Bredgaard (2003) has described, CSR is a natural feature of political decision-making that secures political support from different corners, allows for compromises and makes it possible for different actors to read their interests into political programs. Social responsibility can be used in public relations to achieve better image and reputation; and so far economic and management research has identified an empirical correlation between CSR and economic performance (Gray and Smeltzer, 1989, Griffin and Mahone, 1997, McWilliams and Siegel 2000, 2001). However, the line of causation is unclear. Bredgaard (2004) wondered if the company behaved in a socially responsible manner because of its economic success or if the company became economically successful because it behaved in a socially responsible manner.

The corporate response to direct pressure and the re-emergence of CSR

There are several explanations for the re-emergence of CSR. The first explanation sees CSR as a substitution for government efforts. The second explanation sees CSR as complementary to government responsibilities. A third sees CSR as a tool for the legitimisation of governmental policy (See Moon, 2002, 2004).

Another motivation for business to assume responsibility for society and the communities in which they operate is the threat of regulation; if businesses do not do “good” for society, government will reassume its responsibilities and regulate business behaviours and performances. Cannon (1992) claimed that historically the business drivers of CSR have been seen as either reflecting the values of the owner, or increasing the loyalty of the workforce to the company.

Currently, the all-observing digital world gives incentive to companies to behave well since anti-brand websites and e-mail campaigns can have a dramatic impact within a few days (Barwise, 2003). Global brands are now supervulnerable to “Internetworked” protests around the world (Klein, 2000; Neef, 2004; Taylor & Scharlin, 2004). This escalating pressure from social change actors has caused an increase in the implementation by multinationals of “certifications” (Gereffi et al., 2001; Neef, 2004), which even while still premature, evidence suggests that these certifications improve working conditions and promote environmentally-friendly practices (Jenkins et al., 2002; Klein, 2000). Nevertheless, even though certifications are symptomatic of a general shift from state regulation of TNC towards corporate self-regulation in areas of labour, the environment and human rights (Jenkins et al., 2002) might weaken of the control of local governments. (Gereffi et al., 2001).

On the other hand, certifications are one sort of mechanism of transnational governance to "regulate" companies' behaviour in a global space, beyond states' borders (Gereffi et al., 2001), and to return the responsibility for environmental and social impacts to companies themselves (Klein, 2000; Jenkins et al., 2002).

Gereffi et al. (2001) classified the "industry of certification"[239] into four categories: (a) first-party certification, in which single firms develop their own rules and report on compliance; (b) second-party certification, whereby a trade organisation or an industry manufactures a code of conduct and implements reporting methods; (c) third-party certification is frequently externally imposed by NGOs who are given the task of setting the rules of behaviour and compliance mechanisms on a particular industry or firm; stored for their environmental, labour, and human rights impacts according to principles of 'voluntary governance mechanisms' decided by governments or multilateral agencies.

Lipschutz (2005) justifies CSR as 'politics via markets', because it involves the use of market-based tools and techniques to achieve political power. He states that CSR campaigns aim to influence both producer and consumer behaviour with market incentives (to do well by doing well). He adds that the treatment of people as public goods, normally the state's responsibility, has been displaced by private actors and NGOs in many cases (e.g. the Indian Ocean tsunami's international aid mobilisation in December 2004 quoted by Lipschutz, 2005: 760) do provide goods and services that states are either unable or unwilling to provide.

Voluntary Initiatives

Voluntary initiatives, either led by corporations or by other NGOs have no legal implications (Riisgaard, 2004: 2); however they can help business to legally defend accusations to improve working conditions (Urminsky, 2001: 6).

Urminsky (2001) saw three categories of voluntary private initiatives: codes of conduct, social labelling and investment initiatives. Urminsky (2001) examines social labelling from the angle of its background, features, components and its effectiveness. Urminsky (2001) presents investment initiatives as those led by shareholders and by 'screen scenarios' that could be explained from socially responsible perspectives.

Riisgaard (2004) notes that the pressures on multinational companies (TNC) to assume CSR initiatives varies from company to company, and depends on brands products, consumers' politics, and therefore brand dependency (Riisgaard, 2004).

Mandatory regulations

Mandatory regulation is defined as legally binding (Riisgaard, 2004:2). For instances, in the case of the agricultural sector, some countries' national legislation regulates the establishment and operation of workers'/employees' and/or employers'/farmers'/owners' organisations in the sector (Chivu et al. 2005).

Most of the literature focuses on businesses (private sector) as the drivers of the "agenda for social responsibility" since it seems to be associated with the privatisation of

[239] My own term, therefore my own brackets.

governmental responsibilities over society. However, some studies, for instance Moon (2004) paradoxically focus on the role of the government as a driver for CSR in the United Kingdom (UK).

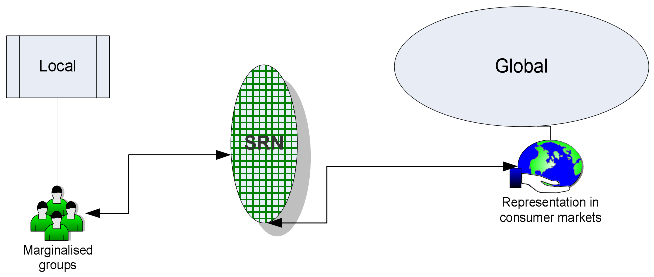
Social Responsibility Networks

In this context, pressure for greater social responsibility and ethical trade demands have grown, either as a cosmetic response by companies and their stakeholders succumbing to NGO pressure, or by reflecting a more fundamental shift in the way that companies operate, associated with 'long wave' theories which predict that following periods of crisis and stagnation, capitalist societies restructure on a new institutional basis so as to restore profitability and long-run growth (McDonough, 1994).

The emergence of a type of "market ethics" (Jirásek, 2003) produced in liberal market practices, where "merits"[240] are associated to value creation appears to be part of the ideological platform on which social responsibility networks operate. Operations transparency, governance, honest public relations and exemplary public reputation are competitive advantages; therefore economics and ethics are meaningfully related since both are value-oriented. Changing social structures of accumulation (SSA) (Kotz et al., 1994) alter the terrain in which corporate values are developed and expressed in capitalist societies. Capital accumulation depends on changing relationships and dynamics in and among capital, labour, and social movements (Went, 2001).

Social responsibility networks (SRN) are systemic formal and informal networks in which responsibility over labour and social conditions is fragmented and in which complexity is facilitated through the interconnection of community-based organisations (CBOs) and transnational non-governmental organisations (TNGOs), through the inclusion of the global in the local and vice versa. Concurrently the avoidance of accountability by traditional and emerging power structures (nation-states and non-states actors [241][NSAs]) indicates a distribution of governance among global civil society.

Figure 3: Representation of marginalised groups in consumers markers through Social Responsibility Networks (SRN)



[240] Jirásek (2003)'s own inverted commas. Page 345.
[241] Non-states actors (NSAs) are those who are not [representative of] states but [potentially] operate at the international sphere. Arts (2003) based on the existing literature developed taxonomy of NSAs dividing them into five groups: (i) Non-Governmental Organizations (NGOs); (ii) Intergovernmental Organizations (IGOs), (iii) Transnational Corporations (TNCs), (iv) epistemic communities and (v) a remainder category.

The growing power of northern buyers (retailers and supermarket chains) which control a network of suppliers in southern countries, has led to calls for amplifying responsibility beyond delivery dates and quality (for example Jenkins et al., 2002), and to extend it to environmental impact issues and working conditions. Therefore, the emergence of

ethically-modified organisms (EMOs)[242] has brought a response to market incentives which reward well-behaved brands whose offered goods are guilt-free, and whose labour and environmental behaviours are accountable, and traceable.. This is the exercise of politics via markets (see Lipschutz, 2005), in which the use of market-based tools and techniques to achieve political power influences both producer and consumer behaviour. The financial costs associated with the proliferating industry of certifications (for example Gereffi et al., 2001) are generally passed to producers. The distribution of social and environmental responsibility across the SRN by northern buyers often exempts them from these responsibilities. The role of TNGOs in SRN seems malleable. Outstanding TNGOs' capacity for dialogue and the establishment of partnerships with economic powers does not necessarily reflect benefits to those they supposedly represent. These dynamics which take part in the international sphere are replicated locally. Glocal institutions (trade unions and CBOs with representation in consumer markets) through elite representation unbalance social relationships via privilege pertaining to those who have a greater diplomatic capacity.

Conclusions

The ethical renaissance of the 1990s was rapidly reflected in big retailers' demands for guaranteed guilt-free goods. In order to comply with these demands, the creation of a traceable supply chain and the establishment of controlling mechanisms were deemed imperative. A systematic took place both at the rhetorical level and in the development of voluntary regulation concerning employment and living conditions, and social environmental behaviour.

In summary, as a consequence of the demands for responsible business social and environmental behaviour by civil society actors and organisations in consumer markets, the establishment and development of matrix of norms and institutions for legitimisation and accountability of firms' practices with both local and transnational representation has been stimulated. Social and environmental market entry regulations enforce a systematic approach for economic growth and employability of civil society across value chains and production networks. The interconnectedness of the local and the global due to the evolution of information and communication technologies has facilitated the development of transnational networks, and hence the representation of economically and socially marginalised groups on consumer markets. The replication of transnational dynamics in local scenes and the traceable impact on individuals of global changes, requires social responsibility networks for the co-evolution and integration of diverse forms socio-economic integration.

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PART SEVEN: INDIA

17. SOCIAL STRUCTURE, TAX CULTURE AND THE STATE : TAMIL NADU, INDIA, *Amrita Jairaj*[243] *and Barbara Harriss-White*[244]

Abstract

This paper is part of a long term project investigating the roles of class and of social identities in the regulation of the larger part of the Indian economy which is outside the direct control of the state. Here their roles in the tax culture of a S. Indian state are explored through field research. Tax culture comprises the formal rules of tax policy, informal institutions of identity, the creation of practices of tax by officials and the (mediated) relations between tax authority and tax payers. We conclude that commercial taxes are construed through a culture of non-compliance which compromises the capacity and legitimacy of the state. This tax culture may have normative implications at the very least for the politicisation of the sequencing of tax reforms

Introduction

Tax – the compulsory collection of money (and occasionally goods or services) - is a prime source of revenue for the state, and a prime mover of public expenditure. In India, net revenue is 6% of GDP.[245] The political process of taxation is thought to be a fine summary indicator of state legitimacy [246] and governance capacity. [247] However, while in OECD countries this notion is an open social fact and tax is a prominent aspect of electoral politics, elsewhere it disappears - along with scholarship on the subject. [248] This essay seeks to go a small way to remedy this neglect.

It also contributes to a small school of work in Oxford which is challenging the tendency to analyse development policy as a residual (exemplified by routine conclusions invoking 'policy implications' without reference to either state or society), and which seeks to explore with the use of field research the ways in which the organisation and practices of the

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245 This amounts to Rs 1,336,620m. Total expenditure was Rs 3,624,530m. Of the 'non-plan' expenditure, 41% consisted on interest payments, 21% went on defence, 12% into subsidies and 6% for pensions (Controller General of Accounts, 2001-2)
246 Moore, 2004
247 For Skocpol (1985, p9), state capacity is the ability of a state 'to influence official goals, especially over the actual or potential opposition of powerful social groups or in the face of recalcitrant socio-economic circumstances'. See also Smith, 2003.
248 Moore and Rakner, 2002. It is dominated by economics, where the focus is on revenue generation and performance (Mundle, 1997) and the phenomenon of tax evasion analysed from the perspective of the economics of crime (Alm and Vasquez, 2001). The design of tax policy assumes individual utility maximisation, administrative simplicity and regulative frames discouraging evasion (Begg, Fischer and Dornbusch, 2000). The World Bank's Good Governance agenda (www.worldbank.org) has required this economics approach to stretch itself into interdisciplinary territory in order to account for egregious failures in the design, implementation and performance of tax policy.

state, the market and institutions of civil society are instituted through a social structure of accumulation in which social identity can and usually does play important roles.[249]

This project cannot avoid distortion because, as Sen has argued, the social identity of a given individual is made of many elements and unique.[250] When identity is studied, however, these elements are examined separately. Although this is necessary for analytical purposes, more or less essentialised in categories such as gender or class, in reality they are combined and embodied in individuals. The analytical project reflected in this essay seeks to understand the extent to which logics of capitalist market economy and of bureaucratic rationality, which are widely considered to be universal and even 'natural' are in fact construed through social structures and relations of identity. The working of identities in the economy are not to be dismissed as pre-capitalist relics: they are persistent structures of modern capitalism. Their totality constitutes a culture.

Change originating in one non-market social institution – the family, for example – will have an impact on others, such as the market and the state. The reverse expectation is more familiar, because it has often been assumed that inherited ('archaic') social structures will be radically modified or even destroyed when confronted by the rationality of the market or the state. In practice the opposite is, if anything, more common .[251] Structures and institutions may instead be reworked. A given kind of patterned behaviour – e.g. 'sharecropping', or the exercise of patronage, or social relationships due to ethnicity or gender – changes its social role over time just as it varies across space.[252] Opposing forces may operate simultaneously – dissolving and destroying structures in one site but reworking and intensifying them in another, or doing both in a given place. Thus, in India for instance, wage labour is being cosmopolitanised while at the same time the caste-based defence of occupations is being intensified. Mainstream social science does not cope well with such contradictions.

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[249] See Kotz, McDonough and Reich, 1994, McDonough, 2006, for exegeses of social structures of accumulation. That markets are embedded in social institutions builds on the premises of the substantivist school of anthropology (Eriksen, 2001), and has been developed influentially in economic sociology by Granovetter (1985). The conceptualisation of social structure is from Durkheim; it makes ' reference to orderly , patterned and enduring relationships that hold between elements of a society' which exist in their own right but may be acted on reflexively through agency (Jenks, 1993, Hodgson, 2001). For the Oxford research, see Majid, 1994 on class and ethnicity in land tenure arrangements; Rogaly, 1995, on class, caste and gender in labour markets; Pujo, 1997 on gender and markets (in Guinee); Sengupta, 1998 on the roles of religion and locality and the reflexive role of gender in the ICDS bureaucracy, Mooij, 1999 (closely associated with the Oxford work) on informal coalitions of wealth accumulation within the Indian food bureaucracy; Fernandez, 2003 and Sud 2003 on gender, religion and the state; Stanley 2002 on caste and class in a gold ornaments industrial cluster; Roman, 2004 on caste, class and gender in the socialisation to, and skilling for, work of a local labour force; Meagher, 2004 on 'identity economics' and Harrison, forthcoming, on the ways development NGOs are embedded in the economy, institutions of identity and party politics; see Harriss-White, 2003, chs 1, 4 and 9, for a general statement for India and (with Janakarajan and others) 2004, for the roles of gender, caste and class in the economy and state and for the consequences for state capacity of 'institutional scarcity' caused by lack of resources. This paper is a summary of Jairaj, 2005. Of course there is a well established and growing literature in politics and political sociology worldwide on the role of phenomena such as gender and caste in politics and the state, see Corbridge and Harriss, 2002 for a review of caste, Goetz, 1996 for gender and Midgal, 1988 and 1994 for an authoritative statement about the ambiguous siting of the state in the web of social organisations competing over the ordering of social life. See Khan, 2000, 2006 who justifies confining his analytical toolkit to class and faction on grounds of parsimony.

[250] Sen, 1999

[251] See Myrdal, 1967, for a powerful statement of this expectation. See Harriss-White 2003 for its refutation.

[252] Majid, 1994; Basile and Harriss-White, 2000

Employees of states are bound by organisational laws and rules, [253] but the Weberian ideal type of office holder, whose official behaviour is entirely separate from his or her private interest, can never be taken for granted. As in firms so in the state, social relationships due to identity may be and are deployed to regulate behaviour alongside legalist contractual arrangements and rules. Whether one considers the state 'organogrammatically' as a set of ministries, departments, parastatal agencies and quasi NGOs (commerce, foreign affairs, defence, etc) or whether one cuts its work by sector (trade policy, agriculture, labour, tax, etc) and examines the roles of every relevant regulative norm and practice, the state is revealed as a congeries of quite particular formal and informal arrangements.[254] Without an understanding of the wider culture within which the state works, the state's role in a social structure of accumulation will be exaggerated, and its effects poorly predicted.

The concept of 'tax culture' in this essay originates with Schumpeter, for whom fiscal history was nothing short of a development paradigm. In this approach to development, government evolved from being funded out of the surpluses extracted from the agrarian producers on the ruler's landed properties, to being funded by levies on the private economic transactions of independent subjects. For such a transition to take place, a consensual coalition between potentially mobile capital and rulers had to develop, and a public bureaucracy had to be created. [255] More recently, the concept has been applied to the transformations of states which relied on revenue from publicly owned enterprises in centrally planned economies, to states financed from taxes on private enterprise.[256] Lately the IMF, faced with states dependent on rents from natural resources and/or foreign aid, [257] has also come to recognise that 'to function well, market economies need governments that can establish and enforce the "rules of the game", promote widely - shared social objectives, raise revenues to finance public sector activities, spend the revenues productively, enforce contracts and protect property, and produce public goods'(Tanzi, 1999, p1) – but not at the cost of a dysfunctional burden on the 'private sector'. For the IMF, the creation of a 'tax culture' or 'tax mentality', by which it means (more narrowly than Schumpeter and the transition economists) a pervasive culture of compliance on the part of taxpayers, has to be achieved with a mix of appropriately-designed incentives and sanctions. This, however, has been extraordinarily difficult to 'engineer'.

One reason for the limited purchase of state-engineered mechanisms of fiscal compliance is that even in the late 20th and 21st centuries, such attempts are still taking place in developing countries during an era of the *initial* concentration of capital on the one hand, and loss and dispossession of assets/and 'adverse incorporation' of labour on the other. While Adam Smith called this process 'capitalist prehistory' and Karl Marx 'primitive' (or 'original') accumulation, in practice it is not confined to the beginnings of capitalism but is continually reproduced in a huge range of non-market, coercive economic mechanisms. The state is deeply implicated in this process. It is not only necessary for the state to build infrastructure, and for capital to build physical plant, displacing labour in the process; the

[253] Weber is still key to our understanding of the technical superiority of the bureaucracy :'precision, speed, unambiguity, knowledge of the files, continuity, discretion, unity , strict-subordination, reduction of friction and of material and personal costs – these are raised to the optimum point in the strictly bureaucratic administration, and especially its monocratic form' (Weber, 1978, vol 2, p973).

[254] This has implications for the body of literature theorising the state and the common practice of empirical studies to extrapolate from one sector to a general conclusion. See Mooij, 1999 for a critical example of the food bureaucracy and Horscoft, forthcoming, for a general statement.

[255] Schumpeter, 1991, p7 in Moore, 2004, p298, p301-3.

[256] Nerré, 2001

[257] Moore, 2004, p299,pp305-7

state is often also the source of finance for private start-up capital, for loans for wages to pay a wage labour force, and for the policies which shape the concentration of food and of raw materials for industry. Society is being required to yield up tax for the state's role in this primary process at the same time as primary producers are being subjected to pressures from capitalist accumulation and capitalists are struggling to accumulate from a low initial base. And in the meanwhile both are engaged in a very intense struggle over private property rights. [258]

While societies unused to taxation widely reject proposed tax systems, attitudes to tax are much too deeply embedded in society to be amenable to technical solutions involving incentives and sanctions based on economic reasoning alone. Even in OECD economies, norms and semantics vary and this variation has material consequences. The etymological origins of terms for tax can be linked to variations in cultures of compliance. Tax evasion has been shown to be more extensive in Mediterranean cultures, for example, where the Latin root of the word for tax is 'imposition', than it is in Germany, where the word connotes 'support', in Scandinavia where it means 'common treasure for common purposes' or English where the root for tax means to 'touch'.[259] The attainment of a given tax objective has correspondingly been shown to be more expensive for Mediterranean states, where taxes are seen as being 'imposed' against feelings of justice and in a culture of more generalised resistance to all state impositions. Such attitudes obviously involve, centrally, the way tax officials themselves are regarded, and regard themselves – something rarely if ever included in the mainstream taxation literature.

If tax culture is to be drawn into the structure of accumulation, we must incorporate the formal rules of taxation, their derivation, the role of social structures of identity in the creation and implementation of rules and thus the formal and informal regulative relationships between tax authorities and taxpayers within which social struggles take place. The broad structure of our essay follows these components so as to reveal the state- and social regulation of tax. Without tax revenue the state's other roles in a structure of accumulation are deeply compromised.

We have taken the state of Tamil Nadu in the south of India for our study of the culture of commercial taxes and of the roles in tax culture of class and caste identity. India is a useful case for two reasons. First, 'the development of tax evasion is the real 'structural adjustment'' (Harriss-White, 2003, p100). The fiscal deficit stands at 4.6 % of GDP for the central government and 4.7% for the constituent States.[260] The main reason why expenditure exceeds revenue is the poor record of revenue generation from the major direct and indirect taxes, so much so that some theorists conclude from India's on-going fiscal crises that the state has failed in a fundamental way. [261] Second, the introduction of Value Added tax (VAT) is at a crucial stage of replacing Sales Tax. As a result, tax, hitherto the domain of private pressure group politics, has risen up the public political agenda. Despite the technical elite's consensus about the superiority of VAT over the highly complex system it replaces, its inauguration on April 1st 2005 was greeted by a 3-day strike by traders.[262] While this essay will not explore VAT, because Tamil Nadu was not among the first 20 of India's 29 states to implement it, the public response to the transition in tax rules makes it possible to research

[258] Khan and Jomo, 2000; Harriss-White 2006
[259] Schmölders, 1970
[260] http://in.rediff.com/money/2005/apr/12fiscal.htm
[261] Economic Survey, 2003-4; Roy 1995
[262] Chelliah, 2003, *Times of India*, April 1st, 2005

the tax culture with unprecedented cooperation from the main interested parties. Tamil Nadu is a state where commodity taxes (the Sales Tax, ST) supply two-thirds of the state government's revenue.[263] Sales tax also originated in the Madras presidency in 1939. Throughout India it has been growing in its importance to state public finance, and state autonomy from central government.[264] The Tamil Nadu Commercial Taxes department is reputed to be one of the most professional and efficient tax bureaucracies in India, and is publicly aware of the paramount role played by taxation in development. [265] We focus on the tax bureaucracy, defined as the organ of the state dealing with the implementation of tax policy, together with other interests such as taxpaying business, the party political process and those making expert technical inputs into policy design. [266] The stakeholders and key relationships in the ST system are shown in Figure 1.

The role of the state in tax culture: rules, economic interests and social identity

The Weberian ideal-type of bureaucratic efficiency premised on impersonality and objectivity has long been the one on which the Indian civil service is explicitly modelled. Both of the two cadres responsible for ST, the elite IAS (recruited by the central government and heading most state bureaucracies) and the State level administrative service, recruit on merit and are trained in rule-based practice. [267] However, there is a long history of research which reveals divergences between technocratic policy norms and socially and politically embedded practice. [268]

In this section the formal rules of the ST system are laid out and the social composition of the bureaucracy and the intertwined nature of formal rules and social structures of identity are investigated.

The current system of commodity taxation has been in constant evolution to reflect the changing needs of the state. Tamil Nadu's Sales Tax has been working in its current form since the 1959 Tamil Nadu General Sales Tax Act (TNGST) was passed, though it has

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263 67.2% to be precise in 2003 with 15% derived from state excise 8.5% from registration and stamp duty, 5% from vehicle tax and the rest from other minor sources. Govt of Tamil Nadu, 2003

264 The 7th schedule of the Indian constitution stipulates the assignment of fiscal responsibilities and specifies the domains of Central and State governments (Govinda Rao, 1997, p228). Roughly, the powers to levy taxes on external trade and excise duty on good manufactured in India (other than alcohol and narcotics) lies with the Centre, as does income tax. States may tax alcohol, narcotics, the sale and purchase of goods other than newspapers and tax motor vehicles (Bagchi, 1997).

265 Citizens' Charter, Commercial Taxes Department, Government of Tamil Nadu, 2003.

266 The research was conducted over 3 months in Tamil Nadu in 2004. The method deployed was that of semi-structured interviews with stakeholders. Structure was provided by the concepts of tax mentality, tax morality and tax discipline. The sample of 5 businessmen and 5 tax consultants originated in industry specific yellow pages on the web and was built up through snowballing, which led to the 2 business associations studied. Seven ST officials were interviewed at all levels of the department. Official documents were also collected and analysed critically. Insights were gained through confidential privileged admission and where possible this was triangulated by stakeholders representing other interests. In general only triangulated evidence is used in this essay. Confidential documents and written evidence was also provided to AJ. All confidential evidence has been used here without attribution. The key omissions in this material are the absence of a gender analysis, the direct evidence of party politicians and the bias caused by the metropolitan nature of the field sites – though Chennai district division provides 55% of all receipts under the ST department. See Jairaj 2005 for a full account of fieldwork.

267 Das, 2001

268 See Jeffery and Jeffery, 1998; Mooij, 1999; Harriss, 1984; Harriss-White, 2003; Kjellberg and Banik, 2000 for examples based on field research.

received a number of amendments about which no ST officials were precise. [269] The proliferation of ST Acts and their amendments about which there is what we may call *'informed imprecision'* is a salient fact for Indian business.

The TNGST Act requires dealers with turnover (gross output) in excess of Rs 3 lakhs [270] (in late 2006 revised to Rs 10 lakhs) to be registered and therefore to file returns. ST is levied only on the taxable returns of registered dealers.[271] Over the decade from 1995 - and heavily influenced by the growing national fiscal crisis - the local state has been under contradictory pressure from liberal reformers in the central government. On the one hand, in order to compete for investment provincial states must minimise distortions in tax and reduce marginal tax rates. On the other hand they must increase revenues to cope with their own fiscal crises. This has resulted in *ad hoc* reforms throughout the Indian states. With respect to the TNGST Act the structure of tax rates has been streamlined and the base broadened. But even within this single state the system remains highly differentiated and complex, with 15 different rates in operation.

By 2003-4 there were 64 goods which were exempt from ST (see Appendix 1). When we research the interests served by exemption we discover a distinctive political-economic rationale. For example woven silk fabrics are exempt, and two of India's major industrial clusters in silk are in Tamil Nadu. Silk sarees are luxury goods, demand for which is price inelastic. So exemption deprives the state of a significant quantum of revenue. Further examples are local tobacco and sugar products, agricultural implements and domestic utensils, a vast range of basic wage goods produced in the informal economy, and some factory-produced goods, notably educational equipment, contraceptives, a set of 'life-saving drugs' and items of public health and small-scale renewable energy technologies such as energy saving stoves; solar equipment and landfill energy conversion devices.

The production of these wage goods is widespread. It tends to be caste-stratified. Many of these caste-aligned commodity sectors have long had more or less formal corporatist organisations of collective action representing the interests of capital.More recently corporatist associations have strengthened their regulative activity, , controlling entry, controlling wage labour, attempting to control prices on derived markets, organising urban space and providing primitive forms of occupational insurance. [272] We know that membership sometimes includes labour as well as capital; but the interests of labour are at the foot of the regulative agenda, effectively quashed by being incorporated in this way.

Other commodities (large numbers of them) have much higher ranks in taxable turnover than they do in tax revenue earned, because they have distinctively low rates of sales tax, so that their tax base is under-exploited. Basic wage goods are in this category because of their importance in the consumption baskets of poor people. But agricultural products such as sugar cane and cashew, and raw materials for the textiles industry – cotton – and the automobile industry – rubber - cannot be justified in this way, and were acknowledged (and

[269] Ten Acts are listed on the Department's website:
http://www.tn.gov.in/misc/ctaxpolicy-2003.htm

[270] A lakh is 100,000. Rs 3 lakhs was worth about £3.6k using 2005 exchange rates.

[271] For most goods the taxable turnover is the value of the first sale within the state. A new resale tax on second and subsequent sales was introduced in 2002. There are also 11 classes of goods on which tax is levied on the last purchase . Exceptions include cement which is subject to a multipoint tax and Indian-made Foreign Liquor (IMFL) which is taxed at first and second sales. For dealers with a taxable turnover in excess of Rs 10 crores (a crore is Rs 10m) an additional ST of 1 to 3% is levied (Chelliah, 2003).

[272] Basile and Harriss-White, 2000

'triangulated') by finance officials as indeed having resulted from the exertions of the relevant lobbies and business associations.

We conclude that, far from being technically-derived, tax policy is socially embedded from its inception. The neutral, technical language of policy design, its 'discourse', both masks and reproduces the balance of power between the state and powerful local capital and this balance of power serves as the crucible of sales tax policy.

The second aspect of the state's role in tax culture concerns those implementing the product of this crucible: the role of caste in the bureaucracy and its use as a political instrument in the control of the state. The history of low caste assertion in Madras Presidency resulted, long before Independence, in demands for the reservation of bureaucratic positions for members of deprived castes. As early as 1885 the colonial state had introduced preferential treatment for lower castes, and in Tamil Nadu, pre-eminently, as high a proportion as 69% of places in higher education and public services were reserved for intermediate and low caste people in 1980. The regularly rotating Dravidian parties, initially movements policing ethnic boundaries and protesting against Brahmin domination, have slowly devalued plebeian Tamil culture. If judged by practice rather than rhetoric, Dravidian politics have reinforced the cultures of the intermediate Hindu castes and promoted revivalist versions of a Tamil nation centred on the norms of these castes. Ethnic appeals have been articulated within a populist discourse, leading Dravidian regimes to create entitlements for the middle or lower castes. They are labelled 'Backward' although, by the standards of the agricultural labouring class, for the most part they are anything but. The distinctively populist mass politics that results has led to the proliferation of subsidies and the growth of state expenditure without a concomitant rise in revenue generation. The reservation of places in the public sector for 'backward' castes is a defining feature of the entitlements of these castes, and the exercise of social and political patronage is a defining feature of the control of the bureaucracy by the Dravidian political parties. [273] The loss of autonomy of low and intermediate caste clients is qualified by their being able to mobilise outside the party framework too. Most notably this takes place through the caste-corporatist politics of collective action focussed on trade associations.[274] Most backward castes are local dominant agricultural castes and/or occupationally stratified in the non-farm economy in the non agricultural (artisan) labour force and in the small to medium family firms that Kalecki identified as the intermediate capitalist class. [275].

Patronage and political clientelism have implications for the composition of the state bureaucracy and the implementation of policy. In 2005, six ministers out of 25 with portfolios were members of backward castes, the majority of them, including the Finance Minister, being *Vellalar*. Top officials in the ST department were alleged by respondents outside the department to be from *Vellalar* or *Nadar* castes. These castes are classified as backward but occupy dominant positions in the regional economies in agriculture and business – including textiles, which is the second largest sector after agriculture. The implementation of fiscal policy cannot be divorced from their interests: to ignore the existence of such social relations is likely to allow future tax policy to continue to codify the same biases.

It would not be correct to conclude, however, that the ST department has been entirely captured by political clients from among the local capitalist elites - or by the backward castes.

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[273] Guhan and Bharathan, 1988; Subramanian, 1999; Widlund, 2003
[274] Basile and Harriss-White, 2000; Harriss-White, 2003
[275] critically reviewed in Harriss-White, 2003

The third characteristic of the tax bureaucracy is the intertwining of formal rules with social forms of regulation. The Commercial Taxes department currently operates under the control of the Minister of Commercial Taxes and is headed by an IAS Secretary and an IAS Commissioner. It has four wings : Assessment [276], Enforcement [277], Audit [278] and Appellate [279], each of which is headed up by Joint Commissioners, Deputy Commissioners and Assistant Commissioners – in all about 500 specialist officials. [280] However, despite this formal organisational structure the combination of the dominant role played by *state* civil service officials (rather than the central government elite) and the political patronage exercised over the bureaucracy mean that the formal structure and the actual organisation of the department are far from coinciding.

In practice, policy is generated in a different set of institutions and at two levels within the state: in the thirty districts and at the headquarters. At district level is a ST advisory committee headed by the IAS Collector[281] and including the local member of the state legislative assembly (MLA). Meeting every 3 months, this committee 'fire- fights' local ST problems and generates policy ideas. The latter pass upwards via two routes, administrative and political, to a state-level ST advisory committee meeting once a year, of which the portfolio minister is the secretary. High-ranking ST officials are in a minority on this committee, which is stacked with representatives of business associations and financial interests.[282] Party politicians are key players in the formal process of tax policy formation. Academic experts are completely absent.

The main generators of policy are supposed to be the IAS officials, who are also formally responsible for implementation. But the balance of power, the political settlement between IAS officials and politicians, is biased against the IAS for several reasons. First, their regular, increasingly politicised and ever higher-velocity rates of transfer prevent them acquiring authoritative knowledge and experience, just as it prevents their forming patronage ties.[283] It also reduces their capacity to control lower-ranking officials. The real power holders are TN Public Service Commission cadre officials who are employed almost permanently in the ST department, being transferred only within the department and thus having the opportunity to develop and cement networks and coalitions among themselves which are impervious to IAS control. Tactical control of the department is largely in the hands of TNPSC officials of the rank of Joint Commissioner, while strategic control may well lie less with the IAS than with state-level politicians. The politics of this control is hidden from the public domain; but two aspects have been suggested during fieldwork: the practice of paying for posts, and the practice of keeping posts vacant. It was suggested by a lawyer with

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[276] The state is divided into ten assessment divisions headed by deputy commissioners, further divided into 40 ST districts administered by Assistant Commissioners. Chennai and Coimbatore have 323 assessment circles, most of which are headed by CT officials.

[277] Enforcement is devoted to tax evasion and undertakes inspections. It has 7 divisions headed by Deputy Commissioners, 10 Assistant Commissioners and 15 CT officials. There are also 29 checkposts and 48 roving squads.

[278] Audit has 40 specialist auditors plus a follow up cell in the Office of the Commissioner of CT.

[279] Appeals have three for a. The first layer consists of 20 Assistant Commissioners; the second dealing with appeals from the first layer has four benches, two in Chennai, and one each in Madurai, and Coimbatore. The third tribunal in Chennai is for 'special appeals'.

[280] Appellate is controlled by the Chairman of the TNST Appellate Tribunal in Chennai.

[281] The chief district administrator, who is often an outsider to the state in the earlier part of his/her career. A district has a population of about 2 to 3 m.

[282] The Confederation of Indian Industries, The Madras Chamber of Commerce and Industry, Farmers' Groups, Trade Associations, State Banks and quango finance institutions.

[283] Das, 2001; Kjellborg and Banik, 2000

relatives in the ST department, and repeated by others, that certain high-ranking posts may be sold by politicians. These posts are termed 'sensitive' and are openly subject to competition. They are 'sensitive' because it is expected that investment in the purchase of such a post will be recouped by illegal rents, what Kalecki termed the 'self-employment' of officials.[284] Both tax officials and taxpayers know each others' earnings and deploy this information to mutual advantage in order to supplement salaries and business returns respectively - as will be seen in section 3.

A further aspect of political control is deliberately leaving positions vacant to prevent ST bodies from functioning. For example, the Appellate Tribunal is an important mechanism of dialogue between taxpayers and the ST department, in which liabilities can be contested. Political interference was widely reported to have halted its work for a significant spell in 2004, and data for the tribunal for 2003-4 shows that even without such interference a backlog accumulates which frustrates due process and invites bribery.

Although the evidence was far from systematic and does not allow us to conclude that all members of the department were involved or complicit, there was a pervasive discourse of corruption. According to this general view corruption mainly takes the forms of bribes, payments to prevent harassment and permit fraud, and misappropriation of goods from warehouses and shops under inspection – blatant theft. There is no mechanism through which public concern or complaint about corruption may be channelled. The standard method of defence against extortion is to minimise contact with officials. However, while it is expected that on-line tax returns will reduce corrupt demands by officials, they will do nothing to curb evasion by those obliged to pay tax.

In sum, the tax system is a politicised social construct. Politicised policy design contributes to obstructions to its implementation because it detracts from state legitimacy in the eyes of both taxpayers and tax officials. The social composition and the practices of the tax bureaucracy both reflect and reinforce the contest between the state and social structures of caste and class. Tax policy is implemented idiosyncratically: some officials follow the formal rules of the TNGST Act while others do not. Patronage and caste-clientelism generates a pattern of transfers and promotions on grounds other than merit or seniority. Rules and procedures are disregarded. Very few taxpayers are privy to the kind of information that makes these structures and practices of the department comprehensible. The tax culture within the ST department has a profound impact on the level of taxpayer compliance.

The role of society in tax culture: taxpayers and tax consultants

Owners of firms with gross outputs in excess of Rs 3 lakhs are supposed to pay tax, whether or not they actually do so. The Commercial Tax department is revenue-driven, with targets set annually and increased each year in line with performance. There are two broad categories of taxpayers, traders and manufacturers, though both categories are highly differentiated by product. Table 1 lists revenue-generating commodities and is dominated by manufacturing. Top of the list are liquor, diesel oil and petrol. Tax revenue is highly concentrated in being derived from the 0.1% of registered firms which have turnovers in

[284] Kalecki, 1972. The average private sector wage for a graduate is Rs 9k to 12k (£109-146 per month). A Commercial Taxes Official earns between Rs 8 –13.5k per month but salaries of Collection Inspectors are lower at Rs 4 – 6k.

excess of Rs100 *crores*.[285] These contribute 56% of total sales tax. [286] These high net worth firms have the best-developed book-keeping and accounts and according to Chelliah (2003) revenue is extracted from them at the cost of either equity or efficiency.

To explain why this happens, the way in which the shared experience of taxpayers creates dispositions and habituated behaviour must be examined. Capital uses two types of behaviour to subvert tax policy: tax avoidance, which is legal, and tax evasion, which is not. Avoidance is the product of declared outputs below the tax threshold; transactions which are not taxable (i.e. are not first, last or second-point contracts), successful pressure for tax exemption, or for tax levels disproportionately lower than their turnover; and the use of transfers between branches of firms to have profits arise in jurisdictions which minimise liabilities. Many cars in Tamil Nadu are registered in the enclave union territory of Pondichery which has much lower tax rates. Many software distributors, taxed at 4% in Tamil Nadu, have offices registered in Gujarat where software is exempt. Evasion, on the other hand, takes place through means such as accounts in which output is under-reported, the attribution of non-agricultural earnings to agriculture, or bribery to avoid inspection of accounts. Both avoidance and evasion affect the efficiency with which taxes are raised, and hence the capacity of the state.

For a number of reasons large firms are easiest to tax and find evasion most difficult. First, the very large firms which dominate revenue are dependent on public sector services such as electricity and finance through which their gross output can be triangulated by tax officials. Second, the monitoring costs are lower per unit of revenue from large companies than smaller ones. The department has created a Fast Track Assessment Circle (FTAC) for firms with high turnover and there are plans to introduce on-line submission of returns. Third, the state also uses time-bound tax exemption so as to incentivise the siting of large firms on industrial estates. After the end of the tax break such firms are contractually bound to pay those taxes from which they have hitherto been exempt.[287]

But, fourth, the collective politics of agro-commercial capital ensures an inequitable formal tax structure which privileges the products of intermediate capital, exempting whole sectors of intermediate-sized firms entirely. And the cost of revenue collection ensures that the probability of successful evasion varies inversely with size. It was argued earlier, from the evidence in the Appendix, that the major classes of exempted commodities reveal the power of commercial lobbies, particularly agricultural and textiles traders, to manipulate sales tax policy in their interests in complicity with the state and therefore to avoid ST. The same lobbies also work to ensure that the informal practices of ST operate inequitably, allowing them to evade ST. Barbara Harriss-White's 1980 research on agricultural mercantile politics may be recalled here because the present field research corroborated it in a suggestive manner. The fieldwork conducted in 1980 showed the important role played by business associations in tax evasion and in the way it was justified.[288] Experiences of mistreatment by ST officials, the arbitrariness and complexity of ST policy (in part the result of the very same interest groups which experience harassment), the ad hoc nature of the penalties and the idiosyncratic

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[285] Approx £12m.
[286] Govt of Tamil Nadu, 2003
[287] Guhan and Bharathan, 1988; SIDCO, 2005.
[288] In Coimbatore District, 'Annur groundnuts traders lobbied the Coimbatore District Collector, the District Supply Officials and the Deputy Commissioner of Commercial taxes over penalty fines on stocks and unlicensed trade, winning technically illegal concessions. They launched a mass local agitation against the excesses of vigilance squads and can now carry on massive evasion of taxes' (Harriss, 1981, p451). See also Harriss, 1984.

implementation of the formal rules all enter tax culture as reasons to justify tax evasion. Not only is the formal tax system structured to be inequitable, its implementation is experienced as inequitable.

As a result, certain eligible firms with gross outputs above the ST threshold do not register for ST. The quantitative significance of losses resulting from 100% non-compliance is debated. [289] Registered firms suppress turnover and hide transactions but pay token amounts of ST or make payments which are partly bribes to ST officials and partly ST contributions.[290] Sectors with a combination of relatively high tax bands and cut-throat competition were reported by all those concerned to maximise tax evasion: electrical goods, edible oils and - famously - jewellery. [291] By virtue of their large numbers (Tables 2 and 3) and their low standard of accounts, small firms are costlier to inspect per unit of revenue raised. While the probability of inspection is low, small firms are also prey to arbitrary and predatory practices by ST officials. In a culture dominated by revenue targets and focussed on firms in the largest turnover category or 'slab', the Commercial Taxes department neglects the provision of information about rules and tax practice to small firms. Tax officials and taxpayers are therefore involved in coercion and evasion respectively.

Faced with lax scrutiny[292] and/or harassment by ST employees, often reputedly in the form of the extortion of goods, or demands for bribes or gifts followed up by court proceedings for those reluctant to provide them, taxpayers have recourse to sales tax consultants to mediate and where possible halt prosecutions. To proceed with litigation to challenge fraudulent penalties 50% of the tax said to be evaded has to be provided, along with a bank guarantee for the balance. Should the case be won the money is refunded. However the restitution of the refund is often adjusted against future liabilities. Consultants are needed to resolve refund negotiations.

In principle, ST consultants are independent advisors, but unlike income tax specialists who are chartered accountants, in practice consultants are graduates without professional qualifications. A significant proportion of them are retired ST officials or their close kin, who have gained familiarity with the complex system of tax practices through experience rather than training. When asked why people use his services one consultant replied 'fear'. A common fear is of extortion. Tax consultants do not have fear. On the contrary, they cultivate 'close' and 'cordial' relationships with the Commercial Taxes department and receive preferential treatment. Other than through the media, they represent

[289] ST officials consider it small. One estimate of 100% non-compliance was 2% of total registered dealers and Rs 2-3 crores lost revenue. But field research on agro-commercial firms in 1980 and metropolitan businesses in 2004 –5 suggests that this is a gross underestimate (Harriss, 1984).

[290] An example is the power loom textile industry in Erode. According to official statistics the weekly market (*sandai*) collects textile manufacturers from all over India to trade here and the average turnover is about Rs 5 crores (SIDCO, 2005). The power loom textile industry is a large source of income in Erode. However revenue capture is extremely low. Power loom owners are from the dominant land-owning class. factories are constructed on low value dryland sites using agricultural electricity which is supplied with a heavy subsidy - practically free. Income from power looms is declared as income from agricultural production and, though liable for tax, it is untaxed. If compelled by ST officials to declare production, their evasive under-declaration is reckoned to be by about 50%.

[291] Jewellery is a sector in which non-local migrant castes are important. Receipts are rarely issued on transactions so consumers connive to avoid ST. Negotiated sums, said to be about Rs 10 – 15k per firm per year are supplied by jewellers to ST officials so that these firms are not inspected. Such sums, part bribe, part ST, represent an extremely small proportion of actual taxable output.

[292] Ad hoc implementation of tax collection includes the requisitioning of account books without corroborating evidence from banks, which when repeated acts as an incentive to fake accounts..

the main means by which taxpayers' complaints can be conveyed to the Commercial Taxes department. [293] However at the same time these consultants are used by ST officials as mediators for the extorting of bribes. Bribes are arranged, sometimes without the knowledge of the taxpayer, as their cost is added to the fee.

The proliferation of these intermediaries and these tax relationships has shaped tax culture. The overwhelming majority of respondents in the field research, while acknowledging that the reforms to the structure of the TNGST had improved its interpretation, still found the system extremely complex. Frequent amendments to the Act, raising tax rates to reflect the economic importance of new commodities or lowering them to increase compliance, have rendered it incomprehensible to the very people with whom it needs to be legitimised. The system lacks legitimacy and incentivizes the avoidance and evasion which deprives the state of very significant proportions of revenue.[294]

Tax evasion may also be the result of ignorance. Paul and Shah in their analysis of corruption in public service delivery conclude that information barriers contribute to corruption. [295] Although the ST website and official publications about ST are in Tamil as well as English, most public discussion about tax is in English. The media, the principal instruments of public education and information, though active on income tax, rarely report ST issues and have contributed little to public awareness about the introduction of VAT. They very rarely report consumer associations as having politicised ST, evidently not because ST has little effect on prices but rather because consumer protection law does not cover tax. Among manufacturers and traders, tax literacy was widely reported to vary directly with firm size. FTAC firms are highly tax-literate, with in-house tax teams dealing with their returns and getting preferential treatment from the Commercial Taxes department. Manufacturing industry was reported to be more 'tax-literate' than commercial firms. The latter may be forced into compliance when the manufacturers from whom they purchase are in turn complying. According to the President of the Madras Chamber of Commerce and Industry, most small firms 'prefer to remain ignorant'.

About 40% of the Commercial Taxes department's registered 'assesses' are in turnover 'slabs' under Rs 10 lakhs (Table 3). They have generated only 1.4% of ST revenue. In stark contrast to the means by which the Commercial Taxes Department services the largest manufacturing firms, for the rest it runs a fee-paying service (Rs 500) through which small assesses may obtain clarification about tax rates. However the service is avoided as it is perceived to lead to harassment. Despite having a small PR unit and internal documents detailing practice, the ST department provides no public information about its services. Its website displays the Acts under its jurisdiction and a drop-down list of commodities and tax bands, but unlike the income tax department it does not explain procedures and practice.[296] Small firms are further disadvantaged by being excluded from the most powerful chambers of commerce and industry such as the Confederation of Indian Industries or the Madras Chamber of Commerce and Industry, which hold regular tax conferences and publish changes in tax laws – all in English. Small firms may have unsystematic access to the Tamil language

[293] Dey and Roy, 2005
[294] Harriss's 1980 study of ST on groundnuts which compared official revenue with data on gross outputs from field interviews suggested that 90% of tax was evaded (Harriss, 1984). One TN tax consultant who was a retired ST employee estimated (though this could not be corroborated) that as much as Rs 6,000 crores (£7.2 billion) might be uncollected.
[295] Paul and Shah , 1997
[296] It is not required to do this by law. Existing legislation on information states that public agencies are not required to divulge information about specific actions and decisions to the public (Paul and Shah, 1997).

bulletins of their trade associations. Tax illiteracy make illiterate firms vulnerable to the predatory activity of ST officials in response to which they may participate in corrupt practices or turn to tax consultants for 'independent advice'. The complexity of ST law, the lack of information and the inaccessibility of ST officials for advice and clarification has created a culture where evasive behaviour and the corruption associated with it is felt to be justified on the part of taxpayers. So Paul and Shah's conclusion is corroborated by our research.

Tax culture is thus dominated by a mentality and by practices of evasion and avoidance. Tax mentality is constituted and legitimised through the social approval of non-compliant behaviour, knowledge of the politicisation of the tax bands and the demonisation of the Commercial Taxes department. Tax morality, unwillingness to pay on the part of taxpayers and unwillingness to collect on the part of tax officials [297], condones primitive forms of accumulation and the units of accountability which it benefits. It privileges the interests of the family firm and of close kin over those of the public or nation.

Conclusion

Tax avoidance is a universal feature of capitalism; the question for research concerns the modes by which tax is avoided. Avoiding tax does not necessarily result in an anti-tax culture. Tax evasion is also a universal feature of capitalism.However only when it is extensive does it result in an anti tax culture. In Tamil Nadu, while there is no general notion of a tax-paying culture, there certainly is a culture which is anti-tax. It is a system of shared beliefs and interpretations in which – in a nutshell - officials conceive taxpayers as selfish and criminal while taxpayers conceive officials as predatory and corrupt. The state's governance capacity is internally compromised because its employees bring to their construction of tax culture values derived from social structures of caste, class and ethnicity and party-political ideologies. Formal and informal caste reservations within the bureaucracy are both developed by and incorporated into Dravidian party politics. Policy and law which are framed in language neutral to identity are in fact formally derived and implemented through relations heavily embedded in social structures of identity and economic interests.

The state is caught in a contradiction. Not only is it the only body enforcing tax compliance but simultaneously it is complicit in the creation of formal institutions for tax avoidance and evasion. The compromised state has therefore not gained the necessary legitimacy or the capacity to implement its right to tax. Its right to implement fiscal policy is challenged not only by taxpayers but also by state employees themselves, who interpret fiscal policy as reflecting the dynamics and interests of specific local social and political interests and reject it as being neither objective nor in the public interest. The state's ability to implement tax policy is further constrained by taxpayers who use the internal divisions of the state and the private, identity-based allegiances of employees to by-pass their public interest obligations. Both formally and informally it is sabotaged as a structure of accumulation.

This has profound distributional consequences. State rules and informal social regulation together create mechanisms and instruments by means of which business taxpayers may avoid and evade tax. The burden of ST and the capacity to pressure the state is differentiated through commercial and manufacturing capital. Manufacturing capital is the more disproportionately taxed and commercial capital manipulates the formal tax structures

[297] Nerre, 2001

more successfully in its interests. It is not surprising that the largest industrial firms which require disproportionate access to infrastructure that can only be supplied by the state are the most compliant. Local (agro)commercial capital, favoured for low tax rates and pervasively non-compliant, enhances its rates of return as a result. There is unsystematic evidence of the need of this fraction of the capitalist class to substitute defective state infrastructure (which might be better provided had this class been tax-compliant) with private provision. [298]

While corruption is the idiom in which the state is discussed, the much more fundamental problem is tax avoidance and evasion.[299] Primitive accumulation and obligations to caste and kin are privileged over the public interest. And as a direct result, those too poor to pay tax struggle to gain access to public infrastructure and services. [300]

No culture, however, is unamenable to change. Moreover Tamil Nadu's tax culture has normative implications. Contrary to expert discourse, tax reform is not implemented in a social and political vacuum; and state capacity is not the product of formal rules and institutions alone. Joel Migdal, in *Strong Societies and Weak States*, identifies four activities that indicate state capacity: those that 1) penetrate society; 2) regulate social relationships, 3) extract resources and 4) appropriate and use them in determined ways.[301] Applying this to Tamil Nadu we can say that first, the state's capacity to penetrate society is fundamentally uneven. While Tamil Nadu's state institutions reach into slums and villages (electricity) and inside households (noon meals for school children), society, with the exception of the largest firms, resists sales tax. Second, what Harriss-White has termed a 'shadow state' of informal fixers, tribute takers and distributors co-exists with the formal tax structure.[302] So tax relationships are not only the products of rules and voluntary compliance, they are regulated through coercion mediated by relationships of class, caste and faction, which are important components of the structure of accumulation mostly not regulated by the state. Third, Tamil Nadu's tax culture seriously constrains its capacity to extract resources. Fourth, the state's capacity to appropriate and use resources faces many obstacles, one of which is the mass of taxpayers' alienated belief that they do not depend on or need the state. So if tax reform were to politicise its sequencing in response to tax culture and state capacity, it could do worse than prioritise public education and information and ignite public debate about its own politicisation, about the reasons, grounded in primitive accumulation, for the culture of non-compliance and about the consequences of this for both society and state.

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[298] Harriss-White, 2003
[299] Roy's research showed that leakages from the state due to corruption were one twentieth those due to tax evasion, 1996.
[300] Guhan, 1997
[301] Migdal, 1988
[302] Harriss-White, 2003, chapter 4.

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Acknowledgements

This paper was first presented at the Workshop on ‘The Artifices of Government: on the appropriation, the use and the formation of states’, Max Planck Institute for Social Anthropology, Halle/Saale, Germany, 20th-21st July 2006, for the discussion at which the authors are grateful. The authors wish to thank the tax officials, tax consultants, business taxpayers and business association officials who were interviewed by AJ in 2004, together with Sarita Das, IAS, Sheela Rani Chunkath, IAS and the late Indrani Sen IAS for having generously discussed with BH-W their insights - drawn from widely differing circumstances - into the role of identities in the behaviour of bureaucracies; and N. Narayanan IAS, whose support enabled access to the Tamil Nadu Commercial Taxes Department.

Annexes

Table 1: Revenue from Top 20 Commodities in the Year 2002-2003

(Rupees in crore)

SI. No	Name of the Commodity	Revenue
1	701. IMFL – VI Schedule	1695.16
2	316. High Speed Diesel Oil	1389.90
3	319. Petrol	707.38
4	281. Cement and Substitutes	298.37
5	252. Motor Cars, MV Chassis, Trailers	229.36
6	296. Mineral Oil of all kinds	228.40
7	273. Foods – Branded	151.56
8	210. Fuel Gas	144.55
9	244. Machineries (Power Operated)	135.82
10	176. Medicines, Medical Appliances	134.49
11	294. Sugarcane	125.14
12	186. Motor Cycle etc.	124.01
13	404. Iron and Steel	117.38
14	275. Soaps	117.05
15	295. Lubricating Oils and Greases	88.03
16	146. Television sets & Cameras	82.85
17	321. Aviation Turbine Fuel	79.99
18	403. Cotton Yarn	76.90
19	288. Paints, Distempers, Varnishes	74.88
20	253. Motor Vehicle Tyre Tubes	74.18

(Source – Survey of State Taxes, 2003)

Figure 1: The transformation of sales tax policy in the political-economy of Tamil Nadu

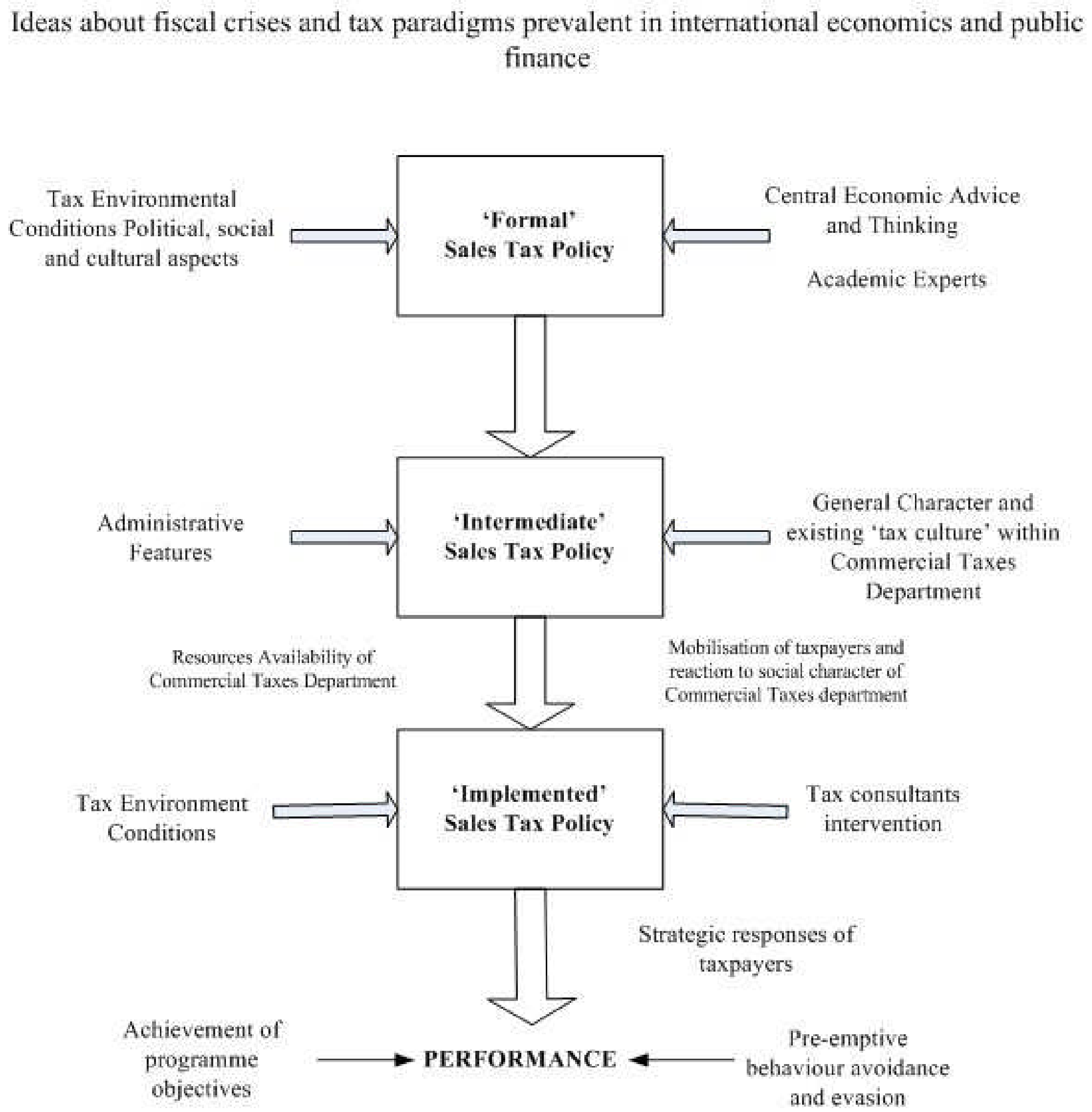

Table 2: Number of Registered Dealers and Assessees

Year	Registered Dealers		Assessees		Proportion that pay tax (%)
	Number	Change (%)	Number	Change (%)	
1991-92	303,463		133,804		44.09
1992-93	313,726	3.4	136,089	1.7	43.38
1993-94	316,326	0.8	136,924	0.6	43.29
1994-95	327,726	3.6	134,831	-1.5	41.14
1995-96	325,138	-0.8	132,343	-1.8	40.70
1996-97	336,533	3.5	128,278	-3.1	38.12
1997-98	353,073	4.9	126,168	-1.6	35.73
1998-99	346,544	-1.8	107,857	-14.5	31.12
1999-00	355,458	2.6	109,677	1.7	30.86
2000-01	361,093	1.6	106,242	-3.1	29.42

Source: Reforms and Revenue Augmentation Commission Report – Raja J Chellaiah (2003)

Table 3: TNGST: Turnover slab wise Assessees and tax revenue

Turnover Slab (in Rupees)	No. of Assessees	Percentage	Tax Revenue (in crore Rupees)	Percentage
0 – 3 lakh	22003	19.28	17.12	0.20
3 – 4 lakh	11718	1.27	15.75	0.19
4 – 5 lakh	9515	8.34	22.08	0.26
5 – 10 lakh	15116	13.25	60.64	0.71
10 – 25 lakh	18709	16.40	130.55	1.53
25 – 50 lakh	13566	11.89	187.72	2.21
50 – 75 lakh	7398	6.48	238.10	2.80
75 – 100 lakh	5051	4.43	260.30	3.06
1 – 10 crore	8911	7.81	738.84	8.69
10 – 50	1670	1.46	1005.08	11.81

crore				
50 – 100 crore	326	0.29	926.28	10.89
100 crore and above	116	0.10	4896.15	57.55
TDS collection	-	-	8.28	0.10
State total	114099	100.00	8506.89	100

Source: Commercial Taxes Department At A Glance, Government of Tamil Nadu, 2002-03.

Summary of the third schedule of the Tamil Nadu General Sales Tax Act (1959) : goods exempted from tax by section 8.

Part A:

Country sugar (other than Khandsari sugar) ; Unmanufactured tobacco, country cigars, cigarettes, chewing tobacco, snuff; small scale production of woven silk; woven wool; woven cotton; woven synthetic yarn; lace and embroidery; canvas and tyre cord; flock and pile fabrics.

Part B :

Agricultural implements operated by human or animal power and spare parts; equirpement for disabled people; domestic aluminium vessels; animal and fish food; prepared snacks; salt, herbs, spices and marsala powder; coconut products; green manure and organic waste; bangles of non-precious metals and unbranded cosmetics; Black sugarcane for retail consumption; blood and blood plasma; unbranded butter; candles; cereals and cereal products, including millets and tapioca; handspun and handloom textiles; condoms and contraceptives; cycle rickshaws and bullock carts; electrical energy, firewood and charcoal; fish nets and hooks; cheap footwear; non-branded and processed meat poultry, fish, seafood; dry fish and eggs; milk and curd; vegetables; frozen semen straws; blacksmiths' products; water handpumps; handmade-matches; hurricane lights; kerosene stoves and lamps; silk products; life-saving drugs as listed by government; livestock other than race-horses; medicinal herbs and country drugs as specified by the government; flowers, plants and all green leaves including unprocessed tea and betel; panjamirdham; paper bags and envelopes; pottery; products of palm, coconut and date trees including baskets, mats, brushes, fans, thatch; brooms; rope; products of paddy husk; rubber balls and balloons; saree borders; seashells and products; educational equipment (slates, charts and maps, textbooks, pencils, erasers, sharpeners, pens and ballpoints, ink, nibs, blackboards and dusters, dissection boxes); energy saving stoves; solar equipment and landfill energy conversion devices; steam; vibuthy; unbranded water.

Plus declared goods taxable at the point of last purchase if such goods are sold in the course of inter-State trade and tax paid under the Central Sale Tax Act of 1956.

Source: *Survey of State Taxes, 2003-4*

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18. EXTERNAL FINANCE, INTERNAL SOCIAL STRUCTURES OF ACCUMULATION AND THE STATE: THE HEGEMONIC ALLIANCE, *K Ravi Raman*[303]

Scholarship on SSA formally began with the seminal work of Gordon (1980) and was followed by a large number of contributions by Gordon, Edwards and Reich (1982), Bowels, Gordon and Weisskopf (1986), Kotz (1987), Bowels, Gordon and Weisskopf (1989), culminating in the work of Kotz, McDonough and Reich (1994). SSA was defined situated and analyzed, with a focus largely centred on the United States of America. It was defined as the complex interaction of institutions and structures of accumulation which is inevitable to the development of capitalism. The theory sought to explain, largely within the Marxist premise, the long waves that have characterized the distinct stages of capitalism; a period of rapid and stable economic expansion - over a space of fifty to sixty years - which necessitated the birth of an effective SSA. In other words, capitalism would expect a body of institutions - political, economic, social and cultural - that facilitates investment, and these are the institutions that come to be grouped under the SSA. They include both the domestic and the international, the two sets acting closely in tandem.

SSA theorists in general share the view that the stability of the institutional structure encourages capitalist investment and economic growth. With its inherent tendency to contradiction, it is either growth that assures an establishment of pre-existing institutions or, conversely, it is the institutions that bring themselves to bear upon barriers to further growth, thus necessitating the reconstruction of a fresh SSA to function as a springboard into the next cycle of renewed stability and growth (see Gordon, Edwards, and Reich 1982:34). SSA theorists also emphasise the way in which institutional structures have been consolidated in such a manner as to enhance the political economic power of the capitalist class while being detrimental to labor at the other end of the spectrum (see Bowels, Gordon and Weisskopf 1990: 167).

Another series of contributions manifested slightly later, in the truly neoliberal and intensive phase of globalization with new contributors such as Lippit (1997), Reich (1997), Diebolt (2002) and Wolfson (2003), critiquing and advancing the notion of SSA. While admitting that SSA 'provides a new way of analyzing the structure and development of capitalist economies and societies', Diebolt offers the hypothesis that if at all a reconstruction of a new SSA began, its constituents would not be in evidence as yet and its complete construction would require reforms in trade, foreign investment, national budget, tax system and education. Wolfson (2003), maintains the view that the formulations of SSA thus far articulated are inadequate with regard to the current neoliberal regime, and argues that since the basic institutional structure has not changed significantly since the early 1990s, the economy is certainly not poised to enter into a new SSA. Further, he also finds sense in comparing Polanyi's regulated and free market economies to the post-war and neoliberal institutional structures, and advances the hypothesis that the free market agenda of liberalization and deregulation has been so aggressively promoted in the rest of the world that it would in all likelihood elicit its own counter-movements.

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Following upon these various attempts at theorisation, there has been a welcome merging of the streams of thought, the initiative for it being taken by the original contributors themselves in Galway (see Kotz, McDonough and Reich in this volume); they elucidated their earlier positions and explored further the new processes in the larger world economy with a few modified theoretical insights. Further, the Galway conference also for the first time incorporated the empirical examinations of development experiences of countries outside the West, particularly studies on India in Asia and Brazil in Latin America (see (see Barbara Harriss-White, Wendy Olsen and Hindenburgo-Francisco in this volume) Yet, the SSA literature generated thus far appear to have some limitations. Firstly, while the importance of growth and crisis in the varying stages of the development of world capitalism continue to be re-emphasised, the SSA theorists appear to persistently overlook the content and nature of growth, as also the regimes in which the growth takes place as related to the constituents of growth itself. Secondly, SSA theorists, with the exception of what I would say, the Galway *Turn*, hardly ever address the specific situation in the less-developed countries, the majority of work until now being confined to the West, with a predominant emphasis on the reconstruction of a new SSA in the United States. Thirdly, the SSA theorists largely undermine the overarching implications of financial capitalism on less developed countries, and the way in which the ideology of external finance impinges on local economies and the social structures of accumulation therein, even to the extent of dismantling the post-war/postcolonial welfare states. The justification for the present paper emanates from some of these inadequacies and shortcomings of the literature on SSA as cited above, which necessitate a possible second wave of literature, with special emphasis on the third world as conditioned and defined by the world capitalism driven by the West.

The Ideology of External Finance

World-wide, the operations of the multilateral financial institutions - the World Bank, the IMF, the African Development Bank etc - undermine national and local planning processes as well as genuine sustainable development. The penetration of such external finance with their associated multiple conditionalities also undercut domestic democratic processes, all in the name of economic growth and `crises' management. The operations of one such multilateral financial institution - the Manila-based Asian Development Bank (hereafter ADB) - seem to target India in south Asia which attracts on account of its large size and the fact that a neo-liberal government currently sits in power. The government of India, on its part, pays homage to the notion of neoliberal governance, and pressures the constituent nation-states to opt for Structural Adjustment Loans. Many of the Indian states such as West Bengal, Gujarat, Orissa and Kerala, have already been coerced into participating in such a neoliberal financial regime, and have accepted loans laced with conditionalities from the ADB. Financial sector reforms and public sector restructuring often form the core of the ADB policy package (see Ravi Raman 2003; 2005). I situate this paper in the context of the federal government of India driving the various subnational states to borrow wild from international institutions, and I would explore the adverse implications of the policy loan and the way in which it is related to the social structures of accumulation. The present paper, however, has restricted itself to a single Indian state, Kerala, which is known not for its minimal state which the neoliberal agenda aims for, but for its wide net of welfare measures which have ultimately earned for it the title of `model state'.[304]

[304] For a discussion on the Kerala model of development - universal literacy, high expectancy of life at birth, low maternal and child mortality etc - and public action, see Dreze and Sen, 1995); Parayil (2000).

As in the other Indian states, in Kerala too, the neoliberal solution - broadly, privatization and deregulation - was projected as a panacea for the said `crisis' in finance and development; this was in conjunction with external borrowing. It is a classic case wherein neoliberal ideology has shown the resourcefulness to cultivate an artificial `fiscal crisis' in the domestic economy, and then to interfere with its own discourse and agenda of development, an agenda that is contingent upon its class-bias and larger orientation towards a market economy and openness in trade. I take a position that it is the unholy alliance among the local state, the federal government, international financial capitalism and the domestic SSA that has generated a discourse which legitimizes the necessity for a policy loan option, and it is specifically due to the class character of the SSA and the state, as also the multilateral financial institutions, that makes such a position tenable, powerful and far reaching in its consequences. This implies that there is a transnational class alliance, in which the state and the local SSA act as junior partners, which could be called the hegemonic SSA, which, fails to address domestic concerns and priorities but is exclusively interested in accumulation in its own class interests. I shall also try to sketch an outline of what I would call a non-hegemonic SSA, with priority accorded to the politics rather than economics of development, as opposed to the SSA theorists, and to place the same in the contemporary context of globalization.

First of all, I would like to trace the method by which the structure-authorities (the state, the ADB, the federal government, for instance) invoke potential recipient nation states, the necessity for external finance and legitimize the unchecked borrowing from external agencies. As per the assertions made by the ADB, the two problems that pose a challenge to growth in Kerala are the breakdown of the finances of the state and low economic growth. Such a portrayal of the state economy can only be termed both partial and incomplete, the obvious agenda behind it being the institutionalization of neo-liberal reforms in the interests of world capitalism.

That the financial status of the various states in India, including Kerala, have been badly eroded since the mid 1980s is a fact that can hardly be countered. All fiscal indicators with respect to Kerala - the fiscal deficit, revenue deficit and the primary deficit - have shown an increasing trend as a percentage of the State Domestic Product from the mid-nineties. The primary deficit as a percentage of total fiscal deficit has also shown a hike during this period. The states have themselves contributed to this, but the critical reasons were nothing but the neoliberal policies adopted by the federal government including a drastic reduction in its allocation of resources to the states and the signing of regional trade agreements that have endangered the fiscal health of the state.

Interestingly, evidence suggests that the state-level growth rate has exceeded the all-India average since the late 80s. This was despite the aberrations created in the cash crop sectors owing to trade agreements such as the WTO and the Indo-Sri Lanka free trade pact, the declining trend in the devolution of revenues to the state, and the successful implementation of the statutes of the revised pay commission. The economic necessity for an externally-driven financial and policy agenda as embodied in the ADB statutes thus seems hardly justifiable. On the other hand, what should cause us worry is the appallingly low rate of resource mobilization - a question of class bias, to which I shall soon return- even after the economy gathered momentum in the 90s and since the beginning of the 21st century which, in fact, legitimizes the discourse for a hefty borrowing from international agencies. This shows that though there has been an expansionary growth phase in the Kerala economy - a major ‘turn around’ - from the mid1980s (see *Kerala Human Development Report 2005*), it was characterized not by an equitable distribution but an increased consolidation of capitalist power which served to strengthen the accumulating classes on the one hand and to fuel the international discourse on the need for further growth, which in the absence of internal finance, was to be achieved through international finance. This is what is being reflected in the demand for the ADB loan by the state which has been historically constituted by the social structures of accumulation, save the periods in which social democratic ideas such as land reforms and educational empowerment of the local masses were mooted. The discourse is peculiar in nature in that it generates an artificial argument of an economy in growth crisis calling for investment, which in the 'absence' of the same in the domestic economy, should be mobilized from outside. I would show in this paper how exactly this crisis is being cultivated and nurtured.

What sort of growth has SSA generated in Kerala/India? Political economists have sufficient evidence to suggest that it is a jobless growth that the economy was capable of generating which implies that the existing SSA is not quite so social in spirit in the sense that it neither addresses the primary concerns of the society nor does it provide an ameliorative strategy towards solving the problems of the state. Further, while this SSA was growth-inducing, it neither reduces inequality, nor addresses the basic questions of the domestic economy, particularly that of the massive unemployment in the state.

Internal (Social) Structures of Accumulation: A Question of Class Bias

The argument with respect to the absence of resource mobilization from within the state needs to be qualified and questioned. The swelling middle and upper class income brackets in the state signal a vibrant consumer market in the state; yet, commodity taxes have not yet been tapped to their full potential (see Sebastian 2002). A culture of tax evasion is embedded in the society and is being reproduced by the bureaucracy which has always been at the forefront in the arguing and lobbying for external finance. This adds up to huge arrears in tax that the state could have gathered in had it shown the social commitment to raise internal resources. The class bias of the state blinds it to such encrypted sources of funds which in Kerala help foster social structures of accumulation constituted by groups of large business traders, owners of luxury hotels, big planters, gold merchants, liquor barons, forest contractors, private bankers and so on. They form multiple nodes in the power-chain which ultimately winds its way to the state apparatus. As the state is inherently biased in favor of such power relations, huge amounts of accumulated funds remain frozen, their flow to the state exchequer arrested, leading to what could be called a state-'patronized' liquidity crisis.

When the state goes for external finance instead of mobilizing resources internally, the implications are many, including the dismantling of the model state it has been sustaining, an issue to be discussed on its own merit as a separate theme which is beyond the scope of this paper. As the state has to set aside much more than one third of its own revenue for debt servicing, the already shrinking social expenditure would become the first major casualty. If the Kerala government were to adhere to the ADB prescription, it would ultimately lead to a social de-investment/de-spending, the consequences of which would tell particularly upon the minority social sections and workers of the society.

Post-Washington Consensus?

Despite the fact that the acceptance of the ADB loan is bound to have far-reaching consequences, the state tows the ADB line that it was bad governance that bred the fiscal chaos, poor public delivery and rural/urban poverty in the state. The solution then lies in the modified *Washington Consensus* that the right policies - modernisation of governance in such a way that there would be cuts in social security measures including pension and retirement benefits, privatisation of strategic state enterprises and so on - would act as catalysts for economic growth and fiscal sustainability, which in turn would ameliorate poverty. And in order to channel policies according to plan, aid must be accompanied by multiple conditionalities as per the lines of multilateral financial institutions. And it is for this that good governance becomes mandatory, for the ADB in Kerala. Of late, it appears as if the trajectory of aid and policy loan have taken a different turn with the Washington consensus having given way to a “post-Washington consensus”, rejecting “the analytical agenda of state vs. market and instead the two becoming complementary to each other” (see Harriss, 2002:78) This has been largely realised through an emphasis on governance which often pronounces market orientation and trade openness as crucial criteria. This must also have been made possible as the necessary outcome of the “everyday life of global finance (See Langley, 2003). In its strict sense, Marxist political economy helps us to understand that it is only through the state that the capitalist class, or the accumulating classes, can act as such, and hence an enquiry into the class character of the state itself becomes relevant. The irony is that even the Left forces in Kerala were unable to articulate a counter ideology befitting the ADB ethos; infact, it was the ruling left government that was responsible for inviting the ADB to Kerala. More over, by redefining one of the "core functions" of the state as policing, and by disciplining labor through a variety of labor regimes, the class colour of this new governance is gradually surfacing.

As part of the new era of ADB governance, the state was prodded into instituting a massive hike in power tariff, which was to earn for it the first tranche of the ADB loan. The agenda for the power sector reforms does not confine itself to tariff hikes alone, it further encapsulates unbundling and corporatisation - the setting up of separate companies for the generation, transmission and distribution of electricity and the formation of an autonomous Tariff Regulatory Commission - all intended to privatise the public sector giant. This is at a time when de-regulation in the power sector in most of the countries has presented a dismal picture with price gouging and hoarding being the norm. As things stand now, the public sector restructuring envisaged would only aggravate the problems of the working class and those in the lower and middle-income groups. **I**n contrast to this worsening situation of the ordinary workers and their less-privileged brethren, there are other social classes that stand to gain form this process. The fact that the ADB loan also aims at large-scale infrastructure projects in addition to its injunction that all procurement - engineering technologies for civil works, software and hardware, goods and related services - shall be through “normal commercial practices”, means that the ADB contracts would be awarded through internationally advertised competitive bidding. This would obviously benefit not the recipient countries but the donor countries and the world's biggest corporate capital. Similar is the case with Technical Assistance - the beneficiaries would again be a handful of donor countries particularly the U.S., UK, Canada and Australia. Concomitantly, a new genre of comprador bureaucrats and consultants have been let loose in recipient countries/states like Kerala. As the class constituents of the emerging state apparatus would in no way be different from the existing one, the hegemonic social structures of accumulation in the state would be the other major stake-holders who in turn attempt to congregate in a trans-border accumulating alliance.

It is not the magnitude of the growth, but rather its content and nature, and hence the regime within which it occurs, that is crucial to poverty and unemployment.[305] The nineties have witnessed an acceleration of growth rate throughout India. And yet at the end of the decade, three-fourths of the rural population remains poor, with a calorie intake of less than 2400 per person per day. In the early 1970s the corresponding figure was 56.4 percent. If growth acceleration has left rural poverty untouched at best, then more of the same would hardly make any difference to poverty. On the contrary, it would only accentuate inequalities even further. The magnitude of poverty is linked essentially to unemployment. If growth remains "jobless" which has been so in both Kerala and in India as a whole, then no amount of acceleration in it would ever reduce poverty. The question of unemployment, poverty and inequality is particularly important with respect to Kerala as it has been portrayed as a model state in its progress in human development. In Kerala, the enhanced growth appears to strengthen further the power of accumulating classes rather than the labor and the other minority social groups.

The fact that Kerala displays the highest consumption ratio does not mean that there is no underconsumption with respect to the marginalized classes. As there is no transfer of income from the accumulating classes to marginalized social sections, they continue to suffer from underconsumption, in stark contrast to capital. As SSA theorists have rightly pointed out neoliberalism is a new institutional structure that represents the dominance of capital over labour, and in states like Kerala, it is being guided externally, through financial institutions like the ADB. It appears that both the State and the SSA in the state adopted a strategy of further growth through international finance, which, is at the same time is expected to provide enclave growth and to legitimize the non-mobilization of internal resources which would have curtailed the interests of the SSA. As Wolfson sees it (2003) , the state has been used in the neoliberal era to enforce relevant power relations, and in the context of Kerala, we find that it not only enforces pre-existing power relations but also creates new patterns of power and privilege contingent upon pre-existing ones. A free market era means that the state creates institutional structures to implement the dominance of accumulating classes over labouring poor. If the progressive agenda should be a regulated institutional structure as part of labor's reaction to redress free markets inequality and social dislocation, then obviously, all social classes other than the hegemonic SSA must come together to resist any further accumulation without redistribution. Indeed, a redistributive democracy is what is called for, and an SSA conducive to it would be a non-hegemonic one: one which not only generates accumulation but also grows in such a way as to address the basic concerns of the local society such as unemployment, poverty and inequality.

The economic consequences apart, perhaps, the overriding concern among socially conscious scholars appears to be regarding the far-reaching effects of the policy conditionalities which form a corollary to the shift from "project lending" to "programme lending"- an eventuality that ties in well with the Structural Adjustment Programme of the World Bank. The state on many counts forfeit its right to make even the most basic of financial decisions , having first to win the approval of the ADB. The situation would be much the same regarding other matters relating to public enterprises. As part of the structural adjustment programme. the state is expected to ensure a minimum annual "net attrition rate of one per cent", approval and extension of Voluntary Retirement Scheme and Employee Separation Scheme to all categories of workers, and implementation of the recommendations of the Enterprise Reforms Committee such that "alternative systems of management including privatisation, disinvestment, merger, management contracts and leasing" could be proceeded

[305] Some of these concerns are recently raised by Patnaik (2006).

with. Another major area of concern is the complete turnaround that is likely to occur in the running of public utilities which would have to follow market principles with cost recovery being of prime importance.

The alternative to neoliberal financial regime that brings such an undesirable package of reforms in its wake is a fiscal policy based on the growth ethics and a radical redistribution (see Deibolt 2002). It is important to recognize that the SSA theorists lay stress on the sustainability that ought to be intrinsic to economic growth and the belief that the growth ethics is something no economy could afford to lose sight of.

This calls for a democratic alternative that would be politically correct. To what extent an alternative economic democracy would be possible remains a subject of continuing political discourse. This stems from the necessity of developing a democratization of every day life which is conditioned and influenced by the domestic as well as international environment. But the SSA theorists should realize that alternative SSA in the West or in the advanced south Asian countries like Japan and China should think of its implications on the less developed countries like India, particularly in their construction of liberalization of trade and investment in the form of policy loans. While the SSA theorists argue that a lot of wastage could have been avoided through a strategy of worker participation with profit-sharing, what one notices in post-ADB Kerala is a strengthening of the power of capital over labour.

Failed Counter-Movements? Towards a Non-Hegemonic SSA?

As SSA theorists often stress, Polanyi's conception of double movement provides part of the solution. Kerala, with its relatively long history of radical politics was capable of generating an ADB-Quit Kerala movement. But it could not be sustained as the mainstream left was largely averse to it. It must be noted that in Kerala, the state's agreement with the ADB has been challenged broadly at two levels: as a morally-illegal/hazardous and a socially undemocratic/uneconomic move. And the challenge or the inevitable double movement comes not from self-proclaimed social scientists who grace the academic world, but from trade unions, socially concerned scholars, activists, students, adivasis, women's groups and environmentalists who have risen in protest against the ADB loan. Why should a resource-rich state look for a foreign loan, that too with multiple conditionalities? What moral right does the government have to mortgage future generations of the people of Kerala? How does the state propose to meet its debt servicing obligations in future? In a country that proclaims democracy at every step, how democratic has been the acceptance of the ADB loan - neither a public mandate nor a discussion in the legislature has preceded it?

With the vast natural wealth and skilled human resources at hand, it could easily chalk out a strategy of what I would prefer to call 'internally driven globalisation' in the state through non-hegemonic social structures of accumulation. The developmental ideology of the progressive forces in Kerala should read thus: privilege internal finance over external funds; treat market as a cultural arm with first loyalty to the domestic market and only then to the foreign market; assure food security to the people of the state; protect redistribution of resources such as land to provide permanent livelihood to the historically disadvantaged communities; improve social quality of life by bringing down social conflicts largely emanating from inequality and communal/sectarian interests. The division between conservatives and reformists is either non-existent or naïve. It would appear that a strategic (re)linking through a re-articulation of domestic questions and concerns is possible in such a way as to put Kerala, with its abundance of human and natural resources, on a more sure footing. In a state like Kerala with nearly one-fourth of its income coming from overseas remittances a predominance of export-oriented plantation economy and the associated world market relations, and a swelling middle class and the associated culture of consumption, a more viable political option would be that of strategic linking, inspiring and being inspired by many of the upcoming new economies as in Latin America.

The newly constituted state should see that the ideology privileging internal finance over external finance is not only democratically viable but also politically correct. The state should first of all, mobilize resources from within, as the opportunities for the same are aplenty With its economic performance being primarily driven by the services sector, Kerala could bargain with the Centre for the right to levy taxes on more and more services. The state should also have found ways to attract a significant portion of foreign exchange from its Gulf migrants had it politically negotiated with the Centre and offered an interest rate nearly as much as it is bound to give to the Central Government. The domestic savings of the state - including the foreign exchange remittances - in the scheduled banks works out millions of rupees. While the Asian tigers are praised for their consistent growth and development, neither the federal government nor the state seriously look into the historical roots of such countries, particularly in terms of mobilization of resources from overseas diaspora. But the ADB (and World Bank) has again outmaneuvered the Centre having gained permission to raise millions of rupees from the Indian debt market. It is no small wonder that the U.S-based Enron, known worldwide for its corporate irresponsibility, managed to mobilize its resources from within India. The states within federal India, paradoxically, approach these very institutions for their consultancy or for finance. These institutions in turn raise funds from the people of Kerala, finance their programmes and projects, and reap the benefits, sharing the bulk of it with the social structures, internal and international, thus nourishing and sustaining world capitalism. Neo-liberal thought steers the citizenry towards an ostensibly greater future wherein external agencies and other “buffering” mediators would in truth lead them into a state of semi-sovereignty, a situation which should be politically countered through the reconstruction of non-hegemonic social structures of accumulation.

Acknowledgement: I am grateful to Terrence J.McDonough, David M.Kotz, Victor Lippit and Barbara Harriss-White for their comments at the SSA conference, Galway, 2-4 November 2006.

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18. MORAL POLITICAL ECONOMY AND POVERTY IN RURAL INDIA: FOUR THEORETICAL SCHOOLS COMPARED, *Wendy Olsen*[306]

Abstract:

This paper explores a pluralist approach to moral economy. Four major schools of thought on the rental of land in India are described, focusing on their normative and ontic assumptions and content. None of the schools appears to be value-neutral, and six complex moral reasoning strategies emerge from this review. The advantage of the social researcher doing an overview of normative positions is that we can compare and contrast the meta-criteria that are used. The six moral reasoning strategies include a neoliberal strategy, a human capabilities approach, a compression of income approach, a social equality approach, and a Pareto-optimality approach. The study of these strategies leads toward the conclusion that more research on complex moral reasoning strategies is called for, and works against the fact-value separation argument.

Introduction

In this paper I conduct a review of research about land rental institutions whilst aiming at exploring new ways of conducting moral political economy research. Specific new departures in the paper include examples of commensurability and bridging; a survey of arguments against the fact-value dichotomy; and an explicit review of the moral reasoning used in four major schools of thought in development economics. There is no direct correspondence of reasoning strategies to the four 'schools'. The approach used here derives insight from Sayer's (2005) appeal to conduct moral economy studies using empirical data. My approach is rooted in classic works of moral economy such as MacIntyre (1985), Sayer (2000b), Agarwal (1994), Nelson (1995) and others, but the paper is focused narrowly on certain lively debates about land-rental in India.

Selected research on the rental of land is described in section 2. I have focused on four main schools of thought: neoclassical economics; marxist political economy; feminist research; and new institutionalist economics. My review of this literature arose in the context of a ESRC funded study of poverty in India (Global Poverty Research Group; see Olsen and Mehta, 2006a and 2006b). Each of the schools treats poverty differently because they theorise society differently. The relationship between poverty and sharecropping is dealt with most explicitly in the marxist theoretical school, i.e. Marxist political economy, which has borne much fruit in India-based empirical research on sharecropping. This paper compares that treatment with the normative orientations of the other three schools. In doing so, the neoliberal approach used by neoclassical and new institutionalist scholars is shown to involve two main moral reasoning strategies –a neoliberal strategy and the Pareto-optimality strategy. Both are interesting and merit further attention, but most importantly they also illustrate the non-value-neutrality of the claims made by these schools. For this reason, section 3 of the paper reviews arguments against the fact-value dichotomy.

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A moral economy framework helps to clarify debates such as the Marxist vs. neoclassical debate, and certain Marxist vs. feminist debates. My analysis looks at how different researchers utilise their empirical knowledge to frame and shape their normative questions. Some use economic progress as instrumental to human development, while others (e.g. neoliberals) would tend to use human/social development and social capital as a means to economic development. However both these strategies are useful, and neither set of authors sees economic nor social change as a zero-sum game. In section 4 I show that the neoliberal moral reasoning strategy depends crucially upon particular open-systems assumptions for its trickle-down argument. Since realists have, so far, tended to characterise neoclassical economics as a closed-system set of arguments (Lawson, 1997), this is rather surprising and has interesting implications.

In this paper the schools of thought are separate theoretical frameworks. The advantage of the social researcher doing an overview of normative positions is that we can compare meta-criteria for progress from the neoclassical, new institutionalist, Marxist and feminist schools. (Other schools, such as interpretivism and old institutionalism, can offer further innovations not treated here.) In this paper I draw out moral reasoning strategies which differ from theoretical frameworks. A moral reasoning strategy is a way of arriving at value judgements based on a particular style of reasoning. Examples are given to illustrate. Explicit treatment of the normative reasoning in the study of sharecropping helps us to engage with sets of specific policy proposals. Agarwal (2003), for example, crosses boundaries between Marxism and feminism, and builds bridges with neoliberals when she integrates a series of carefully constructed normative positions with her empirical data.

Like Nussbaum (2000), I would suggest that a good moral reasoning strategy is really (intrinsically) good. After describing six from the many moral reasoning strategies that are found in development economics, I suggest that readers may want to combine two or three of these in their research. However there are drawbacks to some of them, so I point out areas of difficulty or contradiction.

To use a moral reasoning strategy one needs to be well informed about structures, changes, and differentiated agents within its remit. One also needs to consider well-being and harm at different levels of society (e.g. people as well as households). The author of a moral reasoning strategy is likely to place themselves inside the macro scene (and thus to be reflexive). Recognising that moral reasoning strategies are complex helps me to draw upon the four schools of thought presented in section 2 whilst being critical of some ontological errors of the neoclassical school. Both epistemological and normative strengths can be discerned in the resulting pluralist approach.

Four Major Schools of Thought Within Indian Political Economy

Dow (2004) argues that a school of thought may overlap in practice and in discourse with others, whilst having some incommensurate conceptual elements. Schools of thought are distinguished not only by their ontological assumptions but also by their traditional or usual normative strategies. I have reviewed four economic schools from a realist viewpoint (Olsen, 2006) but in that work I omitted the complexities of feminist economics. The pluralism advocated there is similar to Dow's (2004) proposed pluralism of theory. In the present paper, feminist economics plays an important role.

The four schools will be described with reference mainly to what they have said about rural tenancy in India. This particular literature covers sharecropping as well as cash rentals. Cash rentals have been growing in India but share-cropping is still common. In 1999, about 8% of the land was share-cropped (Sharma, 2000; Shankar, 1999) and 15% of rural adults were using rented-in land (own calculations; NSS 50th round, 1994, raw data, weighted to national level).

Neoclassical economists (NCE) have written about sharecropping for decades. Tenancy transactions are seen by this school as optimal choices which avoid the use of standard labour-market contracts, e.g. Bardhan (1985); Skoufias (1995); Stiglitz (1974). The idea of an optimising decisionmaker on each farm – the landlord and the tenant – is central to the way neoclassical economists write about tenancy. Stiglitz showed that the landlord's attitude to risk might affect their willingness to rent land, and the share or rent they expected to get. Stiglitz's 1974 article followed a tradition in economics in which all farming rental contracts are explained in terms of landlords' attempts to better utilise their land resources whilst also leading toward the new institutionalist economics which arose in the 1980s.

Skoufias (1995) works in a primarily neoclassical mode, estimating what labour inputs tenants are likely to put into their land. Tenancy is seen in Skoufias' multi-market model as a way to optimally use one's bullock power, irrigation water, and family labour. Ellis (1993) reviews the neoclassical models of labour allocation and of tenancy.

Recent developments since 1985 in neoclassical models treat the family more carefully than did the original 1960s and 1970s work. These developments, known as the 'new home economics', are firmly neoclassical with reference to the market, but they un-bundle the household into a set of individuals, who each optimally decide how to allocate their labour. Leisure time therefore has a differentiated opportunity cost. Tenancy had better pay the tenant – as individual (?) -- well enough to be a rational decision.

Both the neoclassical analysis and the new home economics thus have an orientation to the market as the guide to the costs of time and goods; they assume maximising decision makers; they assume all parties to a contract make optimal decisions; and they see the landlord as a person who owns land and for whom it is a rational choice to rent some out. Neoclassical economists tend to make formal algebraic models and then, if there is space, test them using empirical household data.

Table 1 highlights neoclassical economists' ontic and normative assumptions alongside three other schools: new institutionalists; marxists; and feminists.

Table 1: Four schools of thought on rural land rentals in India

	Neoclassical Economics	New Institutionalist	Marxist Political Economy	Feminist
Objects of theory (the ontic content)	Individuals, firms, landlords; markets; demand; supply	Workers and landlords as principal and agent; contracts; markets; decisions; information	Social classes, interacting with castes and state government	Various types of agent who reflexively contemplate the actions they take and their effects; men, women, the state, traditions, customs, norms
Ontic assumptions	Individualistic optimising predominates; market demand and supply are known and they create context of free choices	Modelling iconic agents gives worthwhile predictions; utility is mathematizable; situated optimising occurs;	Structures interact with each other; agents in social relations do not simply make free choices; people act according to their class interest	Society has interwoven layers (a depth ontology; Layder, 1998); stereotypes and norms exist; agents are important actors in construing social relations,
Normative assertions	More income is better; Pareto Optimal changes are good; efficient production is good	Non-market production will tend to be less efficient than marketised production	Structures of oppression need to be changed; changing them requires innovative discourses of resistance	Women suffer from both class and gender oppression; in India, caste structures create (bad) pressure on Hindu women by privatising their lives and priorities

Note: For full references to the literature see Olsen (2006).

In neoclassical economics, Pareto optimality became a central principle during the 20th century (Pareto, 1909 in Italian, first published in English in 1971). As a moral principle Pareto optimality conceives that a change would be a social improvement if it made things subjectively better for someone but did not make anyone else feel worse off.

New institutionalist economists (NIE) look at it slightly differently. They model the decisions behind the contract. Most argue that tenancy contracts represent an optimal solution to a game-theoretic problem of simultaneous rational choice of landlords and workers (e.g. Srinivasan, 1989; Genicot, 2002; Majid, 1994). The context is one of risk aversion, uncertainty, and incomplete markets. Much of the ontology of the new theory is the same as in neoclassical economists. However, markets are not assumed to work perfectly, and information enters as an important entity.

Both neoclassical and new institutionalist theories have a focus on monetised values, exchange value, and prices in common.

In the marxist school known as marxist political economy (MPE), tenants are seen as part of the working class. They are assumed to be poor workers. They are 'used' by landlords who try to efficiently extract surplus labour and to realize its value in the crop market (Olsen, 1996). Many marxists thought that landlords were blocking the modernization of agriculture. One explanation of blocked technical progress would be landlords' preference for retaining attached labour using usurious credit (Bhaduri, 1973, 1983b, 1986).

An interesting example linking new institutionalism with Marxism is Majid (1994). Majid reviews the declining role of sharecropping in Sindh, Pakistan using NCE and NIE theory. Landholding structures which underlie the decisions of landlord and tenant are critical influences upon whether and how sharecropping takes place. Majid uses detailed empirical data and makes connections with the marxist interest in the relations of production (the third school, below). However, the underlying class relationships remain merely background (1994, ch. 10). Majid focuses instead on tenancy contracts.

The Marxist Singh (1995) describes uneven development, with different levels of technology and labour productivity found within pockets of a single locale (Singh, 1995). In Punjab, says Singh, the landlords use migrant tenants to drive tractors on the landlord's cultivated land but then expect them to hoe their rented plots manually. Uneven development is best seen in class terms (Brass and van der Linden, 1998; Bhaduri, 1987).

Marxists like these make huge normative assumptions. For instance, they assume that specific structures of class are exploitative and involve oppression of the working class. The structures need to be changed. To change them involves generating discourses of resistance. Otherwise capitalists and landlords will convince workers that they have shared interests. An overview of this approach to moral political economy is given by Sayer (2000), pages 158-171 (ch. 7). Sayer describes traditional Marxism as one form of critical social science with a fairly negative ethic: it is bad for workers to be exploited (Fay, 1987). This moral principle does not open up the much wider, constructive question of what would be good for workers. Sayer suggests that critical social science is an arid soil for moral economy because there is so much more that needs to be addressed besides the false consciousness of workers.

Table 1 (column 3) summarises the assumptions typically made by marxists in the Indian sharecropping literature. Athreya et al. (1990) is a typical example. Athreya's book combined the neoclassical measurement of land productivity farmwise with the marxist study of class dynamics. Thus it overlapped between neoclassical concepts and marxist normative assumptions. By testing the marxist assumptions for empirical validity, Athreya et al. conducted empirically rich and interesting structuralist research. They found, to their surprise, little economic exploitation by landlords via usury.

Feminist writings (the fourth school) draw upon Marxism but also focus intensely upon women, gender relations (which are seen as a social structure), patriarchy and the micro-macro linkages of the world economy. Foremost here is Mies (1982, 1998) whose initial Indian monograph showed female lace workers being exploited through both class and trading relations whilst also doing domestic work that created, for them, a double burden. Mies, (1982), like Kabeer writing much later (1995), broke down the class approach into a focus on differentiated women whose class/gender position was doubly weakened them. An underlying structuralism is typical of feminist 'gender and development' (GAD) writing but allows for transformative influences of agency (Beneria, 1979, 2003).

Mies argued in a later book (1998), that many housewives are being used by the world economy. Mies said that the double burden on women could only continue to perpetuate their subordination if women and men continued to co-participate in it. The normative viewpoint here is to try to change women's cultural and normative expectations. Both Mies and Agarwal have advocated strong feminist demands as a policy platform grounded in empirical work (Agarwal, 1994). Mies particularly wanted Indian women to resist their double exploitation.

Let us focus on the ontic assumptions here. Feminists assume that stereotypes and norms exist, and are gendered. However they see them as malleable, too. Their view of 'preferences' is very different from that of economists (of the NCE and NIE schools): preferences are ever-changing and changeable.

Mies and Kabeer argue that women and men combine as agents in ongoing relations to create the structures that bind them. They can re-create and change the structures. Terrific optimism is combined with graphic description of the kind of exploitation that is actually continuing.

For instance in India, a series of qualitative studies show how Hindu women are still conforming in many ways to Hindu stereotypes. Many rural women believe that their private lives are more important than doing public activity; that their marriage is their main hope in life; and that their children are their main achievement. One author which summed up local voices on the social expectations facing Hindu women put it this way:

'The gender relationship entailed by the division of work according to sex . . . reveal(s) the structural relationship that prevails between the two genders: Masculine Role: [being] owner, boss, leadership . . . manager, he who holds power; . . . Feminine Role: [being] domestic, subjection, servant, servility, vileness, slavery [etc.]' Poitevin and Rairkar, 1993: 159-160, translated from the language of Pune, Maharashtra, India.

Muslims have also been suffering from a patriarchal gender regime within and outside India. Purdah, the practice of requiring women to cover their bodies so as to cover their skin and conceal their form, also refers to male control over women's movement outside the home. Under purdah, women are seen as protecting the family's honour. Purdah is in part a matter of women being self-disciplined in their 'good' behaviour. The Muslim and Hindu traditions of purdah were summarised in depth by Agarwal (1994) across the four South Asian countries India, Bangladesh, Pakistan and Sri Lanka. Purdah is differentiated regionally in its meaning and coverage. Purdah is not restricted to any one or two ethnic groups. Agarwal argued that purdah is being challenged by some women, so that it is continually changing.

Kalpagam (1994), another marxist feminist, has built a conceptual model to enable policy makers to examine change in the gender regime and class relations. Kalpagam's model is a transformational model of social activity (see also Archer, et al., eds., 1998). P. Swaminathan (2002) illustrates a structuralist approach to gender inequality combined with great sensitivity to social change as it affects women's roles.

When feminist writers write about tenancy, they are looking at it sociologically and are focusing on the gender regime involved. Feminists take a strong interest in women's farming work and its remuneration. Tenants' work was described in detail, for instance, by Dacorta and Venkateswarlu (1999). The lack of measurement of the unpaid labour time doesn't change the reality that the work has been done. Dacorta observed that the women of tenanting households in southern Andhra Pradesh also do unpaid domestic work and cow-related work with dung at the landlord's house. I also interviewed women in the same district who did these tasks from a position of utter powerlessness vis-a-vis their landlords in 1995 (e.g. the landlord owned the worker's hut-plot). Marxists and neoclassical economists alike tend to use a household unit of analysis and thus ignore gender difference in the experience of tenancy. Decision-making and money-earning is often attributed to men. Furthermore the idealised household was perceived to be male-headed. Feminists strongly object to such assumptions. My fieldwork has upheld the feminist view that households in rural south India contain cooperating yet also bargaining members (Olsen, 1996), and yet also exist in themselves as emergent entities. Thus my research illustrates ways in which marxism and feminism can have elements in common (Olsen and Mehta, 2006b).

There are also a number of places where the first three of these schools (in Table 1) overlap. For instance, Bhaduri, a leading theorist of the Marxist political economy school, can be found exploring the contractual arrangements in terms similar to those now used in new institutionalist economics.

'Loan arrangements can . . . change in many ways, which have been so simplistically captured in our model in terms of a single parameter representing the own rate of interest. . . [and in a footnote] a new loan arrangement – the so-called managed loan – which has become widely prevalent in place of traditional consumption loans in Haryana. . . '' (Bhaduri, 1983b: 66).

Here Bhaduri blended the formalised procedures of economic orthodoxy with the substantive assumptions and empirical interests of classical Marxism in India. Assets and resources are distributed differently to the classes, and each class acts in its own interest, he says. The landlord class protects its interest, even sometimes at the cost of lower productivity, he said. They may think that lower productivity can be offset by higher usury income combined with the rental income. Therefore, under his assumptions, resistance to new technology might be the result.

Here Bhaduri thinks he has caught the neoclassical economists in a bind: how can rational behaviour in the landlords' interests be economically irrational? Because their 'interests' are sectional, whereas neoclassical economists' notion of rationality usually considers only the aggregated outputs of agriculture. A rise in the capitalist landlords' share is what Bhaduri thinks the landlords work toward, whereas a rise in the total product is what orthodox economists usually assume is desirable. Pareto optimality is the main criterion of net value used by orthodox economists (see Table 1, Row 3).

Orthodox economists rule out exploitation discursively by focusing on aggregate supply and demand for crops and for land. Several new institutionalists have focused on the point that the tenant has chosen to make the contract (e.g. Srinivasan, 1989; Srinivasan and Bell, 1989). In other words, even if the tenant loses out in the short run, they have chosen the contract - so by deduction, there must be some benefits in the contract that they prefer having it over not having a rental contract.

This tautological logic is flawed. But Bhaduri, too, can be accused of a tautology. His prediction in 1983(b) turned out not to match the growth performance of northern Indian agriculture. Landlords and capitalist farmers did pick up new technologies, in spite of their land rental arrangements (Stiglitz, 1986; Bhaduri, 1986). There were two misunderstandings here. Firstly, Bhaduri's model was intended to examine the power landlords have. Its weakness was not being well-grounded in a specific place/time. As a universalistic formal model, it is not clear where it would apply. To whom we would expect to look for real instances of these usury relationships? When Athreya looked for them in Tamil Nadu, his team didn't find much usury. When I looked for them in Andhra Pradesh, I did find usury but it was carefully hidden and kept quiet. I also found that villages just 2 km apart had very different usury situations because of heavy but localised bankers' competition (Olsen, 1996). There are empirical differences in the real power of landlords to control the prices they pay for supplies of crops and to charge high interest. However, Stiglitz bypassed the question of power, arguing that is was not operationalizable.

Secondly, Bhaduri's model meant to focus on class interests. The misunderstanding that occurred was that Bhaduri's contextual factors – feudalism, traditional respect paid to the landlord, and social obligations – were ignored by orthodox economists. By reducing the world to the economic competition of classes, economists simplified the optimisation problem. The general trend, led by Stiglitz (1986), was to show that Bhaduri was factually wrong. This ignored his Marxist agenda of challenging landlords' power. This agenda was progressed by Marxist authors like Ramachandran (1990).

In West Bengal the Communist Party of India (Marxist) was able to implement strong land reforms and increased rights for tenants (Banerjee, et al., 2002; Basu, 1992). In this sense perhaps Bhaduri's model was influential within India until structuralism's ascendancy there ended in about 1991.

Among the Marxists, quite a few carried out detailed fieldwork and offer qualitative analysis, or at least vignettes, as part of the research outputs. Here they tend to overlap with and blend into the feminist authors' work.

For instance, Mencher (1978) working in a strongly structuralist tradition, describes in detail the motives and perceived constraints of a series of individuals who did farming in southern India (1978: 208-210). Here necessity is described from the worker's subjective perspective, and choices are made in a context of unfreedom. 'Ganeshan has 1.5 acres of varam [rented] land to look after. He and his wife work for one to two months in a year for others on a daily basis. They cannot do more because of his varam land. . . . It is clear that his first priority is looking after his varam land. Yet it is necessary for him to hire others to work his land as well. . . Munuswami is a Harijan from Pacciyur. He owns . . . He ploughs . . . His wife also works for others when she is not pregnant.' (Mencher, 1978: 208-209)

Another structuralist, Epstein, writes mainly as a class-oriented structuralist but also takes into account a number of neoclassical economic facets of agriculture such as productivity and marketing (1962; 1973; 1998). Epstein draws strongly normative conclusions in one monograph (1973, last chapter). In her view, growth in India's agricultural output would make it possible for tax to be collected from the big farmers. This tax money could support redistributive expenditure. Thus her empirical work led her to a detailed normative conclusion. However she stayed within the economic (monetised) realm in drawing her normative conclusion.

Another example illustrates the Marxist standpoint. Ramachandran (1990) examines unfree labour as a phenomenon within the rural working class. Some workers agree to permanent contracts and other forms of bondage (he says, with regard to people in Tamil Nadu), even after the end of traditional patron-client relations. He argues that Marx sais the working class, as a class, is unfree vis a vis employers, but the point Ramachandran adds is the persistence of bondage even in the recent experience of capitalist farming in south India.

Ramachandran provides detailed family case histories. He works from his vast primary data toward a conclusive grasp of the reasons why bonded labour is persistent: "Why do workers agree to given an employer a right of first call over their labour power and submit to the kind of servitude that such a relationship entails? There is no legal coercion for them to do so . . . The most important reason is, of course, that workers are compelled by poverty and unemployment to seek different ways of ensuring that they get wage employment whenever it is available and of ensuring subsistence at times when there is no employment to be had." (1990: pp. 253-254; see also p. 181 et passim). I will use Ramachandran and other examples in Table 2 (section 4) to illustrate alternative modes of complex reasoning.

Table 2: Complex Moral Reasoning Strategies

	Neoclassical Economics	**New Institutionalist**	**Marxist Political Economy**	**Feminist**
Reasoning Used:				
Neoliberal open-systems reasoning	**√ Skoufias, 1995. Bliss and Stern, 1982.**	**√ Genicot, 2002; Stiglitz, 1974.**		**√ Agarwal, 2003**
Human capabilities reasoning	**√ Sen, 1979, 1980, 1993; Drèze and Sen, 1996: 1-8, 137-161, 294-300.**	**√ Stiglitz, 2002b.**	**√ Ramachandran, 1996.**	
Compression of income reasoning			**√ Epstein, 1973.**	**√ Agarwal, 2003 (and elsewhere).**
Transformation via praxis reasoning			**√ Bhaduri, 1983a and b, 1986; Ramachandran, 1990.**	
Social equality reasoning				**√ Jackson, 1996, 2002, 2003**
Pareto-optimality reasoning	**√ Skoufias, 1995; Bliss and Stern, 1982.**	**√ Srinivasan, 1989; Srinivasan and Bell, 1989; Agrawal, 1999.**		

Note: A tick mark √ indicates that the reasoning is found either implicitly or explicitly in this literature. The reference given is to one example illustrating the school in the selected case of rural south Indian share-cropping and tenancy.

So far I have reviewed four major schools in the literature (NCE, NIE, Marxists, and feminists) and then provided a few examples illustrating overlap between the schools. I have called these overlaps 'bridges' (Olsen, 2006), building upon the notion of avoiding epistemological chasms that Walby (2001) put forward. Bridges, where academic discourses are made to overlap, increase commensurability. In the tenancy literature partial ontic incommensurability exists, while there are cross-school overlaps of ontic assumptions.

In the next section I pause to clarify that all four schools' authors incorporate normative elements. My argument against the fact/value separation argument is an amalgam of views that are broadly consistent with the moral reasoning typically used by Marxists and feminists in India. In section 4 I then survey the specific moral reasoning strategies that are currently in use by all four schools, before concluding. The paper suggests that since the fact-value separation argument is commonly used in NCE and NIE, but they do actually promote two specific moral reasoning strategies, an inconsistency arises which needs to be resolved.307

Seven Reasons to Challenge the Supposed Separation of Positive and Normative Claims

The fact-value distinction has played some role in every form of positivism including standard positivism, orthodox economics, and most applications of Popperian falsification.308 For me to argue that each school of thought has complex moral reasoning strategies I need to first establish why I would argue that a fact-value separation is impossible for any interesting knowledge claim. Note that the eminent economist A. Sen also argues against the fact-value dichotomy (Sen, 1980; Sen, 1979; Walsh, 2003: 344). Sen's view is that from differently experienced lives, human standpoints tend to differ, and people's contrasting and competing views can be useful and illuminating (Anderson, 2003). A set of situated viewpoints can clash significantly on a variety of fronts (ibid., and Sen, 1993). Sen has argued that in India more free market forces would help in reducing the harm experienced by poor sections of the society (Ch. 1, Sen, 1996). Anderson argues that democracy is required for marginalised views to get voiced. Both authors agree that under conditions of inequality there is a tendency for some viewpoints to be hidden, masked or misconstrued. Here Sen's (1993) approach bridges with feminist and constructivist approaches.

But citing Sen and Anderson only offers circumstantial evidence against the fact-value separation argument. Instead it is important to enumerate seven reasons behind my rejection

[307] The reasoning used by Veblen (1899) and Hodgson (2000) as old institutionalists may actually resolve this incoherency found in new institutionalist writings. I have not yet found an exemplar to illustrate old institutionalism in the Indian rural context, but it is a rich area for future research. The old institutionalists look at the evolution of institutions from both social and historical vantage points, as well as economic ones, and so are vastly different from the New Institutional Economics described here (Hodgson, 2000; 2004). The lack of theory and context that has been noticeable in NIE may be one reason Indian economists have been concerned about gaps in the NIE. NIE is known among development economists as the 'New Development Economics' (Stiglitz, 1986; Mookherjee, 2005; Basu, 2005; Bardhan 2005). Formalist NIE, too, whilst having many advantages is still danger of being ahistorical and weak in its ontology (Chang, 2003; Olsen, JEM 2007*). Specifically a set of mathematical equations leading to a model with equilibria may seriously distort one's knowledge of a real economy in favour of knowledge of a stylised model. The ontological weakness is thus a lack of realism and a tendency to 'empirical realism' (Lawson, 1997).

[308] Walsh (2003: 321-3, 329) notes that economists often widely exhibit logical positivism. Smith (1998, ch. 3) clarifies the role of the fact-value dichotomy in each of these named sub-schools of positivism.

of this argument. Nearly all these reasons are held as a valued part of the ontological stances of the Marxists and feminists cited so far.309 The reasons are:

1. Descriptions of society are thick with interpenetrating meanings. Some of these carry value judgements. Walsh (2003) notes that Putnam has shown that these meanings are not merely conventional but also involve speakers in making ethical judgements (Walsh, 2003).Nelson has boosted the case by arguing that having and knowing about feelings is an important part of what (all) economists actually do (Nelson, 2003; Nussbaum, 2001). The insufficiency of positivist falsification is stressed by Caldwell (1994: 138), while the intrinsic importance of aiming representations (of the economy) at value ends is argued by Mäki (1994: 243) and by Nelson (1995). A description such as 'tenants choose to become bonded to their employers by debt under conditions A, B, and C' (paraphrased from Srinivasan, 1989) has rich normative connotations. Notably this example exhibits a tacit approval of choice as good.

2. Supposedly positive statements reveal an author's beliefs and some of their preferences. Beliefs play a role in knowledge construction but are not the same as knowledge. By revealing a priori beliefs, knowledge claims create an arena for contestation. Caldwell's variant of critical rationalism poses this arena as a constructive field for research (1994: 149-50). Aldridge (1993) has shown that the absence of the author's identity or personal views in scientific writing is a way of masking their personal commitment to the views they are conveying. Development economists usually avoid using 'I' or 'I think', and thus illustrate the masking.

3. The substantiveness of the content of knowledge claims (i.e. their about-ness) does not guarantee that their content is definitive or true; see Mäki, 1994: 241, and Morgan and Olsen, 2006 mimeo.310 Factual claims may or may not be true, and we have no guarantee that each claim is in reality true. The best we achieve is warranted claims (Olsen and Morgan, 2005). Fallibilism is an important epistemological tenet for scientists. It does not imply ontological relativism (ibid.) but does help create a good atmosphere for scientific progress through contestation.

4. The evidence used during arguments and that used to support sets of knowledge claims is subject to a series of problematic measurement issues. Therefore operationalisation cannot factually, simply, or exactly represent reality in measures. This argument is surveyed by Pawson (1989) and by Pawson and Tilley (1997: 156-163). They focus on two hiatuses that affect the capacity of measures to represent reality. (a) Lay actors' knowledgeability is limited and may exclude some important causal mechanisms (ibid., p. 163); (b) interviews and surveys involve negotiation of differences between researchers' discourse and lay actors' discourse, changing both (ibid., pgs. 156-7).311 Realists generally take this view in preferring to advocate

[309] Ontological assumptions of moral realism are interwoven appropriately with epistemological claims and ongoing enquiries into particular variants in local contexts. In this sense I am not using the words 'ontological' and 'epistemological' as mutually exclusive concepts in this paper. Instead I see a dynamic interplay between assertions of each kind as central to social science.
[310] Sen notes that positionally objective claims can be false as well. Like me, Sen argues here (1993) that the words objective and subjective are not mutually exclusive.
[311] Several methodological issues are raised by such points. However I am trying to convey the gist of the argument and move on, so will not pursue those issues. See writings on critical discourse analysis such as Titscher, *et al.*, for further discussion (2000).

scientific (critical) realism instead of naïve empirical realism. For an excellent summary, see Lawson (1994: 261-263). Lawson makes the important point that for scientific realists the realm of experience/impression/perception can actually be out of phase with the actual and deep domains of reality (ibid., see also Lawson, 1997). Thus for me the fallability of measurement rests upon an ontological assertion. Fallibility is not just a temporary or minor epistemological problem.

5. Ethical reasoning is normally complex and not simple, so researchers' ethics as revealed through their writing or speaking are not simply a series of facile preferences. Instead, what can be detected is usually a coherent, reasoned set of views. Utilitarian logic would be one example.312 I will expand on the general point in the next section. The complexity and challenges of moral reasoning are stressed by Wolfe (2001) and by Sayer (2000b).

6. Views and statements about good outcomes are best treated as discussions of what is really good. They are not always merely subjective preferences. No economist wants to make flippant or unguarded comments. This may be why we/they tend to avoid presenting personal views as true. Ethical naturalism helps us escape this bind. Ethical naturalism refers in general to the real existence of injury and well-being in human lives and in society. In addition, the real-ness of good situations is asserted by ethical naturalists, e.g. Nussbaum (1993, 2000, 2004). To illustrate, Nussbaum (1999) for instance has argued that decent labour is really supportive of good human capabilities. By providing a list, Nussbaum has helped push forward the ethical agenda promoted by Sen (and mentioned earlier). Stiglitz – an author closely associated with the NIE (Stiglitz, 1974) – also seems to agree (Stiglitz, 2002a), as does the International Labour Organisation in its declarations about decent work. O'Neill (1998) has summarised several arguments against economists' subjectivism, and MacIntyre (1985) poses the problem of subjectivism as a faulty logic often found in western society generally.

7. Finally, there is the possibility of achieving objective truth whilst having subjective speakers as agents of knowledge (Williams, 2005). To say that knowledge claims may be true and are warranted by evidence is to integrate an ontological claim (that claims can usefully correspond to the world; see Alston, 1996) with an epistemological point that we are ready to argue over what data or experiences tend to support these claims. By integrating a reasonable ontological assertion with such a fallibilistic epistemological claim I am referring to, and re-asserting, a critical realist philosophical framework (Carter and New, eds., 2004, ch. 1). In this framework, a value-fact separation is not needed. Some resulting methodological issues will be avoided here due to space limitations but they have in any case been taken up elsewhere.

In summary, the seven arguments against the supposed possibility of fact-value separation show that it is not possible to separate facts from values in making knowledge claims. These seven arguments are grounded in a huge literature and can be summarised as:

[312] A detailed defence of utilitarianism is provided by Ng and Singer (1981). The rejection of utilitarianism by many other authors does not stop it from being an important complex reasoning strategy.

Thick meanings; claims as warranted belief; fallibility of claims about things; fallibility of evidence; complexity of value stances; ethical naturalism; and the possibility of really true statements. Further support for these claims arises in philosophy (Putnam, 2002, 2003), in psychology (Brinkmann, 2005), and in feminism (Lloyd, 1995). In management studies, the debate over values is reviewed by the realist Ryan (2005) who also takes a position similar to mine.

This section's detour into the realist arguments against the fact-value dichotomy prepares the ground for a description of the various complex moral reasoning strategies.

Complex Moral Reasoning

All four major schools of thought use complex moral reasoning. Table 2 summarises six of the strategies found. I refer to the India-based works in order to give concreteness and flavour to the table. In discussing moral reasoning, Sayer (2000a) argues against seeing well-being purely in social constructivist terms. He also argues against seeing change purely in rational terms, which in this paper is followed up by arguing against a purely economic, land-based, or money-based analysis. The term that Sayer uses for the complex iteration of academic and lay normativities, taking into account both the economic and the social/cultural axes, is 'ethical naturalism' (2005: 21). This is a wide philosophical debate, and I have not considered the whole range of strategies of moral reasoning here. Instead using the existing literature I draw out the competing strategies actually found in one specific policy debate about land-renting. What emerges is indeed a complex normative scene. This section summarises the normative reasoning of the writers in the tenancy debate.

Many of the writers in this debate have allowed for iteration of the economic and social aspects, and are thus interdisciplinary. They have also advocated (and/or conducted) fieldwork about differentiated households/people as well as meta-analysis of policy and of grassroots proposals for change. Within this scene, given that we are looking at tenancy and at these four schools of thought, six of the strategies for looking at norms were:

A neoliberal approach (focusing on marketised activities of individuals), which however did allow for open-ness of the economic system.

Here, growth with equity was assumed to be possible. Incomes were not seen as necessarily a zero-sum game, and land productivity in particular was not perceived as a zero-sum game. The growth of production is seen to create opportunities for higher incomes.

Classical neoclassical authors using the neoliberal reasoning strategy in a tenancy context include Skoufias (1995) and Bliss and Stern (1982). In each case, economic growth is crucially seen to promote opportunities for farmers to become better off. In Table 2 I denote these authors as using two moral reasoning strategies, because the second one (the Pareto optimality moral reasoning strategy) is separable from the neoliberal growth assumptions.

A human capabilities approach, focused on a wide range of social and personal outcomes, sometimes focusing on felt empowerment.

This approach always assumes open systems exist, so society can change - even in the area of customs. This approach is also weakly associated with the gender and development school of feminism, which re-evaluates and re-appreciates the people presently oppressed and tries to ensure that their voices are heard. Aspects of achieving human capabilities are both good-in-themselves and also sometimes good as a means to other ends.

My first exemplar of the human capabilities reasoning strategy is Sen, who has made a gradual transition from neoclassical economist to a broader human development orientation. In Table 2 (Row 2) I cite his works which introduce the human capability reasoning explicitly (1979, 1980, 1993) as well as recent work which still has many neoclassical characteristics313 but is also aimed explicitly at improving human capabilities both as ends in themselves (functionings) and as means to further development (Sen, 1996: 1-8). Interestingly, the Marxist Ramachandran has used concepts of real harm and the alleviation of human suffering throughout his work (1990, 1996). The feminist Jackson also appears to be influenced by human capability assertions although she would not agree with the universalist 'list' variant associated with Nussbaum (1999). Jackson's explicit rejection of excessively universalistic moralizing is consistent with Sen's positional objectivity and thus gives us a stimulating example of the human capabilities reasoning strategy in operation.

A compression of income approach, usually focussing on land redistribution or income redistribution.

This approach can aim to change control over water and other natural resources as scarcities grow; it aims for structural equality; it may foster taxation. (Here we have some structuralists, the marxists, and Epstein (1973). Sen (1979) also bridges into this approach, as evidenced also by the empirical work of Dréze and Sen (1995, 1997).

A good example of this is Epstein (1973), who openly advocated higher taxes on India's larger farmers. The redistribution of land has also been a compression-oriented policy in India for 55 years. Sengupta and Gazdar (1996) give a review of these policies in West Bengal (1996: 136-162), pointing out that the redistribution of land can cause a redistribution of income but not necessarily a very large one. Agarwal (2003) advocated giving women access to land, including via land rental as well as increased personal access to inherited land. Such proposals are interesting and often controversial.

A strategy of transformation via praxis, characteristic of Indian Marxists, which has three components.

First, it diagnoses the changing class structure of a country in its context, then raises consciousness of class and crisis by disseminating a concrete grounded political economy interpretation, and finally (thirdly) it expects agents to be able to integrate these discoveries into their own praxis (transformative action). The social struggle for improvements in living conditions is envisaged mainly as a class struggle (Bhaduri, 1983a). The articulation of feudal, pre-capitalist, capitalist and/or other modes of production are exposed by experts for the good of all (e.g. Ramachandran, 1996: 224; 300-325).

[313] Specifically, a dependence on markets to solve some economic problems; a belief that the state can act benignly by shaping the arena within which markets work; and by arguing that the invisible hand has been disabled through India's planning process. Sen does not use utilitarianism lightly and he does not use atomistic economic models so he has by now diverged considerably from the neoclassical school of thought.

A social equality approach which aims for pluralism and mutual respect among sub-cultures, with recognition of difference (exemplified by Jackson's anthropological detail; Jackson, 2003).

This approach requires a temporary muting of the academic voice and is most attuned to lay normativities and difference. This approach is exemplified by Jackson (2003) who uses anthropological detail to argue that a risk of harm is attached to the compression moral reasoning.

A subjectivist Pareto-criterion based approach following the usual strategy of orthodox economics.

Here, any improvement strategy offered by lay actors is potentially valuable as long as no one is harmed by it, and no farm or state or region or household loses out as a result. Feelings of harm rest in the individual subjectivity, and models of equilibria tend to assume that Pareto-optimality depends on not harming subjects in hypothetical experiments that use permutations of a model (not of reality). Pareto-optimality logic rests upon avoiding harm, and otherwise can be inserted into a variety of models, explanations, counterfactual thought experiments and comparisons.

These six strategies all use counterfactuals to conduct thought experiments based on real historical situations and/or empirical data. Sen is an interesting example who has used a wide range of these reasoning techniques over the years. He makes interesting but cautious comparisons of India with China, and of Kerala with other parts of India, for instance. Sen appears to be pluralist at the level of theory, as well as innovative and thoughtful in constructing moral arguments.

A typical statement of purpose indicates that the moral reasoning is based on knowledge not only of a particular case, but also knowledge of comparable cases:

The purpose of this study is not to study the specific features of Kerala's experience only in order to try and establish Kerala's exclusiveness; it is to try and draw out lessons from Kerala's experience for the rest of India and, perhaps, for other developing countries. (Ramachandran, 1996, in Drèze and Sen, eds. 1996: 207-8).

All the six strategies deserve a more thorough review than was possible here. I now want to point out two contradictions found in this literature. Firstly, some neoclassical economists have switched from neoliberal reasoning to other reasoning strategies, notably human capabilities approaches (Stiglitz, 2002a) while continuing to advocate fundamentally atomistic and universalistic modelling methods. Secondly, the Marxists and feminists can come into serious conflict over policy advocacy if sweeping policy changes are advocated.

Stiglitz himself has pointed out some dangers of Pareto-optimality reasoning in his article on social justice (2002a: 25). Stiglitz suggests here that technocrats' use of Pareto-style reasoning technocrats can actually mask real harm to groups of workers (ibid.). Nevertheless, the Pareto-optimality reasoning is widely used, is often applied with detailed nuances, and often comes in a complex package along with multifaceted explanatory arguments. Classic illustrations of the subjectivism found in traditional Pareto-optimality arguments are the reports by Srinivasan (1989, and with Bell in 1989) on bonded labour.

The movement toward human capabilities reasoning has been part of a broad and widely supported shift from economic-growth to human-development centred strategies for public policy. The dotted line in Table 2 (row 2) reminds us that there has also been a widespread consensus that NIE scholars often recognise or use insights from NCE and vice versa. In a sense this dual shift could lead toward bridging the normative gap with Marxists and feminists, since the aim of achieving valued human capabilities is a common over-arching aim of all schools (it is rather hard to oppose). Bhaduri (1983) illustrates some common ground between Marxist and NIE theoretical frameworks (Olsen, 2006). Similarly, the assumption that rights in private property must be protected creates common ground between Agarwal (2003) and the NCE and NIE schools. Much has been ignored in my review of moral reasoning strategies so far, notably the role of states and religions. It is interesting to see empirical work emerging that uses the human capabilities reasoning explicitly (Ramachandran, 1996).

I move now to the second contradiction. If a researcher takes up only the Pareto-optimality strategy and therefore hesitates to attack any entrenched structural inequality, then their hesitancy can create a relatively weak moral agenda. Agarwal – a feminist Marxist in several ways - took a much stronger structuralist position and suggested a reallocation of land to women through various means (2003). Later, Agarwal also expressed anger about Jackson's expression of the dangers of Agarwal's lack of cultural sensitivity. Agarwal accused Jackson of conservatism and an attempt to protect traditional values (see Agarwal, 2003b) once Jackson had expressed doubts about Agarwal's proposals. But Agarwal made reference to a particular place in India where land reallocation had already taken place. Thus both authors might agree, if they were brought face to face, that specific policy proposals suit particular local and cultural contexts, and are not so sweeping as to be deemed 'universal'.

This combination of the possibility of universal 'goods' and culturally relative values reflects precisely Nussbaum's argument (2000), and is consistent with Putnam's overall view (2002). The reason for an apparent conflict is that the social equality approach can appear to appease the causes of economic and cultural inequality. Agarwal (2003b) wished to attack the weakness of using merely a subjectivist reasoning strategy and to advocate much stronger compression-of-land policies. Jackson (2004) rebutted the accusation of conservatism and instead wished to urge that social equality be prioritized so that differentiated sub-groups in society can shape their own lives locally. This is why I have listed the social equality viewpoint separately. It has different priorities and it lowers the dominance of economic influences with an argument. According to Jackson's viewpoint, also seen in other feminist writings (see Jeffrey, 2001; Rai, 1995), local specificities force researchers to avoid universalistic statements and sweeping advocacy (Menon, 2002). It is rather rare to see the anti-univeralist feminists raising particularities that are economic, rather than social; Kapadia (1995) at several points illustrates the local specificity of socio-economic formations based upon particular histories and concrete family-caste connections. Kapadia and Jackson, as well as Agarwal, have conducted extensive local fieldwork and cannot be accused of excessive universalism. Thus, the two moral reasoning strategies have come into conflict but are, in practice, probably compatible when brought to bear on a concrete and specific ethical situation.

If attention is given to a range of moral reasoning approaches, perhaps combining three of them, then a serious discussion of norms and purposes, and of means and ends, can be reached. In this serious discussion lay accounts of 'the good' can be brought together with expert overview and some abstract account of a desirable trajectory.

The moral reasoning strategies are listed above at a very high level of abstraction. No resolution of the tensions between them can be found at such a high level. One might question Pareto Optimality in general, but still wish to avoid harm from any change in a particular area of life. But the answer to whether a change is deemed good would depend on the specific types of harm, to whom, and what offer of changed circumstances might then be made available to them (hence I ignored utilitarianism which is very universalist). Since in general changed policies imply changed opportunities, the no-harm condition cannot in general be assumed to apply. Our knowledge of harm is rooted in past conditions; it will be hard to predict the harm or well-being in the new conditions. We can know only of a tendency toward harm.

Secondly to list these strategies is not to resolve any specific problem. My aim is to list a set of strategies that can be used by other researchers and subjected to scrutiny in specific research projects. The discovery that neoliberal strategies usually assume an open economic system is revealing (it suggests that realists are right to urge economists to use open- and not closed-system models to represent the economy). The paper has succeeded in this aim but leaves further work to be done.

Conclusion

The paper has clarified some of the issues in a moral economy research agenda. I showed that although the different schools of thought are ontologically not easy to combine, there are still insights about social norms that are worth noticing in all four schools. Some ontological work is needed to develop an interdisciplinary economics with structure-agency dialectics, sensitive to the non-money economy and its dynamics, as well as to the market economy. Dow (2004) suggests that a structured pluralism would attend to major social structures whilst using a multi-disciplinary explanatory framework.

I would argue that micro fieldwork and policy-related enquiry should and can complement the more philosophical and abstract meta-enquiry that is usually known as moral philosophy. Economists from the orthodox schools would do well to respond to Sayer's suggestion that lay normativity needs more attention than philosophers have given it.

Three criticisms of the framework offered here should be dealt with before ending the paper.

Firstly, it can be argued that the framework is too complex and wide-ranging to be viable. The danger, however, of narrower mono-disciplinary studies is that they cannot judge well the effect on the whole of any change in a part.

Secondly, it could be argued that the Indian women's tenancy issue has not been resolved. The role of a social scientist is not to resolve such an issue. They can take a position but their normative position must be conditional, conjunctural, and temporary, in the sense that it is held subject to new knowledge. The main task, though, is to identify how the proposals arising from authors like Agarwal and Genicot open up new research questions, and to decide which of these is most pressing.

Thirdly, the stance of a scholar's value-neutrality could still be justified by making assertions about a strong division of labour in the social sciences. Many scholars oppose such a division of labour because it allows monodisciplinarity to support unwise policy advocacy (Allen and Thomas, eds., 2000, Ch. 1), and because it can dehumanise and isolate the researcher (Gasper, 2004). Unrealistic research is likely to result. In this paper I have opened up paths of pluralism – one via the bridging of schools of thought, and a second through working on making complex moral reasoning strategies coherent and consistent. Overall the possibilities for non-value-neutral development economics are vast.

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PART EIGHT:

USA AND LABOUR

19. INTERNATIONALLY SEGMENTED LABOUR MARKETS AND MAQUILADORAS OF THE AUTO INDUSTRY – THE EFFECTS OF SPATIALISATION ON CAPITAL/LABOUR RELATIONS IN THE US AND MEXICO[314], *Fidelma Murphy*[315]

Abstract

This paper considers the applicability of the Social Structures of Accumulation (SSA) framework at a global level through an investigation of the new SSA and its connection across boundaries as evidenced in evolving capital/labour relations. The Spatialisation School, with its emphasis on the spatial restructuring of work and the reorganisation of labour markets by the transnational capitalist class, reinforces the understanding that SSAs generate differential impacts in different spatial locations. The contribution of this paper is to examine the role of specific capital/labour relations, characterised as they are in the auto industry by internationally segmented labour markets, in connecting this new SSA across borders – specifically those of the US and Mexico. This paper will contend that spatialisation theory, as applied to the auto industry, has a role in identifying qualitative changes in the global conditions of capital-labour relations. Through the use of spatialisation theory; its acknowledgement of labour segmentation, and of the importance of globalisation in affecting qualitative changes in capital/labour relations, a framework is provided in which to investigate newly emergent capital/labour relations of the current global neo-liberal SSA.

Social Structures of Accumulation Theory

The Social Structures of Accumulation (SSA) approach emerged in the 1970's as a theoretical response to the period of crisis that had ensued towards the end of the post-War period. It encapsulated long-wave theory and the contention that capitalist economies have been characterised by periods of long-run rapid growth arrested by alternate periods of long-run stagnation and decline. The SSA framework asserts that long swings, as they are referred to, are subject to the stability of sets of growth–promoting institutions. It is through the creation and collapse of such institutions that the alternate periods of rapid growth and decline in capitalist economies are evidenced.

Defining a social structure of accumulation as all of the institutions that impinge significantly on the accumulation process, the breadth of institutions that affect the accumulation process itself is highlighted (Kotz et al 1994). It is important here to distinguish between the capitalist accumulation process itself and the social structure of accumulation that supports it. The core accumulation process is driven by the pursuit of profits that are acquired at the end of the dynamic process of capital circulation. The circulation of capital incorporates all aspects of capital movement and its role in the potential creation and ultimate realisation of profits. It can be viewed in a simplified manner, as the actions required of an entrepreneur to successfully acquire the means of production and labour power necessary to produce a commodity capable of realising profit.

[314] Work in Progress. Cite accordingly..

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This circulation of capital engenders the core accumulation process as once profits are realised capitalists can reinvest, thus undertaking real accumulation and ultimately spurring economic growth. However, capitalists' decisions to invest in real accumulation as opposed to other investment opportunities such as financial or speculative are highly dependent on the security of expectations that they can form in relation to the accumulation process.

It is in this respect that the functionality of the SSA comes to bear on the core accumulation process. A social structure is in essence a configuration of social relations and positions. The SSA, then, encompasses all the social relations that notably contribute to fulfilling the requirements of core accumulation. Paramount in fulfilling these requirements is the stabilisation of the circulation of capital and its attendant social relations. Only through stabilisation of the core accumulation process' variant factors can capitalists be sufficiently confident in the calculation of their expected rate of return to assent to further reinvestment in real accumulation. Gordon et al (1982), define numerous institutional requirements for the accumulation to be undertaken and the SSA consists of all those social institutions that fulfil these accumulation requirements.

The emphasis on accumulation as dependent on stability points to the Marxian roots in which the SSA framework is grounded. Stability is not an inevitability of capitalism. In fact, the opposite is true. Capitalism is characterised by a set of inherently destabilising contradictions, which the set of growth-promoting institutions of a successful SSA manage to temporarily countervail. These contradictions are epitomised by the problems inherent in competition and those fomented by class conflict. They serve to undermine the profit rate and thus accumulation and growth.

Changes in social relations herald the onset of a change in the directional 'swing' of the SSA framework. The configuration of social relations and thus the SSA framework as a whole is contingent on the contemporaneous external environment in which they exist. What are appropriate social relations for the success of the accumulation process during different periods are as variant in form as the periods themselves. Qualitative changes of the current period have caused many to address the potential emergence of a new SSA with debate centring on the possibility of an emerging global neoliberal SSA.

Global Neo-Liberal Policies and Effects

Global neo-liberal reforms have led to increasingly liberalized economic agendas. Since the 1980s, political initiatives, spear-headed most notably by Thatcher and Reagan, have emphasised a reduction in state involvement in the economy and lauded the policy prescriptions of deregulation, privatisation and lower taxation.

Also significant in implementing the neo-liberal ideology of the superiority of the free market over all else, is the commodification of labour. Viewing wages as traditionally relatively rigid and maintained by trade unions, neo-liberal advocates suggest that such sticky conditions for a crucial input price – the wage – reduces the overall efficacy of price as a signal within the market. This serves to undermine the functioning of the market and interfere with its own inherent disciplining of resource allocation. The neo-liberal response to this perceived inefficiency of relatively unresponsive wage rates in the market is the promotion of labour flexibilisation. This results directly in the diminution of trade union power and increasing contractual dependency of workers.

Global neo-liberal policies have seen the strengthening of capital relative to labour and the emergence of what Crotty (2000), terms ‘coercive competition’. With its emphasis on technical change, increasingly open borders, the transnationalisation of capitalist classes and the overall dominance of supranational institutions’ and transnational corporations’ strategies over national governments and state boundaries, the new global neoliberal regime is significantly altering the social relations and hence social structures of accumulation available in the current period.

The globalisation of capital circuits has witnessed the requisite and concomitant globalisation of social relations. The rise of transnational capitalist networks has occurred within an environment of globalised social structures. Transnational corporations (TNCs) now function on a world scale and are facilitated through various supranational institutions whose explicit purpose is the promotion of numerous cross- border activities. Elimination of trade barriers and the radical opening of internal markets to foreign interests within the new globalised environment have facilitated the growing dominance of capital.

Trade Integration and Production Disintegration

Trade integration is manifest in the globalised economy. Among the reasons espoused for this integration across borders is that disintegration of production leads to more trade (Feenstra, 1998). Frequent trade in intermediate inputs – as opposed to only raw materials or processed final goods – between nations at numerous points in the manufacturing process is ongoing. This serves to induce an upward bias in measures of trade to GDP ratios, as the import and export of intermediate inputs implies additional trading activity.

Disintegration of production results in the production process being broken up into different parts and located in different countries. This occurs in the current period due to the globalisation of economic activity and its actors. Free trade initiatives allow for production locational decisions of firms to range beyond the national borders within which they emerged. Previously integrated within the corporate form of Fordist production, these new production processes have been redefined particularly in the form in which they contend with national boundaries. Global segmentation of the production process is ongoing through fragmentation and geographical relocation that is defiant of national boundaries.

Globalised Value Chains

Globalised value chains serve as a tool through which to assess this ongoing disintegration of production. Such chains include all a firm’s activities from initial conception of a potential product through to its final realisation and delivery. Locational decisions are influenced at each stage of production by the projected benefits in cost terms and value addition of different places. Revealing the nature of cross-border organisational structures of industries could potentially provide insight into both global and local institutional effects on industrial location decisions.

Capital Mobility

Capital is now facilitated in its efforts to traverse the globe to secure the most profitable of locations for investment in terms of cheaper labour, cheaper resources and competitive markets by the normalcy of production disintegration on a global scale. TNCs act to link the production of goods and services across borders in value-adding activities that have led to the emergence of a qualitatively distinct global economy.

Global outsourcing is an often-used fragmentation of the production process that highlights many of the key features of contemporary globalisation. It allows dramatic expansion of the production capabilities of TNCs, thus providing the possibility of attaining increased profits in a global environment of cutthroat competition. However, this expansion does not necessarily result in an increase in living standards for the labour forces to which production is outsourced. Emerging qualitative changes in the specific capital-labour institutional relationship reflect the impact of globalisation on the strength of capital relative to labour given the lessening of constraints on the circulation of capital without a corresponding mobility of labour.

Spatialisation Theory

A branch of SSA theory that explicitly acknowledges the importance of globalisation in affecting qualitative changes in capital-labour relations is spatialisation theory. Initially focussing on the deindustrialisation of the United States in the 1970's, it addressed the negative effects of interstate capital flight (Sherman Grant & Wallace, 1994). It acknowledged the mobility of capital and the efforts at local – heterogeneous – state level to undertake initiatives to attract this 'hyper-mobile' capital.

It acts as a self-acknowledging (Sherman Grant & Wallace), (Brady & Wallace, 2000) extension of Gordon, Edwards and Reich's (1982) work wherein they contended that new SSAs consolidate around the available arrangement that best promotes the rejuvenation of capitalist accumulation while addressing the key problem of controlling and pacifying the labour force. In recognising the ongoing conflict of capital and labour, Gordon, Edwards and Reich advanced the SSA framework to incorporate the dynamic of this institutional relationship. They identified three historical SSAs in the US from the 1820's onwards, specifically by their consequences for the organisation of work and the structure of labour markets. These were known respectively as the SSA of proletarianisation, 1820s-1890s, the SSA of homogenisation, 1870s-WW2 and the SSA of segmentation, 1920s-(the time of writing) early 1980s.

Emphasis was placed on the idea that each SSA contained a dominant control strategy to manage the inherent conflict between capitalists and workers in a manner that was consistent with the other institutional aspects of the SSA. Given the SSA contention that each SSA is historically contingent and thus its institutions are likely to be qualitatively different than in the preceding – or indeed, any other – SSA, speculation is undertaken by Gordon, Edwards and Reich regarding what they believe could potentially be the successful form of a capita/labour institutional relationship in a new SSA. Among several exploratory initiatives, they identify the spatial restructuring of the labour process by large multiunit corporations who are characterised by their capacity to shift resources in response to changes in labour market conditions.

The current period is epitomised by the qualitatively distinct characteristics of globalisation, most notably its compression of the space and time required in which to undertake corporate activities. It would appear that Gordon, Edwards and Reich's speculation about the possible form of a new SSA has been realised; as their identification of large corporations with significant ease of mobility and capacity to react to alterations of labour market conditions has become a reality. The unfolding of this new reality has led to spatialisation theorists expounding the claim that 'the fundamental dynamic that marks the next SSA is a process of spatialisation'.

Focusing on the specific nature of capital-labour relations within a globalised environment, the process of spatialization offers a means of analysing qualitative changes in social structures resulting from capitalists' drive to maintain profit rates through the expansion and fragmentation of their production process to new low cost and acquiescent labour markets. Spatialisation constitutes the spatial restructuring of work and reorganisation of labour markets by the transnational capitalist class.

Capital constantly seeks to expand the boundaries of its accumulation process to guarantee itself the realisation of profit levels sufficient for reinvestment in real accumulation. In searching for optimal spatial arrangements through geographical relocation and outsourcing of elements of the production process, the transnational nature of the capitalist class allows it to engage in capital flight to nationally varying locations characterised by low cost, flexible and acquiescent labour markets.

The threats of relocation, deindustrialization and capital flight act as a control strategy of the transnational capitalist class in containing labour dissent. These threats act as an effective instrument in disciplining labour. The viability of such threats results from the increasing fragmentation of work tasks within the production process leading to a new, highly integrated division of labour where workers in different locations can perform different aspects of production.

A new international division of labour has emerged, with labour segmentation evident through wage structure differentials in different labour markets which all offer labour for the same stage of production. Contingent labour force segments have arisen, working subject to the very specific contract and project-based demands of capital.

Also reinforcing these threats are the advances in telecommunications and transportation, which serve to extend the reach of capitalists across the world economy and aid in co-ordinating and controlling labour in geographically variant locations. Technocratic control of labour from a distance is realised.

Heightened capital mobility through increasing spatialization across national boundaries in response to falling profits has facilitated the strengthening of capital relative to labour. Capitalist locational decisions are driven by the desire to enhance their class capacity relative to labour and to thus secure their profit margins. To achieve this they choose to locate in areas with acquiescent and weakly or non-unionised workers. The greater the organisational capacity of labour, defined within the literature by such variables as union density, union organising success and labour militancy (Sherman Grant and Wallace), in a certain region the less attractive is that region as a potential production facility to capital.

Here the importance of locality emerges. The extent of labour organisation within a region will most likely impact on the perceived attractiveness of the area to TNCs. As part of employers' strategies to reduce labour dissent and the overall economic standing of workers, capitalists take a strong anti-union stance in negotiations and decisions regarding capital location. High-cost, inflexible and militant labour within a locality is an immediate deterrent to capital investment. Regions with tightly organised labour movements contain within them a greater capacity to disrupt capital production and thus undermine the central capitalist motivation of the pursuit of profit.

TNCs, being characterised primarily by their hyper-mobility, are afforded the opportunity to choose to relocate their production activities from the area or simply never enter given the numerous locational options available to them within the global economy. With the understanding that capitalist growth is dependent on reducing as much as possible variable costs such as wages given that fixed costs are increasingly standardised, the importance of location as a means of controlling for variable cost effects becomes apparent.

Spatialization strategies, by their very nature, generate differential impacts on different spatial locations. In exiting regions of high-cost, inflexible and militant labour through capital flight and deindustrialization and relocating to areas with low-cost, poorly organised and acquiescent labour, a two-fold impact on labour arises. The negative impacts of heightened capitalist class capacities and FDI are evidenced in studies of the US manufacturing experience of deindustrialisation and capital flight (Sherman Grant and Wallace 1994; Brady and Wallace 2000). The unfavourable labour market conditions of the US, as regarded by the TNCS, causes a significant drop in employment within that realm, while corresponding increases in employment in those developing regions with weaker labour unions and organisation reinforces the strength of capital relative to labour.

Proposed Research Topic

Mexican Maquiladoras

A prospective area in which to study the effects of spatialisation strategies, labour segmentation, outsourcing and the implementation of flexible production systems on capital-labour relations in the developing world would be the maquiladora industry of Mexico. References to the 'maquiladora industry' incorporate a number of export –orientated manufacturing sectors such as electronics, apparel and auto parts production. What draws these varying industries under the umbrella term of the maquiladora industry is the specific nature of their production and export-orientated activities. Maquiladora plants are those which, irrespective of the form of manufacturing they undertake, are obliged through regulation controls to temporarily import component parts from firms abroad and then export the finished or further processed product back to the country of origin. Thus, the industry is specifically designed to promote cross-border production processes and as such reflects the current globalised period. A sector of particular interest within the maquiladora industry for the application of spatialisation theory as a means of identifying qualitative changes in the global conditions of capital-labour relations is auto parts production.

Mexican Auto Industry

There has been a massive restructuring of the Mexican motor industry initiated by large corporations since the early 1990s in response to a loss of international competitiveness. This restructuring reflects the internationalisation strategies of TNCS such as General Motors and Ford-Mexico alongside the Mexican government's more export-orientated industrialization policies. Production for export using flexible production is a key element in the modernisation of the sector and the base of its competitive advantage. Shifting operations to weakly unionised areas, the introduction of the latest production technologies and the adoption of new management techniques have characterised this restructuring of the auto sector.

Effects of Flexible Production Techniques

The emergence of flexible production models reflects the enhanced class capacity of capitalists. With pressures to improve competitiveness following the global crisis of the late 1970s and 80s the search for competitive advantage led to the widespread adoption of Japanese management techniques as part of flexible production systems. These new approaches heralded the onset of flexible labour regimes with their emphasis on flexible specialisation and the flexibility of employment and wages in an effort to add value through the minimisation of waste. The implementation of such systems highlights the institutional changes in the nature of the capital-labour relations within the global economy. Flexible accumulation has emerged bringing with it attendant job insecurity. Locational flexibility on the part of TNCs supports their efforts in implementing flexible production systems. These new systems reflect the capacity of the capitalist class to affect major changes in the working conditions of immobile labour groups, particularly those located in developing countries.

Ford-Mexico has undergone an industrial reorganisation whereby it is pursuing flexible production systems in its plants – including its maquiladoras. Carrillo (1995) acknowledges the various effects of the implantation of flexible production systems at Ford-Mexico's new and established plants. His analysis reveals that numerous factors including labour relations, local labour markets and complexity of production affect the success of the implantation of such systems. Among his chosen plant types is a maquiladora known as Ford-Favesa. Given that the plant already functioned with a high degree of labour flexibility and no union, as is common among maquiladoras, he found that the amount of restructuring required in relation to labour practices was negligible compared to established and new joint venture plants.

Rudimentary Research Question

This poses an interesting question in terms of capital-labour relations. Given that maquiladoras are typified firstly by capital-labour relations wherein capital's power is enhanced and maintained relative to labour and secondly by their function in promoting cross-border activities; is possible to contend that maquiladoras are a preferable location for capital investment in the current global neoliberal environment? Meaning, in essence, that the preferability of Mexican maquiladoras – from the viewpoint of capital – for investment opportunities, must be decided at the expense of densely unionised and comparatively highly paid US auto industry workers given the nature of the industry's internationally segmented labour market.

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20. DEREGULATION, DEUNIONIZATION AND LABOR FLEXIBILITY: COMPONENTS OF A NEW SOCIAL STRUCTURE OF ACCUMULATION FOR THE UNITED STATES, *Samuel Rosenberg*[316]

Introduction

The 1970s stagflation reflected the economic and political stalemate over which groups in the U.S. would bear the burden for the relative decline in the economic and political hegemony of the United States. Ultimately, for there to be a way out of stagflation, the economy would need to grow more rapidly and the claims being placed on economic output would need to be brought more in line with the available goods and services. Yet in 1980, it was not totally apparent how this would occur. Whose claims should bear the brunt of the adjustment?

The stagflation was broken in the 1980s. While not explicitly discussed in these terms, the Reagan administration attempted to create a new institutional framework for economic prosperity based on neoliberalism. Employer strategy and government policy were closely aligned, focused on eliminating labor market "rigidities" thereby fostering labor market "flexibility". Government deregulatory policies weakened the minimal social protection policies already in place. Union power was reduced through governmental policy and aggressive anti-union management behavior, resulting in a sharp trade union decline. Increased employer unilateralism within the 1980s political-economic context entailed a cost-cutting, particularly labor cost, strategy for many. Labor standards declined, the wage structure was lowered, wage inequality grew as did the amount of low-wage employment. Job insecurity became more widespread. The burden for the relative decline of the United States in the world economy was borne by those workers, both organized and unorganized, with weakened bargaining power and by the poor.

The prolonged economic expansion of the 1990's was built on the emergent neoliberal framework. Deunionization continued apace thereby enabling greater employer freedom in setting pay and personnel policies. Wage gains lagged productivity increases and there was a further polarization of income and collective bargaining results. There was a spread of contingent forms of pay and contingent and nonstandard forms of employment. The increasing presence of contingent employment relationships fostered job insecurity as did corporate downsizing in the face of strong profitability and a strong economy. Productivity growth was fueled by investment in information technology and by the intensification of work effort, the latter based largely on worker insecurity.

Government economic and social policy was more contested during the 1990s then in the previous decade. In line with neoliberalism, the "entitlement" to welfare benefits was ended and a strong work requirement was instituted. However, contrary to neoliberalism, the federal minimum wage was raised. And it was only in the second half of the 1990s when the unemployment rate was low and the federal minimum wage was increased that wage inequality diminished and the floor of the wage structure rose. However, following the short,

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relatively mild recession of 2001, wage and income inequality once again increased. The legacy of the neoliberal restructuring of the 1980s remains.

The conservative free market restructuring of the economy, the ascendancy of business, the deunionization of the private sector and the overall growth of inequality and insecurity all point to the following question. Are neoliberalism, deunionization and labor flexibility components of a new social structure of accumulation for the United States?

This paper is divided into four main sections. The first discusses the deregulatory government policy regime of the 1980s. The second analyzes the "employer offensive" and the deunionization of the 1980s. The third looks at the legacy of the emergent neoliberal framework.317

The Deregulatory Government Policy Regime of the 1980s

Seeking to reverse the economic decline of the 1970s, raise the average rate of profit and improve the overall productive efficiency of the economy, the Reagan administration pursued a policy agenda designed to restructure the economy by freeing up market forces. Ideologically, the federal government was attacked as the most important cause of the economic problems faced by the United States. Programmatically, this attack on the state led to a weakening of the minimal social protection policies benefiting workers, in general, and the poor in particular. Two thrusts of state labor market policy were apparent. The first was to increase competition in the labor market, at a given level of unemployment, by reducing the social wage and lowering the effective minimum wage. The second was to reduce union power through higher aggregate levels of unemployment, increased labor market competition and the reinterpretation of existing industrial relations legislation in a pro-business manner. To some degree, a sociopolitical regulation of the labor market was replaced by market forces.

The market-based conservative strategy for restructuring the economy reached its limits during the Reagan years. However, its legacy remained. The Bush administration (1989-92) acted as a caretaker for the Reagan program while being forced to deal with some of its excesses. While the Clinton administration was more favorably disposed to the labor movement, William Clinton was the least pro-union Democratic President in the post World War II period, perhaps reflecting the decline in the economic and political strength of labor, a legacy of the Reagan-Bush era. And while the Clinton administration did pursue policies to raise the pay of low-paid workers, it also revamped the welfare system increasing the supply of labor to low-wage jobs.

The Reagan administration pursued deregulatory government policies in the name of furthering labor market flexibility, thereby improving labor market efficiency. Wages should, it was argued, adjust more rapidly to shifts in the supply and demand for different qualities of labor. Yet, it was not upward wage flexibility that was to be fostered. Rather, wages should become more responsive to adverse changes in supply and demand. In addition workers should, it was argued, become more responsive to dynamic changes occurring in the labor market. They should be exposed more fully to the competitive forces in the labor market.

The Reagan administration wanted to "knock the props out from under workers". While the Reagan program did represent a more conservative direction in government policy,

[317] The analysis in this paper is more fully developed in Rosenberg (2003).

it was following steps in this direction taken under the Carter administration. The Federal Reserve, under the guise of monetarism, pursued an austerity policy designed to lower the rate of inflation by raising unemployment and eroding the power of labor. After-tax unemployment benefits declined as unemployment benefits were taxed. After failing to expand Aid t Families with Dependent Children, the Carter administration began calling for cutbacks in this program.

The push for labor market efficiency via deregulation, under the Reagan administration, represented a decline in labor standards. The effective minimum wage declined. Unemployment insurance was reduced as was Aid to Families with Dependent Children. Public service employment programs were ended. The government policies aimed at introducing a more competitive mode of regulation of the labor market served to weaken unions. Government industrial relations policies, setting a union busting tone, did the same. These policy changes took place in a period of high unemployment, at least by United States standards.

Increased Unemployment

Large scale unemployment attacks the bargaining power of employed workers. With substantial unemployment, workers fear for their jobs and know they can be easily replaced if they strike. They are aware that if they are fired they will be unlikely to find equivalent positions. In such an atmosphere, employees are more responsive to the demands of their employers.

When Ronald Reagan took office in 1981, serious inflation and extensive unemployment were occurring simultaneously. Priority was placed on reducing inflation. Restrictive monetary policy, together with falling world prices for food and energy, resulted in the rate of inflation dropping from 13.5% in 1980 to 3.2% in 1983.

But American workers paid dearly for this. The unemployment rate reached heights not experienced since the Great Depression of the 1930s. The 1981-82 recession was deeper than any downturn since the 1930s, with real GNP falling by 2.2 per cent in 1982. The trough of the recession occurred at the end of 1982. In December 1982, the unemployment rate was 10.7% and for the entire year it was 9.7%. In that year, 26.5 million people encountered some joblessness, 22% of those in the labor force for all or part of the year (U.S. Department of Labor, Bureau of Labor Statistics, 1983). Although unemployment rose throughout the economy, it was centered in mining, construction and manufacturing, those areas where unions have traditionally been the strongest. For example, within manufacturing, by December 1982 the unemployment rate had reached 23.2% in the motor vehicle industry and 29.2% in the primary metals industry (Economic Report of the President, 1983, p. 46).

In 1983, the unemployment rate still averaged 9.6% and the average duration of a spell of unemployment was 20.5 weeks, the longest in post-World War II history (Ulmer and Howe, 1988). Conditions then began to improve. Yet in 1989, after a lengthy economic expansion, the unemployment rate was 5.3%, still high by historical standards but a major improvement nonetheless.

Many employers evaluated quite favorably the recession and the accompanying unemployment. A survey of business executives taken during the spring of 1982 found that two-thirds agreed that "the fight against inflation must continue even if it means high unemployment and more small business bankruptcies" (Vogel, 1989, p. 256). And a majority of the 800 executives of medium and large firms surveyed in 1984 believed that the recession had been good for the country since it was instrumental in lowering inflation and slowing the rate of growth of wages (Vogel, 1989, p. 259).

Declining Real Minimum Wage

The growth in the number of unemployed constitutes, in and of itself, an increase in competition in the labor market. A decline in the real value of the federal minimum wage has the same effect on low-wage workers. The floor of the wage structure falls and their wages become more determined by market forces than by government legislation.

The Reagan administration would have liked to eliminate the federal minimum wage entirely. However, this was not politically feasible and was, thus, never attempted. Rather, throughout the 8 years that Ronald Reagan was in office the minimum wage remained at $3.35 per hour, the value set in 1981. This represents the longest elapsed time without a minimum wage increase since the passage of the Fair Labor Standards Act of 1938, enacting the federal minimum wage for the country as a whole.

At the same time prices were rising, causing the real value of the minimum wage to fall. For example, the nominal value of the federal minimum wage was $2.90 per hour in 1979. This is equivalent to $4.86 in 1989 dollars. In 1989, however, the minimum wage was only $3.35 per hour (Mishel and Frankel, 1991, p. 116). Furthermore, the minimum wage fell relative to the average wage. After hovering around 50% of average hourly earnings in the private nonagricultural industries during the 1950s and 1960s, the minimum averaged 45% in the 1970s. By 1985, it had declined to about 39% of average hourly wages (Smith and Vavrichek 1987).

Unemployment Insurance Cutbacks

At the same time as the number of unemployed was rising, the federal government was cutting back on unemployment insurance (UI). Given the example set by the federal government, many states did the same. The decrease in this nonwage source of income potentially increased the effective competition for jobs among the jobless and the potential negative impact of the jobless on employed workers.

The weakening of the unemployment insurance system began during the Carter administration. The Reagan administration continued with this policy thrust. They claimed that overly generous UI lengthened the duration of a spell of unemployment. Wishing to force workers to lower their job expectations and accept whatever work was available, they increased the income taxes on unemployment compensation and made "extended benefits" (EB) more difficult to attain . To the extent that workers reacted accordingly, the effective supply of labor for low-wage jobs would increase serving to keep wages down.

More specifically, in 1982 legislation was passed lowering the income threshold for taxing UI. The tax revisions of 1986 further increased the taxation of UI. Now everyone receiving UI, regardless of his or her annual income, are taxed on his or her benefits.

Depending on the length of their previous employment, all workers who lose their job for acceptable cause can receive UI for up to 26 weeks. In specific instances, 13 additional weeks of EB may be granted. The Reagan administration, with the approval of the U.S. Congress, redefined the conditions under which EB are to be paid. As a result, many fewer workers were able to qualify for the EB program.

Subject to minimal federal standards, states set qualifying requirements for UI, benefit levels and benefit duration. Changes at the state level also made it more difficult to qualify for standard UI. Many states increased the number of weeks worked and the amount of earnings required to collect benefits or changed formulas to yield lower benefits. Most states implemented policies generally denying benefits altogether to those who quit their jobs voluntarily (Baldwin and McHugh, 1992).

The upshot is that the share of the unemployed collecting UI declined during the 1980s. In 1975, when the unemployment rate was 8.5%, 76% of the unemployed received UI. During 1982, with a higher unemployment rate than in 1975, only 45% received compensation (Levitan, Carlson and Shapiro, 1986, p. 165). Later in 1987 and 1988, approximately 32% of the unemployed received a benefit, compared to 40 to 45% of the jobless during similar periods in the 1960s and 1970s.

Elimination of Public Service Employment

Not only were alternative sources of income to private sector wages scaled down, but alternative sources of jobs outside of the private sector were eliminated. Public service employment programs (PSE), funded by the federal government, providing for positions in state and local governments and in non-profit making organizations were ended. The positions had been funded under the Comprehensive Employment and Training Act of 1973.

The basic reasoning behind PSE is that it could quickly increase the employment of selected workers. The Carter administration made PSE a central component of its employment strategy. When Ronald Reagan entered office in 1981, 309,000 PSE positions existed, approximately 85% of which were held by people officially considered to be living at or below the poverty line. None remained by the end of the year as the funding was eliminated. The workers who had been holding these positions were thrust back into the labor market, thereby providing low-wage employers with an increased supply of labor.

"Welfare Reform"

While voluntary PSE programs were ended, mandatory public employment programs for welfare recipients were developed. Mandatory "workfare" complemented welfare changes that limited the number of people eligible for assistance and the amounts they received.

During the Carter administration, Aid to Families with Dependent Children (AFDC) benefits did not keep pace with inflation. Furthermore, there had been no growth in welfare caseloads since the early 1970s (Ellwood, 1988, p. 59). Nevertheless, the Reagan administration further cut the welfare program. The means test for eligibility for welfare was tightened. In addition, qualifying families had limitations placed on the amount of work-related expenses they were able to deduct in determining their net income and, thus, their AFDC needs.

Initial assessments were that as of 1984, 408,000 families lost eligibility and 299,000 lost some benefits nationwide (Focus, 1985, p. 2). This was occurring at a time when the number of people in poverty was growing. According to official measures of poverty, 15.2% of the population were poor in 1983, the highest poverty rate since 1965 (Economic Report of the President, 1986, p. 286).

The net effect of the policy changes were to shorten the amount of time both working and nonworking families received welfare. Thus, the AFDC changes likely helped to increase the supply of labor to low-wage jobs. However, women who had their AFDC benefits reduced or eliminated were economically worse off even though their monthly earnings may have increased (Focus, 1985).

The Reagan administration continually proposed legislation requiring states to develop mandatory "workfare" programs, imposing work requirements for AFDC recipients. States already had the option of doing so, and many, though not all, did implement "workfare" of one form or another. Rather than provide welfare recipients with an incentive to work, the Reagan administration argued they should be forced to work. It took 8 years but, in October 1988, the administration finally succeeded in having the U.S. Congress pass legislation forcing all states to develop "workfare" programs by 1990.

Industrial Relations Policy--Weakening and Busting Unions

The large number of unemployed and the cutbacks in the minimum wage and the social wage hurt unions. Government policy, setting a union busting tone, did the same. In their first year in office, the Reagan administration fired the striking air traffic controllers and had the Professional Air Traffic Controllers Organization decertified. They were able to do this because federal government employees are legally forbidden to strike. This action sent a clear message to employers; they should feel free to bash unions.

The Reagan administration's appointments to the National Labor Relations Board (NLRB) were designed to create a majority who would roll back many of the gains made by the labor movement. According to William Gould, appointed by President Clinton to head the NLRB, the NLRB in the early years of the Reagan administration "was relentless in reversing precedent more than any board even under Eisenhower, Nixon or Ford" (Tasini, 1988). By June 1984, it was estimated that the NLRB had recast nearly 40% of the decisions made since the mid-1970s that conservatives had found objectionable (Business Week, 1984, p. 122). Overall, the decisions of the NLRB were heavily probusiness. For example, between 1983 and 1984, 72% of its decisions in representation cases favored business, as compared with 46% between 1979 and 1980 during the Carter administration and 35% during the Ford administration (Vogel, 1989, p. 270).

The anti-union perspective of the NLRB made it more difficult for union-organizing drives to succeed and for unions to achieve their goals at the bargaining table.

As a result of NLRB rulings, employers became more able to use misleading information to try to convince their workers to choose the nonunion alternative in a representation election (Midland National Life Insurance Co. case, 1982). Employers were now more able to engage in unfair labor practices designed to stop a union victory in a representation election without suffering negative consequences (Gourmet Foods case, 1984). The National Labor Relations Act protection provided to individual employees during organizing drives was eroded even further. Workers who protest extreme unfair labor practices and were fired lost the right to reinstatement if they engaged in "excessive behavior". This held even if they could demonstrate they had been provoked by the employer into engaging in nonflagrant misconduct (Clear Pine Moldings case, 1984).

These decisions, taken together, made it much easier for an employer to defeat an organizing drive and terminate employees active in the organizing effort. Workers could be misled during the campaign. Organizers could be let go and if they responded in an "excessive" fashion they would lose their rights to reinstatement. And unfair labor practices resulting in less than a majority vote for a union would not lead to a union being certified as the duly chosen bargaining agent of the workers. An existing organizing drive would fail and there would be little chance of success in the future.

NLRB decisions also made it more difficult for unions to gain their demands at the bargaining table. Employers were now more able to move union jobs to nonunion locations. Previously, the NLRB had found that as long as a collective bargaining agreement was in effect, an employer was prohibited from moving work to a nonunion facility. A company would now be able to move work during the life of a contract unless there was a clause in the contract explicitly prohibiting such action. All the company needed to do, if the move was designed to lower labor costs, was to bargain over the decision and its effects (Milwaukee Springs case, 1984). Yet, there was no requirement that an agreement be reached or that the work remain at the unionized plant. And if the movement of work hinged on factors other than cutting labor costs, there would be no requirement to bargain at all (Otis Elevator case, 1984).

NLRB rulings made it more difficult for a union to succeed with a strike. Most labor contracts include a general no-strike clause during the life of the pact. Previously, the NLRB had ruled that sympathy strikes were not covered by the no-strike clause. Thus, workers had the right not to cross another union's picket line. Now workers agreeing to a general no-strike clause would not have the right to honor another union's picket line (Indianapolis Power and Light case, 1985).

Furthermore, unions could no longer fine workers who resign their union membership during a strike and return to work in violation of union rules. In upholding an earlier NLRB decision, the U.S. Supreme Court determined that any union rules limiting the freedom of workers to resign during or just prior to a strike may be illegal (Pattern Makers' League of North America case, 1985).

Deregulatory Government Policy, Managerial Strategy, and Deunionization in the 1980s and early 1990s

It is a premise of those working within a social structure of accumulation framework that a central component of the postwar institutional framework was peaceful collective bargainilng, characterized by some as a "capital-labor" accord (Bowles et. al. 1983; Kotz, 1994), In Rosenberg (2003), I argue that a truce was not signed, an accord was not reached. While it was the case unions and many of the major corporations accepted the legal boundaries of collective bargaining set by the National Labor Relations Act of 1935, the Taft-

Hartley Act of 1947, the rulings of the National Labor Relations Board (NLRB) and the courts, serious conflict did not disappear.

Employers chose to live with unions where they existed. And a large share of nonagricultural workers were unionized. In 1954, 34.7 per cent of nonagricultural workers were unionized (Blum, 1968, p. 45). More than 60 per cent of production workers in major manufacturing industries were covered by union contracts. But nonunion firms fought strongly to keep unions out and unionized firms often opposed union organizing drives in new facilities. For example, many textile and apparel manufacturing firms with unionized work forces in northern states opened new plants in the South and fought hard to keep them nonunion. The share of the work force unionized peaked in 1954 and then began a steady decline. By the end of the 1950s it would fall to 32.1 per cent of nonagricultural workers and continue to drop in the decades to follow (Blum, 1968, p. 45).

The sharpest decline in business activity since the Second World War, until that time, had begun toward the end of 1957. Profit margins were under pressure and foreign competition was becoming stronger. Management, interested in slowing wage gains and increasing their control over the work process, took a "harder line" in their dealings with their workers. In 1958 and 1959, over 30 per cent of the workers in manufacturing, under contracts covering bargaining units of 1000 or more workers each whose contracts expired went on strike. These figures were never reached in later years (Kaufman, 1978, p. 423). Though rare, some major employers such as the American Oil Company, Standard Oil of Indiana, United Aircraft Corporation (in 1960) and General Electric (GE) (1960) kept their plants operating during strikes.

Mass production union leaders were convinced that management "at the very least looks to a drastic cutting down of union power and, at the most, offers a challenge to union existence" (Barbash, 1961, p. 25). In retrospect, there was not a challenge to union existence, though employers did try to cut down union power. Thus, even at the time when the "capital-labor accord" was said to be the strongest and collective bargaining relatively peaceful, union leaders were less than fully secure in their relations with management. It would be more correct to characterize labor-management relations as a "temporary and unstable equilibrium between two forces pushing in opposite directions" (Meeropol, 2003, p. 116). That equilibrium would break down in the 1980s.

The second half of the 1960s and the first half of the 1970s represented a time of strong bargaining strength for the labor movement. Yet, while labor was doing well at the bargaining table, a managerial resistance to new unionism was gradually developing. The share of the private sector workforce unionized was shrinking. While unions in the most highly organized industries were still relatively protected by their bargaining strength from the nonunion model, the roots of the nonunion model were laid in the 1960s. They would take hold in the 1970s and 1980s during a more difficult economic environment.

By the end of the 1970s, employers had become more confrontational in collective bargaining. The rising wage premium of unionized labor, together with increased foreign and domestic competition, had a strong impact during the serious recession of the early 1980s. These provided the economic incentives for employers to demand concessions from their workers. In an era of increasing competition and pressure on profits, employers wished to lower wage and benefit costs and have workers bear more of the burden of economic uncertainty. The macroeconomic, industrial relations, employment and social policies of the government served to weaken union and nonunion workers alike. A general excess supply of labor together with a labor movement on the defensive increased the opportunities for employers to gain their demands.

Declining union density was one sign of the weakening bargaining power of organized labor. In 1980, 23% of the work force was unionized. By 1989, that figure had dropped to just 16%, and in the private sector only 12% of the workforce was unionized. Union coverage continued to shrink in traditional union strongholds such as manufacturing, mining, construction and transportation (Freeman, 1988). The 1980s represented a period of deunionization of the United States labor force. Aggressive anti-union management behavior lay behind the shrinking perimeter of unionism. As evidence of a growing opposition of employers to unions, a Conference Board Survey found that 45% of firms in their Personnel Practices Forum gave “operating union free” as a labor policy goal in 1983 compared to 31% in 1977 (Freeman, 1988, p. 79).

Another manifestation of a weaker labor movement was that labor was much less able to use the strike to further its goals. There was a sharp decline in the number of major strikes--those involving 1,000 or more workers--in the 1980s. In 1980, there were 187 major work stoppages. Since 1947, there was only one year, 1963, where there had been fewer major work stoppages. By 1989, the number of major work stoppages had fallen even further to 51 (U.S. Department of Labor, Bureau of Labor Statistics, 1989, p. 543; Jacobs, 1997, p. 287).

Furthermore, many employers heeded the message sent by President Reagan in the air traffic controllers dispute. They, too, permanently replaced their striking employees. They included Phelps Dodge, Greyhound, Continental Airlines, the International Paper Company, Boise-Cascade, and the Tribune Company, owner of the Chicago Tribune. Many other employers, including the Pittston Coal Company, threatened to replace workers on strike but ended up dismissing the replacements upon settling the strike. While there are no annual data on striker replacement, a U.S. General Accounting Office study found a growing willingness of employers to hire permanent replacements for striking workers (Kilborn, 1991). This shift in employer strategy had a chilling effect on workers’ willingness to strike.

A weaker labor movement facilitates employer unilateralism in pay and personnel policies. Increased employer unilateralism within the 1980s political-economic context, entailed a low-wage strategy for many. Econometric evidence suggests that important changes occurred in the process of wage determination in the 1980s. Changes in labor market institutions pushed wage setting in a more competitive direction. The “reserve army” mechanism functioned in the 1950s and through the mid 1960s. Between the late 1960s and the end of the 1970s, the “reserve army “ mechanism ceased to operate. But in the 1980s, the “reserved army” effect was restored and was felt most strongly in the more heavily unionized sectors (Tsuru, 1991; Buchele and Christiansen, 1993)

As wage setting was pushed in a more competitive direction, the wage distribution shifted downward and became more skewed. Real hourly earnings were 6% lower in 1989 than in 1979, continuing a trend which began in 1973. Real wages continued to fall in the early 1990s. Thus, real hourly earnings in 1992 were 13% less than in 1973 (Economic Report of the President, 1993, p. 396).

Not only did average real wages decline, but there was a rapid growth in very low-wage employment. The proportion of full-time, year-round workers earning too little to lift a family of 4 out of poverty rose rapidly during the 1980s, from 12.1% in 1979 to 18% in 1990. This reversed the trend from 1964-74 when the figure fell from 24% to 12% and remained at that level until 1979 (Wartzman, 1992). Overall, the official poverty rate rose from 11.7% in 1979 to 12.8% in 1989, the end of a relatively long expansion. The economy went into a recession in 1990-91. By 1992, the rate of poverty had risen to 14.5%, the highest it had been since the 15.2% rate in 1983 (Economic Report of the President, 1994, p. 304).

Not only was there a growth in the number of jobs paying poverty-level wages, but the overall wage structure became more unequal. Since 1979, the distribution of labor income became less equal for men and women. Among men, inequality had been increasing since the 1960s, with growing dispersion in both the lower and upper tails. However, the same pattern was not seen for women. Women's wages had become more equal until about 1980, as the lower tail gained relative to the median. However, since then, female workers also experienced growing dispersion in both the upper and lower tails of the distribution (Karoly, 1993).

There are many explanations for why the wage structure shifted downward and became more unequal (Harrison and Bluestone, 1988; Burtless, 1990; Danziger and Gottschalk, 1993; Bluestone, 1994). While they likely do not comprise the entire explanation, the deregulation of the labor market, deunionization and increased employer unilateralism in pay determination are three of the important elements responsible for these trends in the structure of pay.

The weakening of minimum wage standards served to lower the floor of the wage structure. There is evidence that the decline in the real value of the minimum wage led to the relative decline in the lower tail of the hourly earnings distribution (Karoly, 1993; Horrigan and Mincy, 1993). While estimates vary, the decreased real value of the minimum wage may explain approximately 30 per cent of the increased wage inequality among all workers (Freeman, 1996).

Increased wage inequality was also partly due to the weakening of the labor movement. Approximately 20% of the increase in wage inequality for men in the 1980s can be explained by declining rates of unionization (Freeman, 1993; Freeman, 1996; Economic Report of the President, 1994, p. 120). Unionization declined more among low-wage workers than high-wage workers. The effect was to increase the wage gap between high and low-wage workers (Mishel, Bernstein and Schmitt, 2001, p. 185). Furthermore, the variance of earnings of union members is less than the variance of earnings of nonunion members. Therefore, everything else equal, a decline in the share of union members should result in an increase in the dispersion of earnings. But everything else did not remain equal as earnings inequality also grew among unionized and nonunionized workers. Thus, declining unionization was only one of several factors behind increased wage inequality.

A primary factor was managerial strategy in response to increasing domestic and international competition. Owners of capital wished to raise the rate of profit. To achieve this goal, many, though not all, firms pursued a strategy of cost-cutting particularly labor cost. A central feature of collective bargaining prior to the 1980s had been the Annual Improvement Factor and the Cost of Living Adjustment (COLA) clauses, initially negotiated between General Motors and the United Auto Workers in 1948. During the 1980s, however, both of these clauses diminished in importance as wage increases slowed, patterns were eroded and agreements became more company and plant specific. In essence, companies were questioning previous understandings made with their unionized workforces.

The lowering of pay settlements helps to explain the fall in the overall structure of pay. During the first half of the 1980s, unprecedented numbers of union members received modest wage increases or experienced no increases or even wage reductions. Between one-third and one-half of the workers covered by major collective bargaining agreements experienced a wage cut or wage freeze (Mitchell, 1985, p. 577).

Initially in 1981-82, the wage and benefit concessions began in a narrow range of companies facing economic difficulties. These companies were located in such industries as metals, motor vehicles, machinery, meatpacking, airlines, printing and publishing, health care, lumber, ordnance and retail food stores. By 1984-85, the situation had changes. Concessions were now being granted in virtually every industry with a unionized labor force. Even profitable firms were getting on the bandwagon and pressing their workers for givebacks (Winter, 1984; Mitchell, 1985; Moody, 1988).

Normally, during a time of economic growth and declining unemployment, unions would be expected to be able to negotiate substantial improvements in pay. Yet, that did not occur. The extent of wage cuts and wage freezes did decline in the second half of the 1980s (Mitchell, 1994). Nevertheless, between 1983 and 1989, annual wage changes in major collective bargaining agreements ranged between 2.3% and 4.0% (Sleemi and Brown, 1993; Vroman and Abowd, 1988). Furthermore, wages rose more slowly in union bargaining situations than elsewhere in the private sector. Thus, the union-nonunion pay differential narrowed in the 1980s (Vroman and Abowd, 1988).

Not only were wage settlements low, previous wage bargaining patterns were eroded. Unions want to take wages out of competition by pursuing pattern bargaining. However, in the first half of the 1980s, may employers sought to break out of existing patterns so that wage settlements were more firm specific. This would enable them to take advantage of any specific wage concessions they might be able to negotiate. Patterns eroded in such industries as tires, trucking, meatpacking, airlines and autos, among others. Multiemployer bargaining ended in some industries, for example in steel. And in other instances, e.g. trucking and underground coal mining, some companies withdrew from multi-firm agreements (Capelli, 1990; Katz, 1993; Slaughter, 1983).

As part of the trend toward more company specific agreements, COLA clauses were eliminated from many contracts. In 1977, 61.2% of the workers under major contract agreements had COLA clauses in their contracts whereas by 1987 only 40.4% had them (Borum, Conley and Wasilewski, 1988). This percentage would continue falling reaching a level of approximately 20% in 1992 (Sleemi and Brown, 1993).

In general, within the unionized sector, industry wide-wage standards seemed to have diminished in importance. And as the influence of unions declined in pay setting, as well as the threat of union organizing, nonunion employers seemed to be shifting away from industry standards for wage determination and setting pay based on local labor market conditions (Capelli, 1990; Katz and Keefe, 1992). Firm and plant specific wage differentials (differences in wages paid by firms to workers with the same measured characteristics) increased in the 1980s, at least within manufacturing. This growth in firm and plant-specific wage differentials was an important source of growth in the dispersion of earnings (Levy and Murnane, 1992).

While bargaining over wages can lead to a lower cost structure, the creation of a "just-in-time" cheaper workforce can do the same. The 1980s, a period of an employer and government offensive against unions, were also a time of growth in contingent and non-standard employment relations (Rosenberg and Lapidus, 1999). In the absence of a clear legal definition, a standard employment arrangement is the commonly perceived norm of a full-time wage and salary job. Thus, broadly defined, non-standard employment arrangements include work done by temporary workers, those working part-time, on-call workers, independent contractors and individuals supplied by contract firms. Businesses hire people into non-standard arrangements in a variety of ways. They may hire workers directly for temporary jobs. They may do the same for on-call and day laborers. Or employers may use temporary help agencies and contracting firms to obtain workers on a temporary basis, though often for long periods of time. Some firms hire independent contractors to do work which would otherwise be done by employees of the firms themselves.

While there are no consistent longitudinal data sources making it difficult to measure trends in contingent and non-standard work over time, it does appear that growth in contingent and non-standard work occurred during the 1980s and early 1990s. A Bureau of National Affairs survey of more than 400 firms reported a marked increase in the period 1980 to 1985 in the number of enterprises making use of agency temporaries, short-term hires, on-call workers, administrative-business support contracts and production subcontracting (Abraham, 1990, p. 92). Bureau of Labor Statistics survey data on contracting out behavior of manufacturing firms showed that between 1979 and 1986 firms reported an increasing propensity to contract out at least some janitorial work, machine maintenance work, engineering and drafting work, accounting services work and computer service work (Abraham and Taylor, 1996).

Some unionized full-time long-term workers found themselves being replaced by non-union contingent employees having only a short-term relationship with the firm. Throughout the economy, the issue was temporary work. Temporary jobs were growing more rapidly than overall employment. Employment in the temporary help supply industry grew from 0.5% of total employment in 1982 to 1% of total employment in 1992. (These figures underestimate the number of temporary jobs since they only count those people supplied by temporary help agencies. "Direct hire" temporaries are not included.) Employment growth in the temporary help supply industry was directly related to the decreasing ability of unions to block the increasing usage of temporary workers (Golden and Appelbaum, 1992).

In some industries such as airlines, the issue was part-timers. In this industry, between 1983 and 1986, the number of part-time workers doubled to 12% of all employees (Business Week, 1986). Non-union, lower-paid, part-time workers were being hired to do everything from baggage handling to taking reservations, jobs previously held by more highly-paid, full-time unionized workers. Overall, the proportion of employed persons working part-time grew slowly in the 1980s. Between 1979 and 1989 part-time workers increased by 0.5 percentage points from 17.6% to 18.1% of all employees. The increase was accounted for totally by those working part-time involuntarily (Mishel, Bernstein and Schmitt, 2001, p. 251). While part-time jobs are not necessarily bad, expanding part-time employment was concentrated in "bad" secondary part-time jobs (Tilly, 1992).

The increase in involuntary part-time employment during the 1980s and the suggestive evidence of a relationship between the growth in temporary employment and union decline point to the ability of employers to determine the terms of the employment relationship. Taken together, the evidence points to the crucial role played by political and institutional factors in converting an employer preference for non-standard employment into an effective demand.

The Legacy of the Emergent Neoliberal Framework

The Clinton administration argued that misguided government policy during the Reagan and Bush administrations contributed to stagnation in average incomes and the greatest increase in inequality since, at least, before World War II. The Clinton policy program was, to a degree, aimed at raising the floor of the overall pay structure and diminishing wage inequality. However, the Reagan-Bush legacy strongly influenced the policy debate and some of the social and labor policies of the Clinton administration.

In order to directly raise the wages of the low-paid, the Clinton administration pushed for increasing the federal minimum wage. During the Bush administration, the minimum wage was raised in two steps from $3.35 per hour to $4.25 per hour by 1991. Against strong Republican opposition, the Clinton administration succeeded in having the U.S. Congress pass legislation in 1996 increasing the minimum wage in two steps to $5.15 per hour by 1997. In 1999, the real value of the minimum wage was more than 14% above the level of 1989 (Mishel. Bernstein and Schmitt, 2001, p. 186). Despite these increases, however, the real value of the minimum wage was still 21% below the level in 1979. Furthermore, in 1999 the minimum wage was still just 39% of average hourly earnings in private nonagricultural industries, the same level as in 1985, during the middle of the Reagan years (Economic Report of the President, 2001, p. 330).

The rise in the minimum wage increased pre-tax hourly earnings of low-wage workers. The expansion of the Earned Income Tax Credit (EITC) led to higher after-tax earnings of low-paid workers. The EITC serves as a wage subsidy for the working poor. It offsets income taxes that eligible workers would otherwise have to pay. And if a family's tax liability was less than its credit, it would receive a refund. In 1993, the U.S. Congress passed legislation increasing the EITC by making more families eligible and improving the payments to recipients. By raising the after-tax hourly wage, the expansion of the EITC provided positive work incentives to many of the lowest-paid workers or those whose only option was low-paid work. As such it represented a first step toward welfare reform.

The expansion of the EITC and the rise in the minimum wage improved the after-tax income of low-paid workers. During the Clinton years, policy changes in the unemployment insurance system potentially increased an important nonwage source of income for workers who lost their jobs. The major policy initiatives occurred at the state level, not the federal level. Many states eased eligibility requirements and raised both the maximum benefit and the average level of benefits over the 1990s. In addition, the increase in the minimum wage made it easier for workers to qualify for UI since it enabled more workers to satisfy minimum earnings requirements. Nevertheless, less than 38% of unemployed workers received UI in 1999, the same percentage as in 1990 (Wenger, 2001, p. 12). However, the unemployment rate was 4.2% in 1999, lower than the 5.6% level in 1990.

While the approaches taken during the Clinton administration to the minimum wage, EITC and UI were counter to Reagan administration policy thrusts, the Clinton administration carried the Reagan attack on Aid to Families with Dependent Children (AFDC) to its conclusion. While President Clinton wished to "end welfare as we know it", he ended it with legislation incorporating many of the conservative Republicans' ideas about the poor and public policy. After vetoing an earlier version of the bill, President Clinton signed the Personal Responsibility and Work Opportunity Act on August 22, 1996, in the heat of the 1996 Presidential campaign. The act repealed AFDC and replaced it with Temporary Assistance for Needy Families (TANF). TANF ended the entitlement status of AFDC. Under AFDC, all single parent families with children and all two parent families with children where the second parent was unemployed were guaranteed assistance by the federal government if their incomes were below state-set limits. Under TANF, states now decide which categories of needy families to assist and they are no longer obligated to provide help to all eligible families.

Not only was the "entitlement" to welfare ended, a strong work requirement was imposed. States were required to have 25% of all beneficiary families participating in "work activities" by 1997 and 50% by 2000. Welfare recipients who failed to engage in "work activities" within 2 years were to be denied TANF benefits. In most instances, people would not be able to receive welfare benefits for more than 5 years over their lifetime. To the extent that individuals would be forced into the labor market, the labor supply to the low-wage sector of the labor market would increase.

Clinton's capitulation to Congressional conservatives on welfare reform represented a major defeat for liberal (utilizing the twentieth century American definition of the term) Democrats and their supporters including the labor movement. Yet this was not the only defeat suffered by the labor movement during Clinton's first term in office. The AFL-CIO had been thrilled with the election of Bill Clinton in 1992 and was optimistic for the prospects for its agenda. And President Clinton did appoint individuals to head the NLRB and serve on it who were likely to be more sympathetic to the arguments of the labor movement.

Nevertheless, important parts of the labor movement's legislative agenda went down to defeat. The Workplace Fairness Act, strongly supported by the labor movement, prohibited the hiring of permanent replacement workers during a strike. Companies still would have the right to utilize temporary replacements. However, at the end of a strike, the strikers would have the right to return as long as they accepted the employer's terms and conditions of employment. The employer would retain the right to determine whether business conditions, post-strike, required the rehiring of all the strikers. In the face of strong lobbying by employers and tepid support from the Clinton administration, opponents of the bill were able to filibuster it to death in the U.S. Senate in July 1994.

On March 8, 1995, less than a year after the failure to pass the Workplace Fairness Act, President Clinton issued Executive Order 12954 barring government contractors from utilizing permanent replacements for strikers. This Executive Order applied to all federal contracts of $100,000 or more. Companies holding such contracts retaining permanent replacement workers rather than rehiring the strikers would lose such contracts and would not be able to receive future contracts. Employers challenged the legality of the Executive Order and the Court of Appeals in the District of Columbia overturned it. The end result was that the labor movement was back to where it started. Employers could continue hiring permanent replacement workers during strikes without facing any government penalties.

As the twentieth century drew to a close, the United States economy was the strongest it had been in several decades. Since March 1991, the end of the last recession, the economy had grown continuously. In fact, the economy was growing more rapidly in the second half of the 1990s than it had during the beginning stages of the economic expansion. Real Gross Domestic Product (GDP) rose by 4.4% in 1997, 4.4% in 1998 and 4.2% in 1999. The economy grew particularly rapidly in the last two quarters of 1999 with real GDP growing by 5.7% in the third quarter and 8.3%in the fourth quarter (Economic Report of the President, 2001, p. 279).

As the economy expanded, more people were hired and the unemployment rate fell to levels not seen since the late 1960s. The unemployment rate steadily declined from 7.5% in 1992 to 4.2% in 1999. The labor force participation rate in 1999 was 67.1%, the same as in 1997 and 1998. This represented the highest rate of labor force participation in the post World War II period (Economic Report of the President, 2001, p. 316).

Even though the rate of unemployment was steadily falling which implies stronger worker bargaining power, most workers, union and nonunion alike, were accepting modest wage increases. Unions remained weak and the share of the workforce unionized continued to decline. By 1999, only 13.9% of wage and salary workers were unionized. In the private sector, this figure stood at 9.4% (U.S. Bureau of the Census, 2000a, p. 445). Even when unions won representation elections, they still faced difficulty coming to agreement with management over a first contract. Between 1993 and 1996, approximately 1 in 4 first contract negotiations did not produce an agreement. Many of these negotiations were highly adversarial. Management was much more likely to threaten and utilize replacement workers in first contract negotiations than in contract renewal negotiations. Similarly, the threat to close a plant was much more likely to be made in a first contract negotiation than a contract renewal situation (Cutcher-Gershenfeld, Kochan and Wells, 1998). Even in long-standing collective bargaining relationships, workers were often on the defensive. Many unionized workers were quite reluctant to strike to achieve their goals. Major work stoppages were extremely rare, there being only 17 in 1999, the fewest in the post World War II period (U.S. Bureau of the Census, 2000a, p. 444).

With rare exception, nonunion workers were also reluctant to push for higher wages. This can be attributed to workers' anxieties over potential job loss even at a time of falling unemployment. A survey of 444 large companies carried out by International Survey Research showed that in 1986 only 20% of the respondents feared being laid off. This number rose to 46% in 1996 (Bluestone and Rose, 1998). Yet the unemployment rate in 1996 was 5.4%, below the 7.0% of 1986. Evidence from the General Social Survey confirm that the 1990s were a period of relative pessimism about job security (Schmidt, 2000).Corporate downsizing in the face of a strong economy and strong profitability certainly fostered job insecurity (New York Times, 1996). Furthermore, rates of involuntary job loss were higher in the 1990s than in the 1980s and earnings declines following involuntary job loss were more severe during most of the 1990s than they had been in the 1980s (Schmidt, 2000).

The increasing prevalence of contingent employment relationships also resulted in job insecurity. The share of the work force employed in the temporary help industry rose from 1.3% in 1992 to 2.3% in 1999. Similarly, workers with contract agencies were growing in importance. In 1992, employment in the personnel services industry accounted for 1.5% of total employment. By 1999, this number had risen to 2.6% (Mishel, Bernstein and Schmitt, 2001, pp. 252-253). A majority of temporary workers would have preferred non-contingent jobs.

At a time when family life was under increased stress as two earners were increasingly required to support an adequate lifestyle, job stability for men was declining and job insecurity was rising (Mishel,Bernstein and Schmitt, 2001). Thus, low unemployment notwithstanding, workers were settling for modest wage increases. In fact, Setterfield (2005) argues that an incomes policy based on “fear” explains the simultaneous low rates of inflation and low rates of unemployment in the 1990s. While real earnings began rising reversing the trend of the earlier years of the expansion, their slow rate of growth meant that it was not until 1998 that average real weekly earnings exceeded the level in 1989, at the end of the previous economic expansion (Economic Report of the President, 2001, p. 330).

The proportion of people living below the poverty line also remained relatively stable since the late 1980s. The plight of the poor steadily improved in the second half of the 1990s. The poverty rate declined from 15.1% in 1993 to 11.8% in 1999. While the poverty rate in 1999 was the lowest since 1979, it was still only slightly below the 12.8% level of 1989. Furthermore, the poverty rate for people in full-time working families with children did not change since the late 1980s (U.S. Bureau of the Census, 2000c; U.S. Bureau of the Census, 2000d, p. B-2).

While average real wages and the poverty rate in 1999 were not much improved over 1989 levels, the low unemployment rates of the second half of the 1990s and the increase in the federal minimum wage did benefit low-paid workers. From 1995-99, real hourly wages of workers in the bottom quintile of the wage distribution rose by approximately 9.0%, faster than the earnings of more highly paid workers (Mishel, Bernstein and Schmitt, 2001, p. 124).

Not only did real hourly wages of the low-paid rise, in the second half of the 1990s, their hours of work did as well. Poor families were more likely to have an employed family member in 1999 than in 1989. And their annual average family work hours rose by 100 in this period. The strong economy was one factor leading to increased work opportunities for the poor (Mishel, Bernstein and Schmitt, 2001, pp. 319-320).

This increased work effort notwithstanding the real income of prime age families (families headed by persons 25-54 years of age) in the bottom quintile of the earnings distribution did not improve from 1989 to 1999. The increased earnings were counterbalanced by decreases in public assistance resulting from the Personal Responsibility and Work Opportunity Act of 1996 (Mishel, Bernstein and Schmitt, 2001, pp. 316-317) The number of families receiving public assistance fell from 4,791,000 in 1995 to 2,582,000 in 1999(U.S. Bureau of the Census, 2000a, p. 391). Thus, while low-income families were working longer hours, their overall living standards were not improving very much.

After 10 years of growth, the United State economy went into recession in early 2001. The recession lasted for less than one year. The recovery has bypassed many Americans. There have been sluggish gains in income for many, particularly those in the bottom and middle of the income distribution. Income inequality has worsened in the first years of the 21st century. The share of all income going to the top fifth of households was 50.1 per cent in 2004, matching the high of 2001 and continuing the trend of the past 25 years. The share of income going to the top 1% of households was higher than at any time since the run-up to the

Great Depression. The fraction of Americans living in poverty rose for the fourth consecutive year to 12.7 per cent, higher than in 1972.

While it certainly is the case that there has been a growth in low-wage employment and an increase in poverty, the growth in inequality is evidence that some have benefited from the new institutional framework. The beneficiaries go beyond just owners of capital. They also include well-paid professional and managerial workers. And while insecure employment has become more widespread and average job tenure declined, average job tenure is still high and all employment is not completely insecure.

Conclusion

The recession of 1981-82 was the deepest since the Great Depression. Since that time, with the exception of two relatively short and shallow recessions in 1989-91 and 2001, the United States economy has continuously grown. While there certainly have been costs of neoliberalism including growing economic inequality and increased deprivation, it does appear to be the case that neoliberalism has succeeded in stabilizing the United States economy. Neither the stock market crash of 1987, nor the world financial crisis of 1997-98, nor the bursting of the stock market bubble in 2000, three strong financial tremors, seem to have significantly affected overall macroeconomic performance. While these financial crises are certainly connected to neoliberalism, the overall U.S. economy emerged relatively unscathed from them.

Thus, it seems that the creation of a new instititutional structure in the 1980s, based on free-market conservatism, paved the way for the economic expansion of the following decade, the longest in the post World War II period. It does appear to be the case that the resolution of the economic conflict, to a large degree, on capital's terms has been a sufficient condition for economic growth over the past 20-25 years. While the growth rates are lower than in the period of more regulated capitalism (the previous social structure of accumulation) from the late 1940s to the end of the 1960s, the economy is more stable than it was in the 1970s, the period of the unmaking of the previous institutional framework. It appears that neoliberalism, deunionization and labor flexibility, three components of the new institutional framework, are also components of a new social structure of accumulation for the United States.

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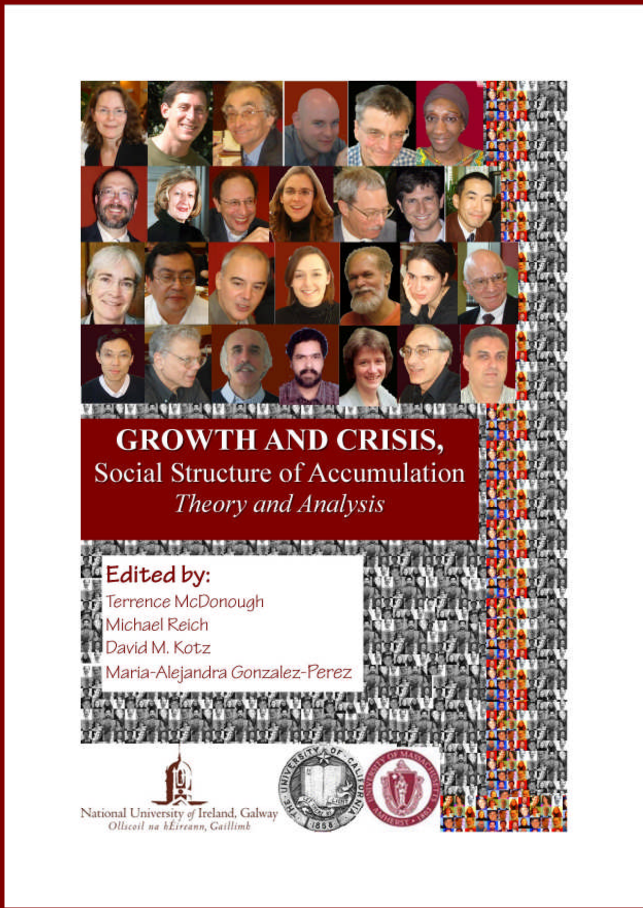

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Accessed Date: 11th December 2006 (11/12/2006)

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