CONFUCIAN ECONOMICS:  
THE WORLD AT WORK  

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Abstract: Chinese have their school of economics. Not recognized as a discipline, it can be extracted from Confucian doctrine. Called here “Confucian economics,” it is a form of ethics. Its seven consecutive principles are identified for the first time. They differ from and overlap with the corresponding principles of liberal economics: People are assumed to seek posterity rather than care for “instant gratification.” Physical resources they need are not viewed as scarce but as abundant. To survive under abundance, people rely on their work effort rather than try to take resources away from others. “Work ethics” and not a “profit margin” is a key motive. People work not for themselves but for others, basically families. As a source of moral rules, family is viewed as the main “work unit” and not the individual. Equality of income is paramount for retaining social peace, which precedes economic efficiency. Built on Confucian principles, economic system is basically a market system. However, it is animated not by individuals but by families. This design is called here “Confucian system.” Rather than to build based on liberal economics “capitalist system,” recent China is rebuilding “Confucian system.” Drawn from ancient teachings, “Confucian economics” is China’s modernity.

Key words: Confucian economics; family structure; work ethics

Love is man  

China’s economic successes are stunning, particularly when contrasted with the faith of other countries that used to operate the command or the Soviet-style system. During the last two-and-a-half decades, almost simultaneously all these
countries have reformed their state-based system by bringing market forces in.
Out of this group of roughly 30 countries from 1989 until 2014, China’s national product grew by eightfold. With this rise, during this period China delivered the greatest miracle in modern history and the surge continues. In 1989, almost the entire rest of the group immediately fell into the world’s worst recession with losses up to two thirds of their national product. The luckiest few, like Poland, emerged from the slump to double national product by 2014. But after these 25 years, the most damaged countries are still stuck below the 1989 benchmark; e.g., Ukraine is down by one third. Many others managed only to restore the pre-recession level, most notably Russia. In 1989, China’s national product was less than half of the Russian, but in 2014 it was five times bigger than the Russian.

The following question arises: why is there such a striking difference? The answer is that the countries that have failed to dismantle the state-run system and did not fully take advantage of it, forgot a key lesson of history that modifying their societies’ systems should be based on the ideas that spring out of their accumulated experience, particularly when changes of the institutional setting happen on such a large scale as in this case. Ignoring this lesson, they have fully adopted a blueprint provided to them by the advanced Western economies, called the Washington Consensus. Informed by the classical (or liberal) economics, this program was centered on introducing the Western concept of free markets leaving only a marginal role for the state agency to play in fitting reforms into local conditions. The same majority of reforming countries have also agreed to the liberal preference for a radical, also called a “shock-therapy,” approach, which left little time for the states to tailor reforms to their particular needs (Poznanski 2012).

As a rare exception, China chose to pay no attention to this liberal master plan and designed economic reforms on the basis of her alternative economics. As vibrant and exciting as it has been, the economic debate on the reasons for China’s producing of the greatest miracle ever makes no references to Chinese economics, as if there was none. No such economics is recognized as a formal discipline, and not only Western but also Chinese economists are silent on this issue. However, while Chinese economics does not exist in a formal sense with specialized journals and academic degrees, it exists informally as a mode of thinking by the Chinese people. This informal status does not make Chinese economics unimportant for the operation of China, since China has been of this mind for as far back as the ancient times when Confucian teachings were formed. These teachings represent the very roots of Chinese economics. For this reason, I call this alternative to classical economics, Confucian economics.

Being a permanent feature of human societies, markets come in many versions that address different needs. Rather than to accept the idea of “free markets” by shifting economic authority from states to individuals, China decided to reduce
excessive state controls in favor of the family—and clan—units. This was in accordance with the Confucian belief that economy is as strong as the families that constitute the most essential “work units.” The leaders also expected that by reviving families in their traditional Chinese form, they will strengthen people’s sense of responsibility or ethics. This belief was also in line with Confucian thinking, namely that economic motivation comes from “work ethics.” Like morality in general, “work ethics” originates from a family setting. In short, rather than following the liberal concept of “free markets” that is absent of morality as a variable, the Chinese followed the Confucian idea of embedded markets that are constrained by a moral code, which in this case is Confucian. Rooted in the Chinese antiquity, this code, and thus the related “Confucian economics,” has been further extended through Chinese modernity.

The purpose of my inquiry is to dissect from the Confucian thought its basic economic ideas and arrange them in the order of modern economics to match the complexity of classical economics as a formal discipline. Judging by the structure of classical economics, to be complete each approach to economy needs to address certain lineup of assumptions, or—as they are sometimes called—building blocks. Based on the classification of alternative Western schools of economics by Gilpin (1975, 1987), my reconstruction of Confucian economics distinguishes a sequence of seven of such “building blocks” and adopts it as a road map. At each turning point of my complex examination of Confucianism, references are made to the corresponding assumptions made within the classical economics. This is only to highlight the extent to which the two kinds of economics differ from each other but not to thoroughly probe the relative worth of both as “recipes” for the conduct of economic life.

Introduction: Traveling to the “End of History”—Without Chinese

There is a wide-spread assertion among Western scholars that since there is only one world to analyze, there could be only one “recipe” for any economy to enjoy a measure of success, and it is by no means Chinese. The recipe is said to be British and brought in over 200 years ago by liberal—also called “classical”—economics, with Smith (1723–1791) as its father. This economics is credited with launching led by Britain of the Industrial Revolution. It started the replacement of the feudal system with capitalism, having the so-called “free market” at its very core. Britain being a pioneer in building the capitalist replacement is taken as a material proof of intensely researched Britain’s “exceptionality” as a nation (Smith 1776). As the classical argument goes, once this historic path has been embarked upon, all countries must eventually join it. Locked in for good, the whole world will reach
what many liberals call the *End of History* (Fukuyama 1989, 1992), with a singular classical thought and universally capitalist.

As far as the reasons for China’s recent success are concerned, liberal economists have a fitting argument. They claim that what is taking place in the recent China is just another example of the triumph of liberal ideas. It is asserted that after over a 100-year long failure to join the capitalist breakthrough by Britain, China started in 1978 economic reforms aimed at building or better imitating the capitalist system from the Western early comers. But if the post-1978 success of China is a reward for taking this turn, why would imitating of Britain credited with “introducing” capitalism to the world allow China outperform all others, Britain included? The liberal answer is, while China is already capitalist, her capitalism is not a carbon copy of the ones existing in Western Europe or America. It retains Chinese “characteristics” that apparently make her version of capitalism such a potent engine of growth.

The facts are that so far China had made only attempt to become capitalist and just once to quickly abandon it. It was during the 1911 Revolution, when feeling humiliated by the colonial intrusions by the Western powers, Chinese urban elites put an end to the discredited dynastic system. They proclaimed the country a Western-style Republic using pages of the European constitutions and “free market” regulations. The unexpected result was an utter chaos, with scores of lawless warlords fighting over control of Beijing’s budget, national currency crushing, and financial system falling into ruins. Weakened by the adversities, China was invaded in 1933 and nearly lost its sovereignty. The lesson was not that China was not yet ready to be capitalist but that capitalism is not for China. This lesson was grasped by communists, who in 1949 restored order in China and reversed the haphazard spread of capitalism by installing Soviet-style system that put economic control in the hands of a one-party state.

When in 1978 the leaders decided to reform the 1949 system by reducing state controls, they didn’t turn for guidance to classical economics again. They had at hand an alternative—Chinese economics, as part of the ingrained in their minds belief system provided by Confucianism. I witnessed to the power of these beliefs when in 1993 the American delegation I was part of was received by the minister of China’s economic affairs, and later the prime minister, Zhu. We met him to discuss best ways to deal with the deficit-making state firms. We brought to the table top-of-the-line classical theories of bankruptcy and sat proudly in a huge wing of the former imperial palace with a bunch of red-dress hostesses. But this buoyant mood lasted only until our host—with a tea cup up—took the floor. He complemented us for the effort and explained, he can’t adopt the proposal, since for this he would have to fire five million people in the coal mining alone. As I
discovered later, what he said was that, in the spirit of Confucian ethics, state’s moral responsibility to people comes before market efficiency.

What then exactly is the Chinese thinking on economy like? To answer, one is basically confined to the ancient records left by Confucius himself (551–479 BC) and the body of writings by his many followers, among them the most renowned Mencius (372–289 BC). There is virtually no more contemporary literature analyzing economic contents of Confucian thought except for a single but major work, namely a 1911 treatise written by a Qing dynasty civil servant. His name is Chen and the book title is *The Economic Principles of Confucius and His School* (H. Chen [1911] 1974). He is most likely the first to argue that Confucianism contains a bunch of well-articulated economic ideas but stopped short of stating that combined they constitute a complete school. The focus of the books was the relationship between Chinese economics and the liberal school. His task was to demonstrate not so much how the two differed but rather how Confucian principles resembled classical ones. Incidentally, Chen cleverly used these claimed affinities to ensure that the radical 1911 reforms don’t replace the immense Confucian tradition with modern—by comparison almost fresh from the drawing board—Western economics.

Some Chinese thinkers at the time were not so confident that the Confucian economic thought would be resilient enough to withstand the march of liberalism. Among them was the Confucian scholar by the name Lin (1938). While Chen had a very tiny following, Lin’s publications became instant bestsellers, at least in America where he migrated to. Like Chen, Lin was also educated both in China and America. Similar to Chen, he wrote much of his books in the midst of the Republican period. Lin wrote widely on Confucianism but less about its economic principles. He was actually best known for his inquiries into differences between Chinese and Western mentalities, or psychology. Like Chen, he fought to preserve Confucianism from the Western advances, but he didn’t think that Confucian economic thought had much future. In his English translations of Confucius mixed with personal comments, he wrote,

Confucianism will probably be put out of date by the developments of modern political science and economics. But as a system of humanistic culture, as a fundamental viewpoint concerning the conduct of life and of society . . . it will still hold its own. (Lin 1938, 2)

My analysis, I trust, demonstrates that rather than providing some sporadic and/or esoteric pieces of economic ideas, Confucianism supplies an exhaustive volume of thoughts that is enough to feed a separate economic doctrine as complete as liberalism. It also reveals that examined point by point, Confucian teachings offer
a quite separate view of the economic world than liberalism does. This intellectual schism goes as far back as the ancient times when Chinese and Westerners simultaneously enjoyed the period of Great Philosophers. For a while, they both studied ethics as the art of living and logic as the art of thinking. Eventually a split emerged, which I prefer to call the “Great Divide.” Chinese chose to focus their worldview on ethics and Westerners centered on logic instead. China went along with her leading moralist Confucius, while Greece, as an unquestionable cradle of the Western culture, sided with her greatest logician Plato (428–348 BC). The division has continued, including their respective approaches to economics, with the Chinese brand molded by Confucius and the liberal one fitting in the framework left by Plato.

Studying “the art of living,” Confucian economics assumes that the nature equips people with the will to live and provides them also with adequate, even inexhaustible resources. All they need to survive is to work hard enough. Since work is a moral choice, Confucians consider “work ethics” the primary factor in creating national wealth. Within Confucian type of ethics, people are expected to work not for themselves but rather for the sake of others. This assumption puts Confucian economics in the category called moral economics. The reason why work is done collectively is that the basic “work unit” in any society is family, with work done either for family’s own sake or for the market. Family is said to be the unquestionable axis of economic life, since family is where the strongest impulse to work is located within. This leading impulse is a compassion for others, or more specifically the familial love. With this emphasis on family, Confucian “moral economics” can also be categorized as a type of family economics.

Following a different trajectory, liberal tradition assumes that material resources are inadequate for all to survive. For the winners to secure enough resources, losers have to give up their own resources, e.g., be forced into bankruptcy or deprived of them by some other means. The best chance of surviving this sort of struggle has an individual acting alone, since it is his/her preservation that is at stake. With this theoretical simplification, liberal economics can be branded—as I call it—a solitary economics. In this kind of analytical approach, minding own interest—or business—by individuals means having no moral concern for the welfare of others, not even one’s own family members. Actually, in the economic world as described by the liberal economists acting against morals is acceptable or even desirable if it enhances individual’s chances of survival. This particular assumption on the instrumental role of morals makes classical approach an agnostic economics (an extreme example being the treatment of morality by Friedman 1970).

It follows, in the liberal doctrine it is not family and morality but interest and individual that are seen as the two governing elements. This distinction is critical, since the choice of governing elements dictates the nature of the preferred...
economic systems. Understood as a set of “rules of the game” for the agents, such systems are formed to assist individuals in meeting their economic goals. Predictably, the classical thinking is that the most suitable is a social system built around both interest and individual as governing elements. Confucian approach is that the most effective is a system built around morality and family. The former system is capitalism, so what would a system compatible with the Confucian beliefs be? Since at least on these two important points these viewpoints don’t match, such an alternative must be a reverse of “free-market” capitalism. In the Western classifications, this opposite is often identified as state (or authoritarian) capitalism, where markets are squeezed by the activist state.

But this is not necessarily a correct characterization, since the system compatible with the Confucian worldview might be a more extreme departure from capitalism, this kind or any other kind. This particular system might be “socialism” as the opposite of capitalism. Even the just mentioned few assumptions that Confucian economics rests upon seem to suggest that such categorization of China’s system might be more appropriate. Confucianism and socialism seem to share the same strong ethical outlook and a focus on the necessity of cooperation. Furthermore, they both seem to treat labor as the main source of wealth. Such a suggestion is made by H. Chen [(1911] 1974), who wrote that “. . . Confucians are more socialistic than individualistic” (2:460–61). Given the ancient nature of Confucianism, to accept such definition would make one conclude that the Confucian doctrine could be one of the earliest forms of socialism or a sort of prototype. Yet it makes much more sense to stay away from Western classifications. Since the Chinese economic system rests on “Confucian economics,” rather than on the widely used Western term socialist system, it makes more sense to call it Confucian system.

To be precise, the argument that morality and family are central for the conduct of economic life is also advanced by some Western schools. One of them is attached to liberalism Austrian school, also called Evolutionary economics. It is usually associated with the two Austrians, Hayek and Schumpeter, offering modified interpretations of capitalism. Like liberal economists, they believe that capitalism is the most efficient system of all. Sharing the same general approach, Hayek (1988) argues that there is no replacement for capitalism. But Schumpeter (1942), as the main inspiration for most of my own work, is of the view that while capitalism doesn’t have to be replaced by socialism, under certain circumstances it may have to. This may happen if people conclude that regardless of the relative levels of efficiency, they prefer state intervention under socialism to market competition under capitalism. Thus, systems are subject to moral choice between relying predominantly on one’s economic efforts as opposed to being largely dependent on the support from state (with “socialism” defined by him very
broadly as any system relying heavily on the state; and the Soviet-style system of command economy is only one case in point).

While to Hayek capitalism is not replaceable, it doesn’t mean that it is indestructible. Actually, any economic system or even a whole civilization can fail, and many have failed in the past. This happens when based on false premises ideas regarding foundations of economic life do prevail. To him, these foundations are, respectively, “property” and “family,” both understood by him as economic institutions. From its inception, these two have shaped the Western civilization. They have withstood movements to do away with them and watched these assaults repeatedly fail. Hayek (1988) wrote, “Among the founders . . . over the last two thousand years, many opposed property and the family. But the only [systems] . . . that have survived are those which support property and the family” (137). He refers to what he perceives as failings of socialism, but Schumpeter makes a similar statement regarding capitalism. In this theory, the primary forces of the possible demise of capitalism from a rumbling legitimacy are the erosion of property (due to separation of control from ownership) and collapse of family—as the main source of ethical motivation.

Ethical criticism of liberalism originates also from outside of the liberal circles, most notably from the Marxist economists. Among them is the widely recognized Austrian scholar Polanyi (1994). Similar to Confucianism, but with no direct references to its philosophy made, he assumes that “family” and “morality” are the main dimensions of economic life. He claims that literally for thousands of years until the advent of capitalism, societies were squarely based on these two principles. The one that relates to “family” is the principle of *house holding*, i.e., production of goods for family’s own use. The other, related to “morality,” is the principle of *redistribution* of wealth, e.g., through families and communities. By allowing capitalist “free market” to uproot both principles of economic life, as Polanyi writes, introduction of the capitalism system released—to use his phrase—the most “devastating destruction” in human history. It is not so much economic deprivation as a psychological one, relating to as he calls it “commoditization” of people and to the loss of their sense of humanity (dignity).

To Polanyi, while all traces lead to liberalism as the cause of this “devastating destruction,” the single most critical role of this doctrine was to bring into the Western mind-set the theoretical or better fictitious concept of the *economic man*—or *rational actor*. Invented by Smith, this concept defined an individual as one who by birth—instinctively—needs “free market.” People have no choice, since this motivation is a product of their innate “propensity to barter, truck and exchange,” and should thus not be distracted even by ethical aspects involved. As Polanyi argues, as a product of rationalist logic rather than a study of man’s experience, this speculative concept has been gaining ground until the need for
any sensible argument against has gone. Pointing to the massive dislocation caused by the spread of liberalism, Polanyi (1994) summarized his critical account with the following words: “... no misreading of the past provided [was] more prophetic of the future” (44). And, it is only because of the periodic reversals in the implementation of the liberal agenda that the world has been able to persevere.

Whoever is right in this broad discourse, an important question remains: how China’s state could turn to Confucianism and use it as a blueprint for 1978 reforms? Isn’t it true that the radical forces unleashed in 1911 and then in 1949 were openly hostile and called for its eradication? Return to Confucianism was possible, since this eradication actually never happened. The 1911 attempt was quickly aborted and so the Marxist offensive launched in 1949. While the offensive had lessened, Marxism in China has modified itself by bringing “Chinese characteristics,” mainly some selective inferences from Confucianism (Katzenstein 2012). These infusions should come as no surprise, since as just described Confucianism actually shows certain affinity with Marxism as a different force for socialism. Ironically, rather than to dissolve, under the pressures coming from the official circles, Confucianism greatly modernized its contents and increased its political appeal (Xi 2014).

As strange as it may sound, one of the most compelling pieces of evidence to how resilient to the 1949 change of fortune Confucianism has been is the Chinese painting practice. Unlike in Western tradition, where social ideas are mainly propagated by historians, in Chinese culture this has always been left mainly to the scholar—literati—painters and their lyrical scrolls (Binyon 1935). Their visual is completely filled with a symbolic reference to the Confucian concept of the world as a moral order. In 1949, universities replaced traditional-art departments with Western-art departments devoted to the so-called social realism. Almost as fast, the traditional painting departments were brought back to life, since too many political leaders were fond of classical painting and interested in collecting scrolls. While two departments continue, classical painting is thriving today. There is practically no social realism practiced anymore. It has given in to the Western “conceptual painting” but with a clear moral message to share (Kuspit 2004).

The facts are China’s amazing growth can be linked to various Confucian threads of her reform approach. For sure, there is a proof that it paid off for China to make families and their clans the backbone of economy again. The miracle had begun with the 1978 transfer of land control (but not of legal ownership) from the state collectives to family-based farms (Naughton 1996). The boom was extended when peasants took advantage of relaxed regulations and began investing profits in the local industry. Over the entire duration, the economy was helped by the fact that the family sector pushed China’s saving rate to the highest level worldwide. Rather than to seek money for investment through the “free market” and, say,
use bank credit, family start-ups relied almost exclusively on cheaper—lower cost—means of financing. They turned to the traditional ways of pooling together savings set aside by the tightly linked family—or clan—members.

There is also ample proof that family units were able to deliver the recent miracle due to the invigoration of traditional “work ethics,” where work is considered a source of satisfaction rather than an unavoidable hardship. This is why the mushrooming firms are mostly parts of households with fronts used for business and backs serving as living quarters. And this is why regardless of age, all family members are busy and most firms are open all day with no fixed business hours, and taking vacations is still rather rare, even in the state—public—sector. What stands behind this recent rise in the work ethics is the revival of a unique Chinese family structure that seems to provide exceptionally strong motivation. This family structure is built around the Confucian concept of filial piety that requires children to take complete responsibility for their parents’ well-being.

As documented by studies in China and Taiwan, the strong sense of filial piety is remarkable. It is common for children nowadays to transfer as much as one third of their income to retired parents. Following tradition, parents typically live under one roof with their children, a fact which explains why in China most of the new apartments for young couples are designed with extra rooms for parents. But it would be incorrect to view Chinese-type family as one where only children are required to sacrifice. In fact, it is to the contrary. As much sacrifice is expected from parents with respect to children. The major help for children is provided by parents through sharing the burden of raising their grandchildren, which further explains why three generations tend to live under one roof. By taking care of their grandchildren, parents allow their own children devote more time to work and contribute to overall wealth. Importantly, it is this family practice that allows hundreds of millions of migrant workers—mostly as married couples—to assume urban jobs.

That during the recent reforms China has again “missed” capitalism fits into a broader pattern, since earlier China had also “missed” feudalism, at least in its European form. If one is to believe liberals, feudalism should arrive in China before capitalism, punctuated by “Industrial Revolution.” The question of whether China is already capitalist is still hotly debated, but on the fate of feudalism in China historians are closer to a resolution. By and large, they agree that China has never been feudal. Examined against the findings by medieval historians, China lacked the principal feudal institutions, such as the manorial economy, serfdom (e.g., “ascription” to land), or the system of vassalage. The facts are that with these two “misses” during the several centuries, China has been steadily moving along her own path of history, which is unrelated to the European trajectory. As China’s experience indicates, the liberal idea of the world reaching the “End of History”
with the uniform mind seems a utopian vision. As practical as they are, like with any other utopia, Chinese can’t take this prediction seriously.

The further evidence that counters the liberal vision of the “End of History” is that many economies of Asia have also deviated from the presumed path leading to the domination of “free market” capitalism. It is of great importance that this is the case of countries where Confucianism has spread from China, i.e., Japan, Korea, and Vietnam. Despite her economic superiority stretching over centuries, China has never really tried to use force to impose her Confucian vision upon the world or even just Asia. She has preferred to be left alone, and as long as other countries presented no military threat, China let them copy from her at will. Like China, these economies (with the possible exception of Japan) have also “missed” feudalism, and (jointly with Japan) they all have “missed” capitalism as well. And it happens, in our post-war times, with China included only this group of nations delivered “economic miracles.” Adding China, all these exceptional country cases represent a big chunk of the world, that with their own Confucian path of history that—in the view of their people—has no unified end.

With these facts on Asia at hand, some proponents of the “End of History” theory have qualified their pronouncements. Among them is Fukuyama (2011), who made this concept of change into a “global” conversation. He subsequently modified his carefully reasoned position by admitting that, used as an archetype for judging world trends, British history is “… a weird experience [and] shouldn’t be regarded as a model.” He still argues that successes of Britain may confirm benefits of the “free market” but adds that China has no need to jump on the bandwagon. It doesn’t, because it became the greatest recent “success story” by seriously limiting “free markets” for the sake of the state. To him this is the most efficient state nowadays, one with roots in the first form of the modern (or bureaucratic) state invented by China back in the third century BC. Impressed with the recent Chinese state, Fukuyama continues to praise benefits of “democracy” but doubts whether at the “End of History” all countries will rely not only on capitalism but also on democracy. As another British, rather than Western, invention “democracy” might not be applicable in other places in the world.

Assumption # 1: Individual’s Sense of Purpose—Seeking Continuity

Similar to classical economics, Confucian economics is a behavioral science concerned with management of wealth, i.e., anything that allows an individual to meet its economic objectives. Judging by how the Western mainstream economics is structured, the first “building block” for any economics to settle is the assumption on the primary objective of economic actions, i.e., the sense of purpose (see Table 1). Ultimately, it is individuals who act, so the actual question is what motivates
them the most. The choice for economists is that either individuals aim at “instant gratification” or that they are preoccupied with “posterity.” Simply speaking, it is about whether individuals are impatient and living day by day, so to say, on food alone, or if they are deliberate and thinking primarily about what sort of legacy they will leave behind. While classical economics assumes that individual—as the so-called “rational actor”—is in pursuit of “instant gratification,” the Confucian assumption is that the major concern is a “legacy.”

Since the whole content of Confucian doctrine is determined by references to nature, for Confucians to justify their assumption nature must be examined first. And because people are an integral part of nature, their purpose must be the same as that of nature. In the Confucian approach, the view of the nature is that each creation is imprinted with a life code. It consists of two elements—yin and yang—former referring to female and latter to male. They don’t relate to genders, since female doesn’t mean here woman, and male doesn’t mean man. These constitutive elements are contained in each woman and man. Being a living whole, the universe is animated by a vital energy—qi. And since the nature consists of female and male elements, the energy comes always in two forms, qi-yin and qi-yang. They have to be two and not one, since there is no life—and no world—without differentiation, with each side of the “equation” having the same principal goal.

Table 1  Basic Assumptions: Confucian and Western Economics

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<th>Confucian economics</th>
<th>Classical economics</th>
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<tr>
<td>1. Principal objective</td>
<td>Continuity (procreation)</td>
<td>Consumption (existence)</td>
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<td>2. Resource condition</td>
<td>Abundance (excess)</td>
<td>“Scarcity” (deficit)</td>
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<td>3. Survival strategy</td>
<td>Earnest work</td>
<td>Resource acquisition</td>
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<td>4. Motivating force</td>
<td>Moral attitude</td>
<td>Property rights</td>
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<td>5. Basic institution</td>
<td>Family unit</td>
<td>Free market</td>
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<td>6. Income distribution</td>
<td>Equality (no poverty)</td>
<td>Inequality (with poverty)</td>
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<tr>
<td>7. Preferred method</td>
<td>Common sense</td>
<td>Theoretical models</td>
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What then this purpose is? Since, as just stated, Confucian philosophy claims that nature presumes life, or simply speaking is life itself, there can be only one principal purpose in nature, namely, “life itself.” To be more precise, this purpose is the ensuring of life’s continuity by giving birth and therefore being survived by your own blood. For this reason, the nature can be equated with birth. As Chinese often say, the nature is “pregnant with birth” (or life). Life must be such an ultimate purpose of all creatures, since without propagation the world would vanish. Actually, the nature as such won’t even ever emerge. This primal drive represents the true meaning of the “will to live” that nature equips people with, together
with their reproductive capacity. To assume, the above makes Confucianism a *philosophy of life*. As its derivative, Confucian economics is an *economics of life*.

Confucians understand that what comes first in life is the satisfaction of basic needs, such as food and shelter. Such needs fall in the category of “instant gratification,” since hunger can’t be ignored for long. While “instant gratification” is seen by Confucian economics as a precondition of life, what matters even more in the scheme of life is the continuity of family’s blood. To have children is not a form of “instant gratification.” It is a lifetime experience from the day of child’s birth to the day of parent’s departure. Actually, having your own children goes beyond one’s lifetime, since children may have their own children and then again, in a sequence that is stretched ad infinitum. Thus, the actual purpose of an individual as an economic actor is not so much a one-time reproduction but rather a projection into eternity, as in a form of securing the *eternal life* that—if I could say this—Chinese are obsessed with.

Concern for biological continuity is not the only alternative to seeking “instant gratification.” Another one is the seeking of appreciation by fellow citizens for doing “good” things for a community. Importantly, this happens to be a major quality of a model—virtuous—administrator as defined in the Confucian thinking. Seeking social acceptance is identified as an alternative to “instant gratification” by Smith, though only in his early writings. Before inventing “economic man,” not yet as an economist but rather as a philosopher, Smith (1759) argued that the proper—and God-given—motivation for individuals is the so-called fellowship, i.e., earning “recognition” among one’s fellow citizens. Or, as philosopher Arendt (1958) argues, there is an option to move beyond the private—basically family—life and join political life for the common good (like in the ancient democratic Greece that she finds historically a superior mode of body politics).

With the above distinction of two human objectives comes the Confucian separation of goods into material (or physical) and “spiritual.” “Instant gratification” involves mainly the former, and pursuit of posterity relates basically to the latter. On the “material” goods, Confucians call for showing a restraint, like in this quote from Mencius:

> For cultivating heart, nothing is better than having few desires. If someone has few desires, although there will be times when he does not persevere, they will be few. If someone has many desires, although there will be times when he perseveres, they will be few. (Norden 2009, Book 7B, 35.1)

On the “spiritual” needs, there are no limits, since they mostly involve human relations (e.g., comfort of one’s household or familial love). “Spiritual” are thus superior to “physical” goods, a point made by Mencius whose standing
was captured by Norden (2009) in the following quotation: “The best life is characterized by simple, everyday pleasures and rich relationships with family, friends, and members of one’s community” (xvii). Incidentally, this view on superiority of “spiritual goods” reveals the Buddhist influences on Confucianism.

As a rule, there is no perfect information, but in the case of “instant gratification,” transactions are frequent and predicting can be relatively easy. The risk of missing an optimum solution is thus not excessive. In these situations, risk-averse individuals can act like liberal “rational actors.” But in the case of seeking continuity, information required for “rational choice” is simply not available. In this pursuit of, call it, distant gratification, couples would have to have access to costs and benefits for the remainder of their life. Of course, this is not possible, so if couples were acting like “rational actors” and avoid risk at any price, they would be discouraged and would never choose children. In real life, as we all well know, people have children, so they can’t be “rational” in the strict—classical—sense. That this is a different kind of rationality does not mean that continuity as an objective is not an economic issue, i.e., not for economics to seriously analyze.

Going further, for the “rational choice” to lead people to “equilibrium,” a fine-tuned “free market” will generate full information, i.e., “free prices.” While this condition can be met, though imperfectly, in the market for goods satisfying instant gratification, there is no such thing like a market for procuring children as a way to achieve posterity. Attempts have been made in Western economics to model such a market by assuming that children are tradable like any other goods (e.g., Becker 1981). Of course, there can be no such markets, though in places like traditional China there were some—limited to relatives—“exchanges.” Children are not tradable since there is no sizable supply of them; nor is there a demand for them significant enough for a market to operate. If legacy is a common objective, disincentives for selling ones’ offspring must be enormous. Buying is also rather out of question, since people want children of their “blood” which they can ensure only by breeding their own.

The lack of such markets doesn’t mean that seeking continuity is an issue outside of the parameters of economics certainly not for Confucian economics. Actually, all its “building blocks” relate to reproduction. The right way to look at this doctrine is to view it as a “recipe”—and agitation—for ensuring that people multiply. In this pro-natal doctrine, procreation is seen as an imperative, throughout the society, with demographic expansion being a prime indicator of economic success. At the family level, perpetuation of the lineage is the main obligation of the man, as a family head. Having as many subjects as possible is the greatest concern for emperors and their bureaucracy, so their policies are to be calibrated accordingly. Interestingly, because of its advocacy of withdrawing from active life to search for “inner harmony,” Buddhism was found as a threat
to Chinese demography. It is on this ground that, after reaching its peak of power under the early Tang dynasty, Buddhism was eventually marginalized by the Confucian philosophers (Waley 1939).

Given this preoccupation with the continuity of life, one wonders how China came up with the 1979 one-child policy. Mao himself was “Confucian” on demographic issues and vigorously supported large-size families. The 1979 change of course was a response to the academic prophecy on population explosion published separately by two Western scholars, predicting that if birth is not controlled, the earth will “collapse.” The selling fast books impressed one Chinese mathematician who built a model to calculate that “equilibrium” population should stay close to the existing level. That he hoped he could master such a complex issue is a mystery. Another mystery is how, based on this study, the leaders adopted a harsh birth control, though without the calculated plateau. No other country went along, and the two bestsellers were quickly forgotten and so the names of their authors. Mysteriously, there is barely any talk today about the “population explosion.”

Undeniably, restricting consumption by reducing the number of children helped China to push upward the share of investment in the national product and accelerate economic growth but not without an economic cost. Aging of the population has accelerated, so that welfare payments became an increasing drag on the economy. But there is a more relevant negative consequence, possibly a historic one. As long as China’s history goes back, Confucianism has been China’s history, and it is Confucianism that suffered most from the official ban on going beyond one child. To be relevant, Confucian ethics has to be practiced, but how can it be practiced if the objective of continuity through expansion of family can’t be pursued. This whole ethical system is predicated on the pursuit of family’s enlargement. But with one offspring allowed, people have had to accept a systematic shrinking of family and thus extinction of their lineage (keeping in mind that since Chinese lineage is paternal and on average half of the children born are males, under the one-child policy only half of families could have male heirs).

As serious as the above threat to Confucianism is, as serious has been the societal response to it. At the current stage of development, this is still a society with a strong drive to have children, where males, for instance, try to marry only if a woman is already pregnant with their child. Though being draconian on paper, the restrictive one-child policy has never been fully implemented due to public sentiment. It proved especially hard to enforce in rural areas that even today still dominate China’s economy. The more conservative outlook of peasants compared with urbanites had to be a factor. Under pressure, at all levels the state started relaxing the regulations, so that by 1995, about half of the couples were excluded from the limits. Payments for having a second child have been phased in. The remarried were allowed to have an additional child as well (probably for the reason
of increased frequency of divorces disallowed by Confucianism). Couples with a higher level of education have been proposed to have a second child. Recently, the state has declared preference for a two-child policy, and abandoning the policy altogether is considered.

The Confucian claim that the principal objective of individuals is to ensure the family’s continuity has some potentially important economic advantages. The point is that the image of individual pursuing legacy, provided by Confucian economics, encodes a special sense of time in individuals. Focus on continuity blurs the difference between present and future, or to put it differently it brings the future closer to the individual when he/she is in the process of deliberating a course of action. When individuals view future as close by, they are more likely to pay attention to the distant consequences of their actions. To put it differently, since there is a cost to future reward, they must sacrifice their current—“instant”—gratification, with the feeling that future is less distant, and a greater willingness by individuals to make present cuts and save harder to raise future wealth (the focus on future when rewards are greater has also the effect of making people work harder, see Harrell 1985).

The way Confucian economics encodes time corresponds to the rules of Chinese language, whose grammar equates the future with the present events under consideration. In fact, there are no tenses in Chinese—Mandarin—language, so there is no distinction between the past and the present either. In all cases, the timing is inferred from the contents of what is written. Chinese are not restricted in using tenses, but in a daily practice they don’t use markers of time (M. K. Chen 2013). Grammatically equating the present and the future makes users also equate in their minds the present and the future. This way of encoding time differs, for instance, from the British (as well as the French) practice, where users are expected to make distinction between the present and the future. These grammatical rules of Chinese language follow a special Chinese concept of time, and thus history. In Western tradition with its linear concept, each moment brings events closer to an end. But in Chinese tradition, time is a continuum, with no beginning and no end; all activity caught in cyclical returns, exactly like it is in life.

Assumption # 2: The Underlying “Economic Condition”—Inexhaustible Resources

After determining what the objective function of individual is, each economic doctrine faces a choice of assumptions on what sort of economic condition individuals face while pursuing such a goal (see Table 1). The issue here is the availability of resources needed to create wealth seen as the only way of economic survival. One choice, that of classical economics, is to assume that universally,
the resources are “scarce,” meaning that they are insufficient to meet all human needs. To put it differently, natural resources are assumed limited, and the needs of people are unlimited or insatiable. This definition can be found in most of the textbooks introducing classical economics, or actually almost any type of Western economics. Interestingly, while the notion of “scarcity” is what is said to give rise to economics as a separate discipline of social sciences, not much ink is used to elaborate on this concept.

While there is some ambiguity about what liberals exactly mean by “scarcity,” there is one thing that is absolutely certain, namely, that liberal economists categorically reject the opposite to resource “scarcity,” namely, the “abundance” of resources. It would be impossible to find any endorsement of the notion of “abundance” written by a classical economist, going back to the first of them in line—the founders. How then do the Confucians view the resource conditions? The straight answer is that the liberal notion of “scarcity” is totally foreign to them and not even comprehensible. Confucian economics assumes that, as another manifestation of the goodness of nature, resources required for human beings to meet their needs are actually in “abundance.” To Confucians, it is incomprehensible that, as grand as it is, nature would give people a gift of life not furnishing all of them with resources needed to hang on to life. Deeply ingrained in Chinese mentality, this wisdom is captured by a popular proverb: “Always have children, providence which brings them to light, will not let them perish in hunger.”

Predictably, the exact message is projected by the scrolls of the “literati” painters. They present nature as an overwhelming whole to be captured by vague impressions rather than renditions of the physical reality as it is perceived. Invariably, nature is pictured as imaginary gigantic mountains with streams of water all composed of vast vistas with no detectable end. To achieve such an artistic effect, in their—dreamy—minimalist landscapes, they created an illusion that there are many or infinite horizon lines, and, thus, there is actually no strict demarcation. Unlike Western paintings, where objects are in a complete form, Chinese works of art show each object with only partial depiction, so that the viewer is left with a section of a tree branch or with few flowers from a bunch (Rowley 1959). The objects are painted as if they were too big to fit the paper—or silk—of a scroll. To further amplify a sense of the limitless, painters leave much of the painting voided, untouched by paint, and water as its base. And, the meager presence of people, as tiny shapes put in paintings’ remote corners, further suggests the vastness of nature—offering to people all in excess.

The most elaborate philosophical treatment of the issue of availability of resources comes not from Confucius but from Mencius. He argues that nature provides for people without ever pushing them to the brink of extinction. It doesn’t matter what the absolute population size is, since nature can support any number
of people under the single condition. Namely, resources nature provides are not wasted. The issue at hand is not the potential waste by failing to make more efficient use of resources. It is simply about avoiding mistakes—human errors—that interfere with nature as a supplier. Mencius wrote,

If one doesn’t disrupt the farming seasons with building projects, but only waits until after the crops have been harvested, the grain will be inexhaustible. If overly fine nets are not used in the ponds, so that sufficient fish and turtle are left to reproduce, they will be inexhaustible. If people bring their axes into the mountain forest only in the proper season, the wood will be inexhaustible. (Norden 2009, Book 1A, 3.3–3.4)

Mencius adds that even during the worst of times with any sort of adversity—flood or draught—there should be enough for people to avoid death from starvation. When people have to die during such unfavorable times, it is not for the lack of food, but for the deprivation of food by the more fortunate individuals, in these instances—meaning speculators. To follow the seasons also means to be prepared for harsh weather conditions that leave people with less food than usual or even with none at all. If during regular seasons adequate portion of supplies is stored for the future, when floods and droughts arrive, people can draw adequate supplies from what was stored to sustain them. This storing is considered the primary obligation of kings, and only when kings fail to provide relief through public and/or private sources, poor harvests become deadly: “Not to release grain from granaries people die from starvation is killing, not the harvest is responsible but people” (Norden 2009, Book 1A, 3.3–3.4).

Not only that the resources are found exuberant, the liberal notion that there is always scarcity (or shortage) because human needs are limitless is disregarded by Confucians. What comes with the notion that needs are unlimited is that people are forced to substitute one product for another rather than enjoy benefits of both—or all—goods equally. Confucians admit that individuals always make choices within their finite budgets, but they don’t accept the notion that this itself makes people’s situations “dismal.” It would be a “dismal” situation only if ethical behavior were excluded as an option for individual. However, as Confucian economics claim, if ethical dimension is added, there is an easy practical solution to this spending dilemma. People can simply show necessary moral restraint and prioritize spending without any “pains.” Mencius explained this point plainly:

I like fish, but I also like bear’s paw, but if I can’t have both at the same time, I will forgo the fish and eat the bear’s paw. I love life, but I also love righteousness, and if I can’t have both at the same time, I will sacrifice life to have righteousness. (Norden 2009, 260)
Designed to deliver the Confucian vision—or image—of the living world, Chinese pictorial language shows no need to convey that there might be such a thing like inadequate resources. As already stated, there is a word for this condition in Western language, and this word is “scarcity.” But as ancient as the Chinese language is, there is no special ideogram for capturing any notion of scarcity (or shortage) of resources. If during millenniums that have passed the Chinese have felt no need for such an ideogram, it suggests that there was nothing in their daily life experience that called for such a character to be ever invented. True, quite recently, a separate ideogram has been created in the Chinese language for the English word “scarcity.” But this is not due to some sudden belated realization by Chinese that there is such a thing as “scarcity.” The purpose of adding such a character was to facilitate translation of economic articles from English into Chinese. Interestingly, this and other such characters that were more recently adopted from Western language were produced not by pictorial representation but by mimicking the foreign sound—a transliteration.

One wonders whether there was in the history of China as the longest lasting civilization any memorable experience with “scarcity,” meaning excess of people relative to resources of land and water. Certainly, the Chinese could not have experienced a lack of resources while living on what they gathered at a primitive stage with endless resources—actually the whole green planet—available for small pockets of people to rely upon. Resources were not a problem when they turned to farming either, with two major rivers and splendid soils that helped China to become the earliest great agrarian society. Since then, China has retained the same borders, not excluding Tibet, which is not known for offering much soil for the farming anyway. If “scarcity” is not a term but a reality, then this reality should at some distant point force the population to stagnate, but as we well know, it has almost continuously multiplied. In the later centuries, China even went through some sort of demographic revolutions like those during the period 1740–1940 when the total head count increased from 150 million to 450 million or three times.

Let’s turn to Britain, where after 1740 huge numbers of Brits immigrated, mainly to America, which happened to be also a magnet for similar in size immigration from Germany. The numbers of Brits leaving their households for unknown future abroad were so high that the whole demographic phenomenon was given by historians the name of Great Migration. Many Western economists have concluded that this unusual mass relocation was primarily due to a mounting land shortage. But this migration, despite her enormous size, provides no proof of the effects of “scarcity,” since at the global level there was none. In fact, this historical development proves the opposite, namely, that at the time in question the total—worldwide—resources provided by nature were in excess. What else, if in America, where British and other farmers with families went to settle there...
were areas of virgin land, representing at least a quarter of the total arable soil in the world? Given the relatively tiny number of locals, with only a fraction of them involved in farming, migrants certainly had no economic reason to battle them.

Various econometric methods have been used to measure whether there is any correlation between availability—supply—of land and migration abroad by using prices of land in various areas as an indicator of “shortage.” Mainly done for Europe, these calculations produced no empirical support for the argument on excess population. No measurable evidence was found for China either, who experienced her parallel and almost equal in absolute numbers outflow of people abroad, call it her own Great Migration. In addition to the internal migration to the almost deserted Manchuria, multiple of farmers went abroad, mainly to South Asia. Half of them originated from a single and rather small province named Fukien. Like elsewhere in China, people left not out of economic desperation but to become richer. And they came mainly from this province since it was a coastal one and thus offering cheap travel. In addition, as the family records indicated, the majority of those leaving boarded ships with an intent to go home when elderly. In Fukien, the most affluent will settle on a tiny most picturesque Gulangyu Island near the garden city of Xiamen that is so deep in my memory.

Returning to Britain, there is more material evidence that migrations through the whole human history were not about efforts to save lives in the face of shortages, but mainly opportunistic. Migrations were about the betterment of life by those who were adventurous enough to leave for “greener pastures.” Demographic statistics demonstrate that at the time of her “Industrial Revolution,” Britain witnessed the just mentioned population boom. At the time, migration greatly accelerated reaching about 4 million. This could be taken as a proof of “scarcity,” if not for the fact that the size of migration paled in comparison with the additional population that was absorbed by Britain herself. While about 4 million migrated, the total British population increased from 17 million in 1851 to 30 million in 1901, meaning 13 million. It means that Britain had enough resources to support the additional 13 million inhabitants. To make it perfectly clear, to accommodate the outflow of 4 million migrants, Britain certainly didn’t need more than another island of her size. Yet Britain still engaged in colonizing the majority of the world to create a “naval empire.”

Assumption # 3: The Winning “Survival Strategy”—Importance of Work

The third “building block” (see Table 1) for any economic doctrine is the issue of best strategy for dealing with the “economic condition (or problem)” that individuals encounter while trying to meet their needs. Arguably, the circumstances that individuals are confronted with determine the choice of most efficient type of
responses. Turning to liberal economics first, to address this question we need a more precise sense of what sort of hardship comes to individuals because of “scarcity.” It can’t be a trivial one, since otherwise it won’t be sufficient as the rationale for creating a separate discipline to study the economy. By saying that universally—across the time and space—there is “scarcity” due to limited resources, liberal economists are actually proclaiming that resources are always insufficient to support all the living. Under the circumstances, the pursuit of wealth becomes the so-called struggle for survival, where only the fittest survives. The classical idea of “scarcity” of resources is thus inseparable from the idea of the life-changing “struggle for survival.”

The concept of the “struggle for survival” had been given a theoretical form already by the first liberal thinkers, who came up with the concept of oversupply of people that—for the sake of global balance—must be removed. The prominent predecessor to Smith, Hobbes (1588–1679) wrote, “When the world is overcharged with inhabitants, then the last remedy of all is war . . .” (Hobbes [1651] 2012, pt. II, chap. 30). Partly overlapping with Smith, reverend Malthus (1766–1834) proposed a model to explain this apparent phenomenon, and that harsh remedies are a must (Malthus [1798] 1993). Called Malthusian Trap, this model claimed that due to their inborn instinct, people strive to multiply and have as many children as women are capable of delivering. When for whatever reason material wealth increases, the gains are used disproportionally to have—meaning feed—more children. Related rise in population will outpace the change in production level. Historically, as the theory goes, the resultant surplus of people has been dealt with either by starvation or by war. The only way to avoid brutalities is a moral way, namely, the voluntary reduction of the birthrate.

Admittedly, Malthusian theory was almost immediately put in question by the classical economists themselves, and it is still widely treated as a failed theory. It has been debunked for misrepresenting both sides of the equation, men’s fertility and land’s (or soil’s) fertility. But for a dismissal by the profession as categorical as in this particular case, Malthus is still doing quite well. Certainly, he still enjoys great “name recognition.” As the first economics professor ever hired, he is regularly mentioned in the contemporary literature. While his demography is dismissed as counterfactual, the liberal concept of a “struggle for survival” is not gone but is kept alive by the voices of scholars such as Dawkins (1978). In the spirit of his economic predecessors, this British biologist proposed a most widely received theory that in the world of “scarcity,” genes—that animate the robot-like people—try to maximize their replicas by making individuals engage in a ruthless struggle for survival.

Since economic life is understood by classical economists as a ruthless “struggle for survival,” the winning strategy for individuals is to concentrate on
“transfers,” or better “acquisitions” of resources from each other. It is through this strategy that the winners have at least sufficient resources to support themselves and continue living in the never ending conflict over resources with cohabitants. Since Confucians don’t believe in the liberal notion of “scarcity” or that of related “struggle for survival,” squeezing natural resources from others can’t be a strategy of choice for individuals. Convinced that natural resources are in abundance, Confucians assume that the true winning strategy for individuals is not to secure “transfers” from each other but to labor hard enough. Not to forget, for this reason the same nature provides them with physical and mental abilities—hands for manual and brains for mental jobs. As Confucian economics argues, wealth is a fruit of work, or labor, as the prime, if not the only factor of production that counts.

But isn’t it evident that any kind of work may be viewed by people as some sort of hardship since at least comparatively speaking, there are more desirable—rewarding—ways of allocating time, e.g., various forms of leisure. If this is how people feel, then wouldn’t nature condemn people to hardship of work anyway by bringing them to this world? This inference would be inconsistent with the Confucian view of nature as extremely generous in her—if I could use this word—“attitude” to people. If nature spares people from “scarcity” of resources, why would it not save them from the hardship of work? The truth is that Confucians view work as a source of satisfaction or enjoyment. Work is such a source the same way as the fruits of work—material goods—are. As Confucius apparently said, “Choose a job you love and you will never have to work a day in your life.” This shouldn’t be difficult, since as already stated in Confucian ethics people work for others—and do it out of love. The focus is not on “choice” but on “love” that one brings to work. It must also bring joy to people that by doing work one makes use of nature-given talents. All this explains why, as Confucians posit, people work more than they need.

There is no escape from labor, since whether focused on profit or not, people hate laziness. Accordingly, they have no need for anyone to work for them, certainly not as a slave used by masters for cheap labor. As an extreme form of exploitation, slaves survive by receiving subsistence (usually in kind) remuneration and with no formal rights to protect them. Slavery is not uncommon in history, particularly under tropical climate conditions, where work is said to be exhausting and posing danger to human health, even life (see Landes 1998). However, this geographic argument on proclivity of tropical areas for slavery doesn’t hold ground for China, since if climate is a critical factor in determining the use of labor, how it is that in Southern China that is very hot and humid, there has never been any slavery. In fact, no part of China has put in use a slavery system like this found in ancient Greece, Rome, or America before the Civil War. The only and rather rare instances of enslaving people in China have been for criminals who were sentenced to slave
for the families they have caused some kind of harm to (and typically “integrated” into this very family circle).

In the Confucian approach, those who don’t work are not seen as privileged and those who work are not seen as condemned to hardship. It is also not that those who don’t work are superior in some fashion to those who perform work, or, going further, that somehow those doing physical (manual) work are lesser people than those who are engaged in mental work. Therefore, there is no justification for the stratification of society according to people’s work status. And, as a logical extension, Confucian economics does not provide any excuse for other kinds of slicing of society into unequal groups having different rights from the others, even being left without protection. For Confucians, there should also be no room for social classes, with a division between working and leisure classes or separation according to their ownership status (e.g., proprietary capitalists and property less workers as distinguished by Marx in his theory of capitalism). There is also no place for casts based on religion, ethnicity, or otherwise—with some pushed into walled ghettos, etc.

Social differentiation is recognized in Confucian economics, but only with respect to occupations. The lowest of the hierarchy in a society are merchants and bankers representing the commerce. In the Confucian view, the latter move money that they store for people who saved it, i.e., capitalists. Their contribution to the overall wealth creation cannot be major, since it is the users of money—credit—that create most of wealth. Bankers don’t have knowledge to manage how money is used, and their risk can’t be higher than this taken by the money users. Banks are like storages for money to be picked up by the owners and for storage there should be a flat low fee. Merchants don’t produce much wealth either, since they merely move items from one place to another, and they don’t even transport as this is left to the shippers. The only usable service provided by them is that they bring sellers and buyers together. Merchants are at best like a moving company using rented equipment to safely relocate someone’s belongings.

Merchants are put at the bottom of this hierarchy not because Confucians have contempt for making money and profit. Western economists often make this assertion to argue that it was this contempt that explains why Chinese economy was so late in joining British “Industrial Revolution.” Isn’t it correct—as liberals argue—that there will not be any “Industrial Revolution,” if not for the society-wide acceptance of money and profit that allowed a power takeover by merchants or “bourgeoisie”? The reality is that Confucian economics is not against money making or profit seeking. In fact, both are paramount for wealth creation and something in which Chinese excel (Brandt, Ma, and Rawski 2014). Confucian intention is only to prevent the levers of power to be handed over to merchants. With their pecuniary interests, they can easily turn to practices that are subversive
of morality. Power should stay only with those who strive mainly for moral excellence, e.g., the so-called ‘gentlemen’; even more so the enlightened ‘sages.’

Assumption # 4: Source of Economic Motivation—Role of the Moral Attitude

Each economic school must also decide on the fourth issue of great importance, namely what motivates the individuals in their pursuits of wealth (see Table 1). The liberal assumption is that an individual’s motivation is a function of the protection of its personal wealth by the so-called property rights. They are the customary—or legal—formal types of rights that ensure one’s exclusive control over the application of resources as well as of the appropriation of derived benefits. According to the liberal leaning neo-institutional theory (see North 1981; Levy 1988), the less enforceable these rights, the higher the transaction costs (e.g., contracting, policing) to be incurred and thus smaller benefits collected by the owner. At the extreme, when the “transaction costs” are prohibitive, the owners will have no motivation and leave their resources idle. Conversely, the lower the “transaction costs,” the stronger the interest in expanding wealth. The case in point is that the “Industrial Revolution” happened when “transaction costs,” as North (1981) argues, declined since intellectual property gained its first legal protection.

The Confucian economics sharply departs from liberal economics by assuming that in their economic endeavors individuals are motivated basically by their ethical attitude to work as a source of wealth. This characterization of prevailing motivation follows from the Confucian assumption that, as already explained, within the rules that govern nature the pursuit of legacy is the principal objective. It is so, since meeting this objective can’t be ensured unless people take responsibility for others, as the true expression of individual’s moral attitude. It is for this very reason that people tend to work for others; meaning here mostly the blood-related family members whom they live with. Confucius put this cardinal assumption behind Chinese economics in the following words: “You live for others not for yourself” By this, he largely meant, “you live for your family,” but he clearly extended this rule to a society at large. This is also the correct meaning of Mencius’s related general point on the ethics of life: “To use the world to care for someone is the ultimate in care” (Norden 2009, 4.3)

People are given by nature the gift of life with resources to provide for what they need to stay alive, but they also come to this world equipped by nature with morals to guide them to embrace work—labor—for what it is. They are called by Confucians moral laws, because by disobeying them even for a brief moment life is not possible anymore, more precisely it won’t continue. Moral laws consist of a single set of rules that are not subject to any change, since there is only one way of
upholding life continuity. Included in this law is the principle for people to assume responsibility for each other. In other words, nature provides individuals with natural goodness, though they can choose to deplete it, or in extreme situations even abandon it. As Confucius said, “Man are born upright . . . with faculties to be good, but through habits they may differ,” meaning that through bad influence—example or teaching—people can lose this force of natural goodness.

Thus, the following question arises: what mainly drives individuals’ behaviors? Is it the sense of “security” over resources in his/her possession, or rather is it the moral obligation toward others that implies sharing of wealth? Within the classical assumptions on economic agents, one can intelligently deliberate on the issue of property rights, their economic meaning and practical consequences. But one wonders how within this framework, one could successfully deal with the moral aspect of economic life. How can we explain this aspect if, as classical economics does, individuals make no decisions on procreation—or birth—and thus lack the experience from which, as Confucian economics claims, a human experience morality originates? As defined, the “rational agent” of classical economics is self-interested, so it won’t squeeze its “scarce” resources to support a child or anybody else. Such, seemingly fictitious, agent is also assumed to be acting autonomously. But it is not possible to bring new life—child—autonomously, since for this to happen people need mating partners.

As described, with such a preference list, the “rational agent” of the classical doctrine is actually a childless (better family-less) adult in a productive age, who pursues “instant gratification.” Under such assumptions, the moral aspect of economic life can’t be successfully debated, certainly in the context of the universal experience of bringing a child to this world or/maintaining family as a reproductive unit. To address these moral dimensions, it is necessary to step away from the classical approach and recognize that in reality, all people are subject to a life cycle. At the initial stage of existence, one is a child, later becoming an adult, and finally turning into an elderly. Let’s then address individual’s motivation in the context of a family where there are these three generations—adults as parents on one side and their children plus the elderly (or grandparents of the children) on the other.

To make my general point on the role of morals, I will use some “stylized facts.” I will assume that only adults can work and create wealth to support themselves but children and the elderly can’t. For this reason to go on living, children and the elderly need adult family members to support them with transfers of wealth. I will further assume that each stage of the “life cycle” is of the same length. With these assumptions, it turns out that only for 1/3 of their life when they are adult people can be “autonomous,” but for the remaining 2/3 of their entire life people must rely on wealth transfers. The implication is clear, the economic survival of people
is mostly a function of the moral attitude—compassion—of the adult members of the family that all people are at assumed length during their lives. The above fraction $\frac{2}{3}$ is a quantitative indicator of the superior role of moral outlook for the management of wealth, the issue which economics is preoccupied with (and thus how much liberal school is off the mark by abstracting from morality).

I will now assume that adults—husband and wife—who make wealth need 100 units each to provide for a comfortable life. They will be satisfied with the 200 total and seek no more goods. Let’s also assume that adult or not, each person in a family needs the same amount of 100 units to have a comfortable life. If the two adults are a couple with two children that they have to support, they will have to increase their work load by 200 units, which raises the total to 400. But if they care also for their two parents, they need another 200 units of wealth, so the total needed is 600. In this arrangement, of the total 600 units of wealth produced, only $\frac{2}{6}$ of the units will go to the active—working—adults who made them, and as much as $\frac{4}{6}$, or twice as much, will go to the dependent family members. It follows, $\frac{4}{6}$ of economic life is about sharing wealth that is instigated by morality. And, as high is the fraction of the economic life that liberal economics ignores (this fraction also measuring its “poverty” as a discipline).

The other important lesson from this discussion of generational transfers of wealth is that—contrary to classical economics—in real life, under the regime a “life cycle” morality doesn’t have to interfere with economic rationality, i.e., increasing wealth. As offered above my simplified “model” of family transfers implies, if not for the morality there won’t be any transfers coming to the dependent members. The important question is how “rational” is it for the working adult to withdraw a “life line” from family members? It would be irrational, since the economic consequences of such behavior for the working members can be truly dire. When the adults enter the retiree stage, they will now need assistance from their children. But if they refuse to support their parents, this will set a bad example for their own children. Not feeling any obligation, children will abandon their parents and let them perish. This would make them waste $\frac{1}{3}$ of their life span. And, how “rational” is it for anyone to lock itself in this sort of predicament?

However, this is not to imply that property rights don’t matter in Confucian economics. Confucians see a need for property rights and historically, China has been quite adept in mastering property rights. At the advent of “Industrial Revolution,” China’s ownership system was by no means less advanced than the British (see Pomerantz 2013). But this need for protection of claims over resources is not viewed by Confucian economics as most to essential economic life, and certainly not with regard to the generational redistribution. As just demonstrated, such transfers possibly constitute the greatest facet of economic life, but nevertheless they are not regulated by the property rights. In fact, almost...
no internal relationships that hold families together are regulated by property rights (except, for instance, wife’s “dowry”). And not in the patrimonial model adopted in Chinese society, where as the head of a household, the father holds legal papers. But in reality, he is only a nominal—rather than a factual—owner of the family assets.

Going further, the Confucian doctrine makes it clear that if there would be no attempts to violate protection of the owners, legal protection would not be necessary. To accomplish this by fear through purely legal means would be cost prohibitive, and thus detrimental to wealth creation that the legal system is supposed to enhance. In this context, North (1981) mentions morality—but also ideology and religion—as a way for reducing the costs. This is also the Confucian position, except that according to Confucians, the purpose of societies should be to base interactions not on legal but rather on moral rules and ideally avoid any costs at all. If there is moral harmony and all people are morally disposed, they will voluntarily comply. Confucius said, “The thing is we should make it our aim that there may be no lawsuits at all, so that people who have actually done wrong will be too ashamed of themselves to indulge in words of self-defense” (Lin 1938, 129). Thus, as the highest value in Confucian ethics the moral harmony will stop litigations, which will bring in the End of law.

As said earlier, in Confucian economics, wealth is primarily a function of work, with work as a function of ethics, which makes status—condition—of morality the principal engine of national economy or nation. Given this sequence, it is necessary to qualify the earlier made statement that Confucians recognize only one factor of production, i.e., labor. As it transpires, what comes first is not so much labor but morality instead. Confucians argue that there is no wealth in the absence of morality. Meaning, work doesn’t generate wealth and it is morals that generate it; therefore, morals are wealth. In the words of Confucius, “. . . the material prosperity of a nation does not consist in its material prosperity, but in righteousness” (Lin 1938, 136–37). He expressed this idea also in a shorter line: “. . . doing the good is our only treasure” (135). This idea is echoed by Mencius who interpreting Confucius stated, “Virtue is the root, and wealth only the result” (see H. Chen [1911] 1974, 1:375–81).

Assumption # 5: Principal Economic Institution—Family Unit

The next, fifth, issue of great importance is that to be viable, each approach to economics must resolve what sort of institution plays the principal role in facilitating morally driven economic behavior (see Table 1). Institutions are defined in economics as the rules of the game, which are designed by individuals during their pursuit of wealth. The purpose—and benefit—of such rules is to
help people in freeing themselves from deliberating various aspects of economic choices that given the accumulated experience don’t need much reflection. When so much experience is accumulated, lacking a visible pattern action by individuals turn into—predictable—routines. This is how institutions become a reality. The patterned rules emerge through trial and error experimentations. Such evolution takes a considerably long period of time. Once institutions are formed, they become a structure that shapes individual behavior. Routines that serve individuals best in their use of resources are kept and passed from generation to generation as a treasure to cherish.

The departure point for the classical argument on the principal institution is the premise that the most efficient allocation of assumed “scarce” resources can be ensured only by an individual, as a principal player. For an individual to play this role, the best institutional arrangement must be the one that ensures conditions of greatest autonomy for a solitary individual to act. Saying “autonomous” is the equivalent of saying “rational,” since according to this theory one cannot be rational without autonomy or “economic freedom.” To be able to identify optimal solutions and reach “equilibrium” positions, an individual must be able to go over the entire menu of options and ignore concerns other than the “bottom line.” The institution that is said to provide the greatest autonomy is the liberal “free market,” with “free access” for all and choices guided only by “free prices” set for players by the supply/demand “balancing act.”

In Confucian economics, the assumption on the principal institution is very different—it being a family or a clan. Given the logic of Confucian economics to be the principal institution family would have to be the best arrangement in ensuring life continuity—to repeat—through birth. Since the pursuit of posterity depends on the sense of morality, it further follows for the family to play a leading role among alternative types of institutions, it would have to be able to provide a stronger commitment to others than any competing agency. Furthermore, since Confucian economics emphasizes that the moral attitude is a function of love, for a family to be legitimately assumed a principal economic institution it would obviously have to be the source of the ultimate love. And what the manifestation of the ultimate love would be if not the act of giving birth? Love and life are thus a unity, meaning that the energy qi, which animates the whole world, is this ultimate form of love behind the subsequent cycles of life.

It follows from the above reasoning that the experience with giving birth must provide insight into the secrets of ultimate love. One of them is that each child is born completely helpless and must rely exclusively on his/her mother to survive even for a day. The mother must feed the child, but the child has no idea whether or not the food is actually eatable or safe for the child to eat. Somehow, the mother has to convince the child that she is carrying and that she will not hurt her child.
They cannot communicate through words, since the child is unable to process language. The only way to communicate is through gestures of “love” (see Morse 2001). Fortunately, love doesn’t need words to be revealed. Feeling mother’s love, the child will accept the food he/she needs. So, in this very sense, love is life, and life is love. This could be the meaning, or one of the meanings of the three-word line taken from Confucius that Love is man (see H. Chen [1911] 1974, 2:485) to open this essay.

The strongest love—that is ethical in nature rather than a form of desire—is claimed by Confucian thinkers to originate from within the family. This is because the individual family members share the same biological ties or roots. Of the various relations within the family unit, the most important in terms of love is the relation that involves parents and children. And it is not so much about how parents treat their children but rather the reverse: What mainly holds families together is the unconditional commitment of children to parents, called filial piety. This is actually the highest of all the virtues that according to Confucians constitute the nature-given natural goodness. In this uniquely Chinese concept, the dominant position of parents within the family is not any reflection of the power balance but of the feelings, since “filial piety” is primarily based on feelings. This wisdom is preserved in the following passage from Confucius: “Filial piety is about pleasing parents—by understanding them—to achieve peace of mind.”

This Confucian approach goes against the Western conventional thinking of expecting parents to make sacrifice for their children. Due to their more advanced age, their chances for having children are lower than it is for their own children to reproduce. This is clearly true in physical terms. However, this being true, it doesn’t necessarily follow that for the continuity of life children must be given priority over the elderly—there another side to this equation being the willingness to have children. This is the aspect that Confucians find decisive, since it is up to a couple to sacrifice their own needs that this act requires. For them to accept it, and give birth, they need children to be completely obedient. The main purpose of obedience is to allow parents to teach children about their “obligations” to care for parents, particularly when they need it most—as the elderly. Even more critical is the need to teach children the sense and power of love—for the parents, and also beyond.

Being so essential, the moral construct of “filial piety” needs utmost protection. Across various societies, the reinforcement of morality is often brought by religion through the introduction of the sacred. When a social rule is made sacred, it is harder for people to question it on some rational basis. In the Chinese case, there has never been a religion as understood in Western societies, one in the public domain, with universally accepted god and church doing a gospel. Instead, there is the so-called cult (or worship) of ancestors, which is a private—family—
affair, adding another form of love, this for the ancestors. According to Confucius, “When the . . . memory of remote ancestors is kept alive, a people’s virtue is at its fullest.” To love ancestors, means to meet their wishes for the living to procreate and ensure or extend family’s fortune (Mote 1971). Being in a way a form of superstition, this cult brings the notion that to deny these wishes will inevitably bring bad luck upon the trespasser.

The question is that which institution is of greatest importance, the “free market” of liberalism or the family of Confucianism? Historically, the market might be as old as family, but the role of family as a source of wealth has been far more prominent for thousands of years. Through history, most of the economic activity has concentrated in farming, which was in the hands of families. Since members worked to meet their own needs, the unit costs—and profits—were not the make or break issue for families. And family resources—land and water—were not for sale since farms were a sacred inheritance from the ancestors. Mobility of resources was limited to transfers related to marriages that required woman to bring in a dowry. It took not an economic pressure but a use of force—politics—to subject family farms to market dictate, like in Britain through the so-called closures. This happened at the time of her “Industrial Revolution” and was its main novelty (Braudel 1979).

Nowadays, though farming has largely given way to industry, as well as services, the family unit is still the most important economic institution. To prove this, one can look at the importance of the supply of goods coming from family firms that operate in the “market sector” relative to what comes from other firms. Statistics show that though not as extensive as in the less developed countries, at least half of the national wealth (income) in the advanced economies originates from family-owned firms. Among these are large-scale corporations, especially in the economically thriving Germany or South Korea. This is what official statistics about national income reveal, but the data are skewed against family-based production since under the adopted methodology, statistics cover only wealth from family firms active in the “formal sector,” where goods are priced and traded. But in their households, families also generate wealth for their own sake. Calculations based on proxy prices for such family-made goods, as a rule, show that this non-monetized—call it informal sector—contributes much more to the overall wealth than the monetized “market sector.”

The evidence of the greater role of the “family sector” also comes from the comparison of efficiency of production in family and market sectors. These sectors are best seen as complementary rather than substitutes, since the family sector produces one kind of goods for family use and market sector provides other goods that are made for sale. Importantly, these two types of goods happen to be of unequal value in terms of contributing to the individual’s utility or satisfaction.
In classical economics, there is a distinction between “inferior” and “superior” goods. When the price for an “inferior” good goes down, rather than increase the demand goes down, and for the “superior” goods it is the opposite, the higher the price the higher the demand. It so happens that “family” goods are disproportionate in the category of “superior.” Among these “superior” goods is, for instance, affection that market cannot deliver, as well as teaching of most of the various skills—collectively called human capital—that prepares for life.

There is actually a strong quantitative evidence that indeed the family sector is tilted toward production of “superior goods.” Speaking of the “market sector,” historically, economies increase labor productivity. As a consequence, when workers are given higher wages, if they act as “rational actors” they should elect to work more. But the trend has been for people to reduce their supply of labor to the “market sector,” i.e., work less (e.g., France is down to a four-day workweek). What people “buy” with increasing productivity is the increased time spent with their family. As said, the time spent with family is not just about leisure, but also about production of various “family” goods. With increasing productivity in a “market” sector, their alternative cost of such family-provided goods goes up and so the price, but as mentioned here, data show that demand for them goes up. There is indeed one explanation of this paradox, namely that the goods that are produced in the “family sector” are economically superior.

Speaking of institutions, Confucians don’t dwell on the family/market nexus. The question that is relevant to Confucian economics is whether family or rather state is at the base of society. The answer is that, for reasons already mentioned—it cannot be state, but family. Almost each time when the state is mentioned, it is stressed that the strength of the state is a function of the strength of family, and not the other way around. This observation is captured in a quote from Mencius: “The root of the world lies in the state; the root of the state lies in the family; the root of the family lies in oneself” (where “oneself” meaning—a family member; Norden 2009, Book 4A, 5.1). What is meant by this specific hierarchy of power, with family overriding the state, is that only a virtuous (uncorrupt) state can succeed, and that the state is virtuous only when families are virtuous. This critical point was made by Confucius himself: “when the family life is regulated, then national life is orderly, and when national life is orderly, then there is peace in the world” (see Lin 1938, 106).

Assumption # 6: Economic Wealth Distribution—Imperative of Equality

The sixth “building block” to be settled by each school of economics refers to the principles of wealth distribution or equality (see Table 1). The classical economics’
answer is that nobody can firmly establish what pattern of distribution is “socially just” and redistribute wealth to raise the overall level of welfare. The only solution is to let the impartial “invisible hand” of the “free market” determine appropriate outcomes. The role of the market is to enhance efficiency, so, left to itself, the market will produce income differentiation. The advantage of inequality is that there are higher stakes for individuals to play for. As long as work effort is a function of the expected pay-off per unit of time, the broader the range of rewards the greater efforts by individuals can be expected. Consequently, there is no need for economics of distribution and economics of production will suffice. But this preposition can be correct only if “free markets” could ensure that rewards are proportional to individual’s efficiency.

The Confucian position is that the moral aspect of distribution cannot be ignored. To address the question of optimal distribution of wealth, it is necessary to look at the potential impact of inequality on the strength of moral attitude. Inequality should be prevented since it can be the cause of moral erosion by encouraging corruption. Driven by greed rather than necessity, corruption has a detrimental impact on the overall growth of wealth since undeniably people have their sense of social justice. The less fortunate will find accumulation of wealth in the hands of few as evidence of unjust practices. With the resentment comes social instability that, as stated, is identified by Confucians as the worst enemy of wealth creation. In Confucius’ carefully spoken words, inequality is a bigger problem than poverty: “When wealth is equally distributed, there is no poverty . . .” and adds that when there is equality of income among people “. . . there is no dissatisfaction, [and] the country is secure.”

Dating back to early China, Confucian economics has never called for the complete equality of income. Exceptions were allowed but mainly to a rank occupied within the imperial bureaucracy. This kind of differentiation of income had to be engineered by the allocation of land. Given the imperative of equality, supply of land had to have been uniform for average families, even though the more fertile land should have been given to families burdened with more children. For the people of higher ranks, the allocation had to be larger, even going to multiples of the average. It should be also graduated, with more land provided to those of the higher ranks. This wealth advantage is to be provided not because the people of rank are more deserving, but because officials must administer government affairs and pay for staff members to execute their duties. Among them is the duty to collect taxes for the central government and keep some to pay for their part of the job of governing.

Importantly, taxes are envisioned by Confucian economics as the only source of income for providing state services. Taxes are set as a function of the amount of services provided to tax-payers. The proper taxes are low taxes, since officials are
only expected to take care of basic services that others can’t provide at the right cost. Except for tending to their land, like regular folks, the higher ranked people cannot engage in any economic activity for personal enrichment. This principle forbids conflict of interest to interfere with official duties. To further prevent corruption, the Confucian economic doctrine prohibits also inheritance of offices. With the release of office, land must be returned. This made it difficult for an exponential increase in the fortunes by the rank people. These types of restrictions have been a practice throughout China’s history. By rigorously applying these rules, the Confucian doctrine precluded the formation of an aristocratic class. Without aristocracy, there is no feudalism, and it is by following these egalitarian rules that China “missed” the stage of feudalism.

Confucian economic doctrine of strict equality includes also the principle that any form of monopoly is unacceptable. The doctrine calls for the complete ban on monopolies as a source of particularly strong social resentment. It is so, since monopolies lead to jacking-up prices through artificial shortages. With this comes impoverishment of lacking-choice buyers. Since people of rank—bureaucrats—are forbidden to engage in anything else but tax collection, public monopoly is strictly forbidden. But so is true about a private monopoly that similarly leads to undeserved profits, i.e., rents. It is condemnation of inequality as a source of moral erosion that makes Confucians resent profit making in general. Importantly, at the time of Confucius, the rate of profit was particularly high, commonly threefold and thus represented an extremely explosive issue. To safeguard even against lesser price distortions, Confucian economics considers market interventions through official price controls as imperative.

While a general rule—not only in the historic times in China—is that the state should collect low taxes, not higher than a tenth of farmer’s income earned, an exception to this rule was made when monopoly abuse is involved. Confucius says, “Riches . . . are what men want. But if they are obtained in an improper way, they should not be held” (see H. Chen [1911] 1974, 2:166). Mencius captured the same consideration in the following quote:

When the ancients had markets, they were for exchanging what they had for what they lacked. The officials merely kept order. But there were some base fellows there who would seek for a “vantage point” and climb up on it. They would gaze left and right monopolizing the profit from the market. Everyone thought they were base, so they followed up by fining them. Taxing merchants had its origin in dealing with these base fellows. (Norden 2009, Book 2B, 10.7)

Utmost concern for equality is also reflected in the already mentioned Confucian call for the “social consumption,” i.e., sharing wealth with others.
Position of wealth—riches—is equated with taking responsibility for others, with giving to others that is proportional to what one is taking in. This was one of the reasons for the never widely tried in practice ancient Confucian idea of the eight-household entities—collectives—as the foundation of what Confucius saw as ideally organized agrarian economy for China. The practical justification was to make it easier for households to assist each other in time of economic stress. There will be also a need for only one—common—well. And, it was expected that such a collective arrangement will facilitate learning from the most advanced households. The idea was that this will create competition between families, but without elimination of the higher cost units and “acquisition” of their resources by the lower cost ones.

A perfect illustration of the role of “social consumption” today is the fate of a British investor captured on an instructional video that one day crossed my hands. He was trying to set up a firm in a remote part of Northern China. He got into a formal agreement with local bosses and wired a hefty amount for the construction costs. When he arrived there a few months later to inspect the progress, there was a banquet to his honor held in the party headquarters, but there was not a single wall erected for him to see. He was appalled only to hear that to make money in the town, he had to take care of the community’s needs first. He was shown a new stretch of road in the town plus a recently finished school building, swimming pool included. He didn’t complain about the broken contract, nor did he pack and leave. He eventually got his factory running, and apparently made a lot of money for himself, aware that “social consumption” is not a one-time deal but an ongoing one.

Similar stories can be told about Chinese investors doing business in the country, since sharing resources—or wealth—through “social consumption” is also required of the locals. I can bring in here my own experience from Chengdu, Sichuan. Many years ago, I befriended there a secretary in charge of culture and a prominent traditional painter, Laizhong Qian. He introduced me to the Chinese ink/paper painting and the philosophy behind this. Eventually, as a painter myself I managed to exhibit my Chinese-style landscapes in three different provincial capitals, Chengdu included. During one of my stays in the city, I was invited to a ground-breaking ceremony for a museum of calligraphy with a noisy band and crowd of farmers. Standing on a podium, I spotted that at a good distance from luxurious government vehicles there are three ordinary cars with a low-key man and a few other people looking like his associates. When I asked about him, I was told, he is a “big time” businessman, who covers all the costs of the construction. He was spending his money for the benefit of the community, since the party won’t let him do so otherwise.
With their appreciation for markets, Confucians are concerned that by its design, “free market” can easily, if not inevitably loosen up, if not break up the relation between reward and efficiency. The “free market” enforces efficiency by shifting resources through bankruptcy from higher cost to lower cost producers. According to liberals, with such “acquisitions” as the ultimate reward for the more efficient producers, the total wealth of the society will increase as well. But, to keep in mind, such “acquisitions” lead to concentration of production, and perfect competition turns into a monopoly competition or even monopoly. Under the latter, rather than being taken, prices are given—or dictated—by the dominant producer and rather than earning profits the hard way through higher efficiency, monopolies take a lazy way. Rather than live by cutting costs, they may restrict their supplies to fix prices above the “free market” price level and collect above-equilibrium rents by draining their buyers.

The “free market” with “acquisitions” leads to monopoly, but based on different designs, markets can operate without bankruptcies and thus are not prone for monopolization. These kinds of markets are compatible with the principles of Confucian economics that envision an efficient economy where strong markets operate but run mainly by families, like in the once agrarian China. Such a family-based system precludes proliferation of monopolies, since family resources—land and water—are the only source of their livelihood, and thus no family would ever allow an “acquisition” of its resources by others without retaliation. Fear of retaliation is enough of a deterrent for more fortunate families not to forgo seeking dispossession of the weaker. Not having this option, the more fortunate are more likely to extend a helping hand to the less fortunate. This is why, when statistics of almost any village in China are examined, the same names of families reappear from generation to generation, all living on the same piece of land they cultivate.

A very famous—900 years old—painting from the Song dynasty illustrates this Chinese concept of the harmonious market place. Copied many times under different dynasties, this work is also known under a more appropriate title “Peace Reigns over the River.” The gigantic scroll—on which this painting is produced—indeed depicts such a place. It is a scene in an urban setting but with a pastoral appeal, since everything looks so idyllic. It is a packed market, where everybody is doing something useful. There are crowds of vendors with their joints and dozens of craftsmen with their workshops. Buyers are offered unimaginable varieties of goods, such as foods, baskets, and tools. Some merchandise is moved around, including through a majestic bridge. The only reminder of the state presence is the tax office. In this image, no one is dominating the market by outselling others. There are no monopolists present but only small—presumably—family businesses, where everybody is given a breathing space. A strong impression
one gets, that already this far back in the past China had a thriving market—as a “market economy.”

Leaving art aside, even if not fully followed, the Confucian principles of distribution make difference today. During the post-1978 period, income inequality has increased sharply, but no social group has been left out and took no share of the phenomenal increase in national production. The real—corrected for inflation—wages have not been directly linked to the growth in real national income per capita, i.e., labor productivity (Poznanska and Poznanski 2015). But on average, for at least the last 30 years, real wage raises that were fewfold kept with the increases of the overall rate of labor productivity growth. This pattern is consistent with the trends found in other Confucian economies located in East Asia that went through their own economic miracles, the difference being that China seems less egalitarian, especially when compared with richer Japan, whose state was the first to adopt the economic model of the so-called shared growth. In this model, to ensure harmony all stakeholders in a society share both the pains of busts and gains of booms.

The picture for other reforming economies that followed the liberal “Washington Consensus” is strikingly different in terms of division of productivity gains. Their lackluster product growth has been combined with even more disappointing real wage increases. In Eastern Europe alone, the highest increase during 1989–2012 was in Czech Republic, namely, 50% (a strong recovery from 35% cumulative decline by 1992). This rate was slightly less than her rate of increase of the Czech real national product (Podkaminer 2013). But in Poland, where the product rose by nearly 120%, the real wages grew only by about 25%. Otherwise, during this near 25-year-long period, wage raises in other countries hovered around 10% and as a rule were less than increases in production. One example is Slovenia, where national product rose 90 points but real wages 10 points. At the extreme are Bulgaria and Lithuania where after this long period in 2012, real wages were 25% below the 1989 level (while their national products increased at this time by a bit over 20%).

Assumption #7: Preferred Method of Inquiry—Common Sense

The seventh and the last “building block” on the list is the preferred methodology that each school of economics comes equipped with (see Table 1). This is a sort of “tool box” that is provided to define the proper agenda for studying economic life as well as explain how analytical arguments can be validated or proven “true.” As already established, from the ancient works of Confucius the principal, if not the only relevant, agenda—theme—for scholars to focus upon is the moral aspect, i.e., ethics. It can’t be otherwise, since as stated according to Confucians, the ultimate
source of wealth is the moral attitude, which mainly originates from the family unit. Therefore, Chinese economics can be equated with Chinese ethics or a sense of responsibility. It also follows from this preposition that the proper methods of studying the principles of Confucian economics must be the same as the methods that are suitable for studying its ethics.

To be precise, in the Confucian thinking, the ethical agenda to study is narrowed down to the general question of threats to the basic principles of morality, called “moral laws.” Coming as a birthmark, these “moral laws” can’t be learned by individuals but can be damaged, even irreversibly lost. Representing what is best in every man, or the “natural goodness,” these moral laws are under threat from two directions. One is the failure by individuals to cultivate virtuous behavior, which is a task that can’t ever be finished. The other, by far more important, is the submission to the ideas that are subversive to the “moral laws.” Mencius states it clearly in the following quotation: “Moral capacity can be threatened by ‘pernicious doctrines’” (Norden 2009, Book 4A, 4.9). In his writings, he also uses a more aggressive wording, repeatedly calling such adverse ideas evil doctrines (e.g., the theory of “egoism” of Yang Zu [440–360 BC]). In Mencius’ view, “Evil doctrines and cruel practices …” lead to political chaos, which, as said earlier, Confucians treat as the main cause of economic misery.

According to Confucians, the method of choice for separating “benevolent” from “pernicious” ideas is for individuals to use “common sense,” i.e., examination of personal experience, without turning for help to specialized—theoretical—knowledge. This follows from their belief that studying morality is fundamentally an empirical (or factual) issue, since what is “good” in moral terms can be determined only by checking what secures “good,” in terms of being virtuous. Life can’t continue unless ethical dilemmas are immediately, if imperfectly, resolved for actions to be continuously taken to sustain life. People thus have to be able to easily comprehend the nature of moral dilemmas at stake without much deliberating. At least the core of the ethical rules must be absorbed for life not to reach indecision. It follows, even with a native—raw—intelligence, that people should be able to figure it out.

Preferring inductive methods, Confucians take an openly anti-scientific stand. They seem to have no stomach for Western-style deductive speculation on economic fundamentals by creating “categories” and building models. Adhering to Plato, these are rules of logic, though to Confucians, logic doesn’t guarantee “truth,” even less “pure truth.” There should be no room for speculation or “metaphysics,” since logic may lead to multiple conclusions that contradict each other. Search becomes then a contest of fancy or oratory, where theories are judged in a superficial way. Or, it becomes a clash in which one side gains the upper hand and becomes a “mainstream.” The other is automatically questioned and becomes
“tangential.” And when all this happens, there is no interest in further discussion of merits anymore, and the winning arguments are accepted on the face value. All of this is unacceptable to Confucians since it leaves the door wide open for the moral damage by “evil doctrines” enjoying undue popularity.

To most Westerners, this anti-scientific standing is a sign of China being in a “pre-scientific” stage ruled by superstition. This opinion was expressed by sociologist Weber (1951), as one of the first major figures to venture into Chinese tradition. He decided to explain why China failed to instantly join “Industrial Revolution” to offer an indirect proof of British exceptionality. In his view, Britain gained advantage by switching from superstition to “science.” China failed to engineer this shift, since “In spite of the logical qualities of the language, Chinese thought has remained rather stuck in the pictorial and the descriptive” (Weber 1951, 125).

And he continues,

The power of logos, of defining and reasoning, has not been acceptable to the Chinese . . . Chinese philosophy did not give birth to scholasticism because it was not professionally engaged in logic . . . based on Hellenistic thought. The very concept of logic remained absolutely alien to Chinese philosophy . . . oriented to purely practical problems. (Weber 1951, 127)

But no amount of arguing would make Chinese economists accept, for instance, the invented by classical economics category of the “economic man” that is lacking functions as vital as reproduction. They would be intrigued to hear that classical economics took inspiration for this “fictitious character” straight from the “classical physics” crafted by Isaac Newton, a Brit. At the very time, they were drafting their “liberal” doctrine; the prevailing sentiment among economists (as well as other social scientists) was that the highest scientific standards are provided by “classical physics.” It was praised most of all for its ability to discover iron (or fixed) laws of nature that are both universally applicable and rigorously verifiable. Accordingly, future states of the universe can be predicted with a remarkable precision. The hope of liberals was that by imitating physics, economics will discover similar kinds of “iron laws” to explain how the economy works and the direction in which it is heading.

In the classical physics, the world is not an organic whole with reproducing cells that can mate, but rather a physical order where all parts—whether planets or atoms—perfectly fit in. Each material component that the world is built with behaves deterministically with each part reaching an optimal position within the general order. To emulate classical physics, the early liberal economists assumed that there is an analogy between the world as defined by Newton and the economic sphere that they were dealing with. These scholars elected to treat individuals as
undifferentiated atoms in a society that works like a sort of grand mechanical clock. But a clock cannot replicate itself, so in a world of people that operate like the building parts of a clock there can be no life at all. The price to be paid for taking this particular road was that liberal economics became lifeless and remains so.

Another—second—methodological choice in protecting “moral goodness” in a society from “evil doctrines” refers to the utilization of history as a heuristic tool. The Chinese clearly have a great sense of history, and they greatly appreciate their past as a source of wisdom from which to learn. Importantly, in his teachings, Confucius himself frequently uses details and examples from history to highlight his “ethical philosophy,” but this is not where the strength of his doctrine rests upon. And, neither he nor his followers turned their doctrine into a “school of history” of some kind. To them, it is the present that actually weighs most heavily in judging social reality, since what is happening now is closer to our experience. Mencius stresses this idea: “The best teachings are those that discuss what is near but with significance that is far-reaching” (Norden 2009, Book 2A, 37.12).

With their distaste for “science,” when Chinese turn to history, they choose a descriptive approach. Among Western scholars, the preference is not only for heavy reliance on history but also for a theoretical approach. Rather than treating history as a preservation of facts, Western historians pursue history by and large to seek “iron laws” that with an “iron hand” govern history (Popper 1988). This is a reflection of the same influence of physics that, as already mentioned, from the outset shaped classical economics. Undeterred by the fact that most of the past is indeed “shredded” by material decay and fading memory, they have a tendency to link the past as they see it with the future as it seems to be approaching inevitably. Since the details of the past are murky or inaccessible, arbitrary interpretations of the past are easy for historians to generate support for some “evil doctrines” and risk damage to “natural goodness.”

For the record, Confucians believe in the improvement of people’s life over time, but without claiming, like liberals, that the world heads toward uniformity, where there is a single “mode” of life, in their case—Western. Confucians distinguish three stages, starting with a primitive stage when all people live in chaos so there is no distinction, or differentiation in terms of civility. This is followed by the second stage, where there is only one distinction, between the primitive and civilized (see H. Chen [1911] 1974). And at the final, third stage, there is no distinction again, since the whole world becomes civilized. However, this concept doesn’t imply that one civilization—of a specific design—will prevail in history. Instead, the Confucian argument is that the world will eventually be run by civilized people, with their multiple civilizations. And, in this Confucian concept, the world won’t
ever stop, at some “End of History,” since, “pregnant with life,” the world is
dynamic and there is no limit for human versatility.

The final—third—method for safeguarding against threats to “natural goodness”
is to ensure that the ideas on ethical questions come from people who have a
proven record of meeting the highest moral standards. In Confucianism, this role
is assigned to the already mentioned sages, as ones that are the most important
source of knowledge. Sages are rigorously selected from among the brightest
that went through rigorous—imperial—examination, which is both a lengthy and
solitary process. As sages, they are versed in many disciplines, but definitely not
meant to be scientists. It is their personal experience that makes them special and
not their vocational skills. Since their underlying quality is their reputation as
being virtuous, their objective as thinkers is to “seek truth for the sake of virtue.”
They are guided by the same sense of mission as their teacher—Confucius. He
was a sage, and it was the perception of him as “morally pure” that brought scores
of followers to listen to his teaching and then proselytize.

This explains why Confucius argued that only an emperor (or king) who is a
sage possesses an authority to rule a nation (Bell 2008). The ultimate of the sages
is a sage-emperor (king), a kind of ruler that due to exemplary moral behavior is
accepted—even loved—by his own people. Only then does the emperor deserve the
Mandate of the Heaven, bestowed on him not by the “heaven” but by the people
or subjects. The mandate does not make emperors a law, nor are they above the
law of the land. The same rules apply to all, since there is one “moral order” under
which life may continue. Confucius said, “Loving what people love, and hating
what people hate: this is he who is called the parent [emperor] of the people” (see
Lin 1938, 77). Throne is not subject to inheritance, since the “Mandate of Heaven”
can be withdrawn, if necessary through rebellions (possibly the main source of
political “havoc” in China’s millenniums long history).

The general principle that interpretation of nature—and its implicit moral rules—
should be left to those representing the highest virtue applies also to the “literati”
painters. As indicated, their primary role as painters—as well as calligraphers and
poets—is to turn into images the words of Confucian philosophy. Their artistic
works are less for viewing and more for “reading” their moral content. To be
precise, each painting consists of also words, namely, an obligatory poem, mostly
copied from or referenced to Confucian writings. To play this role of a conduit,
literati—like sages—must prove with their lives their moral purity, meaning that
art is categorically not for money. They can’t engage in utilitarian painting, such
as portraits of officials. Doing this will put them next to merchants at the bottom
of social hierarchy. In a gesture of humility, they can offer their artworks only
as gifts.
Conclusion

The main point of this exploratory essay is that Chinese have their economics that can be derived from ancient Confucian philosophy. Given the origins, this ancient economics should be called “Confucian economics.” The incredible success of China today is not another triumph of Western liberalism. No doubt, the recent economic surge is the result of a near 40 years of expanding market forces. However, this fact alone doesn’t prove China endorsed liberal economics that gives primacy to “free markets.” This time again, China followed her own historical path. The reforms were based not on classical thinking, but on her own Confucian economics. This particular way of thinking on economy is deeply ingrained in Chinese minds and operates like a “second instinct.” But as powerful a force it is, “Confucian economics” is not recognized as a formal school by the Western and Chinese economists alike. As long as Chinese economics is not taken to a formal stage, the underlying reasons for exceptional growth by the recent China’s economy will not be fully understood.

To rectify the situation, this essay has distilled from Confucian thought the principal assumptions that constitute its own kind of economics. Western scholars often argue that there is nothing for others to contribute to the dominant Western thinking, since liberal economists already got all of it right. Mahbubani (1998) provocatively stated that through latest reforms, Chinese proved that they can think. But given what transpired from my inquiry, one needs to add that not only that they can learn from others but that they can think differently as well. The facts at hand are that Confucian economics is diametrically different from the classical economics. It is possible that “Confucian economics” is the one that got all of it right. Discussing consecutive assumptions behind Chinese economics, this essay explored the issue of how China’s recent economy could have been helped by her separate view of economic life. Based on this preliminary inquiry, the impression is that Confucian economics instills attitudes toward economic life that might be more conducive to the overall wealth than the classical alternative.

Since ideas shape behavior, it should matter for China’s economy how her home-grown “Confucian economics” defines an individual’s sense of purpose. While liberal economics asserts that individuals are driven by the demands of their daily life, Confucian position is that the actual goal is the continuity of family lineage. Confucianism focuses on procreation—multiplication—which can be advantageous, at least in part because it tends to make individuals more future oriented. With a greatly expanded time horizon, individuals will display a stronger propensity to save by discounting their “instant gratification” such as food in the pot for the “distant” gains, e.g., building a house for their family. By making the pursuit of continuity questionable, the 1979 introduction of one-child policy...
turned out to be the single worst threat to the Confucian tradition and the reason for the policy being gradually reversed.

Confucians reject the liberal ideas of “scarcity” of natural resources and the related idea of an apparently severe if not plainly ruthless “struggle for survival.” Under the conditions of such understood scarcity, the best strategy for the pursuit of “instant gratification” is for individuals to divert “scarce” resources away from each other, and if necessary even by means of war (Wight 1992). In contrast, under the universal state of “abundance” of resources assumed by Confucian economics, to ensure their goal of continuity of life, individuals need only to work at an adequate level. This alternative assumption of excess of natural resources might give an advantage to the Chinese economy. It does not steer individuals toward forceful dispossessions of resources that arguably on their own don’t create wealth. Instead, living with such an assumption encourages hard work that multiplies wealth for people to satisfy their needs.

With the Confucian emphasis on the extension—continuity—of family as the primary economic objective comes the crucial argument that not the solitary individuals as defined in the classical economics but the suitably structured families represent the primary source of wealth. This Confucian assertion of course elevates the perceived economic importance of family as a “work unit,” which might be beneficial to the economy. There is evidence that family production displays many advantages over an individual acting on its own. Family advantages include lower “transaction costs” for an internally procured labor and the cost-cutting impact of the economies of scale. And family produces most of a critical economic asset, i.e., the so-called human capital, including work skills and moral upbringing (this is the fact stressed by some China specialists, e.g., Rawski 2011).

Liberals identify economics with physics, but separate economics from ethics. In contrast, Confucian thinkers separate economics from physics but equalize economics with ethics. Viewing economics as ethics, Chinese see the rules of economy as those of ethics. The most critical of them is the principle of love. Love is not understood by Confucians as being “in love,” which is the modern Western way but as a relationship of “reciprocity” or “responsibility” for others (Fromm 1956). To accept the latter idea as something that matters could be advantageous as well, since it encourages demographic expansion, meaning that in a world of “abundance” of natural resources, people are not threatened with starvation. Confucians correctly argue that with all the sacrifices involved in creating life—birth—for this vital act to happen, love on the parents’ side is required. With each birth as an act of love, the size of the economy is ready to further expand into the future. And it does, since as Confucian economics posits, the flow of wealth is primarily a function of labor, i.e., its supplies.
For the liberals, the issue of wealth distribution is to be left to the “free market.” Such market ensures that those who contribute more to the overall wealth receive higher rewards, so that inequality is unavoidable. Confucian economics calls for people to have similar—but not identical—shares of wealth, or riches, but at the same time accepts liberal preposition that income should be linked to an individual’s efficiency. However, Confucians don’t expect this principle to result in substantial wealth differentiation. People do not range as much in their physical or mental capabilities for great enough differences to appear. At the same time, Confucians refuse to entrust the distribution of wealth to markets, for they can degenerate into a rent-seeking monopoly. On moral grounds, people will resent price manipulations by monopoly as “morally unjust.” To defuse related social tensions, the state would have to confiscate such gains and thus equalize income levels. In this narrow sense, even invasive redistribution will be beneficial for an economy, since as Confucian thinkers assert the greatest amount of work is expended during the times of social peace (or harmony).

Classical economists argue that morality obscures economic rationality, but for Confucians bringing morality into calculations on the management of wealth is rational. What they consider rational is what supports human existence and acting morally has exactly such a positive effect. Confucian economics reminds us in particular that being subjected to the “life cycle,” during most of one’s life, people are children and elderly. In these roles, children and elderly can’t survive economically on their own. They must rely on the wealth “donated” by the adult—working—family members. Such transfers of wealth are moral acts, meaning that economic life of each individual is to a larger degree or mostly driven by moral forces. This means of course that moral virtue comes before economic prosperity. How then the Confucian claim that an economy is driven by moral practice could not benefit an economy more than the liberal—agnostic—approach to economy that is abstracting from morality?

References


FROM THE SOVIET MODEL OF LABOUR RELATIONS TO SOCIAL PARTNERSHIP: THE LIMITS OF TRANSFORMATION

Gulnara Aitova

Abstract: The article is aimed at revealing the origins of the core contradictions in social and labour relations in Russia since the collapse of the USSR. The transition to market economy of Russian society since the early 1990s has not brought a fully fledged concept of labour relations. The concept of labour relations found in Russia today is rather the product of the ignorance of the state authorities, which led to a situation of increased tension between labour and capital. The contradictions in social and labour-relations stem, on the one hand, from Soviet society, and on the other, have been generated by the transition to market per se. The author endeavours to give response to the question, why does a model of social partnership limit itself only to its formal aspects rather than seek an essential shift in the direction of the establishment workable framework of labour relations?

Key words: labour relations in Russia; privatization; social partnership; working class; power-property matrix

1. Economic Transition and Labour Relations

The Russian academic tradition regards the entity of social relations relating generally to the field of labour (unlike the term “industrial relations”) as “social and labour relations.” Nevertheless, labour relations as such are defined as the relation of an employee towards production and the results of her or his labour. This criterion can categorically indicate the nature of labour relations in the framework
of a socio-economic system. At the same time, the term has been developed and applied by one of the founders of Russian industrial sociology, V. Gerchikov, to characterize labour relations in a broader sense:

Labour relations are relationships between groups of employees in an enterprise (organization) distinguishing themselves by specific interests in the field of labour, to some extent consciously seeing these interests as special (other than the interests of other groups), and carrying out some organizational steps to protect and implement their own interests. (Zaslavskaya and Kalugina 1999, 321)

It should be added that the social dimensions of labour relations in the Russian version indicate the key role played in them by the state’s authority.

The latter explains why a tripartite system of social partnership was chosen in the transition period. Namely, in the Soviet model of labour relations, the chief actors were the state, the trade union and the director of an enterprise (organization, institution). A key feature of the relationship between these entities was that they were not horizontally but strictly hierarchically structured and all under the Party’s bureaucracy. Being the sole holder of state property, the bureaucracy functioned as an “employer” and granted respective functions to the corps of directors and directly controlled trade unions, whose duties were limited to social security questions at the workplace. The contradictions of the Soviet social system implied that public ownership of the means of production contributed the results of production to social development, to the socio-orientated distribution of wealth created by the working class. It was also able to guarantee full employment because the economy experienced no cyclical crises. However, the command-administrative system did not stimulate the self-organization of the workers, trade unions as such were transformed into a social department of the enterprises and their decision-making capacity was very limited.

State bureaucracy, representing itself on party committees as well as in the corps of directors of enterprises, was the power that ultimately decided on production matters. In the command-administrative model of the Soviet economy, workers were de facto alienated from the results of their labour. To draw an analogy, the bureaucracy had become a kind of substitute for the owner in the market economy (Kolganov 2011).

Thus, the prevailing type of labour relations in contemporary Russia is directly related to previous periods in their evolution: ideological mobilization (1925–1940), patriarchally hired labour with strong state paternalism (1940–1956) and authoritarianism of the modern period (Voeykov, Anisimova, and Sobolev 2009, 9–11). In other words, the Soviet model of labour relations with its unresolved contradictions
has degenerated in post-Soviet Russia into reactionary and sometimes even into archaic forms of relations between employers and employees.

2. The Character of Privatization in Russia

As state bureaucracy, trade unions and directors of enterprises had previously been the main actors in labour relations, the tripartite model of social partnership was chosen as the most adequate under the new conditions. It introduced a similar triad of actors—the state, the employers and the employees. Paradoxically, its efficiency was complicated not only by the lack of a collective bargaining tradition where employees, represented by trade unions, and employers meet on equal terms but also by the command-administrative model of management being transformed into another, capitalist-style “command-administrative” model of labour relations that was all too ready to neglect social dialogue completely. In a situation where the Russian state had gradually abandoned its social functions as well as the role of arbiter between employees and employers, the so-called authoritarian type of labour regulation came to predominate.

What are the origins of the evolution of this type of employment? The first argument to be focused on is the above-mentioned privatization processes of state enterprises and the creation of private property in Russia after the collapse of the Soviet Union.

The whole range of Russian economists agrees that there have been three phases of privatization: (1) privatization en masse, from 1992 to 1994; (2) the privatization of cash, from 1994 to 1999 and (3) limited cash privatization from 1999 to 2003. Currently, the government is considering launching a new phase of privatization. In general, the main feature of privatization is the imbalance between the interests of the various social groups or parties and the lack of transparency and independent public control (Dzarasov 2011). In this regard, the process of privatization in Russia has been carried out using either criminal or semi-criminal methods or through informal non-economic interaction. This became a specific feature of the transitional economy. The key actors in this informal interaction were non-economic clan-corporate structures. Professor of political economy, A. Buzgalin, defines their basic methods as personal union, conspiracy, agreement on the division of markets and spheres of influence, the “rules” of competition, as well as extortion, bribery, blackmail, etc. Market competition arises as an imperfect and deformed mutant from the very birth (Buzgalin 1998). Y. Drugov and Y. Simachev agree that the inactivity of the Russian legal system in practice and its adverse character towards law-abiding businesses led to the phenomenon where
Russian economic entities start to follow a dual strategy of behaviour based on family-clan relations. Some property transactions were concluded between people connected through relationships of varying degrees of intimacy. Others were transacted between people under the protection of the same criminal or (if associated with public authorities) semi-legal clan. (Simachev and Drugov, 1999, 116)

I. Rozmainskii (2004) characterizes the existing type of capitalism in Russia as family and clan capitalism:

Family and crony capitalism is an economy with inefficient resource-allocation and slow economic growth, at least if you compare it with “normal” market (“cash”) economies. Inadequate and conflicting laws, the availability of legal voids (as contained in laws referring to other, non-existent laws); the prevalence of opportunism and the lack of foresight in investment politics; a low degree of rational economic behaviour, the fact that people focus on family and clan relations, a large amount of barter and non-cash payment, the huge size of the informal sector and the gradual blurring of boundaries between legal and illegal activities—all of these characteristics of family and crony capitalism condemn it to wasting resources and to economic stagnation. (59)

3. The Consequences for the Working Class

According to the Rosstat, more than 62% of all enterprises and organizations had been privatized (more than 72% in industry) by the middle of the 1990s (Nureev 2010). The first wave of privatization led to a sharp decline in production, to growing social differentiation among the population and to the reduction in the level of wages. In particular, by 2000, wages had been in steady decline: by one third between 1991 and 1995. In 2000, real wages stood at a half to a third of their 1991 level (Voeykov, Anisimova, and Sobolev 2009, 9–11; see Figure 1).

All the more, the social responsibility of the companies in the 1990–2000s had been steadily decreasing as it is shown in Table 1.

Privatization led to the following changes in the structure of employment. First, it generated new interests among the directors of (formerly state-owned) private enterprises. The state, having ceased to exist as a direct power, could not play a part in collective and sectoral agreements, etc. Thus, these circumstances triggered a problem of interest representation on the side of the employers. It should be noted that employers (i.e., new owners) had no qualms about dodging their obligations. Subsequently, the formation of employers’ associations took place under pressure from the state and trade unions rather than as a voluntary initiative of insiders, namely, former directors (Borisov 2001).
Secondly, the process of privatization affected the trade union movement in a special way. Having been integrated into the administrative system of Soviet enterprises (organizations) and having implemented mainly distributive functions, the traditional trade unions (e.g., the heir of the All-Union Central Council of Trade Unions, namely, the Federation of Independent Trade Unions [FNPR]) were deprived of that status during the transformational period. Moreover, they were challenged to seek a new strategy in the relationship with the employers. As the “eighties” turned into the “nineties,” an independent, new trade union movement arose, actively promoting the labour interests of employees and regarding itself as powerful as the bosses. Altogether, the first decade of reforms caused the Russian

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Expenditure per Month for Workforce</th>
<th>Wage Expenses</th>
<th>Supply of Workers with Accommodation</th>
<th>Social Security</th>
<th>Professional Training</th>
<th>Mass Cultural Service</th>
<th>Others</th>
</tr>
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<tr>
<td>1995</td>
<td>1275.7</td>
<td>60.5</td>
<td>28.3</td>
<td>0.3</td>
<td>3.3</td>
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<td>1996</td>
<td>1919.6</td>
<td>59.7</td>
<td>29.9</td>
<td>0.4</td>
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<td>1998</td>
<td>2094.4</td>
<td>63.2</td>
<td>30.2</td>
<td>0.3</td>
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<tr>
<td>2000</td>
<td>4358.6</td>
<td>65.8</td>
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<td>2002</td>
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<td>71.8</td>
<td>24.4</td>
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<td>19.6</td>
<td>0.3</td>
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<tr>
<td>2007</td>
<td>20683.1</td>
<td>77.9</td>
<td>18.5</td>
<td>0.3</td>
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<tr>
<td>2009</td>
<td>28590.4</td>
<td>78.1</td>
<td>18.4</td>
<td>0.3</td>
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Figure 1 The Dynamic of the Real Wage 1991–2008 to the Level of 1991 (%)
trade unions to form different models of relationships with employers and the state, to search for internal forms of interaction within the trade union community and even a new image of trade unionism itself. How these problems were approached by traditional and alternative trade unions will be discussed below. In short, it should be emphasized that a fundamental question for the trade union movement after the collapse of the USSR was to redefine the role and purpose of a trade union in the public’s consciousness.

Thirdly, the new private owners resorted to various methods of evading taxes, thereby legalizing the non-payment of wage debts. One such method adopted was to split companies into several subdivisions. Some of these “daughter companies” simply served to accumulate wage and tax debts until they were declared bankrupt. At the same time, other divisions continued the business often with the same management. But the workers employed at the bankrupt daughter lost their jobs in return for the lowest compensation possible. Employment with the “new” company demanded a “new” application, which also enabled the employer to get rid of unwanted trade union activists. It was a means of putting pressure on trade unions.¹

4. Social Partnership as a Political Strategy

This is an incomplete list of initial changes generated by privatization. They combine with problems corresponding to the lack of an institutional framework for the regulation of labour relations at grass-roots level (enterprises) under the new conditions. As a response to the growing number of strikes between 1989 and 1991, especially in the mining industry, the Russian government initiated “Social Partnership” in 1991.² It was declared as a principle for settling labour conflicts at the federal level. In particular, in the Presidential Decree on Social Partnership and Labour Disputes (conflicts), the chief activities of social partnership included (1) signing annual general agreements between the Government of the Russian Federation and authorized representatives of the associations, by republic, of trade unions and employers; (2) signing tripartite sectoral agreements; (3) sharing responsibility for the socio-economic development of a particular industry among the owners of production; (4) establishing Republic Commissions to sign the general agreements between employers, unions and government; and (5) creating a mechanism for the solution of labour disputes consisting only in control functions on the side of the state authorities. At the enterprise level, however, there existed a lack of understanding of the role of social partnership and interest in promoting the principles and practice of equal partnership inherent in the ideology of a market economy.
Therefore, the key contradiction in the birth of labour relations in Russia consists of the ideological choice of the state as promoter of the social partnership model and its failure to stimulate its development. This failure means not only the inertia of the central and regional authorities when it comes to establishing social partnership as a specific framework of labour relations and regulations but also a conscious, progressive abandonment of the state function of mediator in social and labour relations. This issue is central to understanding the birth of labour relations in Russia in the transitional period.

This inertia in establishing social partnership is not identical to a similar lameness on the part of many states concerning social questions. The Russian state played the decisive role in introducing capitalism. There was none of the usual governmental weakness towards big capital because, in Russia, it had yet to be created. So it is clear that, for the Russian state and its leading bureaucracy, the creation of capital and capital owners had priority.

5. Practical Contradictions of Social Partnership

According to some economists and sociologists,

In our country, the state is not just a humble moderator of the dialogue, but an organizer and a full and active participant in the process. In this sense tripartism—the interaction of government, business and workers most adequately reflects the Russian feature. (Voeykov, Anisimova, and Sobolev 2009, 48)

At the federal level, social partnership is manifested in the work of the Russian Trilateral Commission for the Regulation of Social and Labour Relations (RTK). As already noted, the Commission is composed of representatives of the All-Russian associations of trade unions, nationwide employers’ associations and the Government of the Russian Federation.3

The representation of the All-Russian associations of trade unions in the RTK is determined according to the number of members in a respective trade union.4 In this context, the dominant number of places on behalf of the trade union organizations belongs to the FNPR, which had up to 37 million members in the 1990s (now down to 23.5 million).5 On behalf of the new (alternative) associations of trade unions, previously the All-Russian Confederation of Labour (VKT) and the Confederation of Labour of Russia (KTR), up to 2.4 million members in the RTK are represented together. After the Unity Congress between the VKT and the KTR in 2011, the newly founded KTR now represents 2 million (Kravchenko 2013). The vast majority of the seats in the RTK on behalf of employers’ associations belongs to the Russian Union of Industrialists and Entrepreneurs (RSPP).
Despite the fact that the Russian Trilateral Commission represents the official position of the government’s commitment to social partnership through the adoption of general agreements, academic experts identify the following reasons for its disadvantages: the sole advisory status of the RTK giving rise to recommendatory provisions in agreements that are particularly violated by the Government itself. The latter can be seen in the uncoordinated adoption of the annual state budget without taking into account the commitments the Government made in the articles of the Agreement (Borisov 2001). In addition, employers’ associations consider the participation in social partnership at governmental level “as an additional channel of communication with the authorities” or the ability to “promote their corporate interests” (Turina 2001).

The institutionalization of social partnership at the regional level limps behind the federal. The efficiency of regional trilateral commissions to resolve the social and labour disputes depends on the power of the regional governments. However, the question of how government implements the functions of the “third” partner as an arbitrator between employers and employees depends on the given level of social conflict. For example, in the 1990s, the activities of public authorities mostly followed the pressure engendered by strikes and spontaneous protest movements caused by prolonged non-payment of wages. The peak of strike activity occurred in 1998 during the so-called “rail war.” Wage debts had become a powerful impetus in the rise of alternative trade unions. These urgent circumstances caused the inauguration of a trilateral inter-ministerial committee to sign up regional and sectoral agreements in the chemical and metallurgical industries as well as in the public sector. Being part of the litigation process, workers could now count on the mutual resolution of labour conflict.

The state has thus shown certain concessions by exerting administrative pressure on employers, but it can hardly be said that it fundamentally promotes the development of tripartism. At the moment according to the report of the Ministry of Labour in 2010, the number of workers covered by collective agreements was 27,933,794 (62.2%) of 44,933,685 employed in 4,279,761 organizations (including private companies and public structures). So it means that only a third (1/3) of the economically active population (of around 74 million) is under the protection of collective agreement. About 57% of all collective agreements (223,344 in 2010) were signed in companies with state or municipal forms of property. Of all sectors of the economy, the highest percentage of collective agreements is to be found in education, the service sector, accommodation services, industry, health care, culture and art.

As reported by the regional state authorities on labour, the main factors impeding collective bargaining are the unstable financial conditions of companies, a lack of will on the employers’ side to take on social obligations, the absence
of trade-union organizations and employees’ passivity towards the conduct of collective negotiations.7

6. Labour Relations in the Context of the Power-Property Matrix

The author considers that the fundamental reasons for this policy lay in the specific, historically developed matrix of the relationship between power and property in Russia, which could take different forms at different times but as such reproduced no essential change. This is clearly the case concerning the period of transition to the market economy. How is that matrix expressed today?

At the end of the 1990s, the state, without trade-union consent, initiated a rather radical change in labour law, prompting it along the path of its deterioration, which was realized in the early 2000s. The memorandum of the Government of the Russian Federation and the Central Bank of the Russian Federation on economic policy and financial stability (July 20, 1998) defined the steps in the implementation of economic measures in the country as a condition for receiving loans from the International Monetary Fund. It included measures of an openly anti-union nature to reform the labour market. Paragraph 35 of the document reads as follows: Restrictions on the termination of employment agreements were a hindrance to the effective restructuring of enterprises and the distribution of labour resources in the economy.8 Prior to November 1, 1998, a new draft of the Labour Code of the Russian Federation was introduced to the State Duma to bring labour law into conformity with the requirements of the market economy. The Code set the minimum social security, enhance the role of individual employment agreements, including facilitating the termination of those agreements such as the elimination of the need and requirements of the consent of trade unions on hired-worker employment, and expand the possibility of concluding fixed-term and part-time employment contracts. Russian trade unions were able to see a copy of the memorandum only with the support of international trade unions.

The clan nature of the privatization of property is not the only feature of the development of Russian capitalism: the very nature of its informal ties, the tradition of unity together with power and property and demand of the protection of property rights against state competitors. In this sense, the reverse processes ensued when the state began taking ownership of many large companies. As noted by Professor R. Dzarasov (2010), if, in the 1990s, it was merely “capture by the state,” then it had become “the capture of business” by the mid-2000s. It meant the division of property in big business in favour of the state bureaucracy. The process of the “return” of the state into property between 2000 and 2003 was aiming at “optimizing direct involvement in the economy” (Radygin, Simachev, and Entov 2011, 13). In the following years, from 2004 to 2008, the state sector increased
significantly. Currently, experts estimate the share of the state sector in Russia’s economy to be close to 50%, especially in key sectors such as oil production at 40% to 45% (10% in 1998–1999), banking industry at 49% and transport at 73%.

In the late Soviet period—the Gorbachev era—“members of the bureaucracy had a natural tendency to ‘add’ property to government” (Nureev 2006) for which they were willing to give up a certain degree of power and reshuffle the system in order to purchase the property, thus becoming a motor of transformation. But after the first wave of privatization in the 1990s, the state bureaucracy, on the contrary, started again to take over property in public ownership because the badly run economy required informal and material support from the state which, in return, wanted control over the assets. How is this merging of state and business interests reflected in the employment relationship? According to trade unionists, the functions of the state in regard to employment are defined as follows:

The State Labour Inspectorate advises employers on how to get rid of union leaders [. . .], and collective agreements made in factories—they’re capitulation contracts. (A member of the Tyumen regional trade union centre)

The state now determines everything, but often leaves the a priori weaker employee alone to face the employer. (A member of the Trade Union RAS, Moscow)

Officials everywhere are struggling to prevent normal trade union activities. Again, we have no perception of trade union culture, ranging from the governor to the employees, that the union has the right to engage in dialogue with the employer, is an instrument with real influence. (A member of the Interregional Trade Union of Automobile Workers [MPRA], St. Petersburg)

The state is entirely on the side of the employer. The state has been virtually eliminated from the establishment of social standards, which should limit the capacity of capital. By the way, without the establishment of such standards, all discussions about social partnership are demagoguery. (An expert from School of Labour Democracy, Moscow)

The government is doing everything to minimize the role of trade unions. Officials give only a formal reply. One solution is the Labour Court, but the current courts do not understand what is going on. [. . .] No court has ever overturned a decision made by the State’s authority. (A member of the Russian Trade Union of Seamen PM, St. Petersburg)

The State is in fact a referee standing on the side of the employer. We cannot say that our state is the guarantor of social and labour rights. (A member of Inter-regional trade union “New trade unions,” St. Petersburg)

The State is an open defender of employers and property owners through all available means of influence. (A member of the Ural trade union centre, Yekaterinburg)

The state in most cases takes the employer’s side. This is evident from the repression of trade unionists, especially in large enterprises. (A member of the trade union Zashita, Irkutsk)
Big business holds real power. Its lobbyists fill all the authorities and parliaments, etc. They have the resources to represent those or other capital entities. The huge level of corruption in Russia has become legendary. (A member of the MPRA, Kaluga)

The state would play a positive role in social and labour relations if only it weren’t corrupted by the employer, and that I believe in modern Russia has become a universal thing, especially if the employer is a large profitable enterprise, playing a big role in the infrastructure of the municipality of the region. (Another member of the trade union Zashita, Irkutsk)

What is the reason for the unanimity of the respondents regarding the role of the state authority in labour relations?

In fact, today a “fusion” of the interests of two of the three “partners” has occurred. The ties between the state and business, especially strong, have become closer as if to add the direct ownership of property by the state bureaucracy to the established corrupt channels of communication. This reflects the traditional continuity of power and property in Russia and is the object of extensive economic, sociological and historico-philosophical research (Voslenisky 1990; Radaev and Shkaratan 1991).

The essence of this power-property relationship is evident in the following descriptive comparison (see Table 2):

Table 2  Comparison on the Essence of Power-Property Relation

<table>
<thead>
<tr>
<th>Russian matrix of power-property relationships</th>
<th>Western institutional matrix or the system of individualized private property</th>
</tr>
</thead>
<tbody>
<tr>
<td>It presents itself as an institution of public utility and interest*</td>
<td>Private individual or collective ownership</td>
</tr>
<tr>
<td>Its actors are public officials, that is, owners of power</td>
<td>Private individual or collective ownership</td>
</tr>
<tr>
<td>These owner-holders are obliged by the hierarchical system to act within the overall economic strategy of the government</td>
<td>Free disposal and use of possession, etc.</td>
</tr>
<tr>
<td>A system of incentives secures administrative coercion and control</td>
<td>Individual incentives to increase personal wealth</td>
</tr>
<tr>
<td>Economic decisions like the allocation of resources or sales figures are made in a centralized and administrative way</td>
<td>Free market exchange (&quot;arm’s length&quot; transactions)</td>
</tr>
<tr>
<td>The guarantors of property rights are the special executive units of the central and regional authorities</td>
<td>Courts, law enforcement agencies</td>
</tr>
<tr>
<td>The deliberate decisions made by state officials concerning property have eroded the legal framework of ownership to such an extent that private companies also have to seek support from the state</td>
<td>Property rights are well specified by legal procedures</td>
</tr>
</tbody>
</table>

Source: Nureev and Runov (2002).
Note: *For example, Gazprom regards itself as a company of “national heritage.”

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In different historical periods, the layout of the Russian power-property matrix and its formalization have depended on certain social conditions and constraints. In the case of the command economy of the Soviet period, that matrix was restricted by the social power of the working class and the values of socialism displayed in such forms as the social protection of labour legally enforced by the Labour Law Code of the RSFSR of December 1918 (later on the USSR), free education, health and access to cultural benefits.

During the transition period, these restrictions were gradually lifted. Nowadays, the matrix of power-property displays itself differently in its impact on the employment relationship. Namely, the increasing role of state bureaucracy as the guarantor of property rights through executive decision making instead of through an independent legal system weakens its function as a protector of labour rights and interests.

As a result, state authorities have responded to labour conflicts either by their open or disguised backing of the employers’ position, or by the repression of trade-union activists. This practice of state mediation is most obvious in open labour conflicts. In particular, during the go-slow “Italian strike” (“Bummelstreik,” “Dienst nach Vorschrift”) in June 2009 at the Kaluga plant of Volkswagen Group Rus, organized by the local union of MPRA in response to bonus cuts by the employer and on account of inadequate safety conditions at the workplace, the regional governor expressed support for the employer’s position, stating that there would be no toleration of significant losses for the foreign investor due to the strike.10 The members of the MPRA at the Kaluga plant of Benteler Automotive, who also organized strikes, concluded that “the state took part in the labour conflict by sending police to surveille and surround the enterprise.”11 Between 2007 and 2010 at the Ural Aluminum Plant, the Independent Trade Union of Metallurgists “NABAT” faced constant control by the authorities rather than by the employer when employees demanded wage increases in accordance with sectoral agreements. Finally, the trade unionists faced criminal charges. The trade union Zashita in the Antipinsky Refinery Plant in Tyumen region has been trying to bring numerous allegations and claims to the prosecution office and the courts since 2011 and has not yet obtained legal support for the re-inauguration of the illegally dismissed trade-union members who founded the union.12

7. Summary

In summary, we can conclude that, having chosen tripartism as the basis of labour-relations regulation in post-Soviet Russia, the government has presided over its non-development. Without fulfilling the role of moderator between employers and employees or at least neutralizing its role in labour relations, the
state authorities have taken to using punitive and administrative functions against active employees’ self-organizations, and that shifts the balance grossly in favour of employers. Without wishing to idealize the first decade of the transitional period (the 1990s), it should be noted that the legal framework of labour relations at that time, with strong pressure coming from the trade unions, was able to settle labour disputes through compromise. The second phase in the evolution of Russia’s labour relations (the 2000s) is characterized by labour law itself losing even its formal status as a protector of labour rights.

Acknowledgements

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Notes

1. From an interview with a representative of the Tyumen regional trade-union centre, Tyumen, September 2012.
2. See the presidential decree of the Russian Federation on social partnership no. 212, November 15, 1991.
3. See the federal law on the Russian trilateral commission for the regulation of social and labour relations no. 92, May 1, 1999.
5. To count the trade unions cooperating with the Federation of Independent Trade Unions (FNPR) on the basis of agreements, the number of FNPR membership is 24.2 millions of people.
7. See note 6.
10. From the interview with the representative of the Interregional Trade Union of Automobile Workers (MPRA) from the Kaluga plant Volkswagen Group Rus, November 2012.
12. From the interview with the representative of the Primary Trade Union Organization (PPO) Interregional association of workers trade union “Zashita” at the Antipinsky oil refinery production plant, Tyumen, September 2012.

References

FROM THE SOVIET MODEL OF LABOUR RELATIONS TO SOCIAL PARTNERSHIP

MALIGNANT GROWTH: A REVIEW OF
FINANCIALISATION IN CRISIS, EDITED
BY COSTAS LAPAVITSAS, AND THE
RESTRUCTURING OF CAPITALISM
IN OUR TIME, BY WILLIAM K. TABB

Michael Keaney


Bearing in mind that more than 40 percent of US corporate profits come from a financial sector whose profits have been bloated by leveraged carry trading, the scope for trouble is considerable. We have a system overloaded with debt in the household and public sectors and stretched by financial imbalances. Yet many in the markets are saying, as with technology in 1999, that this time it is different. Encouraged by the relentless optimism of the great helmsman at the Federal Reserve they are convinced we shall all muddle through.

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I agree that finance is more sophisticated than ever before, as Alan Greenspan, chairman of the Federal Reserve, often reminds us, but I am pretty sure that the principles on which the financial system operates remain broadly intact. Whether it happens in August is anyone’s guess, but something nasty is certainly around the corner. (Plender 2004)

It is a measure of our overly financial times that people can recall the day Lehman collapsed as a previous generation remembers the moment when an American president was assassinated in Dallas. (Das 2013)

The literature of financialization is vast and expanding exponentially. The term itself is of relatively recent vintage and seems to have emerged at some point during the mid-1990s. Kevin Phillips’ Boiling Point (1993) appears to have featured the first use of the term, and a year later his Arrogant Capital (1994) railed against the capture of the US political process by the financial sector and the consequent doom that this spelled for the US, with a chapter devoted specifically to financialization (Phillips 1993, 1994). At around the same time, Giovanni Arrighi employed the term in his discussion of historical phases of hegemony (Arrighi 1994). Two years later, Business Week economics editor Michael Mandel1 effectively combined the observations of Phillips with those of sociologists Ulrich Beck (1992) and Anthony Giddens (1991) when he wrote,

We are seeing the financialization of the American economy . . . The combination of high uncertainty and unrestricted competition is reducing the difference between the real economy of factories and offices on the one hand, and the financial markets on the other. The rules governing Wall Street now apply to the entire economy.

The implication: In the high-risk society, workers, businesses, and countries must start thinking like investors in the financial markets, where the only way to consistently achieve success is to accept risk. (Mandel 1996, 8)2

Since then, there has been an ever-increasing number of publications purporting to handle financialization, whether primarily from a business perspective (Luttwak 1999) or, more broadly, as a cultural phenomenon (Martin 2002). A predominant theme of all these, as suggested especially by Luttwak, is a universalized “speed-up,” as financialization “insinuates an orientation toward accounting and risk management into all domains of life” (Martin 2002, 43). Costas Lapavitsas similarly identifies its pervasive cultural ramifications, as financialization “has allowed the ethics, morality and mindset of finance to penetrate social and individual life” (2012, 17). Indeed he goes so far as to say that financialization stands “for increasing autonomy of the financial sector” (50).3

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1 Business Week economics editor Michael Mandel
2 Mandel 1996, 8
3 Costas Lapavitsas
Financialisation in Crisis (Lapavitsas 2012) is among the many products of the Research on Money and Finance (RMF), an international network of researchers whose collaborative efforts have generated a substantial amount of output in a relatively short time. It is deliberately positioning itself as a think tank, supporting media-friendly press releases and op-ed contributions with scientific research, appearing in the form of discussion papers, special reports, and books. It is an altogether ambitious project that aims to direct informed activism with solidly grounded research. At its center is Lapavitsas, whose work prominently features in both the publications and activities of RMF and in the articles featured in this book.

Financialisation in Crisis begins with an editor’s introduction that sets the scene. Thereafter, the various chapters begin from the same point of departure, in most cases rehearsing the same points as others at first but thereafter focusing on a more specific aspect of the political economy of financialization, especially as that pertains to macroeconomic analysis. The result is a collection of sustained, high quality, in which the authors marshal an impressive array of empirical data to highlight especially the globalized nature of the phenomenon under scrutiny. Simultaneously, they are very consciously attempting to demonstrate the applicability and relevance of Marxist political economy. However, they are not working in an intellectual autarky—much mainstream literature is cited, as are other heterodox treatments of the crisis. Although there is a shared commitment to the superiority of Marxist political economy as an analytical instrument, the authors also understand the necessity of its adaptation and modification in accordance with the evolution of global capitalism. Hence, there is a refreshing lack of dogmatic reiterations of orthodox “truths” and rhetorical liturgy. This is a serious attempt to craft a dynamic and adaptive epistemic community with a core normative commitment to worker emancipation.

While what might be considered the “non-economic” aspects of financialization are to some extent treated in Financialisation in Crisis, the focus here is squarely on the macro-structural changes that have facilitated both the increasingly dominant role of finance in contemporary capitalism and that have been themselves wrought as a result. In his introduction, Lapavitsas specifically rejects what might be called the “workerist” Marxism that would “bypass the ‘surface’—phenomena of finance in a forlorn search for the ‘true’ causes of the current crisis.” It is “necessary to examine financialisation as a structural transformation of the capitalist economy during the last three decades” (Lapavitsas 2012, 9); financialization “ought to be approached by treating the financial system as a structured whole that is connected organically to real accumulation” (Papadatos 2012, 131).

Following the introduction, Lapavitsas opens with a more general account of financialization as that is to be understood for the purposes of this book. Among the key themes is the extraction of financial profit “directly out of the personal
income of workers” (Lapavitsas 2012, 16), and the “distinctly exploitative social content” of household borrowing (94). This is partially in contrast to treatments that focus on financialization’s “transformation of future streams of income (profit, dividends, and interest) into marketable and traded assets in the form of equities and bonds” (Lucarelli 2012, 431). It is because of the “financialisation of personal income, mostly expenditure on housing but also on education, health, pensions and insurance” (15) that the economic storm unleashed in 2007 and still engulfing the global economy has been so unique: “never before in the history of capitalism has a major global crisis been caused by the extension of credit to workers, including to the poorest” (3–4).

Given the centrality of the US housing market to this, Gary Dymski’s rendering of the transformation of racial minorities’ status from pariah to meal ticket is particularly apposite. Within the history of commercial banks’ transformation from staid deposit holders and prudent investors to overly adventurous risk arbitrageurs is a profound change in the treatment of minorities, ostensibly shedding the racism of the preceding era but in fact merely adapting such profiling to new, more remunerative practices. During the 1980s, US banks’ “new strategies shifted the balance from net earnings based on interest margin to net earnings based on fees for financial services” (Dymski 2012, 60). These included what Dymski calls “extortionary racial inclusion . . . at terms and conditions that are predatory” (65). As the whole collection makes clear, this occurred in a generalized context of intensifying “financial expropriation,” in which “[e]xtracting financial profit directly out of the personal income of workers and others has acquired greater significance” (16). As William Tabb notes in The Restructuring of Capitalism in Our Time (2012), Julie Williams, then chief counsel of the Comptroller of the Currency, stated in a 2005 speech that the “focus for lenders is not so much on consumer loans being repaid, but on the loan as a perpetual earning asset” (quoted in Tabb 2012, 40).

Dymski’s succinct recounting of the transformation of US banking practices is followed by a more generalized analysis of banking in contemporary capitalism by Paul L. Dos Santos. The privatization of such goods as education, health care, housing and pensions has forced many households to seek access to finance for present and future consumption (Dos Santos 2012, 85). It is as if the logic of Milton Friedman’s (1957, 42) permanent income hypothesis has fully come to life, assisted by the vastly enhanced capacity for data processing, and the exploitative aspect of this is explained thus:

Money loaned out to individuals for consumption or mortgages does not ordinarily generate the value from which it is to be repaid with interest. Interest-payments are generally made from subsequent wage-receipts by borrowers, representing an
appropriation of value borrowers have secured independently of the loan. (Friedman 1957, 94)

Friedman’s distinction between “permanent” and “transitory” income is today integral to the calculations of lenders as regards their ability to extract, for as much and as long as possible, a share of their borrowers’ income.

The switch in emphasis away from traditional lending practices and toward personal finance is reflected in the rising proportion of total bank revenues that is attributable to non-interest income. Dos Santos also provides figures for the US and various other countries to show how since 1980 there has been a parallel reduction in bank lending to commercial and industrial enterprises (Dos Santos 2012, 87). In summary, “banks have re-oriented to private-wage income as a source of revenues” (98).

Consistent with the collection’s treatment of finance as an increasingly autonomous but structurally integral facet of contemporary capitalism, Dos Santos explains the “dramatically different outcomes of capital market trading for retail investors and for financial intermediaries” as not the product of “irrationality” on the part of retail investors, but instead as evidence of “the class-content of contemporary capital markets,” and specifically the “monumental and crystallized class parasitism” (Dos Santos 2012, 114) symbolized by the massive profits of investment banks prior to the meltdown of 2007 onward.

For all the hype, stock markets are of little significance with respect to capital raising. This is exemplified by the initial public offering (IPO) of approximately 20% of Facebook’s stock in May 2012, in which the company, then valued at US$100 billion, was hardly requiring a fresh capital injection. Its deliberately complex and opaque capital structure, coupled with separate voting rights entitlements that concentrate power in the hands of founder Mark Zuckerberg, goes against all strictures regarding sound corporate governance (Aama 2012; Plender 2012). It took over a year for Facebook stock to recover to its IPO price of US$38, following a controversial bailing out by underwriters (Dembosky 2013). So what is stock markets’ purpose in practice?

For Lapavitsas, they “have facilitated the concentration and centralization of capital through IPOs, leveraged buy-outs and similar transactions” (Lapavitsas 2012, 37). To this, we can add their function as a means of “valuation of companies, the payment of shareholders and, possibly, the control of performances through mergers and takeovers.” As their role expanded, “net share issues by private companies in the United States were negative” (Aglietta and Rebérioux 2005, 85). Stock markets have become a means by which the financial sector has intensified its extraction of value, assisted by the remuneratively alluring co-optation of corporate executives whose alignment with the stockholder interest has been
of a very particularist kind. But this is best understood as part of a pervasive “drive by banks and broader financial system to increase the scope for financial expropriation” (115).

Demophanes Papadatos provides an informative critique of central banking and its role prior to and during the crisis. Specifically, following the failure of the monetarist effort to measure and restrict the growth of the money supply, the rise of inflation targeting is treated as “an attempt to preserve financial interests at the expense of the vast majority of the rest of society” (Papadatos 2012, 121). As other chapters of this book demonstrate, this policy has been especially punishing for lower income countries forced to adhere to conventional wisdom in order to gain access to markets and capital inflows. The one-size-fits-all nature of inflation targeting is shown to be unable to discriminate with respect to the causes of inflation and the heterogeneity of capitalism (125). In particular, the sharp focus on unit labor costs while refusing to acknowledge the significance of asset bubbles, which Alan Greenspan famously claimed could be identified only ex post (Palley 2003), encapsulates the class content of central banking. The collateral damage of this policy, however, means that not all its supposed beneficiaries appreciate it. London-based asset manager Andrew Smithers (2009, 8) is withering in his verdict of Greenspan’s regime as ideologically committed to ignoring asset prices. “My interpretation of our current financial tribulations is that they are largely the result of mistakes by central banks, with the Federal Reserve being the most culpable” (105).

Papadatos offers an interesting line of defense for Greenspan, stating that, “in a capitalist economy, it is very hard to distinguish at an early stage between a bubble and a period of lasting improvements in productivity-performance” (Papadatos 2012, 138). However, while such an explanation may suffice for stock prices, skeptics’ including Smithers notwithstanding, it has less purchase on real estate booms. And in any case, as is pointed out, Greenspan calculated that the ex ante profits would more than compensate for the costs ex post, which would in any case be socialized to some degree—quite an intellectual contortion for an avowed libertarian.

The asset bubbles that have emerged with increasing regularity since the 1990s have undermined the claims made for inflation targeting. Price stability may in fact have a role in breeding financial instability, fed by optimism that is itself a product of low interest rates that encourage greater risk-taking. Papadatos (2012, 134) notes that “in all countries that suffered financial bubbles during the last fifteen years, inflation was either low in absolute terms, or low relative to its earlier history.” And even before, Japan’s real estate bubble of the 1980s was accompanied by very low inflation.
Papadatos (2012, 131), in highlighting the structural power exercised by rentiers in contemporary capitalism, rejects the notion that labor should support industry over finance, given the systemic origins of finance’s ascendancy. The time for a “producers’ alliance” (Ramsay 1998, 115) or “intensive regime of accumulation” (Lipietz 1986), against the encroachment of financial interests, has passed, given the structural transformation of capitalism that is rendering it increasingly in finance’s image.5

While the central banking fraternity debates what remains of the “Jackson Hole consensus” regarding inflation targeting and the treatment of asset bubbles (Evanoff, Kaufman, and Malliaris 2012), Papadatos (2012, 139) notes that central banks, in addition to being the lender of last resort, have now become the “market-maker of last resort,” by purchasing those securities in the possession of banks that are otherwise unsaleable. Once again, the losses of private actors are socialized following a binge of private profit-taking on the back of unsustainable risk-taking.

Makoto Itoh (2012, 149) draws parallels with the subprime crisis in the experience of Japan. The “financialisation of labour-power” is highlighted as having already been a feature of the Japanese boom of the 1980s, although this aspect was even more to the fore in the US experience. But Itoh does not expand upon this concept, focusing instead on means by which the financial sector has engineered first bubbles and then crises.

Expansion of consumer credit to finance consumption and housing purchases, in addition to health care, education, and even physical security, has meant that exposure to financial risk has never been more pervasive.

Privatisation and the celebration of choice brought with it the exposure of the risk of wrong choices, even if they were wrong only retrospectively. . . . We are now the compulsory entrepreneurs of our own lives: labour is being re-conceived in the image of capital. (Bryan 2010, 53)

Dick Bryan (2010, 57) argues that labor’s “dual freedom” (from physical compulsion to work and from attachment to capital, following Marx) is supplemented by another: the freedom to accumulate and to convert a part of its income into surplus in the form of interest payments. In Bryan’s rendering, this “new class of accumulators” has the effect of lower consumption (resulting from a fall in the value of labor power) and “seemingly incalculable risks to capital,” as evidenced by the collapse of the US housing market and the knock-on effects throughout the financial system of defaulted household debts. This “freedom” is less double-edged in practice, however, given the regime’s socialization of the suddenly very calculable risks to capital that resulted in the rescue of financial institutions.
and state purchase of supposedly “toxic” assets. Itoh describes this development as “completely contrary to the theoretical precepts of neoliberalism”—true—and “closer to socialist arguments about managing the capitalist economy than even to traditional Keynesianism” (159)—not true, given socialist arguments’ rather more normative and specific class content than the “keep the wheels turning” logic of traditional Keynesianism, and the telling reluctance of state managers to exercise control over that which they have employed taxpayers’ money to rescue.

Itoh makes two important observations. Firstly, the supposedly greater transparency and efficiency of US capital markets has been shown to be both opaque and inefficient in practice. This crisis was not the result of “an external shock . . . but largely due to the internal motion of the US-financial system itself” (Itoh 2012, 155). The crisis “has forced a rethink of the supposed superiority of the US (and UK) over the Japanese (and German) financial system” (151). Secondly, for its own part, Japan’s supposedly more traditional “indirect” banking system was not able to prevent its own bubble from first inflating and then bursting, with disastrous results (160). As with Papadatos and the analysis of capital fractions above, it is simply too lazy to assume that the “continental” or “originate-to-hold” banking systems of Germany and Japan are inherently superior to their anglosphere, “direct” finance counterparts. The presence, or otherwise, of an effective labor movement can make all the difference in practice.

Nevertheless, Itoh should also take into account the impact of the Plaza Accords of 1985, in which central banks intervened to bring down the value of the US dollar and therefore facilitate a rebalancing of Japan’s trade surplus with the US. The subsequent impact on the Japanese economy was such that the Japanese government implemented a stimulus package in 1986, combining interest rate reductions with fiscal injections, bringing about recovery, but of the most unsustainable kind, as funds were redirected into real estate and credit, following earlier financial deregulation in line with conventional US-led wisdom. These developments did not excite alarm because they represented a boost to domestic demand, in line with the Plaza Accords’ focus on trade rebalancing. Monetary easing was also preferred because to have raised interest rates would have risked strengthening the yen, contravening Plaza. Only when the boom turned to bust in 1990 was there any recognition of the fundamental unsustainability of the course of action agreed to by Japan, under heavy US pressure.6

Carlos Morera Camacho and José Antonio Rojas Nieto examine the globalization of financial capital from the Asian crisis to the subprime crisis. Specifically, they identify “the consolidation of an international-financial space through which practically all national-financial processes are obliged to pass in an articulated manner” (Camacho and Rojas Nieto 2012, 162). This has been accompanied by a generalized attack on labor and a transformation of the role of the state. The
transformative effects of financialization are colonizing and integrating previously insulated, local institutions and social practices. The sphere of production has been subordinated to the sphere of circulation. In all this Morera and Rojas see efforts intended ultimately to combat the tendency of the rate of profit to fall. However, as they themselves admit, this is complicated by “substantial increases in the mass of profit,” making “disputes among all the factions of capital more controversial and violent” (163).

Conventional treatments in Marxist political economy view financialization as having achieved a restoration of the profit rate, with an upward trend observed in Britain since 1979 and in the US since approximately 1980. Both dates coincide with the imposition of monetarist policies intended to combat inflation and the accelerated liberalization of the financial sector in both countries, which are of particular note given their hosting of the two most important global financial centers.

According to Freeman (2012/2013), the traditional focus on physical capital means that the calculation of the profit rate is increasingly distorted by its exclusion of money capital. If “money balances, hoards and financial investments” are included, then the impact of financialization on the profit rate is rendered just as visible but in such a way as to reveal its failure to restore the profit rate to levels enjoyed from 1946 to 1970 approximately. In the US, the decline of the profit rate is shown to have continued steadily downward since 1982, while in Britain financialization has even accelerated the decline since 1987, coinciding with the period when the descent of manufacturing was accompanied by a resurgent City of London (Freeman 2012/2013, 170, 177, 179). What has happened is that the profit rate for some has certainly been restored, if not enhanced, while for others it has declined, and in many cases drastically so. Financialization has engineered a redistribution and concentration of a shrinking surplus, rather than its aggregate increase. As Tabb (2012, 41–42) states, it is “an appropriation from the rest of the economy.”

Private equity buyouts encapsulate the process at work here. “The capture of the rights to the returns on large assets based on a proportionately small equity commitment” enables the “sweating” of the asset until eventually it is sold, leaner but often not at all fitter, since it is debt-laden, and with many previous claim holders (such as pension savers) left significantly poorer (Morgan 2009, 230–31). The apparently remarkable returns achieved by such financial practices attract other investors who compete for a shrinking purvey. The falling profit rate under financialization is simply the outcome of an aggregated form of the asset-stripping and financial engineering that has hollowed out vast swathes of industry in the high-income countries and which exploits the more vulnerable populations of the global South. Overall profit rates are reduced while the financial sector’s
structural power engineers a taxpayer-subsidized upward redistribution of income that ensures spectacular gains are enjoyed by a shrinking, but accumulating, plutocracy. The gains are spectacular precisely because they are shared among so few. But the aggregation of profit rates, like GDP statistics more generally, can serve to hide these redistributive effects and so help to legitimize both intensifying expropriation and, relatedly, accelerated crisis tendencies.

The impact of financialization on developing countries is the focus of Juan Pablo Painceira’s discussion. As an outgrowth of the Third World debt crisis of the 1980s, the Brady Plan’s debt restructuring involved opening up indebted countries to further inflows of capital, accompanied by liberalizing reforms. Dollar hegemony has ensured that the US has enjoyed the benefits of this integration into the global economy. The superiority of Marxist political economy with respect to development studies is highlighted in connection with understanding how capitalist development endogenously “induces development of the financial system, which then fosters further capitalist development” (Painceira 2012, 192). With respect to financial crises, Painceira claims that it is able to distinguish between those that are production-related and those “due to the overstretching of finance caused by the internal operations of the financial system,” thereby confirming the “inherent autonomy of finance from real accumulation” (195).

Painceira attributes the present crisis to the implosion of the subprime loans sector in the US, but this in turn is itself a product of changes in real accumulation. Analyzing global financial flows and the position of the US dollar as “quasi-world money” (Painceira 2012, 195–202), he analyses international money flows to determine just how the US has benefited from its currency’s status and how much less developed countries have themselves financed the excess of the US financial sector by protecting themselves against speculative money flows of the kind that featured in the Asian crisis of 1997–8. This has been done by the accumulation of dollar reserves, effectively “a form of tribute to the issuer of quasi-world money” (200). Meanwhile, thanks to the inflation-targeting regime forced upon developing countries in the name of economic orthodoxy, the increase in the money supply that this causes is “sterilized” by the issue of public debt, whose opportunity cost is the investment foregone that this represents (207). “Financialisation has thus resulted in the absurd situation of the poor financing the rich in the world economy, while allowing the USA to run vast trade deficits” (212). What is true locally is further amplified at the global level, in line with Tabb’s “appropriation” thesis.

In a final chapter, which is very timely, given recent events in Istanbul involving the occupation by and police brutalization of protestors in Taksim Square, Nuray Ergünes presents a case study of Turkey, ostensibly an economic success story in recent years, following a series of crises culminating in the intervention of the International Monetary Fund (IMF) in 2000–2001. The familiar pattern of capital
account liberalization, trade opening, foreign exchange (mostly US dollar) reserve accumulation, and inflation targeting as the basis of monetary policy has been observed. Regarding the latter, Ergünes highlights its restrictiveness with respect to both monetary and fiscal policies, with higher real interest rates and downward pressure on wages serving to attract capital inflows and enhance “competitiveness.” But the growth that this path has apparently delivered in recent years is vulnerable to sudden reversal, a point very much in evidence at the time of writing (Wigglesworth 2013).

Ergünes draws attention to how the inflation-targeting regime of Turkey’s central bank has altered the composition of Turkey’s external debt. What was in the past associated with the state is now driven by private sector borrowing, as producers go abroad to finance fixed investment in order to escape the higher domestic interest rates. Meanwhile, foreign banks have, mainly through acquisition, established themselves in Turkey and have plowed a familiar path of consumer credit expansion, pulling along domestic competitors in their wake (Ergünes 2012, 238). As a result, there has been a rising level of household indebtedness and insolvencies.

Foreign exchange reserves are also on an upward trend, with the central bank investing heavily in US Treasury bonds (Ergünes 2012, 223). Economic growth has been impressive, aside from the absence of employment growth. Capital account surpluses have been accompanied by large current-account deficits, despite surging exports. This relates to a pattern of trade referred to as “buy from Asia, sell to Europe” (227), in which intermediate and investment goods are imported mainly from Asia and employed in the manufacture of consumer goods and, increasingly, investment goods to Europe. A high exchange rate and competition from other producers means that Turkey’s competitiveness in this is dependent on cheaper unit labor costs. A Customs Union with the European Union coincided with the withdrawal of agricultural support, speeding up urbanization and supplying plentiful cheap labor that also forms the basis of the governing party’s electoral support. As part of the inflation-targeting regime, wages have been index-linked, resulting in a decline of real wages (230) while manufacturing productivity has boomed, enhanced by significant growth of more capital-intensive production. The social dislocation caused by this rapid development path is very much in evidence at present.

Ergünes (2012, 241) sees Turkey as typical of middle-income developing countries under financialization: “import-dependent production, a huge current-account deficit, large public and private debts, increasing unemployment and indebted individuals,” to which could be added production for export.

Financialisation in Crisis provides a strong analytical focus and is replete with statistical evidence that is usefully organized in tabular or graphic form. It locates
the origins of the crisis within the US, and in so doing convincingly locates the global centre of this globalizing mode of production, dwelling at length on its impact both globally and in more specific locales. *The Restructuring of Capitalism in Our Time* is a quite different proposition, although ostensibly covering the same topic, and from a similar theoretical perspective, albeit more eclectic in its theoretical sources than strictly Marxist. The book is more US-focused, as it is written with an eye to influencing policy debates, whether directly via academics, journalists and wonks, or indirectly through general readers.

The accessibility of Tabb’s book means that its theoretical and analytical content is far less concentrated than in Lapavitsas’ collection. Nevertheless, as a guide to the origins and unfolding of the crisis beginning in 2007, *The Restructuring of Capitalism in Our Time* (Tabb 2012) is unlikely to be rivaled. And while there is no shortage even of more mainstream treatments (e.g., Blinder 2013) that are good at dissecting the origins and the unfolding, their deference to conventional wisdom and largely uncritical treatment of the crisis management by the US government and the Federal Reserve means that the reader is left to conclude that if only the right people were in charge, everything would be at least much better, if not fine. The advantage of Tabb’s book is that the systemic roots of the crisis are very much on display, transcending the vacuous Democrat versus Republican sideshow.

Tabb cites both social structure of accumulation (SSA) theory and world systems thinking as major influences on this book, although there is an eclecticism that encompasses also the work of Paul Sweezy, Hyman Minsky and Wynne Godley, among others. The result is a descriptively rich recounting of the crisis, its origins and aftermath, peppered with pockets of analysis that could have been developed further to great advantage. There are long passages of history that veer close to chronicle, and while for those less familiar with the background this will serve an important purpose, for those more familiar with the subject matter there is likely to be a somewhat unquenched thirst for deeper theoretical insight. That said, there are telling flashes of such insight throughout the text that are suggestive of further inquiry and theorizing. Tabb is also very much aware of the ideological ramifications of methodological choices, a longtime concern (Tabb 1999). In this connection, he highlights the folly of the efficient markets hypothesis and the manner of its defense by prominent mainstream economists who prized abstraction above relevance (20).

Tabb (2012, 4) begins by highlighting the political dilemma posed by a crisis such as the present one that “calls attention to the perceived fairness of a society’s political economy.” For the reader, ahead is the promise of an explanation of how the game is rigged in favor of the financial sector, depicted, following Sweezy, as “a relatively independent superstructure . . . atop the world economy” (Tabb 2012, 9; see also Dowd 2002). Thus financialization is defined as “the dominance of
the financial sector in the totality of economic activity such that financial markets
determine the state of the overall economy and financial sector demands dictate
nonfinancial company behavior” (Tabb 2012, 10). We might question if there is
even such a thing as a “nonfinancial” company any more, given the penetration of
finance and risk management throughout almost all aspects of life, and especially
business. On this latter point, not only has financialization “changed corporate
governance but proven to be a form of redistributive growth” (Martin 2002, 12).
It is “a tool of accumulation pushed powerfully by the American state and other
money-center governments” (10).

Before proceeding further, two questions arise: firstly, is the base-superstructure
metaphor of any significant use in helping us understand contemporary capitalism?
Secondly, if it is of use, to what extent can the financial sector be regarded as
belonging to the superstructure? While Tabb appears to be comfortable with the idea
of finance as belonging to the superstructure, Lapavitsas et al. appear to be more
equivocal, insisting on the integration of financialization with real accumulation,
but without resort to the kind of “tail wagging the dog” criticism that is at least
implicit in the Sweezy/Tabb rendering, and which finds much support beyond
Marxian political economy, as in the British government’s recent commission of
inquiry into the role of equity markets, for example (Kay 2012). Indeed, while
the RMF approach adheres to the distinction between “real” accumulation and
finance, it is not necessarily the case that this distinction is synonymous with
the base-superstructure metaphor, given the attribution of a certain degree of
autonomy to finance.

Tabb devotes the second chapter to relating financialization to SSA theory,
covering similar territory to an earlier paper (Tabb 2010, 25) but tailored more to
a broader audience. SSAs are defined as “coherent set[s] of mutually reinforcing
institutions favorable to capital accumulation” that are necessary for prolonged
periods of economic growth. Given the evidence provided especially by Freeman
(2012/2013), the modification of Wolfson and Kotz (2010, 73) that SSAs are in fact
better understood as the stabilization of class contradictions, thereby facilitating
profitable accumulation, is arguably more appropriate. Meanwhile, Tabb’s (2012,
30) reference to the “global neoliberal regime’s period of confident growth” prior
to the onset of crisis indicates his agreement with Wolfson and Kotz, among
others, as regards the applicability of the SSA concept on a global scale, contrary
to Victor Lippit’s argument that because “institutions vary widely among capitalist
countries . . . it is not meaningful to speak of a global or international SSA”
(Lippit 2010, 45n1). The extent of global integration, including the prolonged and
deepening structural imbalances that have characterized globalization, attracting
much mainstream comment (Wolf 2008; Rajan 2010), is amply demonstrated by
the data presented in Financialisation in Crisis, as are phenomena common to
different categories of economic development, such as middle-income developing
countries. As Tabb (2012, 54) agrees, “The debt-driven redistributive growth
model, featuring a harmful financialization, characterizes the global neoliberal
SSA.” Lippit’s (2005, 55) treatment of globalization as “exogenous” to the new
SSA of the US ignores the economic, political and even ideological centrality of
the US to the globalizing processes that led ultimately to the global crisis of 2007
onward and amply laid bare in Financialisation in Crisis.

There is a lot of overlap in the contents of both volumes under review here,
but to a large extent they are differentiated by their selection and treatment of
evidence. Whereas Lapavitsas et al. are concerned to demonstrate the relevance of
Marxist political economy with copious use of statistical data, Tabb’s (2012, 49)
narrative contains regular reference to telling observations by insiders, as well as a
focus on fraud and criminal behavior that is integral to financialization. “Nothing,
it turns out, correlates as strongly with fraud as stock options.”

Even more seriously, the “pretense of profitability” (Tabb 2012, 48) that was
supposedly finished with the bursting of the dot-com boom and ignominious
scandal surrounding Enron in 2001 in fact continued. “Gains in the real economy
were for the most part illusory” (52). According to Smithers (2009, 142), “profits
have been habitually overstated” and not only in the US. While this is not unique
to the present era of financialization, the evidence from the US shows that the
periods apparently most afflicted by this overstatement were the inter-war years
and 1968 onward, the latter coinciding with Freeman’s recalculation of the rate of
profit in the US discussed above.

In addition, Tabb’s discussion of the derivatives market captures, as few others
have, an essential feature of financialization in practice: the “preference for opaque
products and secretive dealings to protect rents” (Tabb 2012, 58), hence the
remarkable, rapid expansion of the “over-the-counter” (OTC) derivatives market.
Bryan and Rafferty (2006, 205) note that financial derivatives, like the Eurodollar
market before them, were developed in order to avoid state regulators and capital
controls. Where opacity reigns, criminality is likely to develop, and in the case of
OTC derivatives, they “have indeed been used in ways that are flagrantly illegal,
and . . . it would appear that regulators have turned a blind eye to illegal practices”
(206). Fictitious capital might be a perennial theoretical problem within Marxist
political economy, but as Crotty’s (2003) analysis of shareholder value highlights,
fictitious financial reporting is an endemic empirical, and legal, problem, given the
incentives and opportunities that the shareholder value regime has brought into
being. Banks are thoroughly implicated, as they “push the envelop of legality by
offering derivatives designed to arbitrage earning over time and space in order to
move money to jurisdictions or forms of payment that face lower taxation” (Crotty
2003, 105).

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This is part of the more generalized phenomenon of “shadow banking,” whose very lack of regulation has encouraged its growth to the extent that, according to the Federal Reserve, it was worth over US$20 trillion in early 2008, as compared with the regulated banking sector’s US$11 trillion, and shrinking to “only” US$16 trillion by late 2010, but still larger than the regulated sector’s US$13 trillion value (Tett 2010). The sector includes

hedge funds, private equity groups, insurance companies, money market funds, and pension funds, among others, and features funding sources involving the use and reuse of collateral posted with banks and others to finance transactions that show up as non-balance sheet funding. (Tett 2010, 94–95)

The far from small matter of off-balance sheet accounting can be added to the fictitious financial reporting ledger, given its central role in the Enron scandal (Chandra, Ettredge, and Stone 2006). Meanwhile, central banks’ efforts to monitor, let alone control, the money supply, have been rendered increasingly forlorn, with interest rate policy likened to “pushing on a piece of string” by Joseph Stiglitz (Authers and Tett 2008).

As regards solutions to our predicament, Tabb’s longstanding advocacy of political economy in both academy and government is combined with his support for policies including financial transaction taxes that could finance any shortfall in US social security, while structured in such a way that “would not inhibit nonspeculative investment” (Tabb 2012, 265). More generally, a more activist economic role for the state is required; “It may be time for nation building at home and a transition from a financialization-anchored regime of accumulation to a new investment strategy to promote employment and growth” (244). In fact, there is no “may be” about it. Even the foreign policy establishment recognizes the limitations placed on US power by its domestic economic woes (Haass 2013).

Echoing the views of Wolfson and Kotz (2010), Tabb foresees a future SSA that is likely to be regulationist. The question is whether it will be a repressive regulation of a fearful society . . . or one that restructures . . . in ways that hold financialization in check and empower an inclusive, sustainable growth path. (Tabb 2012, 276)

That depends very much on the various social groups, encompassing what remains of organized labor as well as the new social movements that defy easy classification in the Marxist schema, being sufficiently organized and united around a clear set of feasible objectives. That the Tea Party wing of the Republican Party has been allowed to become representative of the popular disgust at the financial sector’s performance says much about the Obama administration’s and Democratic Party’s
capture by Wall Street (Suskind 2011). Yet the Obama administration’s knee-jerk recourse to tried and tested policies such as free trade agreements and tax system tinkering promise to yield diminishing returns.

Freeman’s analysis provides strong evidence that the neoliberal, financialized model of capital accumulation has not only run out of steam, but never accomplished what was its supposed justification. The rate of profit, far from being restored to more acceptable levels, has in fact continued to decline. The redistribution of a declining total surplus to an ever-decreasing circle of recipients (Tabb’s “appropriation from the rest of the economy”) has now become so glaring that globalization’s erstwhile cheerleaders are themselves concerned at the widening inequalities that are the result (Wolf 2008; Rajan 2010; Freeland 2012). Yet, as both these books underline in their respective ways, while the technocratic Keynesianism that views such outcomes as intrinsically unsustainable and therefore undesirable is rearing its head more prominently, there is no guarantee that a hegemonic bloc of class fractions will coalesce even to support policies that would be in the interests even of capital per se. Suskind’s account of the first years of the Obama administration is as sobering a reminder of the power of Wall Street in spite of everything that has happened since 2007. Even worse, nothing has changed, seven years later. Half-hearted efforts to regulate derivatives trading, for example, has resulted in the shadow banking sector

steal[ing] the lion’s share of the derivatives business from the big banks . . . with shadow banks, such as hedge funds and other non-bank financial institutions, now taking more than 50 per cent of both interest rates and forex trading for the first time. (Jenkins and Schäfer 2013)

Dos Santos’s (2012, 116) call for a “reawakening” of organized labor and “broader social organisations of ordinary people” is a necessary, if possibly still insufficient, condition of progress. Papadatos might be correct as regards the passing of the era of the intensive regime of accumulation, but only insofar as organized labor must find allies among the new social movements that have developed alongside it, and recognize even the possibilities of alliances, however temporary, with certain fractions of capital. Without the sort of leadership that can unite these unnecessarily disparate interests into a cohesive, effective coalition, they are condemned to be single-issue groups whose singularity condemns them to a similar fate as the Occupy movement, which eschewed any sort of programmatic goal and as a result has left a legacy of negligible impact (Craven and Zhang 2012; Fraser 2013). There is nothing inevitable about the continuation of the neoliberal SSA, and plenty to suggest its disintegration (Desai 2013; Keaney 2013). But neither is there anything inevitable about the manner of its disintegration. As
Bertolt Brecht wrote in *The Resistible Rise of Arturo Ui* in 1941, and as we ourselves might say of financialization today, “Do not rejoice in his defeat, you men, for though the world has stood up and stopped the bastard, the bitch that bore him is in heat again.”

**Notes**

1. Mandel is now the chief economic strategist at the Progressive Policy Institute.
2. In this respect, Mandel was far ahead of the sociologist-prophets of the risk society, because he explicitly linked the rise of risk with that of finance, a point highlighted by Martin (2002, 207n1):

   It is interesting that the literature on risk emerges at the same time as the phenomenon of financialization, which is treated as peripheral. This periodization of modernity reinforces the idea of a break between new and old social movements, the one based on knowledge and the other oriented to political economy. The distinction plays into “new labor” politics (in which Giddens figures centrally), whose electoral career has been based on the claim that it is not beholden to working-class formations like unions.

3. The identification of an increasing autonomy of finance echoes earlier debates on state theory (e.g., see Jessop 2001).
5. The most likely form of mobilization against the financial sector is that of the new social movements that Nicos Poulantzas (1978) already decades ago saw as opening up a new front of political struggle. See Keaney (2013).
6. History is repeating itself, first as tragedy, in the futile accusations of currency manipulation against China in a context of an overwhelming US trade deficit, with US leaders wishing for another Plaza Accord-type of arrangement (Liu and Deng 2012, 352). Meanwhile, the farcical element is provided by the International Monetary Fund’s (IMF) own analysis of the Plaza Accord: “because the dangers of real estate bubbles were not well understood in those years, the Japanese government did not deploy countervailing regulatory and fiscal policies until 1990” (IMF 2011, 54). When did this understanding emerge? What was the Federal Reserve’s excuse?
7. The case of US retailer Home Depot in 2007 usefully highlights the misuse and abuse of stock options: (1) far from aligning executive interests with those of shareholders, stock options allowed departing CEO Robert Nardelli to walk away with a US$210 million severance package, despite having overseen a significant reduction of shareholder value; (2) executive compensation is more often not a market-determined issue but instead subject to the whims of a closed circle, often including the executive concerned; (3) far from having no cost, stock options’ opportunity cost is the capital the company could have received had they been sold on the open market—a point that took years to register with accounting standards setters. See Bebchuk and Fried (2003) and Plender (2007).

**References**


REVIEW OF GEOPOLITICAL ECONOMY—AFTER HEGEMONY, GLOBALIZATION AND EMPIRE, BY RADHIKA DESAI

Niemeyer Almeida Filho


Geopolitical Economy is not an easy book to read, though Radhika Desai’s (2013) stated aim is welcome, namely, telling a story in the sense of building a text with a clear and comprehensible chain of reasoning. She reinterprets world history from the late eighteenth century meaningful and consistently, from the initial period of formation of nation-states, up to its consolidation as the multipolar system seen today. This conceptualization involves a deep and complex critique of theories of American hegemony, globalization, and empire, which are the focus of a critical evaluation which runs through the book.

The difficulty lies in the book’s theoretical complexity. The thesis of Geopolitical Economy and the book’s critique of hegemonic theories require familiarity with Marx, Keynes, Polanyi, and Poulantzas, along with mastery of the contributions of the key participants in classic debates on imperialism. However, it is precisely this feature that makes the book so interesting and challenging.

It should be read from cover to cover, beginning with the Acknowledgements, which present key motivations for the work and its form. The first chapter is an
introduction in which the arguments are presented and justified theoretically: why Geopolitical Economy? The starting point is the apprehension that the three theories that dominate contemporary debate about the nature of the global world formulate, in some sense, a unitary conception of a unified global system organized either simply by markets or simply by the organic relation between regions and the most powerful state—the USA. This unitary conception suggests a decline in the importance of the nation-state in the world order. Radhika defines such views as Cosmopolitan.

The thesis is that cosmopolitan views do not explain the multipolar world, advanced by Radhika from the beginning as a better reading of global political reality. Rather, these views ideologically misrepresent reality, being fundamentally a product of the class interest of the USA. In this way, interpretations of the world that are incapable of grasping it in its complexity irradiate and spread.

There are three main arguments. First and most fundamental is the “materiality of the nations.” The capitalist world order and its historical evolution is formulated as a product of interaction—conflictive, competitive, or cooperative—of a variety of states, forming an interstate system.

The second argument is that world domination by the first industrial capitalist country, the United Kingdom, was both inevitable and not reproducible, because of the specificity of the historical conditions of the Industrial Revolution and the international division of labor on which it was based. The third argument is that “globalization” of the 1990s and the “empire” of the 2000s essentially constitute ideologies. They are not genuine theories but the result of two recent attempts of the USA to maintain an imperial role.

This is followed by a section of great theoretical density, establishing the perspective of Geopolitical Economy. It is clear that Marx’s critique of capitalism and its fundamental contradictions are the basis of the analysis, hence the decisive and overwhelming character of the book’s critique of neoclassical thought and of the abusive intentions of the proponents of the three cosmopolitan “theories” in treating contemporary society as homogeneous, whether purely capitalist or not, and without inherent contradictions. These theories deliberately present society as devoid of any complexity, or diversity of political, cultural, or even ethnic interests.

After this fundamental critique, the analysis subsumes contributions of Keynes, Kalecki, and Polanyi to formulate an interpretation of world order consisting of a complex system of national states. To this end, Radhika reintroduces the theory of uneven and combined development (UCD), largely associated with the contributions of Leon Trotsky. She refers to the ideas of Friedrich List and Clive Hamilton as the origins of this perspective. Then she shows how the theory is the base of a historical understanding of the Bolshevik revolution, as a broader anti-imperialist strategy of Geopolitical Economy of capitalism.

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Furthermore, she formulates Geopolitical Economy by incorporating elements of the Keynes’ and Polanyi’s criticism of the gold standard. Thus, she brings together the key elements needed to understand the unfolding of UCD in the twentieth century, in particular, the attempt of the USA to emulate the global role of the United Kingdom. Keynes and Polanyi grasped an objective fracture of the imperial order engendered by the inexorable world domination of the first industrial power and its mutation into another order of competing national economies.

In this new order, the USA was only one national economy, although the biggest of them. Keynes identified the fact that any country which adopted the gold standard in these circumstances would submit to the national priorities of the USA. This proved prescient, as we know.

The first argument, on the existence of the materiality of nations, is primarily developed in Chapters 2 to 5. Chapter 6 covers the period between two major lows in the career of the dollar—1971 and the end of the mandate of President George Bush in 1992. Chapter 7 traces the peculiar trajectory of globalization. Chapter 8 deals with the actions and policies of the USA after the 9/11 period. Radhika interprets them as another attempt to maintain the global role of the dollar, causing increased flows of international capital.

Finally, Chapter 9 focuses on the multipolar world order in the twenty-first century, presenting it as a result of a historical process. Successive waves of competitive development spread productive power ever more widely, so that imperialism becomes impossible. Even so, “imperialism” does not come to an end, at least not as a desideratum. The most powerful states will still try to control the overall development. However, the argument runs, it is exactly that by so doing they accelerate an evolution to increasingly numerous and less powerful poles which become established as political forces and consolidate a world order in which inequality becomes progressively less consequential.

The motors of the Geopolitical Economy of capitalism are its contradictions, specifically the lack of effective demand and the tendency of rate of profit to fall. The attempts to “manage” these motors by competing countries, including the externalization of its consequences at the national level, by each society, according to its capacity, ultimately transmit these contradictions to the totality itself. For Radhika, this process is the essence of Geopolitical Economy.

An important consequence of the dynamics of Geopolitical Economy is the prominence of domestic demand. Robert Brenner grasped this aspect. In this context, nations, like social classes, are agents of capitalist history since, as always, they contain the possibility that the popular forces take control of capitalist states, making a transition out of capitalism.

On one hand, although the control and increased economic functions of the state do not in themselves constitute socialism, they serve potentially to make the
historical conditions for the existence of capitalism serve only as a stopping point on the way to some kind of socialism.

On the other hand, just as the subsequent unfolding of UCD restricts the possibilities for “managing” capitalism’s contradictions, by externalizing them, states have to increase their economic function, making them much more vulnerable to popular challenge. That is why UCD lies in the inherently contradictory core of the Geopolitical Economy of capitalism.

There follows an interesting discussion about the fragility of cosmopolitan views. It summarizes the arguments presented in previous chapters. The last section is The Multipolar Future. Radhika is confident that the current changes have a greater potential for change in comparison with the end of World War II:

The present multipolar moment contains more hopeful possibilities than even the end of the Second World War. Then the inordinate power that war gave the United States set the world on a long detour from the sort of an international world of multilateral economic governance which contemporaries had looked forward to, and which Keynes’s original proposal had sought to realize. When the 2008 financial crisis ended that detour, history finally caught up with Keynes’s far-sighted vision. That vision was of the world in which economic roles of states have legitimacy and reinforced by institutions of international economic governance. Such a re-legitimization of states’ economic roles is necessary before they can be oriented toward popular interests and even socialism. (Desai 2013, 275)

Of course, Radhika is optimistic and probably focused on advanced societies and how they read the future. Perhaps for this reason, the last few paragraphs are devoted to a discussion of different national conditions and hierarchies in the global economy. Either way, the reader can be satisfied at having read consistent arguments which encourage her to think differently not only from dominant mainstream thinking but also from regular Marxism.

Reference

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A MARXIST APPROACH OF THE MIDDLE-INCOME TRAP IN CHINA

Mylène Gaulard

Abstract: Since 2012, China is confronted with a slowing down of its economic growth, and various studies about the middle-income trap wonder about the capacity of this country to reach the category of high-income per capita countries. Most of the time, the increase of wage costs, and more particularly of unit labor costs, is accused of being responsible for this slowing down, through the loss of international competitiveness in particular. Nevertheless, it is important to put in perspective this explanation, because the increase of the unit labor cost seems less dangerous than the decrease of capital productivity, which a reversion to the Marxist analysis allows us to better understand.

Key words: China; middle-income trap; unit labor cost; rate of profit

1. Introduction

With a GDP growth of 7.8% in both 2012 and 2013, its lowest growth rate since 1999, China has undeniably been incurring an economic slowdown since the end of the 2000s (see Figure 1). This turndown is often attributed to the international economic crisis, the trade dependence, and above all the weak global demand that may partially explain the fall in the export-to-GDP ratio (Zhu and Kotz 2011; Eichengreen, Park, and Shin 2011; Xing and Pradhananga 2013), down to 27% in 2013 against 39% in 2006. While in most cases the blame is put on external factors, it is also necessary to scrutinize the internal issues faced by China’s economy, and the growing number of studies indicating that China is heading toward a middle-income trap (Woo 2012; Cai 2012; Eichengreen, Park, and Shin...
2013) are the early signs of a real questioning about China’s ability to sustain a growth level as high as it used to be over the last 30 years.


According to the middle-income trap theory that was first mentioned in a World Bank report dated 2007 (Indermit and Kharas 2007), emerging countries may indeed encounter a significant deceleration in their growth once they reach a certain level of per capita income, a level considered as “middle” by the World Bank, and estimated between US$1,036 (purchasing power parity [PPP]) and US$12,615 (2012 prices). Today, 86 countries, including China, belong to this income status, and according to this theory, it is very likely that only a few of them will reach an income level that can be viewed as high, that is, above US$12,616 (PPP). Since 1960, it is estimated that out of 101 “developing countries,” only 14 have become “developed economies,” that is, countries with high per capita incomes (Zhuang, Vandenberg, and Huang 2012).

China only became a middle-income country in 1992, and then an upper-middle-income country in 2009, with per capita incomes ranging from US$6,977 to US$12,615 (Felipe, Kumar, and Abdon 2010). Contrary to most studies on the middle-income trap, and instead of focusing on such forecasts that are merely supported by statistical assumptions, we shall thus try to better understand the reasons of this “middle-income trap” in the case of China, although the country has shown an average GDP growth of 10% over the last 30 years, and despite the fact that a brutal slowdown is still considered as most unlikely by a large number of economists.
In the first part of our article, we shall see how pay raises are often blamed for gradually threatening China’s competitiveness and leading the country toward the middle-income trap. But in a second section, we shall highlight what in our opinion may be the main reason for this middle-income trap: the decline in capital productivity and the issues of technological catch-up. We shall first examine the various ways to interpret China’s decline in capital productivity, to then focus on the explanation proposed by Karl Marx in the 19th century about the inevitable problems resulting from the accumulation process.

2. Increasing Labor Costs and Middle-Income Trap

2.1. Discussing the Lewis Turning Point in the Case of China

2.1.1. The Controversy over This Turning Point

In a paper dated 1968 (Lewis 1968), expert in development economics Arthur Lewis considered the eventuality that after providing a strong boost to investments thanks to low labor costs (Lewis 1954), surplus labor originating from the countryside would inevitably dry up in the long run for countries that are beginning their industrialization process. Once this turning point has been reached, it would come together with an increase in labor costs generated by the growing expectations of urban workers: it would be the end of a dual economy whereby wages used to be determined by a weak productivity in the agricultural sector. For many economists, this turning point seems to be the main reason for the middle-income trap (X. Zhang, Yang, and Wang 2010; Cai 2012).

Yet, according to a few experts on China’s economy, this turning point remains far from being reached in China. According to H. Li, Liu, and Zhang (2012), the industry relocations to inner provinces that started in the early 2000s may explain the slowdown of migrations toward large coastal cities, and they would even contribute to keeping the Lewis Turning Point away.

If in principle such phenomenon is able to slow down the rise in labor costs, it could also contribute to reducing inequalities at national level and harmonizing Chinese incomes. A slight decrease in regional inequalities has indeed been observed since the end of the 2000s (see Figure 2), in part because of the “Go West” policy adopted by the Government of China since 1999 that encourages companies to settle in inner provinces, but also because of the industry relocations spurred by cheaper labor costs (Knight, Deng, and Li 2011). The average wages observed in Eastern regions are still 1.3% higher than those of Central regions, but the latter increased by 15.4% in 2012, against 13.5% in Eastern provinces, due to the relocation of some of their activities (Urban 2013).
While the Eastern regions received in 2000 11 times more foreign direct investments (FDIs) than the Central regions, and 18 times more than Western regions, FDI inflows increased by almost 25% between 2000 and 2012 in the poorest regions of the West, against a mere 12.6% in East China (CEIC database1). A part of the national production does indeed move toward the inner provinces, and this is why in 2011 the Southeastern provinces were concentrating 60% of the industrial production, down from 70% at the end of the 1990s (Urban 2013).

It is also important to note that the need to get an urban residence permit to access the same benefits as urban dwellers has for a long time dissuaded Chinese rural people to massively migrate to cities. In 2013, only 53% of the population was urban, and although it is estimated that between 50 and 200 million people have moved from China’s countryside into cities (Knight, Deng, and Li 2011), the rural labor force is still in abundance. Relaxing the procedures pertaining to the residence permit—the *hukou*—as decided by the government in July 2014 would thus ease the mobilization of these workers at relatively low cost.

2.1.2. *A Balance of Power That Is Undeniably Beneficial to the Workers*

However, the evolution of the labor force raises the fear that the country will reach the Lewis Turning Point in the very near future, and this major issue is often left aside by the above-mentioned authors. The demographic slowdown is partly due to the one-child policy that was enforced in 1979 and slightly relaxed in 2013. While China had an average of six children per woman in 1970, the total fertility rate went down to 1.4 in 2012. For this reason, the growth of the Chinese population has kept on slowing down since 2001. Between 1980 and 2010, the labor force grew from 583 million people to 1 billion, but according to the United

![Figure 2](http://data.stats.gov.cn/easyquery.htm?cn=C01)

AVERAGE ANNUAL EARNINGS OF RURAL AND URBAN HOUSEHOLDS, IN YUANS

Nations, it may as well decrease from 2020 (see Figure 3), a major repercussion of the population decline that most experts see happening as early as 2015.

![Figure 3](image.png)

Out of 117 cities surveyed by the Ministry of Human Resources (H. Li, Liu, and Zhang 2012), the ratio of job openings to job seekers increased from 0.65 in 2001 to 1.08 in 2012, clearly showing the early signs of slight labor shortages. In the Pearl River Delta, this ratio even reached 1.89 in 2008. While the number of migrant workers used to increase by an average 10.8% a year before 1997, this figure has fallen to 4.6% shortly afterward. Maintaining an urban residence permit might dissuade the rural dwellers from moving to cities, but its procedures have been relaxed in several large cities in China since the beginning of the 2000s (H. Li, Liu, and Zhang 2012). Yet, since 2003, labor shortages are increasingly affecting the coastal provinces (Chan 2004; Cai 2012), and this problem will thus not be overcome by further relaxing the hukou rules.

According to a survey conducted by the Development Research Center Council in 2007 in 2,749 villages, three-fourths of these would not even have enough workers to meet the urban needs (D. T. Yang, Chen, and Monarch 2010). Another survey conducted in 100 villages in five inner provinces (X. Zhang, Yang, and Wang 2010) has even brought to light the existence of labor shortages in rural areas, together with pay raises that have been steadily increasing since 2004.

Two International Monetary Fund (IMF) economists, Das and N’Diaye (2013), anticipate that the Lewis Turning Point will be reached in 2025, with surplus labor estimated at 151 million in 2010, 57 million in 2015, and only 20 million in 2020. Relaxing the rules of the one-child policy would not even effectively compensate for this evolution, since the labor shortages are anticipated to reach 16 million
workers in 2025—against 27 million without such relaxing (Das and N’Diaye 2013). The time it will take for a new generation to efficiently inflate the labor force, and more importantly the long-standing habits of the Chinese population in terms of birthrate, does not induce optimistic forecasts for the results of such policy (Cai and Lu 2013).

2.2. Challenges and Opportunities of Pay Raises

2.2.1. An Increasing Unit Labor Cost and a Loss of Competitiveness

An undeniable sign of Lewis Turning Point, the strong pay raise observed since the 2000s is clearly indicating a balance of power that is beneficial to the workers. Such evolution could a priori hamper the country’s competitiveness. While Chinese wages were in 1978 below those of Thailand, India, the Philippines, and Indonesia, today, out of these four countries, only the Philippines have wages that are higher than China’s ones. In the Chinese manufacturing sector, the annual real wage climbed from US$1,032 (2010 prices) in 1978 to US$3,558 in 2008 (H. Li, Liu, and Zhang 2012). Yet, for the competitiveness of the Chinese productive apparatus, the wage levels are less important than the productivity itself, since the latter also determines the unit labor cost as the ratio of hourly compensation to labor productivity. As a matter of fact, high labor costs do not hamper productivity if the unit labor cost remains at low levels. But one can see that labor costs have risen much faster than
productivity since 2006 (see Figure 4) (Zhuang, Vandenbergen, and Huang 2012),
catching up gradually with the levels of the United States (H. Li, Liu, and Zhang
2012; Woo 2012; Ceglowski and Golub 2012; Holz and Mehrotra 2013).
Since 2008, the increase in unit labor cost is actually much higher in China than
in the United States (Ceglowski and Golub 2012). Indeed, at the end of the 2000s,
the Chinese labor cost in the industrial sector did not even represent 10% of the
American cost, but as shown in Figure 5, the Chinese unit labor cost reached 54% of
the US one in 2013, against 20% in 1988, and this evolution might prevent
the accumulation process from going on in a global context whereby even the
Philippines have been regaining competitiveness vis-à-vis China (see Figure 5).

Figure 5  Unit Labor Cost (ULC) in the Manufacturing Sector of China, the Philippines,
and the United States


For this reason, in Dongguan, Guangdong industrial center in Southeast China,
pay raises are increasingly hampering the profitability of investments, and the
city’s GDP growth rate went down from 10.3% in 2010 to 8% in 2011 and 6.1%
in 2012. According to Hong Kong Federation of Industries, 2,000 factories might
even disappear from the region in 2012. In March 2010, a survey conducted by the
American Chamber of Commerce in Shanghai stated that 28% of American firms
settled in China were viewing labor costs as too high in the coastal regions, and
8% of them were planning to relocate their production in Vietnam, India, Thailand,
or Indonesia. In 2012, General Electric even decided to move its production of
fridges and washing machines back to Kentucky.
Foreign firms are less and less attracted by China, and this helps to understand why the inflow of FDIs has been declining since the end of the 2000s, down from US$330 billion in 2011 to US$295 billion in 2012 (World Bank data). We can also observe a drop in trade surplus, from 8% of GDP in 1997 to 3% in 2013 (see Figure 6), a drop that goes along with a weakening weight of FDI, although foreign firms still account for 60% of China’s exports.

![Figure 6](http://data.worldbank.org/data-catalog/world-development-indicators)
urban scale): according to the National Bureau of Statistics, the Gini coefficient has indeed declined from 0.491 in 2008 to 0.474 in 2012 (see Figure 7).

Certainly, the increase in inequality in China has been one of the strongest in the world over the last three decades, with a national Gini coefficient on income distribution close to 0.50 in 2007, against 0.30 in 1980, according to the Asian Development Bank (ADB). But more importantly, Xiaolu Wang and Wing Thye Woo (2011) estimate that the level of inequality is still underrated today, since the tax incomes of the richest part of the population are still well below the true levels they have observed. According to their survey based on a very accurate field study, in 2010, the incomes of the top 10% wealthiest people was 65 times higher than those of the poorest people, against 23 times as per official data. Yet, although the current slight decline in inequality hides such large gaps, often underestimated, between the wealthiest and the poorest people, we cannot deny its reality when it comes to distribution of value-added between profits and wages, as we saw through the increase in unit labor cost.

Likewise, feeling the pressure of ever-growing social protests, the government has kept on taking steps that are in line with the “Chinese Dream,” toward an expansion of the middle class able to consume increasingly sophisticated durable goods and whose number is today rated at about 10% of the population (Kharas and Gertz 2010). It would thus mean that we have reached Kuznets Turning Point...
(Cai and Wang 2012; Yang and Wang 2010) that indicates the beginning of a decline in inequalities between cities and the countryside, between skilled and unskilled workers, as well as a growing state intervention in social matters. With his project of “harmonious society,” former President Hu Jintao has been trying since the beginning of the 2000s to improve China’s social security system, in order to cover the whole of its population by the year 2025, especially in terms of health and pensions. This program is being pursued by Xi Jinping with the same objective, that is, the reduction of precautionary saving and the increase of household consumption.

However, it is the pay raise we noted earlier, rather than the reform of the social security system, that stimulates the decline in inequality. Yet, from a Keynesian perspective, such evolution can only be beneficial to the household consumption, since the poorest groups will usually tend to consume more than the wealthiest ones. The share of household consumption in China’s GDP, one of the weakest in the world, has indeed stopped its decline in 2007, and this evolution, if it keeps on going, would help to end a growing disconnection between national investment and consumption (see Figure 8).

For Eichengreen (Eichengreen, Park, and Shin 2013), as well as for other Keynesian economists (Felipe and Kumar 2012; Cai 2012), a decline in...
inequality would even help to avoid the middle-income trap, by making the growth less dependent on exports and encouraging the government to set up a more democratic education system whose objective would be to improve the skills of all workers (L. Zhang et al. 2013). It would thus stimulate the upmarket positioning of the national economy to avoid the “product trap” mentioned by Felipe and Kumar (2012).

3. The Decline in Capital Productivity, a Major Feature of the Middle-Income Trap

3.1. Downward Trend of Capital Productivity in China

3.1.1. An Undeniable Decline

We shall see here that much more than the pay raise, the decline in capital productivity represents a very dangerous threat for China’s economic growth. According to Eichengreen, Park, and Shin (2011), the stagnation of the total factor productivity (TFP) related to this decline in capital productivity would account for 85% of the economic slowdown that occurred over the last years. Since the middle of the 2000s, the upward trend of this productivity keeps on slowing down (Zheng and Bigsten 2008; Cai and Lu 2013; Anand et al. 2014); while it accounted for 30% to 58% of China’s growth between 1978 and 1995, it only accounts for 7.8% of China’s GDP growth nowadays (Zheng and Bigsten 2008).

Yet, according to Aiyar et al. (2013), it is the very growth of the TFP that would explain the fact that Latin America fell into the middle-income trap as early as the end of the 1970s. As observed by Alwyn Young (1993) in the case of the Asian Tigers during the period preceding the 1997 Asian crisis, China is mostly confronted today with a decline in capital productivity, highlighted by many economists (Barnett and Brooks 2006; Felipe, Laviña, and Fan 2008; Lee, Syed, and Liu 2012). Therefore, we shall focus here on the sole evolution of capital productivity in China since the 1980s.

In the case of China, the calculation of this productivity is hampered by the fact that the value of the fixed capital stock is not assessed by official statistics offices: the annual gross fixed capital formation (GFCF) is the only data that is recorded. To obtain this stock, one must first take into account the fact that every year, the fixed capital used, that was bought in the previous years, tends to wear out; it is thus essential to take into account the depreciation. We shall use here the capital depreciation rate calculated in the case of China by Bai, Hsieh, and Qian (2006) and Piovani and Li (2011), in order to add the previous years’ investment flows, except residential investments, to the investments of the T year that we are studying.
The fixed capital stock is thus determined by the following formula:

$$K_T = \left[ \frac{K_{1989}}{1 + 0.8^{T-1989}} \right] + \left[ \sum_{t=1989}^{T} \frac{I_t}{1 + 0.8^{T-1989}} \right],$$

with $K_{1989}$ being the fixed capital stock of year 1989 (obtained in the same way, by adding the previous years’ investment flows, inflated by the investment price index to convert everything into 2012 prices, from which we progressively subtracted the depreciation) and $I_t$ being the GFCF observed every year (also according to 2012 prices).

According to our calculations, there has been an undeniable decline in capital productivity in China from the beginning of the 1990s to 2006 (see Figure 9). We shall provide an explanation of the recent evolution at the end of this article, but it is first important to understand why this productivity is still twice weaker nowadays than it was in 1990.

![Figure 9: Capital Productivity in China, from 1989 to 2012](http://data.stats.gov.cn/easyquery.htm?cn=C01)


Note: Capital productivity = GDP / fixed capital stock.

The size of the idle production capacity is usually viewed as the major cause of China’s decline in capital productivity. Coming on top of overproduction problems, a phenomenon that affects almost all productive sectors, this large idle capacity would be responsible for a capital stock that is too high compared with the surplus value of the productive apparatus (Zheng and Bigsten 2008). There are, for instance, 200 car manufacturers in this country, producing only a few thousands cars per year, and 8,000 cement factories (against only 110 in the United States, 51 in Russia, 58 in Brazil, and 1106 in India). The increasing number of firms on the Chinese land, often related to protectionist policies set up in various provinces (Poncet 2004; Batisse 2005), and the presence of low-capacity public firms often viewed as having an excessive weight (Dollar and Wei 2007), are thus generating overproduction issues that go along with insufficient productivity.

Compared with such overinvestment, the final demand of Chinese households appears to be largely insufficient. In spite of above-mentioned data on pay raises, the contribution of the latter to the total income has experienced a dramatic decline since the 1990s, going down from 63% of national income in 1992 to 48% in 2008 (Zhuang, Vandenberg, and Huang 2012). This evolution has considerably intensified the rise in income inequality in China, related to the decline of the share of labor, from 59% to 47%.
States, 51 in Russia, 58 in Brazil, and 106 in India). The increasing number of firms on the Chinese land, often related to protectionist policies set up in various provinces (Poncet 2004; Batisse 2005), and the presence of low-capacity public firms often viewed as having an excessive weight (Dollar and Wei 2007), are thus generating overproduction issues that go along with insufficient productivity.

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An excessive investment, an export dependency linked to insufficient demand, may put a sudden halt to the growth, and according to the ADB, the pay raise would not be the real reason for this situation. Quite the contrary, this pay raise is actually viewed as insufficient today, and the middle class, that is, the part of the population that is in a position to access consumer goods, is still too small (Kharas 2009). Because pay raises have been stronger than productivity, it is true that the decline in consumption has stopped since 2008, to stagnate around 34% of GDP, but it is still very far from its 1990s level (47%), and, more importantly, much lower than the consumption observed in emerging countries like Brazil (60%).

However, while this explanation for the decline in capital productivity may be appealing, it does not lead to a full understanding of why the investment rate remains at such high levels (48% of GDP in 2013), in spite of the profitability pressure that it surely generates in public and private firms (Cieniewski 2006).

3.1.2. A Neoclassical Growth Trend?

Now that we have presented the reasons commonly admitted for a decline in capital productivity that take into account the particular features of China’s economy, we do have to understand the inner causes of this evolution. As a matter of fact, we should remember that the decline in capital productivity, as observed in all countries subjected to the middle-income trap (Kharas and Kohli 2011), cannot be solely explained by the specificities of China’s economy.

In his famous model developed in 1956 (Solow 1956), neoclassical economist Robert Solow showed that without real technological progress, the economic growth was very likely to slow down due to a decline in capital productivity.
The increase in TFP would thus keep on slowing down, and the rise in labor productivity would not be sufficient enough to make up for the decline in capital productivity, then generating an increasingly weak GDP that would keep on depending on the mere accumulation of production factors. In the end, this would lead to a steady-state economy.

Yet, as early as the end of the 1980s, the endogenous growth theories have called into question the evolution toward a steady-state economy underlined by Solow’s neoclassical model. Contrary to his assumptions, the technological progress, and above all the increase in TFP that would represent its main measure, would be automatically generated by the economic growth, the investment, and above all the accumulation of human capital resulting from the state expenditures in infrastructures, health, and education (Romer 1990; Barro 1990; Lucas 1990).

In the case of China, the decline in capital productivity would thus be explained by insufficient investments in human capital, due to an increasingly non-egalitarian society at both health and education level (Eichengreen, Park, and Shin 2013; L. Zhang et al. 2013; Zhang, Yi, Luo, Liu, and Rozelle 2013; Kharas and Kohli 2011; Cai 2012). Despite significant efforts over the last years (Y. Li et al. 2008), accessing secondary and higher education remains extremely expensive. At the end of the 2000s, rural students who have achieved three years at university accounted for less than 1% of the rural population (against 17% for urban students), and while 54% of urban young held a secondary school degree, this share was only 19% for rural young (Gaulard 2014). Likewise, the country’s health system has deteriorated dramatically over the last 30 years (Zhu and Wan 2012). And this human capital deficiency might prevent the upmarket positioning of China’s industry (Cai and Lu 2013).

China’s current technological dependence cannot be denied; the exports after assembling intermediate components still account for 50% of all China’s exports (Koopman, Wang, and Wei 2012), although they only create a small value-added on Chinese territory. It is true that China accounts today for 20% of global exports of high-tech goods, but the technological catch-up remains insufficient, especially because of the share of assembling activities in this production and the role of foreign firms in this process. Indeed, the latter are behind 60% of China’s exports, but only a quarter of the value-added remains genuinely on its territory (Zhuang, Vandenberg, and Huang 2012).

Finally, we note that out of the top 20 Chinese companies listed in the Fortune Global 500 ranking that lists the largest international corporations according to their total revenues, only 3 of them come from the manufacturing sector, and exclusively in the automotive industry. Despite ever-growing spending in research and development over the last 10 years, to reach 2% of China’s GDP in 2013, more
than half of this spending has been made by foreign firms (Zhuang, Vandenberg, and Huang 2012), a fact that does not augur well for true technological independence.

Therefore, the middle-income trap would rather be the result of an insufficient upmarket positioning related to inequalities that hamper the accumulation of human capital in the countries concerned, than the result of an increase in Chinese labor costs. However, besides the fact that such analysis underestimates the undeniable efforts of China in the field of research and education, it omits the fact that all countries operating under a capitalist mode of production have incurred economic growth stagnation due to the decline in capital productivity (Cette, Kocoglu, and Mairesse 2009).

3.2. The Need to Revert to a Marxist Analysis

3.2.1. The Decline in the Rate of Profit according to Marx

Eventually, there is no choice but to accept that the middle-income trap mostly reflects the inability of a country to make its technological catch-up and initiate a real technological revolution that would enable it to sustain its competitiveness in case of pay raises. We shall see that such analysis meets the theory expressed by Karl Marx in the second half of the 19th century, wherein any country or company operating under a capitalist mode of production has no choice but to sustain its technological advance in order to preserve its competitiveness, a dynamics that will strain the global rate of profit of the productive apparatus in the long run.

Going beyond Adam Smith and David Ricardo’s analysis, Marx tries in *Capital, Volume 3*, to understand the problems related to accumulation. Based on the labor theory of value, already mentioned by the two previous authors, he shows that capital accumulation will be confronted to an increasingly weak production value. According to Marx, competition and profit-seeking encourage corporations to use a larger part of constant capital C (indicating the value of capital goods and raw materials, two elements that do not bring any value-added in the production as such, thus explaining their “constant” nature) and proportionally a lesser part of variable capital V (indicating the value of the labor force that brings surplus value to the production). In other words, it encourages them to increasingly turn to machines’ “dead labor,” to the detriment of human’s “living labor.”

Such evolution allows to develop productivity, influence the production value, and thus, in the first instance, to combat competition through extra surplus value: the price offered by the most productive enterprise lines up with the average price of the product concerned, which depends on the average value of the production and takes into account the weak productivity of other competitors. Once the new technique has been applied to everybody, we might observe a decline in the rate of profit due to the drop in the share of variable capital, the only capital able to create
a surplus value according to the labor theory of value elaborated by the classical economists and further amended and developed by Marx.

The rate of profit is determined by the following formula:

\[
\text{Rate of profit} = \frac{S}{C + V},
\]

where \(S\) is the surplus value (difference between the value created by the use of the labor force and the value of this labor force), \(C\) is the constant capital, and \(V\) is the variable capital. We then introduce the rate of exploitation \((S/V)\) and the organic composition of capital \((C/V)\) in the formula; by dividing each element by \(V\), we thus obtain the following:

\[
\text{Rate of profit} = \frac{(S/V)}{[(C/V) + 1]}
\]

We note that when the organic composition of capital \(C/V\) increases, with a constant rate of exploitation, the rate of profit declines. The declining trend of the rate of profit thus seems to be a constitutive element of capitalism: it is extremely hard to fight against an increase in \(C/V\), as it is essential to maintain the competitiveness of enterprises at microeconomic level, and it is similarly difficult to fight against a decline in capital efficiency. As for China, we shall see that a few countetrends have been observed of late in this decline, but in the long run, it seems hardly avoidable.

3.2.2. The Decline in the Rate of Profit in China

Today, China must face an overinvestment problem, in other words a stagnation of the TFP that explains why the strong rise in labor productivity observed since 1991 is mostly obtained through a decline in capital efficiency. The productive apparatus is thus producing more and more goods with, proportionally, less and less labor, and this is considerably raising the labor productivity. This higher production results not only from an intensification of labor rhythms but also from an increasing use of capital goods that affects the capital efficiency when there is no real technological progress. While one needed an investment of US$1.25 to obtain US$1 additional growth in 1990, the same result required an investment of US$2.5 in 2012 (see Figure 9).

The decline in capital efficiency and the raise in organic composition of capital are mostly due to the accumulation process. In the mid-2000s, a survey conducted by Felipe, Laviña, and Fan (2008), economists at the ADB, tried to explain the different economic performances observed in China and India with the evolution of their respective capital productivity. Unlike India, which presents a lower investment rate and an increasing capital productivity, China’s declining rate of profit could well be due to a decline in this productivity. We meet here Marx
observations, wherein an increase in organic composition of capital, which goes along with a declining capital efficiency, would tend to reduce the rate of profit (see Appendix 1 for the calculation of the rate of profit in China).

This evolution of the rate of profit is thus an inherent feature of the development of the capitalist mode of production, since competition is precisely encouraging the capitalists to raise the organic composition of capital, to “use more capital to the detriment of labor,” in order to increase their competitiveness and, on a temporary basis, benefit from an extra surplus value. Highlighted on the world scale by economists like Glyn (1997) or Marquetti (2003), the raise in “unit capital cost” (Felipe and Kumar 2012) would thus be much more dangerous than the raise in labor cost to the benefit of the employees.

Figure 10 indeed shows that the rate of profit has been enjoying a slight improvement since 2006, but we earlier provided an explanation for this evolution, that is, the creation of a fictitious surplus value in the speculative property sector (Gaulard 2014) as well as a slowdown of accumulation in the productive apparatus that is precisely enabled by the expansion of this sector. Grossman’s (1992) theory provided the same explanation for the booming of the financial sector in the United States in the 1920s, viewed as a countetrend to the decline in the rate of profit in the productive apparatus. However, the upward trend of this rate of profit is quite hazardous for China’s economic growth. The problems generated by the decline in capital productivity and the speculation phenomena that are used to counter this decline are indeed the early signs of China’s entry into the middle-income trap, indicating a forthcoming growth deceleration.

It is important to note that, according to Marx, surplus value can only be created within the productive apparatus. Any deceleration in the accumulation process, although it may in the short run help to slowdown or even thwart the decline in the rate of profit through the creation of a fictitious surplus value in sectors that are partly speculative, will thus in the long run be responsible for a decline in the mass of profits (Yaffe 1973, 222). For this reason, the starting point of an economic crisis might be directly linked to a decrease in the mass of surplus value, to a burst of the speculative bubble created in the property sector. Furthermore, this evolution of the accumulation process reduces the incentives to invest in research and thus prevents any effective technological catch-up, a process that would have helped China to reduce its unit labor cost via an increase in productivity that would outdo the hike in labor costs.

In a short while, the increasing number of bank crises might well unveil the freeze in the productive apparatus that will make it impossible for speculative revenues to keep on booming in a sustainable manner. In February 2014, the problems encountered by Industrial and Commercial Bank of China (ICBC) through its investment fund China Trust seem to strengthen our theory. Christine
4. Conclusion

Too often analyzed in a statistical and purely mechanical way, the middle-income trap concept gives us eventually the opportunity to further question the sustainable nature of China’s economic growth. While the country has been experiencing a certain slowdown over the last two years, China’s ability to become one day a “high-income economy” generates an increasing number of forecasts.

The major problem highlighted by the middle-income trap theory would be the increase in unit labor cost, in part due to China’s demographic evolution, and the loss of international competitiveness. Yet, this article aimed to temper the relevance of this analysis by insisting on the fact that pay raises account for less in this situation than the intensification of serious productivity problems.

Be it in labor productivity, which does not increase as fast as labor costs, or in capital productivity, which has kept on declining since the 1990s, the Chinese productive apparatus is indeed faced with profound structural issues that may...
be better apprehended by reverting to the Marxist theory. The decline in capital productivity is not specific to countries affected by the middle-income trap; it is an inherent feature of the capitalist mode of production and its particular method of operation. China might fail to reach a per capita income that could be considered as high, since it is facing two major challenges: (1) its technological gap as opposed to all other developed countries and (2) the decline in the rate of profit experienced by the productive apparatus in all countries operating under a capitalist mode of production.

Sadly, this great country classified as “emerging” does not seem to be an exception in the chaotic path that is currently affecting capitalistic economies. This triggers more follow-up questions about the very concept of emergence that may deserve a more thorough analysis based on the inputs of current studies on middle-income traps.

Appendix 1. Calculation of the Rate of Profit in China

To calculate the rate of profit, we consider that we can make use of economic data provided by the National Bureau of Statistics. We shall assume that the best representation of the surplus value \( S \) is obtained by taking the wages bill off the GDP.

As for the constant capital \( C \), we take the fixed capital stock obtained from the GFCF from which we subtract the capital related to residential investment that does not make a direct contribution to the accumulation process in the productive apparatus, although it is part of the GFCF. As observed by Joan Robinson (1951), when comparing the flows, it may be more rigorous to take into account the value of constant capital that has been effectively spent over just one period of production to measure the rate of profit over that period, rather than take the constant capital advanced as a whole. However, according to profit rate calculations made for the United States by Moseley (1991), Duménil and Lévy (2002) or Kliman (2007), we think it is more pertinent to use the fixed capital stock instead of the annual gross formation when calculating the rate of profit. Indeed, according to Marx (1968, 887),

\[ \text{The surplus value is the result of both the value of capital advanced involved in the product cost and the value not involved in this cost; […] Like Malthus, we could further abridge the reasoning by putting it simply and bluntly: “capitalism expects an equal profit upon all the parts of the capital it advances.”} \]

Note

A Marxist Approach of the Middle-income Trap in China

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THE PATTERN OF CAPITAL REPRODUCTION
IN BRAZIL

Niemeyer Almeida Filho and Priscila Santos de Araújo

Abstract: The article develops the hypothesis that there are different patterns of accumulation in Latin America. There are particular characteristics of certain countries, both as regards their productive apparatus and as regards the nature and activities of the State. The hypothesis does not contradict the existence of significant common structural factors. Then there is a theoretical discussion of the concept of capital reproduction. It focuses on data from selected economies dealing with the insertion of Latin America into the international division of labor and highlighting internal differences between national economies in the region. Finally, there is a discussion on the aspects of the Brazilian economy and the presentation of some conclusions.

Key words: Latin America; dependency theory; pattern of capital accumulation; Brazilian economy

1. Introduction

The Pattern of Capital Reproduction is a concept which developed within the Marxist Theory of Dependency (Marini [1973] 2000; Osorio 2012a). Its theoretical level is more concrete than that of Marx’s process of capital accumulation and is hence better suited to grasp aspects of capital dynamics in social formations, particularly in Latin America.

According to Osorio (2012a), a new export pattern of productive specialization has emerged in Latin America in at least five economies: Argentina, Brazil, Chile, Colombia, and Mexico. Analysis suggests that this pattern of capital reproduction
extends to the whole region. Productive specialization results from implementing neoliberal policies since the 1970s, exemplified by Chile.

We see this productive specialization as structural in nature, reflecting the historical insertion of the region and its social formations into the international division of labor. Thus, neoliberal policies, particularly macroeconomic, acted to exacerbate factors which were already present in the previous phase. The controversial issue is whether productive specialization is a strong enough factor to establish a single pattern of capital reproduction in the region.

We hypothesize that there are different patterns of accumulation in Latin America, corresponding to particular characteristics of certain countries, both as regards their productive apparatus and as regards the nature and activities of the State. This hypothesis does not contradict the existence of significant common structural factors. There is evidence of super-exploitation of the workforce, which reflect the deformed nature of capitalism in the region, in line with the interpretation of Ruy Mauro Marini and of the general importance of primary product exports. However, local specificities have important consequences for a possible process of economic integration since the diversity of reproductive patterns may present obstacles to national development policies, especially in a region where social needs are great.

The article has three sections, including this introduction and a conclusion. At first, we try to show that historical knowledge confirms the existence of distinct patterns of capital reproduction, although with common characteristics. We focus on data from selected Latin American economies dealing with the insertion of Latin America into the international division of labor, and highlighting internal differences between national economies in the region. In the second section, we synthesize the theoretical elements of the concept of capital reproduction. In the third section, we discuss the aspects of the Brazilian economy. Finally, we present some conclusions.

2. Productive Heterogeneity and Export Specialization in Latin America

Latin America can be geographically defined as comprising the countries located from Mexico to the extreme south of the continent. It is a heterogeneous region. The independence process for most national states took place in the same historical period (the early nineteenth century), as did the process of industrialization accompanying the transition to capitalism (from the last quarter of the nineteenth century to the third quarter of the twentieth century). Thus, heterogeneity has much to do with material conditions, that is, with wealth reserves in the form of agricultural land, mineral and water resources, and population size. Table 1
shows the three major economies of Latin America, China, and India, in addition
to the three main countries in the world in terms of standard of living, production
capacity, and geopolitical influence. Further export data allow for better internal
comparisons between the economies of the region.

Table 1  Dimensions for Selected Countries: Territory, Population, GDP, and Poverty Gap

<table>
<thead>
<tr>
<th>Countries</th>
<th>Territory</th>
<th>Population</th>
<th>GDP</th>
<th>GDP Per Capita</th>
<th>ΔGDP</th>
<th>Poverty Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>2,736,690</td>
<td>40,374</td>
<td>0.183*</td>
<td>4,740.1*</td>
<td>9.2*</td>
<td>1.97</td>
</tr>
<tr>
<td>Brazil</td>
<td>8,459,420</td>
<td>195,210</td>
<td>1.097</td>
<td>5,618.3</td>
<td>7.5</td>
<td>4.56</td>
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<tr>
<td>Mexico</td>
<td>1,943,950</td>
<td>117,886</td>
<td>0.957</td>
<td>8,117.4</td>
<td>5.1</td>
<td>2.11</td>
</tr>
<tr>
<td>China</td>
<td>9,327,490</td>
<td>1,337,705</td>
<td>3.838</td>
<td>2,869.1</td>
<td>10.4</td>
<td>4.03</td>
</tr>
<tr>
<td>India</td>
<td>2,973,190</td>
<td>1,205,624</td>
<td>1.247</td>
<td>1,034.2</td>
<td>10.5</td>
<td>10.51</td>
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<tr>
<td>USA</td>
<td>9,147,420</td>
<td>309,326</td>
<td>15.996</td>
<td>43,313.6</td>
<td>2.5</td>
<td>—</td>
</tr>
<tr>
<td>Germany</td>
<td>348,570</td>
<td>81,776</td>
<td>2.954</td>
<td>36,127.0</td>
<td>4.0</td>
<td>—</td>
</tr>
<tr>
<td>Japan</td>
<td>364,500</td>
<td>127,450</td>
<td>4.648</td>
<td>36,472.8</td>
<td>4.7</td>
<td>—</td>
</tr>
</tbody>
</table>


Despite this heterogeneity, the types of capitalism established in the region exhibit common features. Marini ([1973] 2000) synthesizes these in the concept of “deformed capitalism” arising from the dominance of super-exploitation. The “deformation” results from the concrete way in which the region’s economies were inserted into the global system. It is thus the combined result of conditions internal to national economies and the competitive process, intrinsic to capitalism, of capital seeking out extraordinary profits.

Almeida Filho (2013) summarizes Marini’s propositions. It is evident that the mechanisms which link Latin American economies to the global system are structural, but the mechanisms of its reproduction and possible transformation are controversial. The historical position of Marini and Marxist Dependency Theory is that these mechanisms are so deeply rooted in the reproductive dynamics of dependent economies that only collapse could create conditions for change. In this context, he advocates the supersession of capitalism by socialism.³

Marini ([1973] 2000) provides a historical recuperation of the conditions for transition of capitalism in the region and for the initial insertion of national economies as suppliers of primary goods, first as colonies of metropolises such as Spain and Portugal, and later as extractive capitalist economies. The overall level of diversification of these economies was low, because a significant share of production was realized in the international market.
Processes of industrialization depended significantly on the activities of States. In this sense, ECLAC’s (Economic Commission for Latin America and the Caribbean) proposals for State-led industrialization in the post-war period gained strength in the region, legitimizing political processes that were ongoing. However, the results were not homogeneous, nor sufficient to revolutionize the way the region and its national economies participated in the international division of labor.

Nevertheless, there were major changes since the 1930s and especially during the 20 years following the end of World War II, especially in the major economies (Argentina, Brazil, and Mexico). Industrialization improved the conditions for domestic consumption, allowing many economies to achieve improvements in living standards. There were also significant changes in labor markets resulting both from the expansion of the economy and the differentiation of occupations and jobs. Neither sufficed to change income levels, so we can state that the super-exploited condition of the labor force persists.

The characteristic of the 2000s, as a process of regression in the basket of exported commodities, was a deepening of the historical integration of national economies into the international division of labor. In this sense, it is as if the post-World War II period of virtuous growth was an exception. The recent process was advanced by an increased international demand for primary products, impacting the terms of trade, as will be seen later in the data for the Brazilian economy.

Export data for 2011, organized by categories of technology, with emphasis on the Brazilian case, are shown in Table 2 and subdivided by the categories of the Marxist Theory of Dependency, anticipating our characterization of the patterns of reproduction of capital. The data, in general, support the thesis of Gonçalves (2000) on regressive international insertion, though this was formulated only for Brazil. However, our analysis also agrees with Nascimento et al.’s (2009) thesis of a structural commodity dependency.

Combining the 2011 data with the historical series of the share of exports in GDP in Table 3 allows us to assess the trend. Of the selected countries, only Venezuela and Paraguay have seen no rise in the ratio of exports to GDP compared from beginning to end of the series 1960/2012. The other countries show a significant expansion of the share of exports in the dynamics of their economies, showing that the insertion of the 1960s did not change their nature. We note that the relative importance of international trade for national economies increases substantially showing that economies are increasingly interrelated. We interpret these numbers as a systemic consolidation of capitalism, especially considering that almost all the economies were operating in a capitalist framework with the exhaustion of the historical experience of socialism already in the 1980s.
### Table 2  Exports to GDP by Technology Categories (2011)

<table>
<thead>
<tr>
<th>Technology Categories</th>
<th>PP</th>
<th>RB 1</th>
<th>RB 2</th>
<th>LT 1</th>
<th>LT 2</th>
<th>MT 1</th>
<th>MT 2</th>
<th>MT 3</th>
<th>HT 1</th>
<th>HT 2</th>
<th>Total</th>
<th>PIB</th>
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<td><strong>Imperialist Countries</strong></td>
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<tr>
<td>EU</td>
<td>19,254</td>
<td>6,140</td>
<td>15,208</td>
<td>1,524</td>
<td>6,647</td>
<td>7,877</td>
<td>9,307</td>
<td>16,270</td>
<td>11,388</td>
<td>6,385</td>
<td>1,412,59</td>
<td>14,991,30</td>
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<td>9,844</td>
<td>6,751</td>
<td>5,926</td>
<td>2,890</td>
<td>9,513</td>
<td>16,266</td>
<td>9,172</td>
<td>21,525</td>
<td>8,093</td>
<td>10,021</td>
<td>1,445,08</td>
<td>3,600,83</td>
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<td><strong>Imperialist semiperiphery</strong></td>
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<tr>
<td>Spain</td>
<td>13,617</td>
<td>11,433</td>
<td>12,375</td>
<td>5,852</td>
<td>9,366</td>
<td>17,141</td>
<td>8,978</td>
<td>10,357</td>
<td>4,723</td>
<td>6,157</td>
<td>291,88</td>
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<tr>
<td>Poland</td>
<td>8,430</td>
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<td>7,630</td>
<td>3,782</td>
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<td>8,483</td>
<td>17,694</td>
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<tr>
<td>China</td>
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<tr>
<td>Brazil</td>
<td>30,742</td>
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<td>1,931</td>
<td>3,154</td>
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<td>1,775</td>
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<td><strong>Dependent economies</strong></td>
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<tr>
<td>Argentina</td>
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<td>17,766</td>
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<td>1,797</td>
<td>12,190</td>
<td>8,340</td>
<td>2,872</td>
<td>0,379</td>
<td>2,317</td>
<td>81,222</td>
<td>83,997</td>
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<td>5,073</td>
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<td>0,900</td>
<td>0,738</td>
<td>0,052</td>
<td>0,037</td>
<td>0,039</td>
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<td>0,156</td>
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<td>0,029</td>
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<td><strong>Peripheral Economies</strong></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Ethiopia</td>
<td>84,489</td>
<td>4,197</td>
<td>1,415</td>
<td>8,033</td>
<td>0,250</td>
<td>0,517</td>
<td>0,360</td>
<td>0,333</td>
<td>0,162</td>
<td>0,245</td>
<td>2,489</td>
<td>30,247</td>
</tr>
<tr>
<td>Nigeria</td>
<td>84,977</td>
<td>0,328</td>
<td>12,215</td>
<td>0,791</td>
<td>0,305</td>
<td>0,053</td>
<td>0,219</td>
<td>1,019</td>
<td>0,033</td>
<td>0,059</td>
<td>125,634</td>
<td>243,986</td>
</tr>
<tr>
<td>Republic of Central Africa</td>
<td>68,852</td>
<td>26,396</td>
<td>0,607</td>
<td>0,005</td>
<td>0,016</td>
<td>1,610</td>
<td>0,186</td>
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<td>0,030</td>
<td>0,008</td>
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<tr>
<td>Algeria</td>
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<td>16,850</td>
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<td>0,072</td>
<td>0,000</td>
<td>0,106</td>
<td>0,019</td>
<td>0,005</td>
<td>0,004</td>
<td>73,434</td>
<td>188,681</td>
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</table>


Notes: PP = primary product; RB = raw based; LT = low technology; MT = medium technology; HT = high technology; PIB = GDP (gross domestic product).
The pattern of capital reproduction in Brazil

On the other hand, part of the heterogeneity observed in the region is due, as we have said, to the material conditions under which capitalism was established. One way to capture this dimension of the differences in the context of common factors is to show the data on the progression of the industry in the region. Viewed as a whole, Latin America exhibits data compatible with global capitalist development, which points to a universal downward trend of the industry’s share of GDP. In the specialized economic literature, this phenomenon is called deindustrialization.

In Filgueiras (2012, 47), there is a brief summary of the main positions showing that, in general, the concept means a persistent declining trend in the share of industrial employment in total employment, as well as the participation of industry in GDP. The trend manifests itself regardless of growth dynamics, being intrinsic to the economies that have achieved the status of advanced capitalism, even when not considered developed by internationally recognized standards such as the those of the United Nations Development Programme (UNDP), for example.

Filgueiras singles out two basic reasons for deindustrialization. The first is a faster growth trend in productivity in the industrial sector compared with other sectors. The second is the faster growing income elasticity of demand for services. This latter may be related to historical changes in the universal pattern of consumption which the leading economies of the world capitalism seek to establish and reproduce extensively for the whole world system.

However, if we disaggregate the national economies of Latin America, deindustrialization is evident only in Argentina, Brazil, and Chile. The situation in Mexico and the Central American and Caribbean countries would require a separate study, because in these economies there has been a broadening of a kind of paradigmatic industry characterized as “maquila” in which “production” is the assembly of

Table 3  Exports as a Share of GDP (in Percentages)

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<thead>
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<tbody>
<tr>
<td>Argentina</td>
<td>7.60</td>
<td>6.23</td>
<td>5.60</td>
<td>5.82</td>
<td>5.06</td>
<td>11.74</td>
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<td>10.99</td>
<td>25.07</td>
<td>21.71</td>
<td>19.71</td>
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<tr>
<td>Brazil</td>
<td>7.06</td>
<td>7.74</td>
<td>7.03</td>
<td>7.54</td>
<td>9.05</td>
<td>12.25</td>
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<td>7.26</td>
<td>9.98</td>
<td>15.13</td>
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<tr>
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<td>14.61</td>
<td>25.44</td>
<td>22.82</td>
<td>28.15</td>
<td>33.99</td>
<td>29.30</td>
<td>29.29</td>
<td>38.38</td>
<td>38.06</td>
<td>34.21</td>
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<tr>
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<td>11.42</td>
<td>14.31</td>
<td>15.80</td>
<td>16.21</td>
<td>13.81</td>
<td>20.57</td>
<td>14.53</td>
<td>15.92</td>
<td>16.85</td>
<td>15.94</td>
<td>18.27</td>
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<td>17.89</td>
<td>10.85</td>
<td>22.40</td>
<td>22.97</td>
<td>15.76</td>
<td>12.59</td>
<td>16.00</td>
<td>25.09</td>
<td>25.67</td>
<td>25.64</td>
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<tr>
<td>Bolivia</td>
<td>—</td>
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<td>—</td>
<td>24.59</td>
<td>25.94</td>
<td>24.53</td>
<td>19.05</td>
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<td>22.55</td>
<td>18.27</td>
<td>35.55</td>
<td>41.19</td>
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<tr>
<td>Ecuador</td>
<td>16.85</td>
<td>8.98</td>
<td>9.44</td>
<td>16.07</td>
<td>17.15</td>
<td>19.68</td>
<td>22.76</td>
<td>22.78</td>
<td>32.13</td>
<td>27.62</td>
<td>28.75</td>
<td>31.15</td>
</tr>
<tr>
<td>Mexico</td>
<td>8.49</td>
<td>7.64</td>
<td>7.75</td>
<td>6.89</td>
<td>10.71</td>
<td>15.41</td>
<td>18.60</td>
<td>24.92</td>
<td>25.95</td>
<td>26.45</td>
<td>29.98</td>
<td>32.87</td>
</tr>
<tr>
<td>Paraguay</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>61.54</td>
<td>46.10</td>
<td>57.32</td>
<td>54.63</td>
<td>46.61</td>
<td></td>
</tr>
<tr>
<td>World</td>
<td>12.83</td>
<td>12.68</td>
<td>13.82</td>
<td>16.72</td>
<td>19.45</td>
<td>19.50</td>
<td>19.73</td>
<td>22.05</td>
<td>25.80</td>
<td>27.73</td>
<td>28.89</td>
<td>30.15</td>
</tr>
</tbody>
</table>

imported parts. Thus, the data from this group of countries indicate an “artificial” progress in industry’s participation in GDP.8

Table 4 compares the intensity of the phenomenon of deindustrialization in the region in selected countries and in various groups created by the World Bank which represent the largest and most advanced capitalist economies in the world. On the contrary, it should be noted that the phenomenon is not distinct to the region. In general, the share of industry is comparatively larger than in developed countries and the world average. If we compare the extremities of the data series, only the three countries mentioned above, Argentina, Brazil, and Chile, show evidence of deindustrialization, while the other indicate an expansion of the share of industry in GDP.9

Table 4  Share of Industry in GDP (1970–2012)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>42.3</td>
<td>50.1</td>
<td>39.3</td>
<td>36.0</td>
<td>28.4</td>
<td>28.1</td>
<td>35.8</td>
<td>31.2</td>
<td>30.5</td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>38.3</td>
<td>40.2</td>
<td>43.8</td>
<td>45.3</td>
<td>38.7</td>
<td>27.5</td>
<td>27.7</td>
<td>29.3</td>
<td>28.1</td>
<td>26.3</td>
</tr>
<tr>
<td>Chile</td>
<td>42.0</td>
<td>38.4</td>
<td>37.4</td>
<td>37.6</td>
<td>41.5</td>
<td>35.3</td>
<td>32.2</td>
<td>36.9</td>
<td>39.1</td>
<td>35.5</td>
</tr>
<tr>
<td>Colombia</td>
<td>28.3</td>
<td>29.8</td>
<td>32.5</td>
<td>35.5</td>
<td>37.9</td>
<td>31.7</td>
<td>29.4</td>
<td>32.8</td>
<td>35.0</td>
<td>37.5</td>
</tr>
<tr>
<td>Peru</td>
<td>31.6</td>
<td>31.7</td>
<td>n/a</td>
<td>n/a</td>
<td>27.4</td>
<td>31.0</td>
<td>29.9</td>
<td>34.3</td>
<td>36.1</td>
<td>34.6</td>
</tr>
<tr>
<td>Bolivia</td>
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<td>32.7</td>
<td>32.4</td>
<td>34.8</td>
<td>34.8</td>
<td>33.1</td>
<td>29.8</td>
<td>32.0</td>
<td>37.3</td>
<td>38.7</td>
</tr>
<tr>
<td>Ecuador</td>
<td>21.5</td>
<td>24.0</td>
<td>26.3</td>
<td>28.8</td>
<td>29.9</td>
<td>27.3</td>
<td>35.7</td>
<td>33.4</td>
<td>34.9</td>
<td>36.9</td>
</tr>
<tr>
<td>Mexico</td>
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<td>32.4</td>
<td>33.6</td>
<td>35.3</td>
<td>28.4</td>
<td>33.2</td>
<td>35.7</td>
<td>35.5</td>
<td>34.8</td>
<td>35.7</td>
</tr>
<tr>
<td>Venezuela</td>
<td>39.3</td>
<td>46.4</td>
<td>46.4</td>
<td>50.8</td>
<td>60.6</td>
<td>41.3</td>
<td>49.7</td>
<td>57.8</td>
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</tr>
<tr>
<td>High Income</td>
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<td>36.1</td>
<td>36.1</td>
<td>33.9</td>
<td>32.2</td>
<td>29.3</td>
<td>27.5</td>
<td>25.9</td>
<td>24.4</td>
<td>—</td>
</tr>
<tr>
<td>Latin American</td>
<td>34.7</td>
<td>36.7</td>
<td>37.8</td>
<td>39.1</td>
<td>34.5</td>
<td>30.8</td>
<td>32.3</td>
<td>33.8</td>
<td>32.6</td>
<td>31.6</td>
</tr>
<tr>
<td>Developing Countries</td>
<td>37.0</td>
<td>36.2</td>
<td>36.5</td>
<td>34.4</td>
<td>32.8</td>
<td>30.6</td>
<td>29.2</td>
<td>28.1</td>
<td>26.8</td>
<td>—</td>
</tr>
</tbody>
</table>


These data on Latin America strongly suggest an analysis of national economies is required, showing that common factors are insufficient to determine a unique pattern of reproduction of capital. Furthermore, the data suggest that the nature of state action and the complexity of the accumulation process are distinct for each country.

In the following section, we discuss the pattern of reproduction of capital in Brazil, looking for elements that support our hypothesis that there are sufficient structural elements for the Brazilian economy to differentiate itself from other economies in the region.10 By implication, we understand that other patterns of national reproduction are possible, even if we restrict ourselves to the visible factors which international trade structures have in common.
3. The Concept of Pattern of Capital Reproduction

The concept of Pattern of Capital Reproduction is very well defined in Ferreira et al. (2012). The book is in large part devoted to this theme, with chapters by the editors and by Marini. In short, the concept captures characteristics of capital circuits in level of social formations, dealing directly with theoretical elements of both the accumulation process of capital and the state.

The notion of pattern of capital reproduction appears to account for the ways in which capital is reproduced in specific historical periods and in certain geoterritorial spaces, both centrally and in the semi-periphery and periphery, or in regions within each of them, taking into account the characteristics of its metamorphosis as it passes through the spheres of production and circulation (such as money, means of production, labor, new goods, more money), integrating the valorization process (increasing the value and the money invested) and his incarnation in specific use values (pants, radios, cell phones, armaments) as well as the contradictions that these processes generate.

The category of pattern of reproduction of capital is established in the same manner as mediations between the more general levels of analysis (capitalist mode of production and world system) and less abstract or concrete historical levels (social-economic formation and environment). Thus, it feeds on more abstract conceptual and methodological contributions, but requires conceptual and methodological contributions of its own. (Osorio 2012a, 40–41)

For the purposes of this article and according to the quote above, we believe that the pattern of capital reproduction applies to national economies, taking hold of normal elements of the production and reproduction of capital, and configuring a further level of structural determination.

A schematic picture of the basic factors which arise to configure the pattern of capital reproduction is shown in Figure 1. These factors represent the Marxist formula for the accumulation of capital $C \rightarrow M \rightarrow M' \rightarrow C'$, but at a specific level at which these factors are defined within a plurality of capitals, and hence within the scope of the competitive dynamics.

At the level of circuit 1, the money-form can be modified as a result of financial mechanisms, either of the unit of capital itself (self-financing) or through mechanisms related to the interest-bearing capital in its various forms targeted at production.

Furthermore, in Paulani (2011), the money-form is discussed in its specificity in the course of global capitalist development, showing that there is autonomy both at the level of national economies and at the level of the world system, configured to a specific level of analysis. Thus, understanding the nature of money calls for...
a treatment of monetary conditions and financing, as well as the nature and form of state regulation.

At the level of circuit 2, productive capital, we find the essential mechanisms of capital valorization. Here are the social relations of production between the hiring of the workforce, inputs to production, and capital goods.

It is in circuit 2 that primarily technological changes act to raise labor productivity. So in this cycle, we find the main determinants of wealth and income distribution. Finally, in circuit 3, productive and unproductive consumption costs are materialized. Here also are the funding mechanisms that integrate with those of circuit 1, configuring a structure of financing.

In Marx’s *Capital*, these circuits are dealt with at the level of capital in general, showing how the capital accumulation process can take place. Marini discusses these circuits to demonstrate the specificity of Latin American capitalism, re-formulating this same process of accumulation at a historical/geographical level. He demonstrates the differences between the accumulation process in the economies of the center and the Latin American periphery. In the first, capital circuits are integrated internally to the national economy, while in the case of Latin American peripheral economies they include mechanisms external to the economy, configuring a “break.”

The main consequence of this “break” in Latin America circuits, in Marini’s interpretation, is that the dominance of the form of relative surplus value within the ambit of production gives way to various forms of absolute surplus value and is thus a structural condition for the overexploitation of the labor force.

---

**Figure 1**  Capital Reproduction of Standard Elements

Circuit 1 – circulation
- forms of financing productive capital
- nature of money/capital

Circuit 2 – production
- investment/production
- technology
- social relations
- distribution of wealth

Circuit 3 – circulation
- financing of consumption and investment
- elements of demand: individual and family costs
He points out that in capitalism of the center, the dominance of relative surplus value is established, allowing capitalist development as an intrinsic concentrator of social wealth to the benefit of specific social classes, which occurs without the direct depression of wages within production. A distinct pattern of reproduction of capital is thereby established.

The argument is developed at a level where the possibility for self-determination of national economies is posed in such a way as to formulate a hypothetical condition for the autonomy of the capital accumulation process. The accumulation process could be accomplished in such a situation without access to foreign trade. Productivity increases would hence directly affect the cost of reproducing the workforce. In other words, the dynamics of competition and accumulation would result in a gradual fall in commodity prices including those of the worker’s consumption basket. Productivity increases could then be passed on in part to the employee, by establishing increased purchasing power.

We feel it is not appropriate to develop this theoretical argument abstractly, since evidence about capital circuits and the characteristics of dependent economies are better represented in the study of social formations. Therefore, the focus of this article turns to the fundamental characteristics of this process in the Brazilian economy and in particular the relative structural importance of commodities. Therefore, we adopt the Marini-Theotônio dos Santos thesis that the dynamics of a dependent economy are significantly different from a capitalist economy of the center.

There are controversies on this characterization of capital dynamics in Latin America that are relevant. Historically, there was an internal debate among the authors considered dependentist, particularly between Marini and Fernando Henrique Cardoso. This debate is synthesized in Blomström and Hettne ([1984] 1990). These authors characterize two aspects of “Dependency Theory” in the literature, one being the “Weberian” Fernando Henrique Cardoso and the other the “Marxist” Marini.

Here, we adopt the Marxist position for reasons presented in Almeida Filho (2012). The choice allows us to keep the focus of the discussion on the development of class struggle and its impact on the dynamics of the accumulation process.

4. Some Factors in the Pattern of Capital Reproduction in Brazil

For now, we intend to deal only with some factors in the processes which break circuits, especially as regards the global productive inclusion of the Brazilian economy. The data are proxy variables and are only an approximation to the underlying theoretical elements.

In principle, a result of breaking the circuit of accumulation is a domestic supply lower than domestic demand, as regards the basket of goods which forms the
standard of average social consumption. This can be seen in part by the size of the industrial gap, in the industrial branches shown in Tables 5 and 6. It can be seen that mining is primarily focused on the exterior. In manufacturing, it can be seen that most export sectors are typically of low technological content, except those linked to the exports of automobiles and aircraft, which are also importers of high technology. There is no data from the other two sectors—primary and tertiary.

Table 5

Export Coefficients (Percent at 2007 Constant Prices)

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<tr>
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<td>1.2</td>
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<td>1.0</td>
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<td>51.2</td>
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<td>43.8</td>
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<td>12.8</td>
<td>11.0</td>
<td>10.7</td>
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<td>1.5</td>
<td>1.3</td>
<td>1.3</td>
<td>1.2</td>
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<td>15.2</td>
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</table>

Source: From FUNCEX (Foundation Center of Foreign Trade Studies, Brazil) on the basis of data from SECEX/MDIC (Ministry of Development Industry and Trade, Brazil). The highlighted rows are due to the relative importance of the numbers.

Notes: 'CNAE (National Classification of Economic Activities, Brazil) 2.0 sectors; *Estimates.
Table 6  Coefficients of Export and Import Penetration: Earnings per Sector (% in Current Prices)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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<td>2.8</td>
<td>3.3</td>
<td>3.6</td>
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<td>27.4</td>
<td>29.5</td>
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</table>

Source: CNI (National Confederation of Industry, Brazil)’ report *Trade Openness Coefficients* (Year 1, No. 2, October–December 2011, the part “Brazilian Industry Continues to Lose with Commercial Value”).

Note: *Estimates.

On the other hand, the import penetration ratio is significant, exceeding the export coefficient for industrial branches. Overall, typical export-oriented sectors in the manufacturing industry are food, tobacco, metallurgy and transport, ships, and aircraft. In mining, the tendency to export is stronger, reaching levels above 70% of national production.
Another factor that influences the dynamics of domestic production is the terms of trade between imported and exported products, showing the unit productive effort required to import products not produced domestically. These data are illustrated in Figure 2. A complementary element to this is the trade balance in Table 7. The evolution of these data establishes a paradox for the ECLAC thesis about the deterioration of terms of trade, since recent data show this moving positively at the point where the balance of trade turns around, repeatedly become negative for the Brazilian economy after 2008, as a result of the worsening of the international crisis.

![Figure 2 - Terms of Trade (1990 to 2013)](image)


These data can be compared with the national standard of living, given approximately by the POF—Consumer Expenditure Survey of the IBGE (Brazilian Institute of Geography and Statistics). Of course, we are here confronted with data with no direct causality, functioning only as an approximate indicator of the relationship between social consumption and domestic production. Research shows that about 68% of Brazilian households have an average monthly income up to R$2,490 (about US$1,069) and using almost all of their income...
Table 7  Commercial Balance for Capital Goods (US$ FOB)

<table>
<thead>
<tr>
<th>Period</th>
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<th>Imports</th>
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<tr>
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<tr>
<td>1976</td>
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<tr>
<td>1977</td>
<td>547</td>
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<tr>
<td>1978</td>
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<td>1981</td>
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<td>1982</td>
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<tr>
<td>1983</td>
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<tr>
<td>1984</td>
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<tr>
<td>1985</td>
<td>1,341</td>
<td>1,095</td>
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<tr>
<td>1986</td>
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<td>1987</td>
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<tr>
<td>1992</td>
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<td>3,340</td>
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<td>1993</td>
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<td>2006</td>
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<td>2007</td>
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<td>2008</td>
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<td>2009</td>
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<td>2010</td>
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<td>2013</td>
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</table>

Source: IPEA DATA (The Institute for Applied Economic Research, Brazil), FUNCEX (Foundation Center of Foreign Trade Studies, Brazil).

Note: FOB = free on board.
on consumption, particularly food, housing, and transportation. These are typical products of domestic production. These figures show a pattern of an unsophisticated consumer (see Table 8).

Table 8  Monetary and Nonmonetary Expenditure: Family Monthly Average Brazil (2008–2009)

<table>
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<tr>
<th>Total Revenue Classes and Family Monthly Asset Change*</th>
<th>Monetary and Nonmonetary Expenditure: Family Monthly Average (R$)</th>
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<tr>
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<td>Education</td>
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<td>Recreation and culture</td>
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<td>Tobacco products</td>
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<td>Personal services</td>
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<tr>
<td>Various</td>
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<td>Other current expenditures</td>
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<td>Banking Services</td>
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<td>Private Pensions</td>
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<td>Asset Revaluation</td>
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<td>Liability Devaluation</td>
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<td>Property income t</td>
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<td>Number of families</td>
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</tr>
<tr>
<td>Medium Family size (per)</td>
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</table>

Source: From IBGE (Brazilian Institute of Geography and Statistics).
Notes: The term family is being used to indicate the research unit of the research and drive consumption as IBGE. *Includes cash and non-cash income and equity variation. **Even without income.

One of the central points in Marini’s demonstration of the deformed character of the economies of Latin American periphery, compared with the capitalism of the center, is that productive dynamics were shaped mainly by absolute surplus
value. This statement needs to be qualified, since the degree of diversification of the economies of Latin America is very different. The argument has direct validity for economies that do not have a domestic production capacity to meet essential social needs, especially to meet the workers’ consumption needs. This was a characteristic of the economies of the region before the industrialization process.

The argument is similar in this respect to that of Celso Furtado (1968) about the underdevelopment of the Brazilian economy in the 1960s, the period of rise of the Marxist Theory of Dependency, that the technology accompanying direct investments in Brazil was inadequate to social consumption. This inadequacy is displayed more recently by the POF 2010. Thus, the differentiation in production which was historically engendered by Brazilian global integration acted to strengthen the Brazilian structural condition of social inequality. It turns out that this global insertion generates productive dependence and external vulnerability. This is summarized in Figure 3.

Finally, Table 9 shows time series data for the factors of the global productive insertion of the Brazilian economy. These data along with those data depict for us a dependent insertion, reproduced on the basis of mechanisms which govern the global economy and the Brazilian economy in particular.

In brief, all these data show elements of the pattern of reproduction of capital in Brazil, without clearly exhausting it. A central aspect is the nature of Brazil’s insertion; essence of it does not change, but there have been crucial transformations within global capitalism since the 1980s.
<table>
<thead>
<tr>
<th>Period</th>
<th>Export Capital Goods</th>
<th>Durable Consumer</th>
<th>Non-durable Consumer</th>
<th>Imports Capital Goods</th>
<th>Durable Consumer</th>
<th>Non-durable Consumer</th>
<th>Inputs</th>
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<tr>
<td>1974</td>
<td>256</td>
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<td>1,210</td>
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Source: From IBGE (Brazilian Institute of Geography and Statistics).

Note: FOB = free on board.
5. Conclusions

Our goal in this article is to show that Latin America, by virtue of common structural features which the Marxist Theory of Dependency has identified, has a number of distinct patterns of reproduction of capital. One is the Brazilian economy, which exhibits several points in common with other countries under investigation but has distinct features in relation to financing, investment, and distribution in comparison with the rest of Latin America.

Osorio (2012b, 103–33) treats the region as having a common pattern, which he terms “specialized products exporter,” configured as a structurally reproduced historical insertion as an exporter of primary products or processed primary products. We consider this a relevant approximation which requires deepening through further major studies, as the author himself accepts in selecting the five largest economies in the region and interrogating their aggregate data. The comparison yields significant differences as regards the dynamics of the economy. Recent growth data confirm this line of interpretation, since the Brazilian economy exhibits comparatively lower rates.

According to the World Bank’s data and analysis, Latin America is entering a phase of lower growth. The growth rate in the region fell from 6% in 2010 to 3% in 2012 and 2.5% in 2013, recovering to 4.4% in 2014, with significant dispersion between the results of national economies. In 2013, the rates ranged from less than or equal values to 1.3% in the case of Jamaica and Venezuela, to “Asian” growth of 5.8% and 8.4% for Peru and Panama, respectively. A group of countries grows above the regional average, with rates between 3% and 4% (Argentina, Chile, Colombia, Costa Rica, Ecuador, Guatemala, and Uruguay). However, the largest regional economies of Brazil and Mexico will register below-average growth.16

On the other hand, authors such as Luce (2011) use Marini’s concept of subimperialism, highlighting the role of the State and the degree of internationalization of the economy as central elements. From these elements, Brazil emerges as a dependent subimperialism, which in itself suggests a pattern of reproduction of capital distinct from the rest of the region.

Regardless of which view is taken, it seems that the data synthesized in this article are insufficient to take a definitive position. It would be necessary to deal with the financing structure and specifically the public accounts in more depth. The importance and form of the state to the dynamics of production and reproduction of capital are decisive. Even so, it can be reiterated, in accordance with Osorio (2012b), that the global integration of Latin American economies is structural and a central element of any definitive characterization of its patterns of capital reproduction.
Notes

1. This is the definition adopted by ECLAC (Economic Commission for Latin America and the Caribbean). An alternative is to select countries for cultural similarities, particularly languages. In this case, the region would comprise those countries with Latin languages.

2. It is necessary to take into account the situation of countries and small economies of Central America, some of which even today retain the status of protectorates. In many cases, these economies are not industrialized in the sense of containing a group of industrial sectors and should be characterized as economies engaged in primary exports mixed with tourist activities. Thus, the claims we are making is call for a relation with some countries not represented as not being the focus of our analysis.

3. Theotônio dos Santos deals with this in several studies, specifically Socialism or Fascism: The Latin American Dilemma (1969).

4. The improvement of living conditions that we are talking about refers to average conditions, which does not imply any contradiction with social inequality. This deepens precisely through the overexploitation of the labor force.

5. If the average conditions changed, the minimum levels of remuneration, quite generally in the population, remained significantly below the social conditions allowed for by the process of industrialization.

6. Mello (1982) defines these as being the introduction of specifically capitalist production techniques. This is different to the regular use that identifies the conditions to an advanced position in the international division of labor and progress. We are using the term as Mello does.

7. The United Nations Development Programme (UNDP) regularly calculates the HDI (Human Development Index), whose traditional dimensions are GDP per capita, life expectancy, and schooling. The corresponding range for developed countries ranges from 0.8 to 1.0, on a general scale of 0 to 1. Tighter definitions of developed countries consider only per capita GDP. In this case, the threshold for developed countries is the Organisation for Economic Co-operation and Development (OECD) country average of around US$ 20,000.00. The countries of Latin America do not appear in any of these ratings, although Mexico is part of the OECD.

8. Buitelaar and Ruth (1999) provide a study of Mexico and the industries of the countries of Central America and the Caribbean. Their concern is to investigate whether the maquiladora industry brings some benefit to the national economy in terms of technological advancement. The answer is yes, but on a much smaller scale than regular industries which conquer exports via productivity increases. For the purposes of this article, it suffices to compare the different characteristics of industry in these countries with those of the rest of the region.

9. Kenessey (2005) offers a relatively recent methodological discussion of “appointment,” if we divide the economy into large sectors using the method of the 1950s (Clark 1951). He suggests a way of dividing the tertiary sector, in order to characterize a fourth sector; this is essentially linked to technological activities in various forms, including education and training at work. The discussion is important and may qualify the nature of advanced capitalism better, since in our case we are only studying the nature of the social relations of production. Advanced capitalism would then be the extensive penetration of capitalist production techniques combined with the adoption of wage standards. However, this would require a separate article.

10. This issue is the subject of Araújo’s (2013) thesis. There is an initial chapter that supports the thesis that global capitalism is reproduced by means of concentration of wealth and social exclusion. Then there is a theoretical development of the theme of patterns of capital reproduction. The argument anticipates standard characterizations of the factors of Brazilian development, although, as we shall see in section 2, without the full information required for this characterization.

11. There are also chapters by Carcanholo and Amaral about overexploitation and the transfer value.

12. This is clearly an approximation, because the concrete historical development of global capitalism expands the extent of interrelation of economies through the expansion of international trade.
relative to domestic trade. Thus, even the economies of the center may have breaks in the circuit. The important point to note is that this presents itself as a constitutive feature of Latin American economies, with repercussions for the level of economic dynamics. See Ruy Mauro Marini’s writings, http://www.marini-escritos.unam.mx/.

13. In Dos Santos ([1970] 2011), the distinction between developed and dependent economies is precise. Dependency is defined as an incapacity for self-determination. However, in the historical process of capitalist development, self-determination is not realized, because of the huge dynamic benefits that international trade gave to economies able to lead the process of change in consumption patterns through productive innovations in products and processes.

14. In parenthesis, the reference to Dependency Theory arises from this internal debate. As noted, no method is agreed among the authors who deal with the subject of dependency, so it may be more appropriate to refer to the “Contribution of Dependence.”

15. Of course, we are simplifying references to a dense debate with social and political repercussions. To Fernando Henrique Cardoso we should add José Serra, Enzo Faletto, and an important part of the Campinas School. To Marini we should add at least Theotônio dos Santos and Vania Bambirra. See Almeida Filho (2005) and Araújo (2001).


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ARE WE SURE ABOUT THE EFFECTS OF THE EGYPTIAN UPRISINGS?
A SEEMINGLY UNRELATED REGRESSIONS APPROACH

Amr Hosny

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Abstract: Four years after the historic uprising of the Egyptians in January 2011, we aim to understand whether the Egyptian revolution has had a different impact on different sectoral investments in the economy. Using data over the 2002Q1-2014Q2 period and a seemingly unrelated regression equations (SURE) approach that allows for contemporaneous correlation across sectors of the economy, we find that the revolution’s effect on sectoral investments has been adverse, on average, but heterogeneous across sectors. Results hold under a number of robustness checks.

Key words: Egyptian revolution; seemingly unrelated regressions; Egyptian economy

1. Introduction

The historic uprising of the Egyptian population in January 2011 has raised many questions regarding its potential causes. Many discussions have been raised regarding the underlying causes of the so-called “Arab Spring” revolutions in many countries of the Arab world. A number of studies, including Sorenson (2011) and Diwan (2012a, 2012b), among others, have attributed the uprisings to the rise of political Islam, crony capitalism, corruption, as well as political and social stagnation and a general loss of faith in the electoral systems. Other studies, including Amin et al. (2012) and Campante and Chor (2012) among others, argue that economic reform failures were at the center of events in the region, including
the mismatch between education and economic opportunity, and the more general failure of governments in the region to generate inclusive, fair, and equitable growth. In the specific case of Egypt, Ghanem (2014) argues that Egyptians revolted due to the lack of progress in democratization during Mubarak’s time as well as the regime’s unconvincing economic efforts in areas of inequality and inclusive growth despite growing at a healthy 5% rate in 2009–2010. Hassine (2011) argues that inequality of income and opportunity worsened in the years preceding the revolution, especially in rural areas and among women and the youth.

Despite its importance, little work has been done on the effects of the revolution on the Egyptian economy. Although some studies in the literature aim at offering an understanding of the underlying causes of the revolts in the Arab world, there exist little studies on the potential effects of such revolts on economies of the region. In the case of Egypt, the Abu Dhabi Gallup Center (2011) survey reported that Egyptians after the revolution became less satisfied with their standards of living, as the availability and quality of necessities such as health care, housing, and jobs were eroded. In a recent study, close in spirit to ours, Hosny, Kandil, and Mohtadi (2014) found that the revolution has had adverse effects on the Egyptian economy. More specifically, using quantile regression and difference-in-difference methodologies, they find that faster growing sectors before the revolution are the ones that have been most adversely affected by the revolution, as they have been more vulnerable to deterioration in economic policies compared with historically slower growing sectors that have established more resilience.

To the best of our knowledge, this is the first article to study the effects of the Egyptian revolution on investments at the sectoral level. In this article, we examine the potential effect of the revolution on sectoral investments in Egypt. This is especially important in the Egyptian economy where private sector investments are an important driver of economic growth. Specifically, our objective is to answer two questions: (1) Has the revolution had a different effect on public versus private investments across sectors of the economy? and (2) Are effects of the revolution symmetric across all private sectors?

The main finding of the article is that the revolution’s effect on sectoral investments has been adverse, on average, but heterogeneous across sectors. Specifically, (1) using a pooled ordinary least squares (OLS) approach, results indicate that the revolution has had, on average, a negative effect on total investments at the sectoral level in Egypt. The same result holds when we break down total investments into private and public investments. (2) Using a seemingly unrelated regression equations (SURE) approach, we find evidence of a contemporaneous relationship between the sectors of the Egyptian economy and find that the revolution has had a different impact on different sectors of the economy. This
is especially true in investments in the private sector. Empirical results in this article hold under a number of robustness checks.

2. Specification, Methodology, and Results

2.1. Literature Review

At the regional level, existing studies, both theoretical and empirical, have focused their attention to the events leading up to the political uprising. Galal and Selim (2012), for example, review Arab development experiences since World War II and attribute the region’s underdevelopment to the extractive nature of political and economic institutions. Amin et al. (2012) argue that two interrelated political and economic reform failures were at the center of events in the region. Politically, the governments’ inability to develop pluralistic and open systems has limited citizens’ participation in civic and political life and increased the divide between the ruling elites and the public. Economically, governments in the region were not successful in generating economic growth that is inclusive, fair, or equitable. Campante and Chor (2012) attribute the uprisings to the mismatch between education and economic opportunity, while Sorenson (2011) argues that factors such as political stagnation, corruption, and loss of faith in the electoral system were the driving forces behind the political unrests across many countries in the region. In an attempt to formulate a theoretical background to the Arab revolutions, studies by Diwan (2012a, 2012b) argue that the changing interests of the middle class, the rise of “political Islam,” and “crony capitalism” have collectively led to the uprisings. He shows that the evolving middle class structure and related class preference for economic and social policies in many countries of the Arab world have led to these revolts.

A few studies examine the underlying causes of the revolution in the specific case of Egypt. Diwan (2012b), for example, looked at the corporate performance of connected firms in Egypt in the five years before the revolution to ascertain directly how they may have benefited from their connections. His findings suggest that connected firms had a larger market share than their non-connected competitors (an average advantage of 8% of the market) and were able to borrow much more than their competitors (with an extra leverage of 25 points on average over the period). At the macro level, Ghanem (2014) argues that the lack of progress in democratization and inclusive growth despite growing at a healthy rate in the years preceding the revolution have ultimately caused Egyptians, especially the youth, to revolt. Hassine (2011) presents empirical evidence that the inequality of opportunity worsened in the years preceding the revolution, especially in rural areas and among women and the youth.
Existing studies offer an understanding of the underlying causes of the revolts in the Arab world, but not the effects. In this article, we aim to offer such a study using the Egyptian 2011 revolution as a case study. Specifically, our focus will be on the effects of the revolts on public and private investments in Egypt at the sectoral level, as explained in the following section.

2.2. Model Specification

We adopt the following specification, with data from the Ministry of Economic Development in Egypt and the IMF International Financial Statistics. The model covers the period 2002Q1–2014Q2.

\[
\Delta \text{investment}_{i,t} = \beta_0 + \beta_1 \Delta \text{money supply}_{i,t-1} + \beta_2 \Delta \text{lending rate}_{i,t-1} + \beta_3 \Delta \text{inflation}_{i,t-1} + \beta_4 \Delta \text{exchange rate}_{i,t-1} + \beta_5 \Delta \text{global prices}_{i,t-1} + \beta_6 \Delta \text{foreign reserves}_{i,t-1} + \beta_7 \Delta \text{revolution dummy} + \beta_8 \Delta \text{inflation volatility}_{i,t-1} + \beta_9 \Delta \text{exchange rate volatility}_{i,t-1} + \eta_{it}
\]

Specifically, building on existing papers in the literature, we include a number of macroeconomic determinants of sectoral investments. The dependent variable, growth in investments (total/public/private), is modeled as a function of changes in money supply, lending rates, inflation, and exchange rates (see Bayraktara and Fofackb 2011; Abiad et al. 2008). Hosny, Kandil, and Mohtadi (2014) also have a similar specification for the determinants of sectoral GDP growth in the Egyptian economy. We also include the volatility of inflation and exchange rates following Guimaraes and Unterberdoerster (2006) who study the determinants of sectoral investments in Malaysia. Exchange rate and inflation volatility are important determinants of investments because, besides their role as direct investment risks, they also capture the overall role of macroeconomic stability in providing an environment conducive for investment. In addition, we include lagged public investments in the private sector equations to account for possible crowding out effects.

The main purpose of this model is to ask what effect has the revolution had on investments of different sectors of the economy, controlling for the effects of other macroeconomic and financial variables that may influence investments. Our variable of interest is the revolution dummy taking a value of one since 2011Q1 and zero otherwise, while all other right-hand side (RHS) variables are lagged to avoid endogeneity problems.¹

The focus on private investments is particularly important for Egypt. The model focuses on private investments as their share in total investments has progressively increased over time, in contrast to declining shares in the public sector.
Figure 1). Kandil (2012) shows that the private sector in Egypt shows similar trends in terms of the share in GDP and employment, reflecting an increasing job content of growth in the private sector, on average, over time. Table 1 presents summary statistics of growth rates of private sector investments in Egypt, before and after the revolution.

2.3. Estimation Methodology

We first use a pooled OLS approach to estimate the impact of the revolution on the economy. We start by running pooled OLS regressions on total, public, and private sectoral investments, with the variable of interest being the revolution dummy.

We then use a SURE approach to estimate the heterogeneous effects of the revolution on sectoral investments in Egypt. Given that our objective is to test the value, sign, and statistical significance of the revolution dummy across the different sectors, we adopt a SURE approach that makes use of common shocks across all sectors and allows for the simultaneous estimation of the above specification for every sector of the economy.

Estimations using SURE have several econometric advantages. Although a separate estimation of each equation using OLS will yield consistent results, the potential relation between the equations brought forward by the contemporaneous correlation between the error terms can help us gain a more efficient estimator by estimating the equations jointly using feasible generalized least squares (FGLS), as was shown by Zellner (1962), Zellner and Huang (1962), and Zellner (1963). Another advantage of the SURE technique in this context is the ability to test the
null hypothesis that the RHS variables (most importantly the revolution dummy) have had a similar impact on all sectors of the economy. For illustration, equation \( i \) of the SURE model can be written as

\[
y_i = x_i \beta_i + \varepsilon_i, i = 1, ..., N,
\]

Table 1  Summary Statistics of Sectoral Investment Growth Rates

<table>
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<tr>
<th>Sector</th>
<th>( M )</th>
<th>( SD )</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before Revolution: 2002Q4–2010Q4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sector 1: Agriculture</td>
<td>-0.001</td>
<td>3.058</td>
<td>-11.922</td>
<td>12.173</td>
</tr>
<tr>
<td>Sector 2: Mining–Crude Oil</td>
<td>0.019</td>
<td>0.661</td>
<td>-1.619</td>
<td>1.684</td>
</tr>
<tr>
<td>Sector 3: Mining–Natural Gas</td>
<td>0.034</td>
<td>0.998</td>
<td>-3.351</td>
<td>2.911</td>
</tr>
<tr>
<td>Sector 4: Other Mining</td>
<td>-0.229</td>
<td>0.945</td>
<td>-5.102</td>
<td>0.499</td>
</tr>
<tr>
<td>Sector 5: Manufacturing–Oil Products</td>
<td>0.003</td>
<td>0.436</td>
<td>-0.908</td>
<td>1.168</td>
</tr>
<tr>
<td>Sector 6: Other Manufacturing</td>
<td>0.046</td>
<td>0.928</td>
<td>-1.751</td>
<td>2.489</td>
</tr>
<tr>
<td>Sector 7: Electricity</td>
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<td>1.598</td>
<td>-9.116</td>
<td>0.118</td>
</tr>
<tr>
<td>Sector 8: Construction Building</td>
<td>0.034</td>
<td>0.567</td>
<td>-1.782</td>
<td>1.834</td>
</tr>
<tr>
<td>Sector 9: Transportation</td>
<td>0.029</td>
<td>0.618</td>
<td>-1.067</td>
<td>1.634</td>
</tr>
<tr>
<td>Sector 10: Communication &amp; Information</td>
<td>0.059</td>
<td>0.389</td>
<td>-0.709</td>
<td>0.997</td>
</tr>
<tr>
<td>Sector 11: Internal Trade</td>
<td>0.079</td>
<td>0.697</td>
<td>-1.808</td>
<td>2.248</td>
</tr>
<tr>
<td>Sector 12: Restaurants &amp; Hotels</td>
<td>0.028</td>
<td>0.613</td>
<td>-1.894</td>
<td>1.149</td>
</tr>
<tr>
<td>Sector 13: Real Estate Activities</td>
<td>0.003</td>
<td>0.544</td>
<td>-1.114</td>
<td>0.862</td>
</tr>
<tr>
<td>Sector 14: Education</td>
<td>0.021</td>
<td>0.492</td>
<td>-1.214</td>
<td>1.643</td>
</tr>
<tr>
<td>Sector 15: Health</td>
<td>0.017</td>
<td>0.393</td>
<td>-0.842</td>
<td>0.734</td>
</tr>
<tr>
<td>Sector 16: Other Services</td>
<td>0.008</td>
<td>2.551</td>
<td>-10.862</td>
<td>8.540</td>
</tr>
<tr>
<td>After Revolution: 2011Q1–2014Q2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sector 1: Agriculture</td>
<td>0.022</td>
<td>0.212</td>
<td>-0.350</td>
<td>0.365</td>
</tr>
<tr>
<td>Sector 2: Mining–Crude Oil</td>
<td>-0.167</td>
<td>0.466</td>
<td>-1.117</td>
<td>0.575</td>
</tr>
<tr>
<td>Sector 3: Mining–Natural Gas</td>
<td>-0.001</td>
<td>0.616</td>
<td>-1.431</td>
<td>1.230</td>
</tr>
<tr>
<td>Sector 4: Other Mining</td>
<td>1.051</td>
<td>3.557</td>
<td>0</td>
<td>12.345</td>
</tr>
<tr>
<td>Sector 5: Manufacturing–Oil Products</td>
<td>-0.946</td>
<td>5.997</td>
<td>-11.45</td>
<td>12.045</td>
</tr>
<tr>
<td>Sector 6: Other Manufacturing</td>
<td>-0.021</td>
<td>0.996</td>
<td>-2.197</td>
<td>1.280</td>
</tr>
<tr>
<td>Sector 7: Electricity</td>
<td>0</td>
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<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Sector 8: Construction Building</td>
<td>-0.127</td>
<td>0.643</td>
<td>-1.643</td>
<td>0.825</td>
</tr>
<tr>
<td>Sector 9: Transportation</td>
<td>-0.032</td>
<td>0.286</td>
<td>-0.478</td>
<td>0.595</td>
</tr>
<tr>
<td>Sector 10: Communication &amp; Information</td>
<td>-0.042</td>
<td>0.306</td>
<td>-0.555</td>
<td>0.396</td>
</tr>
<tr>
<td>Sector 11: Internal Trade</td>
<td>-0.091</td>
<td>0.481</td>
<td>-1.391</td>
<td>0.560</td>
</tr>
<tr>
<td>Sector 12: Restaurants &amp; Hotels</td>
<td>-0.135</td>
<td>0.352</td>
<td>-0.721</td>
<td>0.241</td>
</tr>
<tr>
<td>Sector 13: Real Estate Activities</td>
<td>0.028</td>
<td>0.3702</td>
<td>-0.489</td>
<td>0.738</td>
</tr>
<tr>
<td>Sector 14: Education</td>
<td>-0.001</td>
<td>0.418</td>
<td>-0.720</td>
<td>0.550</td>
</tr>
<tr>
<td>Sector 15: Health</td>
<td>-0.009</td>
<td>0.398</td>
<td>-0.874</td>
<td>0.535</td>
</tr>
<tr>
<td>Sector 16: Other Services</td>
<td>0.010</td>
<td>0.480</td>
<td>-1.255</td>
<td>0.556</td>
</tr>
</tbody>
</table>

Source: Author calculations based on data from the Egyptian Ministry of Economic Development.
where $y_i$ is the $i$th equation dependent variable and $x_i$ is the $T \times k_i$ matrix of observations on the regressors for the $i$th equation. The disturbance process $\varepsilon = \varepsilon_1', \varepsilon_2', \ldots, \varepsilon_N'$ is assumed to have an expectation of zero and an $NT \times NT$ covariance matrix $\Omega$. The compact representation is $Y = X\beta + e$.

2.3.1. Properties and Assumptions of the SURE Estimator.

The SURE estimator is based on the large sample properties of large $T$, small $N$ datasets, and applying SURE requires that the $T$ observations per unit exceed $N$, the number of units to render the covariance matrix $\Omega$ full rank and invertible. Assumptions on the errors are as follows:

$E[e_ie_j' | X] = \sigma_{ij}I_T$

$\Omega = \Sigma \otimes I_T$,

where $\Sigma = (\sigma_{ij})$ is the $N \times N$ contemporaneous covariance matrix of the equations’ disturbance processes, and $\otimes$ is the Kronecker matrix product. The GLS estimation is

$\hat{\beta}_{GLS} = (X'\Omega^{-1}X)^{-1}(X'\Omega^{-1}Y)$

$\Omega^{-1} = \Sigma^{-1} \otimes I_T$.

2.3.2. Computation of the SURE Estimator.

Computation of the FGLS, or Zellner’s (1962) SURE estimator, is done in two steps. First, each equation is estimated using OLS, and the residuals from the $N$ equations are used to estimate $\Sigma$. Second, $\hat{\Sigma}$ is substituted for $\Sigma$ to obtain the FGLS estimator $\hat{\beta}_{FGLS}$. The SURE estimator will reduce to equation-by-equation OLS if errors are uncorrelated across equations; that is, if $\Sigma$ is diagonal. We use the Lagrange Multiplier (LM) statistic proposed by Breusch and Pagan (1980) to test the dependence of the errors in the different equations, with a null hypothesis of diagonality of $\Sigma$, that is, zero contemporaneous covariance between the errors across equations.

2.4. Empirical Results

Pooled OLS results indicate that the revolution has had, on average, an adverse effect on sectoral private investments in Egypt, but not on the public sector. Pooling the 16 sectors of the Egyptian economy together and running a simple OLS reveal an interesting finding. Specifically, empirical results (see estimations in Table 2) indicate that the revolution dummy variable has a negative and statistically
significant coefficient only in the case of private investments at the sectoral level, but not in total or public investments.

Table 2  Pooled OLS Regressions

<table>
<thead>
<tr>
<th></th>
<th>dinvprivate</th>
<th>dinv</th>
<th>dinvpublic</th>
</tr>
</thead>
<tbody>
<tr>
<td>revdummy</td>
<td>−1.474</td>
<td>−0.349</td>
<td>4.941</td>
</tr>
<tr>
<td></td>
<td>(0.742)**</td>
<td>(1.152)</td>
<td>(3.205)</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.06</td>
<td>0.13</td>
<td>0.20</td>
</tr>
<tr>
<td>N</td>
<td>820</td>
<td>840</td>
<td>827</td>
</tr>
</tbody>
</table>

Source: Author estimations based on data from the Egyptian Ministry of Economic Development and the IMF International Financial Statistics.

Notes: * $p < 0.1$. ** $p < 0.05$. *** $p < 0.01$. All regressions include all the variables as in equation (1), plus time dummies. $dinvprivate =$ private investment; $dinv =$ total investment; $dinvpublic =$ public investment.

Is pooled OLS a valid technique? Results so far using pooled OLS have indicated that the revolution has had an average negative effect on sectoral investments, both at the private and public sector levels. But, as explained above, the pooled OLS approach assumes that errors are not correlated across sectors. The SURE technique allows a test of such relationship between the different sectors of the economy, and therefore serves as a test of the validity of pooled OLS in this context.

Using the SURE technique, results indicate that a contemporaneous relationship exists between sectors of the Egyptian economy. Estimations in Table 3 imply that the Breusch and Pagan (1980) test rejects its null hypothesis of independence of the residuals across equations, indicating that there is indeed a contemporaneous relationship (common shocks) across all sectors of the Egyptian economy. These results show that estimations using the SURE technique provide higher efficiency over pooled OLS.

Has the revolution had a homogeneous effect on all sectors of the economy? Results (see estimations in Table 3) show that the null hypothesis of the test of a restriction across the equations is rejected at the 1% significance level, indicating that the coefficients on the revolution dummy are statistically different from each other in the 16 sectors of the Egyptian economy.

Other variables mostly show expected signs. Results from other variables in the regression mostly show the expected sign. Findings (not shown here for space considerations) indicate that lending rates and inflation negatively affect investments in many sectors of the Egyptian economy. Exchange rate changes report mixed effects. Higher money supply is associated with higher investments. Exchange rate volatility is not found to be statistically significant from zero in many cases. Guimaraes and Unteroberdoerster (2006) also report that exchange
rate volatility is not found to have a statistically significant impact on short-run investment growth in Malaysia, especially after the crisis dummy is included. They explain that the lack of evidence of a link between exchange rate volatility and investment in the case of Malaysia may also reflect the declining importance of foreign direct investment, which could be relatively more exposed to exchange rate risk or due to an ambiguous theoretical relationship (see, for example, Nicolas 2004).

Table 3  Estimations of Seemingly Unrelated Regressions for Total, Public, and Private Sectoral Investments

<table>
<thead>
<tr>
<th>Basic Specification</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
<th>(7)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Investments</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Breusch-Pagan test of independence</td>
<td>616.963***</td>
<td>610.890***</td>
<td>620.468***</td>
<td>591.544***</td>
<td>598.329***</td>
<td>601.839***</td>
</tr>
<tr>
<td>Test of cross-equation constraints</td>
<td>33.93***</td>
<td>32.34***</td>
<td>35.06***</td>
<td>30.18**</td>
<td>55.41***</td>
<td>57.91***</td>
</tr>
<tr>
<td><strong>Public Investments</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Breusch-Pagan test of independence</td>
<td>984.619***</td>
<td>989.370***</td>
<td>987.507***</td>
<td>985.744***</td>
<td>953.843***</td>
<td>923.874***</td>
</tr>
<tr>
<td>Test of cross-equation constraints</td>
<td>11.18</td>
<td>8.77</td>
<td>10.75</td>
<td>11.01</td>
<td>11.81</td>
<td>9.20</td>
</tr>
<tr>
<td><strong>Private Investments</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Breusch-Pagan test of independence</td>
<td>296.736***</td>
<td>316.894***</td>
<td>294.496***</td>
<td>301.779***</td>
<td>285.008***</td>
<td>289.971***</td>
</tr>
<tr>
<td>Test of cross-equation constraints</td>
<td>29.78***</td>
<td>26.19***</td>
<td>29.89***</td>
<td>25.22**</td>
<td>34.32***</td>
<td>28.16**</td>
</tr>
</tbody>
</table>

Source: Author estimations based on data from the Egyptian Ministry of Economic Development and the IMF International Financial Statistics.

Notes: *p < 0.1. **p < 0.05. ***p < 0.01.

2.5. Robustness Checks

Results are also robust to including different independent variables. Empirical results are robust to including different definitions of money supply (Column 2 in Table 3), the exchange rate (Column 3), and inflation (Column 4). The SURE modeling technique allows each equation to have a different set of independent variables. For robustness, we also experiment by including the lagged volatilities of exchange rates and inflation (Column 5). Then, we include lagged public investments in the private investment equations to account for possible crowding out effects (Column 6). Again, results from Table 3 indicate that our findings are robust to such specifications.2

Allowing for heteroskedastic errors does not change the results. As a robustness check, we use a bootstrapping technique to allow for heteroskedasticity-robust
standard errors. Results reported in Table 3 (Column 7) reveal that our findings are unchanged and that the basic message holds.

3. Conclusion

This article fills an important gap in the literature on the economic effects of the Arab Spring. By using the Egyptian revolution as a case study, we examine the effect of the revolts since 2011Q1 on sectoral investments, with a special focus on private sector investments. Our findings are twofold. First, using a pooled OLS approach, we show that the revolution has had, on average, a negative effect on sectoral investments in the private sector, while the effect on public sector investments is statistically insignificant. Second, using a seemingly unrelated regression approach, we find evidence of a contemporaneous relationship between the sectors of the Egyptian economy, so we make use of these common shocks across all sectors and estimate the model simultaneously to gain efficiency in our estimations. By doing so, we find that the revolution has had a different impact on different sectors of the economy, especially in investments in the private sector. These empirical results hold under a number of robustness checks.

Author’s Note

The views expressed in this article are those of the author and do not represent those of the IMF or IMF policy.

Acknowledgements

The author would like to thank Hind ElFalaky for excellent research assistance.

Notes

1. It is worth mentioning that throughout the article we only focus on 16 sectors of the Egyptian economy since private sector investments are only available in these 16 sectors, although data for total and public investments for 20 sectors is available from the Egyptian Ministry of Economic Development.
2. Other robustness checks (not included for space considerations) include adding and dropping variables such as global commodity prices and foreign reserves, as well as experimenting with different combinations of the different definitions of money supply, the exchange rate, and inflation.

References

Are We Sure about the Effects of the Egyptian Uprisings?


THE ANARCHY OF GLOBALIZATION
LOCAL AND GLOBAL, INTENDED AND UNINTENDED CONSEQUENCES

Michael Perelman

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Abstract: Globalization is full of contradictions, creating homogeneity alongside differentiation. Classes become more differentiated while products become more homogeneous. Globalization has stimulated growth in China, while it has contributed to dysfunctional financialization, which largely disregards the productive side of the economy. This article emphasizes globalization as a shift in power relations in which corporations require powers that would have been unimaginable a few decades ago, while government power is becoming restricted to the point that globalization is creating a form of unchecked corporate anarchy.

Key words: globalization; class; power; trade; economic development

Introduction

This article was originally prepared for a conference on “The Local Effects of Globalization” at Artvin University in Hopa, Turkey. Its topic plays with a delightful irony because globalization rhetorically suggests a homogeneous world. In fact, globalization is anything but homogeneous; instead, it is riddled with contradictions and ironies. For example, New York Times columnist, Thomas Friedman, who popularized an unrealistic vision of a flat world of shared prosperity once glibly claimed, “No two countries that both had McDonald’s had fought a war against each other since each got its McDonald’s” (Friedman 1999, 195). Later in the same book, Friedman could not help himself with blurting out an equally clever refutation of the same idea:
The hidden hand of the market will never work without a hidden fist. McDonald’s cannot flourish without McDonnell Douglas, the designer of the F 15. And the hidden fist that keeps the world safe for Silicon Valley’s technologies is called the United States Army, Air Force, Navy and Marine Corps. . . . Without America on duty, there will be no America Online. (Friedman 1999, 373)

Further Confusion of Globalization

Some sources suggest that the explosive growth of China has indeed reduced the extent of global inequality, even though China itself has become increasingly unequal.

The literature on imperialistic development offers some valuable studies on the localized effects of globalization at the national level. Andre Gunder Frank’s (1966) analysis of imperialism’s production of underdevelopment on a national level is an excellent early example. More localized analysis looked at the way that extractive industries produced enclaves in which mines or oil fields would produce regions that had little connection with the rest of the country. Historically, foreign traders were often expected to remain within a separate district. Shanghai still has a French district and an English district, although they no longer serve to segregate those nationalities.

Similarly, despite the idea that globalization suggests homogenization, the effects and interpretations of globalization are anything but homogeneous, with the ridiculous imagined shared prosperity. In reality, we find a reinvigorated global process of primitive accumulation in which the affluent world is cruelly dividing much of the more disadvantaged world into populations of expropriators and the expropriated.

Worse still, globalization is facilitating a deeper redistribution of power that will be discussed later.

The differing interpretations of globalism date back to the time of Montesquieu and other philosophic interpreters of the economy, who proposed the idea of what they called “sweet” or “gentle” commerce. The idea was that because merchants would profit from a peaceful environment, the growth of commerce would mean the end of war. History has not been kind to this theory. A century and a half later, Lenin witnessed the buildup to World War I as a result of a surplus of capital and a burst of technological progress, which meant that the capitalist nations engaged in a frantic struggle to acquire new markets and sources of raw materials. Since the supply of new candidates for colonial conquest was limited, those struggles eventually evolved into outright war most famously with World War I, which Lenin analyzed in detail.
Since the time of Lenin, there has been so much babble about globalism that the current understanding of the term has become reminiscent of the common children’s game of thoughtlessly repeating a word innumerable times, then observing how quickly it loses all meaning.

Globalization may be experiencing something similar. This now nebulous word, “globalization,” commonly blends together with the concepts of economic development, imperialism, neoliberalism, and financialization, not to mention the global destruction of the environment.

The modern origins of the expression, “globalization,” makes globalism seem even more fuzzy. In writing his review of John Urry’s book Offshoring, Scott McLemee (2014) searched the online database of academic journals, JSTOR, for the term. He found that the earliest use of the word appeared in an article by a Belgian doctor, H. Callewaert in the September 1947 issue of The Journal of Educational Research, “A Rational Technique of Handwriting,” which criticized the influence of a Belgian educational philosopher, Jean-Ovide Decroly, who proposed that around the ages of 6 and 7, the experiences of play, curiosity, exercise, formal instruction, and so on develop their “motor, sensory, perceptual, affective, intellectual and expressive capacities.” Callewaert’s complaint was that teaching kids to write in block letters at that age meant trusting “globalization” of those early experiences, which would prevent them from developing the motor skills needed for readable cursive.

As a result, the Colorado River goes dry before it reaches Mexico. The glib use of the word globalization has become commonplace, yet globalization remains a confusing subject that rarely seems to have generated the kind of thoroughgoing treatment that it deserves.

Part of the problem is that the nature of globalization is generally framed according to two conflicting ideological perspectives. On the one hand, the anti-globalization side emphasizes the effects of self-interested intentionality, in which major powers want to extend their access to markets or resources. The opposing story of globalization emphasizes a complete absence of intentionality in which people merely respond to presumably efficient, impersonal market forces in a way that supposedly allows the invisible hand to spread shared prosperity throughout the globe.

During the 19th century, the pattern of emergent globalization reflected the power of states to muster strong navies and, to a lesser extent, armies. Over time, the nature of globalization has become more abstract. If the term globalization had been coined at that time, it would have been a shorthand for the crude work of great Imperial powers, which were expanding their national influence at the expense of both conquered territories and rival Imperial states, while promoting domestic corporate interests. While not praiseworthy, it was far simpler and probably less
intellectually dangerous than modern globalization, given that warfare was less common then. In this vein, John Maynard Keynes gave an elaborate reverie of 19th-century globalization, which began

What an extraordinary episode in the economic progress of man that age was which came to an end in August, 1914! . . . The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep. (Keynes 1919, 11)

World War I was, indeed, a war of globalization. Industry’s ability to harness the productive capacity of fossil fuel dramatically escalated in the late 19th century, so much so that domestic markets were no longer able to absorb this new level of productivity. This burst in production took the form of a serious depression accompanied by deflation. Colonial conquest seemed to offer a resolution to the current economic problems, providing new access to both markets and resources. Eventually, this mad scramble for colonial power broke out in the form of World War I. Keynes’ gentlemen seemed to have sensed the way that globalization was going to shuffle production from one location to another, in part because of the exhaustion of the supply of potential colonies. World War I suggested the limits of brute force. The war had many losers, but the United States may have been the only winner. This outcome was not a victory in a conventional sense but an opportunity to pick through the remains of the other great powers. The United States was not so much able to do so because of its overpowering military and industrial power. Instead, the country was able to take advantage of its decision to enter the war after its participants had exhausted themselves. France and Britain found themselves deeply in debt to the United States, allowing that country to be able to call the shots when the war ended. The debt burden of France and England to American bankers allowed the United States to become a center of world finance.

Recently, the United States, for example, fought three disastrous wars in Vietnam, Afghanistan, and Iraq. In all three cases, the United States’ massive military capacity proved incapable of winning anything like a victory. Even the earlier Korean War has yet to be resolved with a peace treaty. The Austrian satirist, Karl Kraus quipped, “War: first, one hopes to win; then one expects the enemy to lose; then, one is satisfied that he too is suffering; in the end, one is surprised that everyone has lost.”

Such wars are the exception rather than the rule. Colonial and neocolonial powers learned to control far off places more effectively by using more subtle means than outright war. Countries such as France and Britain learned during the age of rapid colonial expansion to give ostensible power to compliant figureheads...
from minority groups, while stirring up antagonism between religious or ethnic groups. In this way, these nominal rulers became dependent on the colonial powers to protect them from the majority of their population. The United States chose a different tactic in its sphere of influence, by becoming adept at overthrowing leaders who display too much independence.

These tactics not only weakened governments; they prevented the development of strong institutions that would serve the population. Instead, they created a culture of corruption that made people even more vulnerable. Even earlier, representatives of colonial power would entice people with no official power to sign treaties which gave away their peoples' rights without any compensation whatsoever. Violations of these treaties would be regarded as tantamount to an act of war.

A recent variant of this practice is becoming common. In Africa, states are allowing large financial enterprises and Chinese operations to sign long-term leases on large swaths of land for a few dollars an acre, even though these indigenous farmers are working the land. The American investments are betting that the price of food would rise. The Chinese have a somewhat similar motive, except their objective is their domestic food supply. In this respect, Benjamin Kidd’s 1894 (quoted in Pratt 1932) benign perspective on the future tropical takeover sounds like the product of a present day public relations operation, anticipating the contemporary logic of humanitarian intervention:

[. . .] in the near future the growth of world population would make the development of the tropics essential as a source of food, and that since the natives of tropical countries had shown themselves incapable of organizing such development, it was incumbent upon the more advanced nations to take control. The British and Americans he thought peculiarly adapted to this task, since they, above all others, had developed a sense of social responsibility and could be expected to exploit the tropical lands with a due regard to the welfare of the natives. (Pratt 1932, 239)

Countries, especially the United States, have learned to induce countries to take on debt, which was virtually unpayable. On May 20, 1904, in a letter to Secretary of War Elihu Root, President Theodore Roosevelt made the stakes of these debts explicit with what became known as the Roosevelt Corollary to the Monroe Doctrine (see Maurer 2013, 68). Roosevelt asked Root to read the letter aloud at a dinner banquet celebrating the second anniversary of Cuban independence at the Waldorf Astoria in New York City.

If a nation shows that it knows how to act with reasonable efficiency and decency in social and political matters, if it keeps order and pays its obligations, it need fear no interference from the United States. Chronic wrongdoing, or an impotence which results
in a general loosening of the ties of civilized society, may in America, as elsewhere, ultimately require intervention by some civilized nation, and in the Western Hemisphere the adherence of the United States to the Monroe Doctrine may force the United States, however reluctantly, in flagrant cases of such wrongdoing or impotence, to the exercise of an international police power. (Maurer 2013, 68)

In the words of the famous American folk singer Woody Guthrie, “some people rob you with a six-gun, some with a fountain pen.” Recently, the United States developed the capacity to impose severe damage on other countries through financial sanctions, which prevent governments, businesses, or individuals in nations, which the United States views unfavorably, from engaging in international financial transfers. Besides being extremely effective, such financial sanctions cost almost nothing compared with mobilizing armies and navies.

As globalization became more abstract, Keynes’ gentlemen sipping their morning tea have fallen from the picture. Rich rentiers gave way to financial behemoths. In the process, the nature of state power has radically changed. Over and above the earlier emphasis in some quarters to understand globalization in terms of the efforts to conquer markets and resources, the financial dimensions of globalization have become more pronounced. Finance, of course, was always part of early globalization, when gunboat diplomacy, based on force or threats of force, would be used to enforce what might be called odious debt. For example, one of the worst examples of odious debt came in the early 19th century when France demanded that Haiti compensate the country for its lost property rights in slaves. Payments on that debt still continue, representing a heavy burden on that already impoverished country.

Alongside the enhanced abstract power of a few advanced states, globalization has also diminished state power. For example, international agreements limit what nations, even nations as powerful as the United States, can do within their own borders. Most obviously, rich people and corporations can avoid paying taxes by virtue of globalization.

One of the ironies of globalization concerns the reach of the World Wide Web in which information passes with the speed of light from one corner of the world to another. The technological prowess of the web creates a common impression that globalization makes international prosperity possible and even contributes to the destruction of the gap between rich and poor, almost like Thomas Friedman’s flat world. In reality, globalization does not act in this way. Instead, globalization allows the rich and powerful to enjoy the benefits of secrecy, made possible by layers and layers of subsidiaries in far off places. One might conclude that the major product of such tax havens is secrecy, which they market effectively.
The attraction of the Grand Cayman Islands is magnified by a legal system that prohibits even asking about the ownership of companies registered there.

Even illicit actions enjoy secrecy that prevents anyone from tracing them to their ultimate owner. For example, Enron, which was the darling of investors in the United States because of its high profitability, turned out to be one of the largest bankruptcies in American history. Although the reported profits were public, much of the company’s activities were hidden in offshore locations, which guarantee secrecy. For example, Enron had 692 subsidiaries just in the Grand Cayman Islands, which were crucial for Enron’s fraudulent practices. The Grand Cayman Islands are a favorite of American hedge funds, but they are not unique. Countries around the world compete with each other in order to attract people and corporations that have something to hide. In this dark underworld of international finance, those who can afford it the most can avoid paying taxes. The consequences are profound for the nature of the modern state.

Schumpeter proposed that “the budget is the skeleton of the state stripped of all misleading ideologies” (Schumpeter [1954] 1991, 100). The globalized state, stripped of the taxes from the rich and powerful, shifts the national tax burden onto the backs of ordinary people. In response, governments slash their contributions to programs that support general public needs, including welfare programs, education, and infrastructure. This stripping takes on a more human dimension in which the national tax burden is shifted onto the backs of ordinary people, who lack the means to replace the effects of tax avoidance.

In effect, in dismantling the state, from Schumpeter’s perspective, globalization reveals dismantling of that part of the state that serves the people as a whole. Lacking sufficient taxes, governments slash their contributions to programs that support general public needs, including welfare programs, education, and infrastructure, which takes still more from the less fortunate parts of society.

In the long run, this diminution of domestic state power via globalization ultimately threatens to profoundly weaken great powers domestically in terms of doing anything to significantly benefit society as a whole. This same process is also weakening the already weak powers but in different ways. Here, financialization comes into play again. In the United States, for example, money, which could be used to develop the domestic economy, earns greater profits by unproductive speculation. Moreover, by taking advantage of cheaper labor and commodities, business in the United States is hollowing out the core of the domestic economy. Growing up in Western Pennsylvania, this once great industrial center suddenly became the rust belt once the steel mills began to shut down. In addition, the inability to collect sufficient taxes because of the secrecy and tax loopholes made possible by globalization makes it impossible to support both an enormous military and provide essential infrastructure, including education, necessary for a strong
The United States chose to invest its money in the military. So while the core of the economy shrivels, despite some incredibly high salaries for a select few, real wages have been in decline for many people. College-educated students find themselves reduced to working in Starbucks or fast food outlets. None of this augurs well for the future.

On the other side of globalization, the process is far less abstract. China has seen an explosion of superrich individuals, along with a relatively impressive expansion of the middle class. Nonetheless, an obscene number of people are left behind economically, while often being subject to dangerous levels of pollution. This pollution is dangerously degrading the country’s soil and water. In addition, globalization in China, like in the United States, has led to increases in inequality, which are not conducive to a strong economy.

Some countries, such as Vietnam, are following a Chinese-like path creating a growing population of the superrich by means of a kind of economic development that takes a serious toll on the environment. In the United States, as well, our presumably great step forward has been our recent status of energy independence, but like China and Vietnam, its long-term costs are frightening. Companies are leveling mountains to get access to coal, which destroys waterways while filling them with pollution. With great pride, the United States has developed hydraulic fracturing in order to extract gas and oil. The key to this technology is the injection of toxic materials into the ground, which poisons the water. In many cases, residents are able to burn water coming out of their faucets because the water is so contaminated with methane, which, incidentally, is a far more destructive gas than carbon dioxide.

Unintentional Globalization

As mentioned earlier, globalism is the result of both intentional and unintentional actions. Some unintentional aspects of globalization do far more damage than the immediate effects of selfish, profit-seeking actions. Such effects are generally incidental to the profit-oriented strategies that generally guide globalization. These negative outcomes may begin locally, but eventually they can have global impacts that seriously threaten human welfare. In scouring the world in search of new profit opportunities, globalization mindlessly inflicts incalculable damage to the resources upon which all humanity depends. The scars left on the earth by extractive activity are painfully obvious to anyone willing to pay even modest attention. Other unintentional consequences are less obvious, such as when invisible toxic substances are spread by commercial activity.

To soothe people’s minds regarding these damages from this madcap rush for profits, economists, scientists, and public relations specialists use their skills to...
explain away any damages or risks. Although such ideological efforts mean little for the people who actually experience such consequences, they frequently seem to work in electoral politics. Moreover, these explanations also seem to work fairly well in soothing the consciences of comfortable people in far off places.

Because extractive industries generally rely on very expensive, heavy equipment, such industries offer few good opportunities for local businesses and workers, except for low-wage, low-skilled workers, while enormous profits often accrue to foreign investors. In effect, these extractive industries do not just extract minerals and fossil fuels; they also extract possibilities to develop the capacities of their people and their environment.

Another effect of the intensification of globalization is the spread of infectious diseases and destructive invasive species, which is intensified when international economic activity uproots large numbers of people. These undesirable consequences of globalization will differ in their local effects, depending upon the existing healthcare infrastructure or the fragility of the environment.

Climate change is, of course, the most global and perhaps the most threatening of all of these unintentional consequences of globalization. No part of the world is unaffected by climate change, especially because the environmentally destructive extraction and consumption of fossil fuels takes place in both rich and poor countries, although rich countries have managed to concentrate extractive activities in regions populated by less affluent people, with little political power. The costs of climate change are not spread evenly across the planet. For example, people living on islands or seacoast with little elevation are at risk for rising levels of ocean water, but no part of the world is safe from the long-term consequences of climate change. Given such powerlessness, the climate change deniers have been surprisingly successful in dismissing the threat of climate change; however, the effectiveness of their rearguard activity seems to be diminishing but not nearly fast enough to begin to take serious action to diminish the dangers resulting from climate change.

**What Then Is Globalization?**

The correlation between globalization and widening income inequality has led to a growing concern about the distributional impact of globalization.

Nobody, to my knowledge, has taken on the challenge of calculating the comprehensive worldwide regional effects of globalization within a theoretical context. Numerous barriers prevent such an analysis, beginning with the paucity of regional data. Individual studies do exist. For example, Zhang and Zhang (2003) have done a good job of showing how foreign trade and foreign direct investment have exacerbated regional inequalities in China. Extending such
work to a comprehensive theoretical analysis would probably require decades of serious work, the product of which might resemble Marx’s planned volumes on international trade and world markets, brought up to date to take account of the changes that have occurred in the most recent century and a half. To make the challenge even more daunting, the system changes faster than one person or even a team of researchers could write. Adding more detailed local effects of globalization complicates the analysis even more. I do not have to tell you that, in what follows, I do not pretend to meet the standards that I have just suggested for the subject. Instead, much of this paper will be somewhat anecdotal.

All too often, however, discussions of globalization seem to treat the subject as identical to contemporary capitalism. If globalization only means a marginal development of capitalism, then the concept would degenerate into a catchy phrase without much meaning. If globalization means a significant break, then what would that break be?

To make matters even more complicated, globalization, as it is currently understood, has many obvious dimensions, such as direct foreign investment, finance, trade, and the almost instantaneous access to massive amounts of information, which allows people to manage business taking place thousands of miles away.

Any serious analysis would require taking account of these dimensions of globalization, as well as a deep analysis of even more fundamental questions regarding the internationalization of the processes of production, especially with respect to the relationship between labor and capital, with special attention to what the business press refers to as labor arbitrage, meaning the strategy of seeking out the cheapest sources of labor. Sweatshops pay young women a few pennies for producing brand name clothing that sells at ridiculously exorbitant prices.

Defenders of this process insist that workers appreciate the opportunity for work, but in many cases, such appreciation must be seen in the context of the perverse effects of globalization, which have uprooted their more traditional way of life. The Somali fishermen who have turned to piracy after the destruction of their fishing grounds come to mind.

Globalization also remakes institutional structures to undermine state power relative to corporate power, and to suit the needs of international capital.

Adding other local effects to this mix makes the challenge of defining globalization even more difficult, especially without specifying whether the local changes are national or regional in nature. Globalization also affects local cultures, both in the developed and underdeveloped worlds.

In a sense, one aspect of globalization did create a new branch of analysis. More and more scholars are drawn to the subject of the interlinked nature of the world economy, paying particular attention to the way disruptions in individual national
markets affect other economies throughout the globe, leading to worldwide business cycles, but worldwide business cycles are not new. The international linkages within the world economy are certainly a matter deserving of study, but the question remains whether the subject of these studies is the effect of recent globalization or capitalism in general.

The Summers memo and the economists who support it suggest that the globalization of toxic waste takes place as idealized transactions in which both buyers and sellers find their welfare improving. Such transactions imply that both parties have full knowledge about what the transactions entail, especially with regard to health and safety.

Of course, full knowledge is out of the question. One of the major characteristics of globalization is the degree of secrecy. Companies dump toxic waste, either in complete secrecy or by way of paying bribes to some officials. In either case, economic growth is perhaps the most unlikely outcome imaginable. The unpriced health effects on the people who are affected by the dumping are irrelevant insofar as the transaction is concerned.

Another form of globalization is the outsourcing of torture, where the victims’ pain and suffering produce benefits by extracting dubious information by torture in countries willing to provide such services while shielding the outsourcer from responsibility for such crimes. The export of torture services may infect the social environment by making such inhumane behaviors seem more natural. One might easily imagine how this effect might degrade whatever elements of democracy might have existed.

**Free Trade**

Judging by the official discourse about globalization, one might imagine that we are witnessing a natural evolution of free trade that benefits everybody touched by globalization, as in Thomas Friedman’s vision of the flat world. In truth, much of the pressure to intensify globalization does not necessarily come from market successes but often from disappointment in market outcomes. Dissatisfied that markets were not providing sufficient profits, powerful states adopted a strategy of pressuring their weaker counterparts to join in so-called free trade deals.

In fact, free trade is, at best, a secondary consideration of the trade agreements. For example, tariffs on trade between the United States and Europe are only 3.5 percent. A treaty to eliminate such tariffs would not be of great importance.

In contrast, free trade agreements put enormous emphasis on intellectual property agreements, which are antithetical to trade, in general, because they grant monopoly status, which allows suppliers to set their own price without competition. In this sense, intellectual property is a violation of sacred market
principles, according to which the price of a good should be the cost of producing one more unit, what economists call “marginal costs.” Intellectual property, however, generally costs virtually nothing to reproduce. Because of this violation of free market principles inherent in intellectual property, libertarians including libertarian economists had long opposed patents and copyrights, although less so now that few libertarians are leery of excessive corporate powers. Free trade treaties’ treatment of intellectual property is more accurately described as a transfer of power, rather than a promotion of free trade. Such intellectual property agreements can threaten public health. For example, people in impoverished countries cannot afford the exorbitant costs of pharmaceuticals. Diseases that could be relatively easily contained have more opportunity to spread.

Free trade treaties include investment dispute provisions, adjudicated by a tribunal made up of judges (generally with strong corporate ties). In other words, they have a better understanding of corporate interests rather than a typical body of law.

Under many such treaties, corporations have the right to expect a static regulatory framework. In other words, the tribunals can find new regulations illegal because a corporation could not have predicted them when it first began planning its investment. At the same time, corporations are free to change their corporate policies. There is a surge of cases in which corporations have sued under this provision. Even when a country’s preexisting regulations prohibit the creation or dumping of toxic wastes, the company can take the government before a tribunal of supposedly neutral judges, who inevitably override the state’s laws protecting human health in favor of corporate rights to make more profits. Corporations almost always win such cases. Similarly, tobacco companies have won a series of cases against countries that have laws requiring warnings on cigarette labels. And, yes, a panel of supposedly neutral judges actually permitted the toxic waste dump in question to go ahead.

In effect, this new legal structure elevates the status of an independent government, or perhaps to even a higher status, in that corporations can limit what a government might do, while governments lose significant power to limit corporate actions.

Of course, a real free trade agreement, regarding what most people understand as free trade would be a very simple matter, consisting of a paragraph or two. Instead, such arrangements, supposedly made in the spirit of free trade, are actually thousands of pages of severe restrictions on public policy measures in the weaker countries that are pressured to accept these impositions. But free trade treaties even limit strong countries because political leaders want to free business from regulations. They may do so because it is in their interests rather than those of the people whom they supposedly represent.
For example, signatories of free trade agreements surrender their right to regulate imports of cigarettes or junk food, which might affect the health of their populations. The United States is particularly insistent in demanding that no country can prevent the marketing of genetically modified seeds or the crops that Monsanto and other suppliers want to sell around the world. These so-called free trade agreements also regulate the regulation of virtually everything that an independent government might do. They demand that states adopt regulatory structures regarding intellectual property rights or finance that please the dominant powers.

Such demands should not be surprising because, in the United States, free trade agreements are actually written by corporate interests. The Obama administration is pressuring Congress to vote on the unread agreement without the option to offer any amendments. Meanwhile, domestic business interests are more than happy to see restrictions limiting the state’s power to regulate them. So much for free trade! —unless the meaning of free trade is expanded to include the votes of compliant politicians who serve corporate interests.

Despite the pretense of democracy, congressional representatives have no say in their content. Representatives can only vote to accept or reject the treaties without modification. The final product, which might be celebrated in board rooms across the United States, requires poor countries to abandon all sorts of legal rights, while exposing their economy to market forces that can overwhelm their fragile economies.

Obviously, the proposed Trans-Pacific Partnership was crafted with geopolitical policy and corporate interests rather than trade in mind, by bringing many nations into the United States’ orbit, while excluding China. The hope is that once the treaty is in place, China will want to join, even though the country had no say in the drafting. Should that happen, then the Chinese government would lose most of its control over the economy, opening China even more to American business. In the meantime, corporate interests are busy writing this so-called free trade agreement in so much secrecy that even members of Congress are not permitted to read what is being proposed. Recently, after strong protests both in and out of Congress, the Obama administration finally opened a tiny window, allowing congressional representatives to read a single chapter of the agreement, while forbidding them to make any record of what they have read or even to discuss it with others. The public at large remains completely in the dark, except for a few parts that whistleblowers have leaked. But then again, secrecy is one of the great benefits of globalization.

The agreement has little to do with trade. Instead, it gives wide ranging rights to corporations, while prohibiting states from enforcing regulations of health and safety, finance, the environment, and virtually anything else that might
inconvenience business. Member states that violate this treaty receive severe punishment.

Climate change is, of course, the most global and perhaps the most threatening of all of these unintentional global consequences of globalization. No part of the world is unaffected by climate change, especially because the environmentally destructive extraction and consumption of fossil fuels takes place in both rich and poor countries, although rich countries managed to concentrate extractive activities in regions populated by less affluent people, with little political power. The costs of climate change are not spread evenly across the planet. For example, people living on islands or seacoast with little elevation are at risk for rising levels of ocean water, but no part of the world is safe from the long-term consequences of climate change. Given such powerlessness, the climate change deniers have been surprisingly successful in dismissing the threat of climate change; however, the effectiveness of their rearguard activity seems to be diminishing, but not nearly fast enough to begin to take serious action to diminish dangers threatened by climate change.

Of course, not all states sign on to this defense of inaction. For example, small island states, such as the Maldives, face existential risk from rising oceans submerging their nations. However, when the Maldives attempted to draw world attention to the danger it faced at the international conference on climate change, coincidentally, the government was suddenly overthrown: a different form of anarchy, suggesting that many states still exercise enormous power, but they cannot use that same power when it is not in the interests of even more powerful corporations. However, this kind of globalization has been underway for a long time.

In 1969, Charles Kindleberger presciently observed the rise of corporate power relative to the government within the context of international trade, predicting, “the nation state is just about through as an economic unit” (Kindleberger 1969, 207).

More recently, Wolfgang Reinicke went further, concluding,

Global corporate networks challenge a state’s internal sovereignty by altering the relationship between the private and public sectors. By inducing corporations to fuse national markets, globalization creates an economic geography that subsumes multiple political geographies. A government no longer has a monopoly of the legitimate power over the territory within which corporations operate, as the rising incidence of regulatory and tax arbitrage attests. (Reinicke 1997, 130)

In effect, Reinicke was suggesting that this globalization was trending toward a form of anarchy. If anarchy constitutes the absence of government, this aspect
of globalization might seem to be a move toward a special kind of anarchy which may be called anarchism, but only for the rich and powerful.

In his “Politics as a Vocation,” Max Weber suggested a broader interpretation of this seeming anarchism. After citing Trotsky saying, “Every state is founded on force,” he went on to note, “The state is considered the sole source of the ‘right’ to use violence” (Weber 1918, 78). From Weber’s perspective, globalization is actually empowering the state.

In effect, this new anarchism for the rich and powerful is accompanied by a ramping up of the state powers of repression. As is obvious from recent news reports, information is a key component of these powers.

The same progress in information technologies that created a utopian belief in the possibility of worldwide democracy also facilitated the growth of globalization that made the new asymmetric anarchy possible. It is also being used around the world to rapidly increase authoritarian powers, which now have the capacity to monitor virtually everything that ordinary people do. So, while one part of society enjoys the privacy that this new regime provides, the rest of society has been rapidly losing what little remains of its privacy.

In effect, alongside the global redistribution of wealth and income, globalization also seems to be redistributing people’s rights. So far, I have been unable to detect any effective response to this troubling trend. What then does free trade really mean?

Globalization of Food

Food, of course, has long been an integral part of the world of international politics. As far back as the beginning of historical records, belligerent countries have attempted to shut off food supplies for their enemies as an early exercise in de-globalization. The history of international food politics in the United States makes a fascinating study. With the recovery from the Great Depression, massively increased food demands needed for fighting the Second World War, together with enormous technical advances in food production in the postwar period, left the country saddled with substantial food surpluses. To dump the surpluses abroad, Congress enacted Public Law 480, which allowed countries to purchase food with their own currencies. At first, this policy displayed a humanitarian veneer, which seemed like a win-win policy. Countries could get needed food while the domestic cost of maintaining surpluses would diminish.

By 1957, Senate Hubert Humphrey, later vice president of the United States, let the cat out of the bag. Testifying before Congress about the program, Humphrey gloated,
I have heard . . . that people may become dependent on us for food. I know this is not supposed to be good news. To me that was good news, because before people can do anything they have got to eat. And if you are looking for a way to get people to lean on you and to be dependent on you, in terms of their cooperation with you, it seems to me that food dependence would be terrific. (Humphrey 1957, 557)

Part of the attractiveness of this dependence was the high priority given to efforts to stamp out Communist influence, especially in Asia. Public Law 480 exports increased by roughly 40 percent during the Kennedy administration. George McGovern, then director of the Food for Peace program and a former bomber pilot during the Second World War, believed that food aid was “a far better weapon than a bomber in our competition with the Communists for influence in the developing world” (see Burns 1985, 196). Finally, John F. Kennedy’s advisor and biographer, Arthur Meier Schlesinger crowed,

Food for Peace was the great unseen weapon of Kennedy’s third world policy. McGovern’s imaginative direction of the program received Kennedy’s direct and personal support; and, after McGovern was elected Senator from South Dakota in 1962, the work was carried forward by Richard Reuter of CARE. Shipments under Public Law 480 averaged nearly $1.5 billion annually in the Kennedy years. This assistance not only played a notable humanitarian role in averting mass starvation in India, Egypt, Algeria and other nations; but the use of food as wages carried it beyond a relief program to serve, in effect, as a means of financing development. In addition to its profound impact abroad, the program greatly eased the problems created by American agricultural productivity, reduced surplus storage charges, increased farm income and purchasing power and even, under the stipulation that the food be transported in American ships, helped subsidize the maritime industry. Food for Peace, as Hubert Humphrey once put it, was “a twentieth century form of alchemy.” (Schlesinger 1965, 605)

A Mexican Laboratory

The experience of Mexico provides a striking example of the effect of this perverted form of free trade in food. In the wake of the North American Free Trade Agreement (1986), heavily subsidized American agriculture, equipped with the most modern technology devastated Mexican agriculture, setting off a massive migration out of agriculture and out of Mexico.

Similarly, one can only wonder how much the Mexicans lost when the free trade agreement with the United States left Mexican consumers and farmers more dependent on relatively homogeneous, industrialized corn instead of the wide variety of indigenous corn that had been developed over centuries in Mexico.
Ultimately, the homogeneity of a crop leaves it vulnerable. A 1970 outbreak of corn leaf blight proved that point by ravaging the US corn harvest.

The globalization-driven loss of the heterogeneity of Mexican corn is another example of unintentional globalization. Traditionally, thousands of small Mexican farmers maintained a rich variety of corns, which have been displaced by the flood of imports of a strain of American-grown corn by NAFTA. Because corn is such an important crop around the world, the plant’s loss of genetic diversity creates grave risks. Eventually, some pathogen will evolve a method to take advantage of some genetic weakness of the dominant strain of corn. Traditionally, corn breeders could themselves take advantage of the corn’s reservoir of genetic heterogeneity to find a particular strain capable of fending off the pathogen. The inevitable homogenization of Mexican corn with the disappearance of small growers, who maintained the local strains, will deprive future generations of farmers of traditional methods of defense.

As mentioned earlier, a major priority of the free trade agreements that are currently being negotiated is a restriction on countries’ capacity to regulate the use of genetically modified organisms (GMOs), either by restricting imports or preventing their farmers from planting such crops. Farmers also will be prohibited from replanting the GMO seeds they buy from the United States, something that resonates with Hubert Humphrey’s unpleasant celebration of dependence. Such policies mean that the world will become increasingly dependent on a handful of seed companies, which would displace the previously heterogeneous population of seeds. Such genetic homogenization of crops ultimately poses a threat to the world food supply along with the power to use monopoly powers to increase the cost of food.

While trade agreements limit the rights of nations, such as Mexico, to help their farmers, farmers in California receive highly subsidized water transfers to be able to plant cotton on arid land, which would otherwise be unsuitable for cotton. As a result, the Colorado River no longer reaches Mexico, which badly needs that river’s water. The resulting US cotton harvest has managed to snuff out the demand for a good deal of African cotton production, thereby ensuring, or even increasing, poverty there.

Returning to Mexico for a moment, food offers an interesting window into agricultural globalization. In California, where I live, we can enjoy a wide variety of national cuisines as well as a cornucopia of fruits and vegetables that had been previously virtually unknown to American consumers. At the same time, the United States has successfully introduced unhealthy, fast food to the rest of the world. Hardly an even exchange!

The influx of exotic foods provides a rich diversity, while globalization ultimately threatens to contribute to a more uniform pattern of corporate cuisines.
One might expect a similar effect with the general globalization of culture. One can easily imagine how the contemporary fashion for world music, in which people partake of the exotic sounds and rhythms of other countries, will eventually give rise to a commercialized homogeneity that might extinguish the diversity of the cultures that contributed to world music.

While globalization initially tends to add to the variety of diets in the more affluent parts of the world, a less noted affect is a tendency toward food homogeneity across the globe. Homogeneity poses a threat that diets might lack sufficient amounts of important nutrients.

The desire for more exotic foods can create destructive pressures in their places of origin. For example, the sudden fashion in the United States for the Bolivian grain, quinoa, had created a demand for the grain that cannot be met by the traditional method of production. In response, Bolivians have resorted to practices that are harming the local environment where the crop had been previously harvested sustainably.

Finally, globalization creates certain kinds of ugly cultural distortions, such as in the case of sex tourism and human trafficking of often young and vulnerable children.

**Recovering the Lost Promise of Globalization**

The optimistic view of globalization is right in a sense. New techniques of transportation and communication should facilitate a world in which the entire population could be cooperating in the creation of the good society. Of course, nothing of the kind is taking place. Instead, the destructive anarchy of globalization reinforces the divides between countries, classes, and cultures.

In contrast, a cooperative globalization could conceivably put an end to the unchecked power and authority exercised by both governments and corporate powers. To do so obviously requires long and hard work of organization in the face of harsh opposition. Even so, one can still hope that something of the kind will occur.

**Random Thoughts**

Nonetheless, according to standard laissez-faire ideology, globalization should open up possibilities in which capital movements would bring investment into less developed economies, thereby promoting greater prosperity and even possibly in the long run allowing such countries to catch up with the prosperous capitalist leaders.

The story is almost attractive enough to be compelling. Although many outside investments have had negative consequences, it is not hard to find examples where
the opening to outside investment has had some positive results; however, it is difficult to honestly make the more general case that laissez-faire ideology has been proven correct. Even during prosperous times, one must remember that in a market economy, prosperity is not continuous. Periodically, markets stumble and even crash. During such hard times, less powerful states are less equipped to address extreme economic events. Under such conditions, the International Monetary Fund (IMF), together with more successful predatory states, can swoop in and enjoy fire sale prices for valuable assets in the poor states.

Globalization does not affect all parts of the economy in a uniform way. For example, globalization tends to favor cities with coastal ports. In addition, a large literature on the growth of inequality within advanced economies pays close attention to the stark differences in conditions between rich and poor parts of town, where the poor experience inferior access to housing, education, and even groceries.

A century and a half ago, Engels’ The Condition of the Working Class in England paid close attention to the way that Manchester intentionally created separate worlds for workers and their masters. Then in 1899, Lenin’s The Development of Capitalism in Russia went into much more detail by describing the complex process of class differentiation taking place in the Russian countryside at the time. Of course, Both Lenin and Engels were concerned with the subject of capitalism rather than globalization.

Perhaps the most difficult aspect of defining globalization is pinpointing its origin. Even though the word is only a couple of decades old, long distance trade dates back to prehistoric times, when people moved across substantial distances to procure materials, such as salt or obsidian, that were otherwise unavailable. How do we classify this emergent globalization? Such trade was an essential element in the process of human development. Long distance trade in general created encounters that spread knowledge. It is no accident that improvements in shipbuilding expanded the population of merchant traders at the same time as Europe experienced the Enlightenment.

Generally, in speaking of globalization, its strong proponents assume away the role of inequalities of power. Doing so obscures the tight relationship between financialization and imperialism. Such concerns bring us back to the question of the beginnings of globalization. Can we be sure that coercion was totally absent from transactions of the prehistoric obsidian traders? How do the workings of the Roman Empire differ from contemporary globalization?

Turkey should play a key role in any historical discussion of globalization. As one of the earliest sites of urbanization, Turkey must have been a pioneer in trading, if not globalization.
Technological change continually reshapes the pathways of globalization. For example, Asian goods no longer had to travel overland across Turkey to the Mediterranean Sea once shipbuilding and navigation had developed to the point that European mariners could reach Asia.

The effects of globalization are unpredictable. Turning to Turkey again, the Ottoman Empire certainly was a major colonial power. The fact that residue of its destruction is now the scene of some of the most vicious human rights abuses in the world suggests that elements of globalization have the potential to create a modicum of instability. At the same time, the European capture of Africa seems to have obliterated many of the necessary components of rational development. The Europeans might respond that things became worse after they left, but that stability was one that depended upon brutal oppression, hardly a legacy deserving of any pride. Getting back to the subject at hand, if globalization is such an elusive concept, how in the world are we to identify local regularities?

Then again, the same processes that fuel globalization (as well as globalization itself) have made great strides in eviscerating localism. We increasingly find similar movies, music, fast food, and fashion around the world. The flow is not entirely from the advanced capitalist countries to the poor parts of the world; their culture also exercises an increasing influence on the rest of the world. Should we celebrate or decry such homogenization?

What about the role of technology in the evolution of globalization? Here, many of the effects are obvious. Horses and wagons gave way to systems of canals where a few animals could pull barges with heavy loads. By the 19th century, observers spoke with awe about the way that railroads were able to annihilate the limits of time and space. Shipping evolved at a similar pace. Perhaps the telegraph, which one commentator described as the Victorian Internet, was the most amazing innovation. Once undersea cables were in place, signals could move around the world almost instantaneously. Yes, speed of data entry was limited, and the cables could only carry one message at a time. Despite the limited bandwidth, the telegraph represented a greater jump in the speed of communication than the move from the telegraph to the Internet.

Similarly, a ship or a railroad could carry far more passengers or cargo more rapidly than any earlier modes of transportation. Indeed, the world was dramatically shrinking.

Not only can messages, freight, and passengers easily be sent quickly around the world; death can also move rapidly. Right now a young man in Nevada may put his finger on a computer key, sending a drone to destroy a child in Afghanistan, Pakistan, Yemen, or Somalia. This technology is so capable of terrorizing anyone anywhere that some of the operators suffer psychological conditions similar to...
those of soldiers on the battlefield. In short, we are ready to turn to power as an element of globalization.

Prehistoric long distance traders in obsidian must have been engaged in peaceful trade in materials such as salt and obsidian. Because there would be too few of them to represent a threat of violence and the trades presumably benefited both sides, we might presume that such trade was peaceable, much as neoclassical economics imagines all trade to consist of voluntary transactions between two parties, both of whom expect to profit from the exchange.

Looking over the course of history, one can be relatively confident in assuming that exchanges between equals were the exception rather than the rule. Taking as the starting point, the end of the 30 Year’s War in 1648, with the peace in Westphalia, theory and practice in terms of trade dramatically diverged. Soon afterward, the English conquest of Ireland seemed to mark the beginning of modern imperialism. At the same time, not long afterward, the idea took hold that the growth of commerce insured peace. Because both parties profited from trade, neither would have any interest in harming the other. Bookish intellectuals wrote about what they called “doux commerce” or “gentle commerce.”

Despite the centuries of violence that followed, the idea of gentle commerce never completely disappeared. Military force is only one element of the power mix that lies behind globalization. Nobody has yet cataloged the destruction created by the World Bank and the IMF. Asymmetric information is another facet of power. Early colonists went through Africa signing treaties with African leaders, giving concessions without knowledge of what the Africans were actually conceding. More recently, banks have lured governments, both national and local, into purchasing financial assets without any knowledge of what they were buying. Less sophisticated banks around the world have made similar mistakes. The results have often been disastrous, and the costs have been borne by governments.

When governments, again, both local and national, face financial stringency, they tend to make deals with international agents to raise funds. All too often, these deals have terrible local consequences. One common practice is to supply land to the international interest, even though the government has no title to this land. More often than not, people who farm the land have to make way for the new mines or factories. Even worse, the land may be intended as a repository for toxic waste.

Under such conditions, we see connections between local conditions and globalization, which may not be obvious at first glance. What happens is that globalization creates pressures that force national states to disempower local authorities or individual property owners. The connection becomes even more obscured when these deals are also lubricated by graft paid to the decision makers.

Also, we must not forget to include finance in the mix.
One window in which the relationship between globalism and local effects is clear is when a vulnerable nation is cursed with valuable resources. Economists sometimes even refer to resource curses. Oil is one such resource. Powerful nations go to great lengths to maintain control over oil deposits to the detriment of the people who inhabit the territory under which the oil sits. These powers can deploy several tactics, ranging from outright colonial control, which has fallen out of favor, to more sophisticated manipulation. One favored practice is to put a minority group in power. The ruling groups are free to squander a disproportionate share of the wealth that flows from the oil, while the vast majority bristle about their inferior status. This antagonism makes the wealthy minority dependent on their powerful sponsors to protect their status with military power or other more surreptitious means against the majority, which does not enjoy such privileges. A select few will get special commercial privileges. They may get wealthy, but they are really clients who do the bidding of their foreign masters.

Racial and cultural differences seem to play a role in making the powerful nations feel entitled to this kind of manipulation. For example, Norway, by no means a powerful nation, has been able to use its oil wealth largely in the public interest.

In addition, the existence of a comprador class can upset social balance. Finally, just as the early imperialists arranged to put the government in the hands of minorities, who would rely on the protection of their global masters, powerful nations still shuffle political leadership to their advantage. This latter effect seems to be a continuation of earlier imperial practices rather than something new brought on by globalization.

Notes

2. See the Official Woody Guthrie website, https://www.woodyguthrie.org/Lyrics/Pretty_Boy_Floyd.htm.

References


EVALUATION AND COMPARATIVE ANALYSIS OF GLOBAL ENVIRONMENTAL COMPETITIVENESS

Maoxing Huang and Shoufu Lin

Abstract: This article firstly puts forward a definition of global environmental competitiveness (GEC) and explains its connotations and component elements in detail. GEC has five parts, that is, ecological environmental competitiveness (EEC), resource environmental competitiveness (REC), environmental bearing competitiveness (EBC), environmental management competitiveness (EMC), and environmental coordination competitiveness (ECC). Based on the GEC Evaluation Indicator System and mathematical model, we carried out overall evaluation and regional analysis on the 2012 GEC of 133 countries. The environmental competitiveness of these countries displayed four characteristics and four rules. Finally, we propose some basic approaches and policy suggestions to enhance GEC.

Key words: global environmental competitiveness; overall evaluation; comparative analysis

1. Connotations and Component Elements of Global Environmental Competitiveness (GEC)

1.1. Connotations of GEC

Since the 1990s, the concept of environmental competitiveness has been frequently used and has become a high priority. However, but as discussion of the concept was done from different angles, there has been no unified definition of the term (Li et al. 2011a; Li et al. 2012).
GEC is a whole new way of evaluating competitiveness in the context of increasing contradictions between economic development and environmental protection. It centers on competitiveness supported by the natural environment and takes technology innovation as the main instrument; market mechanisms and government regulation as the means; bearing capacity/_coordinating capacity/ executive capacity/influencing capacity/contributing capacity as the evaluation basis; capacity/response/feedback/adjustment/optimization as the main line; intensifying environmental development and utilization, reducing environmental damage, maintaining global ecological equilibrium and realizing global sustainable development as objectives; and has the ecological environment, resource environment, environmental bearing capacity, environmental management, and environmental coordination as its contents. It reflects the environmental competitive capacity of different countries of the world in a comprehensive and systematic way. Compared with traditional competitiveness concepts, GEC places more emphasis on the environment as the basic element of human production and living; it places stress on the coordinated development of both human beings and the environment and focuses on the existing and potential impact of the environment (Li et al. 2013).

The GEC is a huge comprehensive system involving the economy, society, and the environment. It can be divided into five aspects, as shown in Figure 1.

(1) Bearing capacity. This reflects the capacity of a nation or region’s ecological and resource environment to bear sustainable regional development. Environments with different sizes, structures, and functions will show varying bearing capacities, but environmental bearing capacity is never unalterable.

(2) Coordinating capacity. This reflects the capacity of a nation or region’s ecological and resource environment to coordinate with regional production and living activities. It can be adjusted and optimized by means of lifestyle transformation, readjustment of industrial structure, and emission controls.

(3) Executive capacity. This reflects the executive capacity of all levels of government of a nation or region to manage the ecological and resource environment so as to realize environmental optimization. It focuses on innovation in technology, systems, and mechanisms and on combining price and non-price instruments.

(4) Influencing capacity. This reflects the capacity of a nation or region’s ecological and resource environment to influence neighboring regions and the capacity of human activity, especially major construction projects, to influence the internal regional environment. Such capacity varies with the improvement of environmental management and management patterns and with the influencing capacity of surrounding areas.
(5) Contributing capacity. This reflects the capacity of a nation or region’s existing, improved and degraded environment to make a contribution to sustainable regional development. The quality of the environment, efficiency of environmental management, and implementation of major projects will directly influence the contributing capacity of the environment. Conversely, contributing capacity influences the bearing capacity of regional ecological and resource environments and the coordinating capacity of humans and the environment.

In summary, GEC has the following characteristics: (1) It considers both existing environmental competitiveness and the potential impact of environmental changes; (2) it mainly investigates the natural environment, but its contents have areas that overlap with the ecological environment and the hard environment; (3) it also investigates the impact on all nations in and outside the region of environmental quality improvement carried out under the aegis of environmental protection; and (4) it considers the multi-layer superimposed effects of the implementation of environmental protection in the current state of the global environment.

1.2. Component Elements of GEC

The five components of GEC are: ecological environmental competitiveness (EEC), resource environmental competitiveness (REC), environmental bearing competitiveness (EBC), environmental management competitiveness (EMC), and environmental coordination competitiveness (ECC).

Figure 1 Connotations of GEC
EEC is the basic element of GEC. Ecological environment is the main component that attracts inhabitants and capital input and also an important factor that influences environmental competitiveness in the long term. ECC should reflect not only the contributing capacity of ecological environment for human activity but also the utilization intensity and level of ecological environment by humans; it also reflects the degree of emphasis put by humans on ecological environment; it is the assessment basis of GEC.

REC is the fundamental condition of GEC. Resource environment includes water environment, land environment, atmosphere environment, forest environment, mineral product environment, and energy environment; it is the existing element of GEC and provides necessary support for human production and living. REC is an internal element of GEC and the necessary guarantee to form GEC; it comprehensively reflects environmental capacity to bear human production.

EBC is an important element in assessing the strength of GEC. Environmental bearing capacity involves industrial and agricultural production, energy consumption, and climate change; it reflects the capacity of a nation or region’s ecological and resource environment to bear sustainable regional development and also the influence of human activity on the natural environment, or the environment’s response and restorative capacity with regard to the outcomes of human activity; it is an important indicator for assessing the strength of environmental competitiveness.

EMC is a powerful support to GEC. Government and the public are the key players in environmental management, which coordinates the supervisory relationship between socioeconomic development and environmental protection through various administrative instruments and economic and legal means. EMC covers the two aspects of resource utilization and environmental safety, used to show the governance outcomes of utilization efficiency and environmental pollution, respectively. EMC comprehensively reflects executive capacity for environmental governance; it is an important step in enhancing GEC.

ECC is an important reference for the assessment of GEC. Population, the economy, society, and coordinated environmental development are the important criteria for judging the superiority or inferiority of environmental competitiveness and also an important way of realizing the objective of sustainable development. It is an external factor that influences GEC and is also an important safeguard for the formation of GEC.

The formation of GEC is a complex dynamic process. EEC and REC reflect environmental bearing capacity and contributing capacity through capacity/response; they are the foundation and guarantee of the management, bearing and coordinating competitiveness of the environment. Without the ecological and resource environment, human production and survival would have no support,
and utilization and protection of the environment would not exist. Various administrative and economic policies, systems, and mechanisms protect and govern the ecological and resource environments. Their processes and outcomes receive feedback from EMC and EBC and keep continuous readjustment and improvement on the basis of their performance. The ultimate objective of improving environmental quality is promotion of the harmonious unity of humankind and the environment, and realization of the sustainable development of both; this is the essential contents reflected in ECC and the key locus of environmental optimization (see Figure 2). Therefore, EEC, REC, EBC, EMC and ECC are never mutually independent units; instead, they are an interactive unity focused on the main thread of capacity/response/feedback/adjustment/optimization. An appropriate degree of enhancement and collaboration of these five elements can drive the overall enhancement of GEC.

![Figure 2: GEC Elements and Their Internal Relationships](image)

**2. Overall Evaluation of GEC**

**2.1. GEC Evaluation Results**

This article completes the evaluation and analysis of the 2012 GEC of 133 countries based on the GEC Evaluation Indicator System and mathematical model. Due to limited space, the 2012 country environmental competitiveness rankings and scores are shown in Figure 3. Figure 3 shows the environmental competitiveness scores of the six continents and the top three countries in each continent.
Figure 3  Environmental Competitiveness Scores of the Six Continents and the Top Three Countries in Each Continent

Listed in order, the countries whose GEC ranked 1st–10th in 2012 were Switzerland, Germany, Norway, New Zealand, Brazil, Japan, Costa Rica, Austria, United Kingdom, and France; those ranked 11th–20th were Ecuador, Venezuela, Slovakia, Sweden, Bolivia, Honduras, Guatemala, Canada, Gabon, and Colombia; those ranked 21st–30th were Australia, Nicaragua, Panama, Chile, Belgium, the United States, Slovenia, Finland, the Philippines, and Denmark; and the bottom 10 countries were Kuwait, Yemen, Rep., Libya, Uzbekistan, Kazakhstan, Mauritania, Mali, Iraq, Lesotho, and Niger.

The highest GEC score was 58.7 points, the lowest was 32.3 points, and the average score was 49.6 points; this indicates that overall environmental competitiveness in countries worldwide is yet to be improved, as there is not a single country that scored above 60 points. In addition, 67 countries scored higher than the average score, accounting for 50.38% of total countries.

The distribution of country GEC scores shows a ladder pattern. Here, 18 countries scored above 55 points; 47 countries scored 50–55 points; 49 countries scored 45–50 points; 13 countries scored 40–45 points; 5 countries scored 35–40 points; 1 country scored 30–35 points; and no country scored below 30 points. It is clear that most countries scored above 45 points and only a few obtained scores lower than 45 points. Furthermore, the standard deviation of the GEC scores was as low as 4.8, which means the difference in different countries’ environmental
competitiveness was not large. In particular, the difference between countries with close rankings was very slight.

The countries with higher scores were mainly developed countries; 17 developed countries were among the top 30 rankings, accounting for 56.7%, and 8 developed countries were among the top 10 rankings, accounting for 80.0%. The countries with lower scores were mostly developing countries, mainly because of the long-standing gap in socioeconomic development foundation, environmental protection inputs, environmental management, and environmental technology between developed and developing countries.

As a whole, the difference among all the countries was not large, but the scores of the bottom 10 countries lagged far behind those of the others. This was especially so for Niger, which ranked last with a score of 32.3, 26.4 points below the highest score and even 17.3 points below the average score. Among developed countries, the highest score, of 58.7, went to Switzerland, in 1st place; the lowest score, of 44.3, went to Qatar, ranking 118th. Among developing countries, the highest score, of 57.5, went to Brazil, ranking 5th, and the lowest score, of 32.3, went to Niger, ranking 133rd.

The standard deviation of EEC was 9.3; this indicator shows the largest difference between countries and is the key factor leading to the differences in their environmental competitiveness. In addition, the standard deviation values of EMC and ECC reached 9.1 and 8.9, respectively; they are also important causes of differences in competitiveness. The standard deviation values of REC and EBC are relatively low. The EBC standard deviation is the lowest, at 5.3, which means that EBC has the least influence on the differences in environmental competitiveness among countries. Basically, there is not a great difference in countries’ overall environmental competitiveness; the major cause of differences in competitiveness is seen in EEC, EMC, and ECC. Of course, REC and EBC also exert a certain influence, but to a lesser degree. Therefore, countries with weak environmental competitiveness need to especially strengthen the efforts in EEC, EMC, and ECC, so as to narrow the gap between them and other countries and to significantly enhance their environmental competitiveness.

2.2. GEC Echelon Scores

Table 1 lists the average scores of the five echelons (first echelon: countries ranking 1st–10th; second echelon: countries ranking 11th–30th; third echelon: countries ranking 31st–60th; fourth echelon: countries ranking 61st–100th; fifth echelon: countries ranking 101st–133rd) of GEC in 2012.

As shown in Table 1, the average environmental competitiveness scores of the first, second, and third echelons are close with little difference, presenting a ratio of 1.11:1.05:1. The difference between the fourth and fifth echelons and the
previous three echelons is larger: the score of the first echelon is 1.33 times that of the fifth echelon, a difference of 14.1 points.

The average REC score of each echelon shows a great difference, with a ratio of 1.83:1.91:1.67:1.34:1.

The average EEC score of each echelon also shows a great difference, with a ratio of 1.50:1.33:1.22:1.08:1.

The difference in average EBC scores between the echelons is slight, with a ratio of 1.11:1.07:1.06:1.03:1.

The average EMC score of each echelon shows a great difference, with a ratio of 1.48:1.38:1.30:1.22:1.

The difference in average ECC scores between the echelons is slight, with a ratio of 1.23:1.21:1.18:1.14:1.

Moreover, except for REC, the scores for environmental competitiveness and the other four sub-indexes diminish from the first to the fifth echelon. The REC score of each echelon is the lowest, with the highest score being only 23.4 points. The difference in the EEC score of the first and fifth echelons is the most marked, while the EBC scores of all echelons show the least difference.

Table 1  Average Environmental Competitiveness Score of Each Echelon

<table>
<thead>
<tr>
<th>Average Score</th>
<th>Environmental Competitiveness</th>
<th>REC</th>
<th>EEC</th>
<th>EBC</th>
<th>EMC</th>
<th>ECC</th>
</tr>
</thead>
<tbody>
<tr>
<td>First echelon</td>
<td>57.4</td>
<td>22.5</td>
<td>63.4</td>
<td>71.4</td>
<td>59.3</td>
<td>70.6</td>
</tr>
<tr>
<td>Second echelon</td>
<td>54.6</td>
<td>23.4</td>
<td>56.4</td>
<td>68.8</td>
<td>55.0</td>
<td>69.5</td>
</tr>
<tr>
<td>Third echelon</td>
<td>51.9</td>
<td>20.5</td>
<td>51.5</td>
<td>68.0</td>
<td>52.1</td>
<td>67.7</td>
</tr>
<tr>
<td>Fourth echelon</td>
<td>48.7</td>
<td>16.4</td>
<td>45.7</td>
<td>66.4</td>
<td>48.8</td>
<td>65.8</td>
</tr>
<tr>
<td>Fifth echelon</td>
<td>43.3</td>
<td>12.2</td>
<td>42.3</td>
<td>64.3</td>
<td>40.0</td>
<td>57.6</td>
</tr>
</tbody>
</table>

3. Regional Evaluation and Analysis of GEC

Table 2 lists the average GEC and sub-index scores of the 133 countries covered by this study by continent (excluding Antarctica, which has no countries).

The 2012 GEC scores of the six continents show that Oceania obtained the highest GEC score, at 56.3 points; the scores of Europe, South America, and North America were also high, all above 50 points; and the lowest scorer was Africa, at 46.7 points. As a whole, the gap between the GEC of the six continents was narrow, with scores in a ratio of 1.02:1.12:1.20:1.13:1.14.

Within Asia, the GEC scores of East Asia and Southeast Asia were relatively high, at 50.8 points and 50.6 points, respectively; next was South Asia, with 48.0 points; and Central Asia scored the lowest, with only 42.1 points.
Within Europe, the highest GEC score went to Northern Europe, at 55.0 points, which was also the second highest score of all regions in the six continents; the scores of Central Europe and Western Europe were also high, above 50 points; and the score of Eastern Europe was the lowest, at 49.0 points.

Within Africa, the scores of all regions showed no big difference; all were below 50 points. Central Africa’s score was the highest, at 49.1 points; next was East Africa, at 47.0 points; and West Africa’s score was the lowest.

The sub-index scores of the six continents for 2012 show that Oceania had the highest REC, EEC, and EMC scores, but its EBC and ECC scores both ranked only second from the bottom. Africa’s REC, EMC, and ECC scores were all the lowest among the six continents, and its EEC score ranked second from the bottom.

With respect to REC, the scores of all the continents showed narrow relatively slight differences, with Oceania scoring the highest and Asia and Africa scoring lower. Within Asia, only Southeast Asia and South Asia scored more than 20 points,
with all other regions scoring below 20. The scores of all the African regions were below 20. Among all regions, Central Asia’s score was the lowest, at 10.5 points; this was only 37.4% of the highest score, Oceania’s.

With respect to EEC, the gap between the six continents was wider; Oceania obtained the highest score of 66.6 points, while Asia scored the lowest, leaving a wide gap between Asia and the other five continents. Within Asia, each region scored below 50 points, with South Asia scoring the lowest, at 35.8 points. Within Europe, regional scores showed a big difference, with a gap of 14.4 points between the highest and the lowest. Scores for Africa did not show much difference, with a gap of 9.0 points between the highest and the lowest scores.

With respect to EBC, all six continents scored relatively high; all were above 60 points, with little difference. Western Europe scored the highest, at 71.6 points, followed by Northern Europe, scoring 71.0 points. Eastern Europe’s score was the lowest, but still reached 62.3 points. The scores of the Asian regions were the lowest among the six continents, with South Asia having the highest score and Southeast Asia the lowest within Asia. Africa’s score was moderate, with the average score of the different regions being about 68 points; East Africa and Central Africa scored the highest, at 68.8 points, and South Africa, with the lowest score, still reached 66.9 points.

With respect to EMC, the scores of the six continents showed no great difference, with Oceania having the highest score and Europe following. Asia and Africa scored lower than 50 points, especially within Africa; only Central Africa scored above 50 points, and the lowest score was no more than 36.4 points. In Asia, all regions obtained low scores; except for East Asia, the other four Asian regions all scored below 50 points. The European regions’ scores were all above 50 points; Central Europe had the highest EMC score, of 55.9 points, which was also the second highest score among all the regions of the six continents.

With respect to ECC, the scores of the six continents were all relatively high with substantial differences. South America had highest score, of 72.8 points, followed by North America and Europe, but the scores of Africa and Oceania were lower. The Asian scores showed big differences, with Southeast Asia having the highest score, at 70.7, and Central Asia having the lowest score, at 56.8. The latter score was also the lowest of all the regions of the six continents.

4. Present Status and Trends in China’s Environmental Competitiveness

In order to further understand the characteristics and physical circumstances of environmental competitiveness in Asian countries, we selected China, Japan, and India as representative Asian countries for analysis. Table 3 lists the rankings
of the indicators of different levels in the three countries. Taking into account their efforts to enhance their environmental competitiveness, we summarize the findings as follows: China’s environmental competitiveness remains steady and continues to progress, with marked achievements in environmental protection and effective improvement in ecological environmental quality.

Table 3  Distribution and Comparison of GEC Rankings of Major Asian Countries, 2012

<table>
<thead>
<tr>
<th>Country</th>
<th>Indicator</th>
<th>Number</th>
<th>1st–10th</th>
<th>11th–30th</th>
<th>31st–60th</th>
<th>61st–100th</th>
<th>101st–133rd</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>Sub-indicator</td>
<td>5</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Pillar</td>
<td>16</td>
<td>2</td>
<td>1</td>
<td>4</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Individual indicator</td>
<td>60</td>
<td>3</td>
<td>1</td>
<td>13</td>
<td>26</td>
<td>17</td>
</tr>
<tr>
<td>Japan</td>
<td>Sub-indicator</td>
<td>5</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Pillar</td>
<td>16</td>
<td>4</td>
<td>3</td>
<td>4</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Individual indicator</td>
<td>60</td>
<td>9</td>
<td>13</td>
<td>8</td>
<td>12</td>
<td>17</td>
</tr>
<tr>
<td>India</td>
<td>Sub-indicator</td>
<td>5</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Pillar</td>
<td>16</td>
<td>0</td>
<td>1</td>
<td>5</td>
<td>6</td>
<td>4</td>
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<tr>
<td></td>
<td>Individual indicator</td>
<td>60</td>
<td>4</td>
<td>4</td>
<td>14</td>
<td>22</td>
<td>15</td>
</tr>
</tbody>
</table>

In 2012, China’s environmental competitiveness ranked 87th in the world, falling into the lower-middle part of the list. Of the indicators ranking higher than 60th, 1 was a sub-index, accounting for 20% of the total number of indicators; this indicator ranked in the top 10. Seven were pillars, accounting for 43.75% of the total number of indicators, of which 2 were in the top 10; and 17 were individual indicators, accounting for 28.33% of the total number of indicators, of which 3 were among the top 10. Among the indicators ranking below 60th, 80% were sub-indicators, 56.25% were pillars, and 71.67% were individual indicators; these directly influenced the global ranking of China’s environmental competitiveness (Li 2012).

With the start of the new century, especially after the 16th National Congress of the Communist Party of China (CPC), the CPC Central Committee led by Secretary General Hu Jintao adhered to guiding social and economic development with the scientific outlook on development and the fundamental national policy of resource conservation and environmental protection, thoroughly implemented the strategy of sustainable development, and put forward the initial key proposal and strategic mission of constructing ecological civilization. This has provided a solid theoretical basis, far-reaching goal, and driving force for the Chinese to realize the harmonious development of humanity and nature, the environment and the economy, and humanity and society, advancing socialism in the Chinese

The World Association for Political Economy (WAPE)  
Homepage: www.wapeweb.com  Email: wapemember@vip.163.com
context into a new space. Particularly during the 11th Five-Year Plan period, total environmental protection input reached RMB 2.1 trillion, the installed capacity of thermal power units over 300 MW as a proportion of total capacity increased from 47% to 71%, and the proportion of blast furnaces over 1,000 m³ capacity in the steel industry increased from 21% to 52%. In the future, there will be more energy conservation and emission reduction projects to accelerate the restructuring of a clean and efficient industrial system and promote green development. Prevention and control measures for water and air pollution are also key areas of work for improving people’s living and production environments, enabling both economic development and environmental protection to achieve a win-win result.

(1) REC and EEC occupy an upper-middle position, with higher competitiveness rankings. In the 2012 GEC rankings, China’s EMC ranked sixth, ahead of many other countries, but its REC and EEC ranked 89th and 87th, respectively, and were in the lower-middle part of the list. China is a developing country; it ranks relatively high on these three indicators because, in addition to its resource environment advantages (e.g., its growing stock in forest and other wooded land, which ranked the 5th place), the Chinese government attaches great importance to and actively promotes coordinated and sustainable scientific development under a human-centered approach, with government departments and all regions carefully implementing the strategic deployment of ecological environment protection and the construction of a “two oriented society” (i.e., a resource-saving and environmentally friendly society) and increasing the environmental protection (e.g., China ranked 5th in area of plantation and afforestation). These efforts have provided a better balance for China’s socioeconomic development and resource environment, built up the capacity to realize sustainable development, and improved the quality of the ecological environment. These policies and measures will continue to strengthen China’s EEC.

(2) China’s ranking for various per capita indicators is lower, which constrains the acceleration of its overall competitiveness rank. It is true that the Chinese government has taken many effective steps in areas like environmental protection input, closing backward production facilities and combating climate change, but population accounting and the urban/rural imbalance and imbalance in regional and socioeconomic development present many more difficulties. Thus, many of China’s per capita indicators ranked below 80th in the world, lowering the global ranking of the country’s overall environmental competitiveness. Faced with this situation and these problems, the Chinese government has paid even greater attention to environmental protection in recent years and has been aggressively exploring new ways of achieving sustainable environmental protection with lower costs, higher benefits, and lower emissions. Not only does environmental protection input increase year by year, but strict policies have also been adopted, such as...
project environmental assessments, imposing necessary regional restrictions and closing backward production facilities. These measures can substantially promote green development. Execution of such measures will further enhance the competitiveness of China’s per capita-type indicators.

(3) The ranking of various indicators related to resource and energy consumption and air quality are low, requiring strengthened environmental management and utilization. In recent years, the Chinese government has placed much emphasis on strengthening energy conservation and increasing energy efficiency. According to the statistics, China’s energy consumption elasticity coefficient dropped from 1.04 in the 10th Five-Year Plan period down to 0.59 in the 11th Five-Year Plan period, saving 630 million tons of standard coal equivalents (Han 2014). The 12th Five-Year Plan for Energy Conservation and Emission Reduction released by the State Council in 2012 clearly points out that “By 2015, energy consumption per 10,000 RMB of GDP should drop to 0.869 ton of SCE, a decrease of 16% compared with the 1.034 ton of SCE of 2010” (Central People’s Government of the People’s Republic of China 2012). At present, China’s energy utilization efficiency is generally on the low side, and indicators such as power consumption, gross energy consumption, and energy consumption per unit GDP all rank below 100th globally. At the same time, due to excessive energy consumption, quite a few air quality indicators, such as sulfur dioxide and nitrogen oxide emissions, also rank low; this requires that the Chinese government strengthens the binding force of energy conservation and emission reduction goals, further integrates climate change resilience into its economic and social development plans, and continues to take strict measures to strengthen and accelerate the transformation of economic development mode, so as to enhance China’s capacity for sustainable development. Effective use of resources and great efforts to strengthen environmental management on the part of government will be an important guarantee for China’s enhancement of competitiveness in environment load-bearing, management, and coordination.

5. Main Features of GEC

The results of the evaluation of GEC comprehensively represent the developmental level and competitive strength of the countries concerned on the five dimensions of the resource environment, ecological environment, environmental load-bearing, and environmental management and coordination. Of course, all countries’ environmental competitiveness shows certain characteristics and rules: both the general rules universally existing in each country and the special rules determined by different national conditions.
Environmental competitiveness is the overall reflection and combined result of the economic, social, and natural environment, reflecting countries’ capacity for and level of sustainable development.

As the overall representation and combined result of economic, social, and natural environment, GEC reflects countries’ capacity for and level of sustainable development in an all-around way. This feature is evident in the setting up of the indicator system and also in the variations in the results of the evaluation of environmental competitiveness.

From the evaluation and comparative analysis of all countries’ environmental competitiveness, we can observe that the developed countries perform well on environmental competitiveness overall while the majority of developing countries perform poorly; there is a large difference between the developed and the developing world. Their performance on the sub-indexes shows that the majority of the countries that score higher on the sub-indicators (other than EEC) are developing countries; the developed countries are only at the intermediate level. Compared with the developed countries, many developing countries are “handicapped.” Their performance on the sub-indexes is mostly not balanced, so that the developed countries still rank higher than the developing countries on overall environmental competitiveness. For example, as shown in Table 4, Morocco ranks 95th on environmental competitiveness: in both EBC and ECC, it ranks ahead, at 13th and 33rd, respectively, but it ranks behind in REC, EEC, and EMC, at 119th, 102nd and 97th, respectively, which drags down its overall ranking on environmental competitiveness. As a further example, Bangladesh ranks 99th on environmental competitiveness: on REC, EBC, and ECC, it ranks ahead, at 4th, 74th, and 41st, respectively, but its EEC and EMC rank low, at 132nd and 119th, respectively, dragging down its overall environmental competitiveness. Other developing countries, such as Guinea, Oman, and so forth, are similar: they have one or two sub-indexes that rank very low and drag down their overall environmental competitiveness. Conversely, the developed countries have balanced sub-indexes. For instance, Norway ranks 3rd on environmental competitiveness: except for REC, its sub-indexes do not rank particularly high, coming about 20th, but it has no serious lagging indicator, and so it enjoys very high environmental competitiveness overall. As a further example, Finland, ranking 28th on environmental competitiveness, also does not have any sub-index ranking particularly high or low, with EEC (32nd) the highest and ECC (85th) the lowest. All its sub-indexes are balanced, so Finland ranks relatively high on environmental competitiveness (as shown in Table 3).

During their subsequent development process, countries should focus on all the aspects of environmental competitiveness, advancing in a comprehensive and coordinated way. In particular, priority should be given to effective measures for...
improving and enhancing lagging indicators, to ensure an advantageous position in environmental competitiveness.

Table 4  Rankings of Representative Developing Countries and Developed Countries on Environmental Competitiveness and Sub-Indexes

<table>
<thead>
<tr>
<th>Country</th>
<th>Environmental Competitiveness</th>
<th>REC</th>
<th>EEC</th>
<th>EBC</th>
<th>EMC</th>
<th>ECC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Morocco</td>
<td>95</td>
<td>119</td>
<td>102</td>
<td>13</td>
<td>97</td>
<td>33</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>99</td>
<td>4</td>
<td>132</td>
<td>74</td>
<td>119</td>
<td>41</td>
</tr>
<tr>
<td>Guinea</td>
<td>100</td>
<td>62</td>
<td>122</td>
<td>3</td>
<td>96</td>
<td>112</td>
</tr>
<tr>
<td>Oman</td>
<td>109</td>
<td>128</td>
<td>59</td>
<td>49</td>
<td>91</td>
<td>107</td>
</tr>
<tr>
<td>Norway</td>
<td>3</td>
<td>6</td>
<td>25</td>
<td>21</td>
<td>23</td>
<td>15</td>
</tr>
<tr>
<td>Finland</td>
<td>28</td>
<td>43</td>
<td>32</td>
<td>46</td>
<td>35</td>
<td>85</td>
</tr>
</tbody>
</table>

(2) EBC contributes the most to the overall score of environmental competitiveness. Countries differ slightly in their scores on REC and EBC but differ greatly in their scores on EEC, ECC, and EMC.

Figure 4 depicts the contribution rates of the GEC sub-indexes to the primary indicator (i.e., environmental competitiveness). According to this figure, EBC contributes the most to environmental competitiveness, at the rate of 27.0%; ECC also contributes a lot, reaching 26.2%; EEC and EMC both contribute 19.8%; and REC contributes the least, at only 7.2%. Therefore, in the course of enhancing environmental competitiveness, countries should focus specially on EBC and ECC, while not ignoring REC, EEC, and EMC.

![Figure 4 Contribution Rates of Sub-Index Scores of GEC](image-url)
From the analysis above, we can observe that EEC, ECC, and EMC have standard deviations of 9.3, 9.1, and 8.9, respectively. They are the main factors causing the differences in environmental competitiveness among countries. REC and EBC have a relatively low standard deviation, 6.8 and 5.3, respectively. Of the two, EBC has the lowest standard deviation and exerts the least influence on the differences in environmental competitiveness among countries. It also means these differences are mainly represented in EEC, ECC, and EMC, with little difference in EBC.

Furthermore, this can also explain why the REC scores of developed countries are lower than those of most developing countries but their overall environmental competitiveness scores remain higher. This is because although many developed countries’ REC scores rank lower by a wide margin than those of developing countries, the contribution rate of REC to environmental competitiveness is not very high because differences among countries’ REC scores are slight and there is not a very marked gap between them, so that the overall environmental competitiveness of developed countries is influenced only very slightly by REC. Besides, the developed countries score higher on the other four sub-indexes, better than most developing countries, so the environmental competitiveness of developed countries ends up higher than that of most developing countries.

(3) Developing and developed countries differ greatly. Emerging market countries have much room for improvement.

Table 5 compares the average scores and contribution rates of developed countries, developing countries, and emerging market countries on environmental competitiveness and the sub-indexes. It should be noted that United Nations Development Program (UNDP) modified the groups of countries in its “Human Development Report 2010,” issued on November 4, 2010, taking the number of developed countries or regions up to 44 (UNDP 2010). On this basis, of the 133 countries covered in this article, 34 are developed countries and 99 are developing countries. Furthermore, the 10 non-developed countries of the G20 are recognized as emerging market countries. They comprise Brazil, Indonesia, Mexico, Russia, Saudi Arabia, Argentina, Turkey, China, India, and South Africa.

It can be observed from Table 4 that developing and developed countries differ greatly: the developed countries score 53.0 points on environmental competitiveness, 4.5 points higher than the developing countries and 3.3 points higher than the emerging market countries. The developing countries score lower than the developed countries on all sub-indexes, and there are very large differences on EEC and EMC, respectively, 12.2 points and 7.1 points. Emerging market countries score slightly higher than developing countries on overall environmental competitiveness, with a difference of 1.2 points, but there is a big gap between them and the developed countries, with the difference of 3.3 points. Emerging
market countries score very low on EEC, even lower than developing countries, and 12.9 points lower than developed countries. This drags down their overall environmental competitiveness score.

Table 5  Average Scores and Contribution Rates of Different Categories of Country on Environmental Competitiveness and their Sub-Indexes

<table>
<thead>
<tr>
<th>Country</th>
<th>Environmental Competitiveness</th>
<th>REC</th>
<th>EEC</th>
<th>EBC</th>
<th>EMC</th>
<th>ECC</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Score</td>
<td>Contribu-</td>
<td>Score</td>
<td>Contribu-</td>
<td>Score</td>
<td>Contribu-</td>
</tr>
<tr>
<td></td>
<td>Contribution Rate</td>
<td>tion Rate</td>
<td>Contribution Rate</td>
<td></td>
<td>Contribution Rate</td>
<td></td>
</tr>
<tr>
<td>Developed countries</td>
<td>53.0</td>
<td>100.00%</td>
<td>17.9</td>
<td>6.74%</td>
<td>58.1</td>
<td>21.95%</td>
</tr>
<tr>
<td>Developing countries</td>
<td>48.5</td>
<td>100.00%</td>
<td>17.8</td>
<td>7.35%</td>
<td>46.0</td>
<td>18.97%</td>
</tr>
<tr>
<td>Emerging market</td>
<td>49.7</td>
<td>100.00%</td>
<td>18.0</td>
<td>7.23%</td>
<td>45.2</td>
<td>18.19%</td>
</tr>
</tbody>
</table>

According to the contribution rates of sub-indexes to environmental competitiveness, in developed countries, REC has the lowest contribution rate to environmental competitiveness, at just 6.74%. The contribution rates of the other sub-indexes are higher than 20%. Therefore, even though the contribution rate of REC is close to that of the developing countries and slightly lower than that of emerging market countries, it has no great influence on environmental competitiveness. Shortfalls in REC can be easily made up by superiority in the other four sub-indexes; thus, developed countries’ overall environmental competitiveness score is still higher than that of the developing countries and emerging market countries.

Furthermore, according to the country distribution of each echelon in environmental competitiveness (shown in Table 6), among the 34 developed countries, 8 fall into the first echelon, accounting for 80%, but among the 99 developing countries, only 2 fall into the first echelon, a great difference. The number of developed countries in the second echelon is lower by two countries than the number of developing countries. Quite a number of developing countries fall into the third to fifth echelons, 86 in all, accounting for 86.87 of the total; while among the 34 developed countries, only 17 are placed in the third to fifth echelons, accounting for only 50.0% of the total. In the fifth echelon, only 2 are developed countries, while up to 31 are developing countries; the latter account for 93.94% of the total in the fifth echelon. The emerging market countries do not perform as well in environmental competitiveness as they do economically. Only 1 of them
is placed in the first echelon and the rest are all in the third to fifth echelons. Of these, 6 countries are placed in the fourth echelon, accounting for 60% of the total.

All of the above points indicate that the developed countries perform well in environmental competitiveness, scoring high and ranking toward the top. Most developing countries score low and rank toward the bottom in environmental competitiveness. Emerging market countries also need to further enhance their environmental competitiveness.

Table 6  Number and Ratio of Countries in Each Echelon of Environmental Competitiveness

<table>
<thead>
<tr>
<th>Country Item</th>
<th>First Echelon</th>
<th>Second Echelon</th>
<th>Third Echelon</th>
<th>Fourth Echelon</th>
<th>Fifth Echelon</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developed countries</td>
<td>8</td>
<td>9</td>
<td>8</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>Number</td>
<td>23.53%</td>
<td>26.47%</td>
<td>23.53%</td>
<td>20.59%</td>
<td>5.88%</td>
</tr>
<tr>
<td>Developing countries</td>
<td>2</td>
<td>11</td>
<td>22</td>
<td>33</td>
<td>31</td>
</tr>
<tr>
<td>Number</td>
<td>2.02%</td>
<td>11.11%</td>
<td>22.22%</td>
<td>33.33%</td>
<td>31.31%</td>
</tr>
<tr>
<td>Emerging market countries</td>
<td>1</td>
<td>0</td>
<td>2</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>Number</td>
<td>10.00%</td>
<td>0.00%</td>
<td>20.00%</td>
<td>60.00%</td>
<td>10.00%</td>
</tr>
</tbody>
</table>

(4) Scores on environmental competitiveness differ slightly among the regions but rankings differ greatly: the countries of Oceania, Europe, South America, and North America rank ahead, while Asian and African countries rank behind. Table 7 lists the average GEC scores of the 133 countries covered in this article by continent as well as the numbers and ratios of the countries in the first and second echelons in 2012. In 2012, Oceania scored the highest in environmental competitiveness, reaching 56.3 points; South America, North America, and Europe also score rather high, reaching 53.5, 53.0, and 52.3, respectively; and Asia and Africa score the lowest, at 47.5 and 46.7 points, respectively. The score ratio of the 6 continents is 1.02:1:1.2:1:1.2:1.14, with little difference.

The differences in the scores among the continents are slight, but the ranking differences are rather great. In terms of number, Europe has the most countries in the first echelon, six in all; other continents have one country each in the first echelon, except for Africa.

Europe still has the most countries in the first and the second echelons, 12 in all, far higher than the other continents; North America and South America come next, with 7 and 6 countries, respectively; both Asia and Oceania have 2 countries; and Africa has only 1. In percentage terms, Oceania has the highest percentage of the countries in the first echelon as a proportion of total countries, at 50%, followed by Europe, South America, North America, and Asia. Africa has none. Further analysis shows that Oceania reaches 100% in terms of the countries in the first and
second echelons as a percentage of total countries, followed by South America, North America, and Europe. Asia and Africa both have low ratios, of 5.13% and 3.03%, respectively.

Therefore, in terms of both number and ratio, Oceania, South America, North America, and Europe are strong on GEC, holding the front places in the rankings with a wide gap separating them from the other continents. In view of the special nature of Oceania (containing only the 2 countries of New Zealand and Australia), it is normal that it should score high and rank at the top. South America and North America are also very strong on environmental competitiveness, with more than half of the countries in each placed in the first and second echelons. Among the 36 countries of Europe covered in the evaluation, 30% place in the first and second echelons, indicating Europe’s strong environmental competitiveness. Asia and Africa are weak in environmental competitiveness; although 39 and 33 countries, respectively, are covered in the evaluation, Asia has only 1 country falling into the first echelon and Africa has not even one. In the second echelon, both have only 1 country, with ratios of 5.13% and 3.03%, respectively. Therefore, Asian and African countries need to further enhance their environmental competitiveness.

Table 7  Average Scores of the Six Continents in Environmental Competitiveness and Numbers and Ratios of the Countries Placed in the First, Second, and Third Echelons

<table>
<thead>
<tr>
<th>Region</th>
<th>Environmental Competitiveness</th>
<th>First Echelon</th>
<th>Second Echelon</th>
<th>Third Echelon</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Average Score</td>
<td>Number</td>
<td>%</td>
<td>Number</td>
</tr>
<tr>
<td>Asia (39 countries)</td>
<td>47.5</td>
<td>1</td>
<td>2.56%</td>
<td>1</td>
</tr>
<tr>
<td>Europe (36 countries)</td>
<td>52.3</td>
<td>6</td>
<td>16.67%</td>
<td>6</td>
</tr>
<tr>
<td>Africa (33 countries)</td>
<td>46.7</td>
<td>0</td>
<td>0.00%</td>
<td>1</td>
</tr>
<tr>
<td>Oceania (2 countries)</td>
<td>56.3</td>
<td>1</td>
<td>50.00%</td>
<td>1</td>
</tr>
<tr>
<td>North America (13 countries)</td>
<td>53.0</td>
<td>1</td>
<td>7.69%</td>
<td>6</td>
</tr>
<tr>
<td>South America (10 countries)</td>
<td>53.5</td>
<td>1</td>
<td>10.00%</td>
<td>5</td>
</tr>
</tbody>
</table>

6. Basic Approaches and Policy Proposals for Enhancing GEC

6.1. Basic Approaches to Enhancing GEC

Combining our dynamic evaluation results and the pressures confronting the global environment at present, we put forward a basic framework of approaches to enhancing GEC. We highlight “one basis, three great motive forces, five systems,
and six paths,” forming the four levels of the basis, the motive force, the system, and the path (see Figure 5). This framework aims to achieve the enhancement of GEC through the coordination and cooperation of all levels, thus driving the worldwide elimination of resource energy constraints, the sharing of the fruits of new energy and environmental protection, and achievement of the overall progress of human society.

6.1.1. Global Environmental Cooperation Is the Basis of Enhancement of GEC

The influence of the environment is not limited by regional and national boundaries; it is a classic example of externalities. Due to the spread of and inability to control environmental destruction and pollution, environmental pollution or environmental safety events occurring in one country or region tend to endanger the countries and regions around and even cause worldwide environmental disaster (Zhao and Pan 2012). Therefore, to enhance GEC, we need to strengthen global cooperation, organize and establish global environmental cooperation and coordination agencies, and build relevant coordination mechanisms focused on coordinating global environmental interests (Wu and Ma 2011; Wu and Wang 2011). The developed countries should moderate their strong stance and compromise by accepting responsibility for their industrialization; at the same time, they should keep their promises of funding and technology and strengthen their environmental assistance to developing countries. The regions (continents) should gather round common environmental objectives to eliminate their differences and develop bilateral and multilateral cooperation. Based on common global interests, global dialogue and negotiation should be strengthened and translated into concerted action as soon as possible, in order to cope with and address global environmental problems jointly and promote the coordinated improvement of GEC (Huang 2013).

6.1.2. Transformation, Innovation, and the Green Revolution Are the Motive Forces Driving the Improvement of GEC

Transformation involves transforming the economic development pattern, breaking through the constraints of traditional development modes, readjusting industry and consumption structures, and exploring the engines for a new round of economic growth. Thus, developing strategic emerging industries such as new energy and building new industrial and consumption models are the main direction for global economic transformation and an important guarantee for countries’ improvement of their international position. Innovation includes technological innovation and system innovation. The former can provide technological support to develop new energy and clean energy and cope with climate change, can ensure the reindustrialization of developed countries and the reconstruction of the real economy, and can ensure that the successful progress of new industrializa-
Figure 5  Basic Framework of Approaches to Enhancing GEC

- **Basis Layer**
  - Global environmental interest coordination
  - Global Environmental Cooperation
  - Global environmental-coordination agencies and mechanisms
  - Compromise and responsibility among regions (continents)
  - Environmental assistance of developed countries to developing countries and under-developed countries

- **Motive Layer**
  - Innovation
  - Green Revolution
  - Transition
  - Technological innovation
  - System innovation
  - Green industry
  - Green life
  - Development pattern
  - Competition pattern

- **System Layer**
  - Composition system
  - Resource environment
  - Ecological environment
  - Environment carrying
  - Environment management
  - Environment coordination

- **Path Layer**
  - Path to
  - Guarantee by organizations
  - Strengthen global cooperation
  - Develop green economy
  - Cope with climate change
  - Promote science and technology innovation
  - Develop new energy

Enhance GEC

- Share new energy and environmental protection fruits
- Overall progress of man and society
tion in developing countries is not at the expense of the environment. System innovation means constructing mutual constraints among countries and regions by establishing global environmental protection systems and mechanisms to ensure countries’ unified action. The development of the green revolution around the green economy has become a new trend in the green transformation of the global economy. The green revolution in production requires the development of green agriculture, green manufacturing industry, and green service industries and the construction of a green industrial system. In consumption, the green revolution stands for green consumption patterns and equitable green employment to give new impetus to GEC through the dynamics of transformation, innovation, and green revolution (Huang 2013).

6.1.3. The Key Strategy for Enhancing GEC Is to Enhance the Five Sub-Indexes Jointly

The GEC indicator system constructed in this article decomposes GEC into five aspects: REC, EEC, EBC, EMC, and ECC. The five systems are not isolated, but influence and constrain one another. They have to be integrated into an overall system to enhance environmental competitiveness premised on a concerted general objective, undertaking overall planning while giving due attention to concrete implementation processes. Of course, due to regionally and environmentally based differences, countries and regions are not uniform in terms of the composition of their environmental systems. They need to give full play to the driving force of their superior indicators to overcome the adverse influence of weak indicators and at the same time conduct in-depth analysis of the indicator system level by level to find the key link that impedes the improvement of their environmental competitiveness and make joint efforts to enhance GEC.

6.1.4. A Global Horizon and Dynamic Vision Are the Means of Seeking a Path to Enhance GEC

Environmental problems are global problems. To solve them, we need to aim at common global interests and develop concerted actions worldwide. What’s more, the environmental problem is not only a present day problem but also an inter-generational one. We need to focus on long-term sustainable development as well as on the resolution of current problems to do better in achieving inter-generational equity. The growth of environmental problems is a process of long-term accumulation; their resolution and the improvement of environmental competitiveness also require a long-term process. Furthermore, as new environmental problems keep emerging, these problems become much more complex; we need to keep shifting our thinking and changing our innovation modes (Li et al. 2012). Thus, we need to seek pathways to enhance GEC through a dynamic vision in
combination with the present important and urgent task of global environmental protection revolving around the ultimate goal of global sharing and the overall progress of man and society. Pathways to enhancing GEC include strengthening organizational guarantees, strengthening global cooperation, developing the green economy, responding to climate change, promoting science and technology innovation, developing new energy and clean energy, and so on.

6.2. Policy Proposals to Enhance GEC

6.2.1. Vigorously Develop the Green Economy and Advance New Approaches to Sustainable Development

To develop the green economy, the idea of developing the green economy needs to run through all areas of economic and social development and all links in the chain of industrial development. In terms of resource utilization and environmental protection, this requires replacing material resources with intelligence resources to a greater extent and on a larger scale, enhancing the efficiency of resource utilization, reducing pollutant emissions, and holding resource consumption below the threshold of resource renewal and pollution emissions below the threshold of natural purification. To solve environmental pollution, we need to change from "end point management" to the safe production level of "total clean processing" (Miao et al. 2006). We need to try to separate economic growth from resource consumption, environmental pollution, and ecological damage and to realize the coordination of economic development with resource utilization and environmental protection. All countries need to actively advance the global new energy revolution; vigorously develop renewable energy sources; promote the application of new energies such as nuclear power, solar power, wind power, tidal power, biological power, oceanic power, and geothermal power; reduce the consumption of fossil energy; accelerate economic restructuring and industry structure optimization; develop "lighter" industries and green industries with a high knowledge content, less environmental pollution, less resource consumption, and strong agglomeration and radiation capacity; direct resource integration and allocation toward green industry and construct a modern green economic and industrial system; increase green investment, improve the investment and financing channels of green finance, and strengthen credit aid to new energy enterprises; give full play to the driving force of government investment; develop the green economy by attracting venture capital investment, angel investment, stock equity funds, and so forth, with a green credit policy and provide funding guarantees for the development of the green economy; promote the idea of green consumption; encourage green consumption through measures including government procurement and green product subsidies; guide consumers to purchase energy-saving and green products;
facilitate the formation of sustainable green consumption modes worldwide; and realize the virtuous interaction of green production and green consumption. All countries also need to accelerate the formulation of strategic plans for green economic development; clarify the objectives, task, and key areas of green economic development; comprehensively coordinate the relevant national policies and the actions of interest entities; accelerate the establishment of a green system of national accounts reflecting the values of ecological capital and environmental capital; give full play to the function of market mechanisms, laws and regulations, science and technology innovation and system innovation in guaranteeing and promoting green economic development; and lay the foundation for facilitating global sustainable development and realizing the “green transformation” of the traditional “brown economy.”

6.2.2. Take the Initiative in Dealing with Global Climate Change and Promote the Healthy Development of the Low-Carbon Economy

Climate change has become a global focus point, and there is a worldwide consensus on responding to climate change and implementing low-carbon development (Huang 2010). All countries and regions need to further improve their policies on industry, public finance and taxation, finance, technology, and consumption to deal with climate change; emphasize controlling greenhouse gas emissions and mitigating climate change using the policy tools of regulations and standards, taxation, convertible permits, voluntary agreements, subsidies, and incentives, and so forth; establish a greenhouse gas emissions trading system and guide voluntary trading activities involving emission reduction; establish complete low-carbon product standards, labels, and certification systems and build a database of low-carbon certification; improve government agencies’ procurement of low-carbon products and promote coordination and interaction between low-carbon production and consumption systems. In basic research and technological research responding to climate change, we need to emphasize basic theoretical research such as global environment monitoring, climate change assessment, and the forecasting of future global climate change trends; intensify the organization and coordination of scientific and technological work responding to climate change; strengthen the construction of science and technology support systems for responding to climate change and establish research subjects and R&D funding dedicated to climate change; advance R&D in key low-carbon technologies; build and improve statistical and auditing systems and an evaluation and examination system for greenhouse gas emissions; strengthen statistical and survey work on energy activities, industrial production, agriculture, and forestry related to greenhouse gas emissions; provide accurate and timely information on
greenhouse gas emission monitoring, statistics, and auditing; establish a target responsibility system and an assessment and examination system for controlling greenhouse gas emissions; and enhance consciousness and proactive initiatives for responding to climate change.

6.2.3. Enhance Capacity for Science and Technology Innovation and Support Coordinated Development Servicing the Environment and the Economy

To enhance capacity for science and technology innovation, official/industry/academic/research cooperation among governments, universities, research institutions, and enterprises needs to be strengthened further to improve the construction of a science and technology innovation system (Li et al. 2011b). Countries must accelerate the building and strengthening of innovative alliances; strengthen connections among the innovation systems of different countries and regions; promote the free flow, sharing, and complementarity of innovation resources; concentrate superior resources to deal with major problems and key areas related to climate change, energy conservation and emission reduction, energy security, resource utilization efficiency, and pollution control; develop technologies for energy conservation and emission reduction, low-carbon technologies, resource recycling technology, and clean, high efficiency technology; reduce the proportion of non-renewable resources like coal in the energy structure; develop new energies, renewable energies, and new alternative energies and enhance the utilization efficiency of resources and energy in practical ways; strengthen R&D and industrial advances in environmentally friendly technologies; reduce the utilization of natural resources and waste discharge; develop various green production technologies and waste-to-resource technologies to provide sound technological support for the development of the green economy and the realization of sustainable development; develop scientific and technology innovation; optimize and upgrade industry structures; substitute knowledge resources and innovation resources for environmental and material resources and realize the knowledge transformation and ecological transformation of economic activities; and realize the transition of resource-intensive enterprises to technology-intensive and environmental protection enterprises to promote the sustainable development of the global economy (Xiao 2012).

6.2.4. Strengthen International Cooperation and Form a Robust Joint Force for Global Environmental Improvement

Protecting the environment is a universal, shared responsibility and task. Both developed and developing countries need to strengthen environmental cooperation on the basis of their own national conditions while adhering to the principle of
“common but differentiated responsibilities” (Yu 2012). The developed countries must undertake greater responsibilities and obligations to compensate for the climate “debt” they incurred due to their over-consumption of natural resources and massive emissions of greenhouse gases during the process of industrialization. They also need to provide funding and technical aid to the developing countries to help them develop a green, low-carbon economy and to enhance their ability and enthusiasm for dealing with environmental problems and help them participate better in international environmental cooperation. On the issue of the environment’s relationship to trade, intellectual property rights protection, and environmental technology transfer, the developed countries need to respect the developmental demands and rights of developing countries; they should not erect barriers to the economic development and trade of developing countries or use “green economy” and “green standards” to disguise their trade protectionism as environmental protection. They should also refrain from placing obstacles in the way of technology transfer to developing countries under the banner of protecting intellectual property rights. As for the developing countries, at the primary stage of their transformation into a green economy, they need to accelerate the formation and implementation of a sustainable development strategy applicable to their basic conditions to obtain adequate support from developed countries and lay the foundation for further global environmental cooperation.

6.2.5. Reinforce Organizational Safeguards and Establish an Effective Framework for Global Environmental Improvement

The key to global environmental improvement lies in constructing an effective global improvement framework to direct and coordinate the practical activities of different countries and regions in enhancing environmental protection and promoting sustainable development. So far international mechanisms have not solved the problem of the worldwide deterioration of the environment; therefore, international organizations and mechanisms for international environmental protection need to be further developed.

First, we need to give full play to the core leadership and organizational and coordination function of the United Nations (UN) and lead the relevant agencies and multilateral and treaty mechanisms of the international community to take concerted action for sustainable development, and to the positive role of the relevant UN agencies in the resolution of various environmental problems and in the field of sustainable development, such as the United Nations Economic and Social Council (ECOSOC), the United Nations Commission on Sustainable Development (CSD), the United Nations Conference on Trade and Development (UNCTAD), the United Nations Educational, Scientific and Cultural Organization
(UNESCO), the World Health Organization (WHO) and the World Meteorological Organization (WMO), in promoting and implementing related international documents such as Agenda 21 and the Plan of Implementation of the World Summit on Sustainable Development.

Second, we need to further strengthen the function of the United Nations Environment Program (UNEP) and give full play to its important role in global environment improvement. The UNEP should be defined as a dedicated global environment improvement institution and should be granted new functions and tasks, with stronger funding guarantees, a wider membership base, and greater power to support environmental science research and coordinate a global environmental strategy. This would raise the status and importance of sustainable development mechanisms in the UN system.

Third, we need to facilitate the reform of CSD and further promote international environmental cooperation. According to the proposal raised at CSD Rio+20, a high-level political forum is planned to replace CSD and oversee the execution of environmental protection in different countries and regions. Furthermore, international financial institutions, the World Trade Organization, and multilateral development banks need to incorporate sustainable development in their planning and projects and coordinate with the relevant UN agencies to combine environmental protection and economic development in a more organic fashion.

Finally, we should leverage the role of non-governmental organizations in global environment improvement. We should give full play to the powerful role of non-governmental organizations such as the International Union for Conservation of Nature (IUCN), the World Wildlife Fund (WWF), and Greenpeace in environmental management and oversight and in participating in environmental protection and improvement, popularizing environmental protection education and enhancing awareness of environmental protection, and promoting public expression and communication between the public and government, so that they can make a positive contribution to environmental protection and sustainable development.

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References


FOURIER AND AGRICULTURE

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Abstract: Charles Fourier has been disdainfully ignored by social scientists. Some of his ideas were “mad,” but so many others were brilliant. Now we can see that even some “mad” ideas were simply premature, for example, global warming. His works are a “whole earth catalog” of solutions to today’s most intractable problems, such as agricultural labor in a democracy, environmental degradation, consumerism, loneliness, the decline of the family, the gradual disappearance of nutritious meals (and shared mealtimes), eldercare, boredom at work, unemployment, and the fragmentation of communities by “identity” politics. In 19th-century United States, Fourierist and Owenite communitarian models for settling the country were taken very seriously by intellectuals, and more than 100 communities existed. In 1909, the US Commission on Country Life found persistent problems in our largely isolated farming system: the “idiocy of rural life” and environmental degradation. Yet despite reforms, the agricultural sector today offers few options other than self-exploitation family farms, chemicalized agribusiness, brutalized migrant labor, or those questionable imports. Furthermore, labor-saving devices have not eliminated the time and thought required to obtain and prepare nutritious meals; even the affluent often resort to junk food. Fourier’s solutions illuminate our rural dysfunctions and also suggest some not-so-fantastic ideas for remediating the situation.

Key words: Charles Fourier; agricultural labor; socialism; family

1. Introduction

In the early 20th century, political and revolutionary Marxism had become “hegemonic” over other socialist theories. Perhaps now the others can re-emerge. The strange and brilliant Charles Fourier certainly deserves more exposure. We need not institute every detail of his schemes, and we can note some serious
omissions. His wilder fantasies need not be taken literally; they indicate the dysfunctions and miseries that a socialist society must remedy. “Socialism” originally referred to concern with the entire range of society’s injustices, including capitalism. However, the early socialists did not assume that the economic base was the source of all other unhappiness.

Nevertheless, Fourier provided practical policy ideas for his time and for the world as it is now, for developing as well as developed nations, and for an increasingly feminist world where boundaries of personal and political are shifting. His ideas are especially relevant to an era in which hard work is disdained and perpetual play desired, when the lust for luxurious consumption defies environmental sustainability at the same time that it leaves people “never content, constantly gnawed by desires despite being surrounded by opulence” (Fourier 1996, 279).

Fourier was an impassioned geographer and an observant demographer. He contemplates the promises and pitfalls of globalization. He has novel suggestions for the gap left by the “normal” family’s erosion and for the increasing proportion of older people. Here I will focus on an ancient problem with its own modern complications: how can a democratic society produce food (and other agricultural products) without enslavement, exploitation, or destruction of the earth? Fourier was literally concerned about “How can we keep them down on the farm after they’ve seen Paree?” He deemed agricultural laborers, in Europe and elsewhere, a reserve of “indigent . . . wretches” (Fourier 1996, 274). The family farm was no solution, as its individualistic approach was wearisome, wasteful, and inefficient. Besides, Fourier regarded the family as an institution deservedly on the way out. Finally, even in his day, agribusiness was imposing a new feudalism on farmers:

> [M]onopolists . . . could reduce all those below them to commercial vassalage, and achieve control over the whole of production by their combined intrigues. The small landowner would then be forced indirectly to dispose of his harvest in a way that met with the monopolists’ agreement; he would in fact have become an agricultural agent of the commercial coalition. The final result of this would be the renaissance of an inverse feudalism, founded on mercantile leagues rather than leagues of nobles. (Fourier 1996, 264)

A related, important matter: how can meals be served up nutritious, delicious, and elegant, without servants or wife-servants? Feeding people is a complicated art and science, and there are few full-time housewives or househusbands with the time, energy, and knowledge to perform this most vital task for humanity. Of course, today, there are even more challenges, because of long-distance, chemicalized, commercial food production. Fourier gives this need its due; one might say that gastronomy has the central place in his utopia.

Let us take a brief look at Fourierism.
2. Fourierism

Charles Fourier (1772–1837), a silk merchant and autodidact, had no professional affiliation to restrain or tame his ideological meandering. He had a fine classical collège education (academic high school) and read widely. There are echoes of St. Simon, Rousseau, de Sade, and Restif de la Bretonne in his writings. In addition, as a single and loner traveling salesman, he observed the habits and crimes of the commercial world, as well as the high jinks of his relatives. Traumatized by the French Revolution and its aftermath, Fourier (1996) adjudged the ideas of the Philosophes as “floods of illusion.”

People . . . were forced to recognise that no good was to be anticipated from any of the knowledge accumulated thus far, and that they would have to look to some new science to provide social well-being, and find new and original paths for political thought; it was obvious that neither the Philosophers nor their opponents were able to alleviate the miseries of society, and that their respective dogmas served only to mask the continuing presence of its worst scourges, including poverty. It was pondering this that first led me to suspect the existence of a social science of which we were still unaware, and stimulated me to try to discover what it was. (Fourier 1996, 7)

He took as his method absolute doubt, finding that Descartes hardly doubted anything important.

As I had no connection with any scientific school, I decided to apply doubt to all opinions without exception, even regarding with suspicion arrangements which had universal agreement; for although this Civilisation is the idol of all philosophical schools, and the one they believe to be most nearly perfect, what could be more imperfect than Civilisation, and all the scourges it brings with it? What more dubious than its necessity and its future permanence? Is it not far more likely that it is just one more rung on the ladder of human progress? (Fourier 1996, 8)

To Fourier, “civilization” is a mostly pejorative term, referring to the present society. It had been preceded by the stages of Savagery, Patriarchate, and Barbarism, which still existed throughout the world and were not all bad. “Civilization” will be surpassed by the utopian era of “Harmony,” which would last for 70,000 years. Then chaos would ensue, and ultimately, the end of the animal and vegetable world.

Fourier’s political speculations began with two related problems: agricultural association and British commercial monopoly. His solution, the germ of his later “phalansteries,” was to bring together
At least eight hundred [people] . . . for the formation of a NATURAL or ATTRACTIVE association. I mean by these terms a society whose members would be driven to work by competition, self-esteem and other stimuli compatible with self-interest; this new order will fill us with enthusiasm for agricultural work, although at present it is regarded as suitable only for the lowest, and is only done out of necessity and the fear of dying of hunger. (Fourier 1996, 11)

The lure would be luxury and pleasure. With the principle of association, eliminating waste and middlemen, vast savings would result: “[T]hree hundred families of associated villagers need have only one well-ordered granary, instead of three hundred ill-kept ones; only one wine-vat instead of three hundred . . .” (Fourier 1996, 11). The benefits of combined creativity and knowledge would also be considerable even for the rich:

In the current order [it is necessary] for every head of household to know about oenology, knowledge which is not easy to acquire. Three-quarters of rich households lack this knowledge, and consequently are very poorly stocked with wine; they spend a lot of money on drink, but have nothing but adulterated and badly kept wines because they have to rely on wine-merchants who are the most adept swindlers, and on hired cellarmen whose only skill is cheating. (Fourier 1996, 123)

Fourier’s plan would vanquish the miseries of “civilization,” which included but were not limited to those created by industrial capitalism. Early socialism, even that of Marx and Engels, charted far more social ills than surplus value extraction. Fourier designed a society which not only allowed for great abundance and luxury (with minimal resource use) but also permitted the full expression of all human passions. Complete harmony was possible without the need for repressing any human desires or reforming humankind. Indeed, Fourier called his ideal society Harmony. He believed that people were born with certain personality types, based on their dominant passions. He posited 12 basic passions: the 5 sensual appetites; 4 appetites of the soul: friendship, love, family, and ambition; and 3 distributive passions: the cabalist (love of intrigues), butterfly (love of change and contrast), and composite (desire to combine pleasures of sense and soul). His psychology has found some modern verification (Angier 1996). The superior individuals were the ones with the greatest complexity and the largest number of dominant passions. Fourier believed that all passions, manias, and desires were good (otherwise God would not have created them). Crime, all social pathology, and dysfunction he attributed to repression. With the proper organization of society, all tastes would become socially useful or at least innocuous. Fourier considered himself the new Newton; he had discovered that psychological attraction made the world go round.
Obviously, Fourier’s understanding of human nature fell far short of modern science. However, he was on the right track with his concern for the incentives needed to construct and maintain a socialist society. Thus, he proposed that private profit, property ownership, and unequal consumption could exist in his ideal society, without serious harm to anyone. He was also being practical, making a bid for investors to finance a phalanstery. Indeed, some of the later Fourierist communities, all short-lived, were funded by resident and non-resident investors.

As Fourier developed his scheme, he decided that his “phalansteries” needed 1,620 people to include male and female representatives of all the basic personality types for the proper arrangements of work and love. They would be rich and poor, young and old, and of all persuasions. Although the income of the community would be “divided into three parts, 5/12 to labor, 4/12 to capital, and 3/12 to talent,” everyone would be guaranteed a generous social minimum of food, lodging, clothing, entertainment, education, medical and dental care, and sex. There would be three classes of dining rooms, allowing elevated tastes to enjoy peacock tongues or the like, conspicuous consumption, and competitive games, but no one would be deprived. An affluent standard of living would be possible because of the savings permitted by “uniting into combined households,” the avoidance of waste, the labor-intensive production of necessities and luxuries, the extremely high productivity of Harmony’s ecstatic workers, and the elimination of “12 classes of parasites.”

Fourier did not endorse mass-production techniques or consider them necessary for abundance. His objective was to achieve “1) The greatest possible consumption of different kinds of food; 2) the smallest possible consumption of different kinds of clothing and furniture . . . ” Because manufacturing was odious, all manufactured goods would have to be nearly indestructible: “furniture and clothing will last an extremely long time. They will become eternal” (Fourier 1971, 288).

No one would be laboring to support capitalists, middlemen, idlers, priests, economists, bureaucrats, armies and navies, or various other parasites. Wives of the rich as well as all children would become workers. Fourier’s discovery of the “theory of passionate attraction,” a breakthrough which he compared to Newton’s discoveries, meant that people would voluntarily enroll in all those (and only those) types of work which satisfied their particular combination of passions. In addition, work would be spiced up with competition, intrigues, sex, and pageantry.

No occupation would be pursued for more than two hours at a time. Necessary dangerous work, as in chemical plants and glass works, would be rotated so that one person might spend only two or three hours a week in those places. But no matter how enticing, all work would be done in short sessions. This would have the additional advantage of promoting equality and solidarity, as those who were leaders in one “series” would be novices in another.
The major productive work in Harmony would be horticulture, which, along with small domestic animal raising, game keeping, and fish farming, would supply a large part of the diet. Legumes, rather than bread, would be the staple food, with high consumption of fruits and vegetables. A wide variety of occupations would exist in Harmony; Fourier imagined that they would be developed to the highest standards. Thus,

The doctors of the phalange will be specialists in preventive medicine: their interest is to see that no one falls ill. In Harmony, doctors (and dentists) will always work as a team in a group. They will be collectively remunerated in proportion to the general health of the phalange, and not according to the number of ailments or number of patients treated. (Zeldin 1969, 72)

Dirty work would be joyfully pursued by the “Little Hordes,” teams of children who (according to Fourier) have a penchant for filth, noise, and disgusting tasks such as removing reptiles from the roads. In contrast, the “Little Bands,” those children with a taste for elegance, would have the responsibility of maintaining the decorative side of the phalanstery and correcting the grammar of their elders. There would be trade, partying, and joint enterprises with the outside world, which would also be organized in phalanstères. Most notable were the “industrial armies,” mustered for environmental projects such as reclamation of deserts, reforestation, and building canals.

The expenditure, he points out with the logic of a commercial traveller, would be much smaller for a productive army; and besides the saving in slaughtered men, burnt cities, devastated fields, we should have the saving of the cost of equipment, and the benefit of the work accomplished. (Zeldin 1969, 109)

Further peace-promoting activities would be world conclaves of those who shared each sexual or food fetish. To end the scourge of war yet allow expression of competitive passions, Fourier proposed a “world war of small pastries” (petits pâtés), in which massive armies (men and women) would compete to produce the best array of these pastries (Fourier 1967, 339–79).¹

Children would be educated in Harmony by following their instincts, imitating older children, finding mentors, and participating in the work of the community. Miniature workshops with tiny tools would be irresistible. Opera was a prime educational tool as well as a phalanstery-integrating activity. Its pedagogical value derived from the great variety of skills required, including managing complex operations (Kozinn 1994). For Fourier, there was nothing more enticing than the orchestration of the universe’s vast diversity. Adults, children, and members of all...
classes would participate; a prince might well be in the chorus line and a pauper, the diva. Although some people would prefer set painting to performing, Fourier expected that all children would be trained in singing and playing instruments from an early age. All the working groups of the phalanstery would have distinctive anthems sung at the beginning and end of each session.

Fourier proposed a radical re-creation of the “amorous world.” He opposed monogamy and the family because they were uneconomic, but even more, because they did not fulfill their supposed purposes. Like other aspects of “civilization,” marriage encouraged corruption and harbored misery for almost all: wives, husbands, and children, as well as the unmarried. Fourier doubted that monogamy could satisfy sexual needs. On the contrary, the widespread debauchery which Fourier observed among his relatives and during his travels suggested that marriage was an unnatural institution.

Fourier also indicted the family because of its oppressiveness toward women. Neither their sexual nor intellectual needs could be properly fulfilled in it. Fourier, an early feminist, believed in the inherent superiority of women in matters intellectual and political. “In the combined order, education shall have restored woman to the use of her faculties, [now] smothered by a social system which engrosses her in the complicated functions of our isolated households” (Poster 1971, 210). Women’s personalities were warped because for years they were trained in duplicity for snaring a husband. This energy was in any case wasted, for once snared, the merry-go-round began. Fourier did not devalue “traditional women’s work.” On the contrary, the marital arts, especially cooking, gardening, child-rearing, and lovemaking, were to become the most important activities in the future.

The family was not a guarantee of security. Even the “normal” family was constantly threatened by death or departure of spouse, children, or parents. Falling out of love, boredom, or “internal migration” were constant risks even where technical fidelity prevailed. Sterility was another possible disaster: “Children come in torrents to people who are unable to feed them, but rich families seem particularly subject to sterility” (Fourier 1971, 182). Furthermore, the institution created especial hardship for those who were excluded—the single, for whatever reason, including unattractiveness. A particular concern of Fourier’s was the elderly, whom he saw isolated socially, vocationally, and sexually.

Was all the sacrifice worth it because the family was a wonderful nest for child-rearing? Fourier (1971, 99) thought not: “In the family system children spend all their time crying, quarreling, breaking things and refusing to work.” Children were oppressed by child-rearing which concentrated on breaking their wills and fitting them to society. He believed that a better method encouraged children’s instincts for imitation and play. Society must respect nature and provide
for the harmless release of all desires and passions; otherwise, the repressed would result in a “countermarch” of evil and violence.

Finally, Fourier saw the family as the enemy of community. The “wondrous inventions” of science and industry needed to be matched by a “social order which will assure our happiness,” which required a communal combination of skills and passions. Fourier sketched in elaborate detail his “new amorous order” in which marriage would be abolished, housework and child care collectivized, and a sexual minimum the right of all (Roelofs 1985, 1996).

3. Marxism and Fourier

Fourier’s indictment of capitalism was appreciated (some would say appropriated) by Marx and Engels, but there were significant differences between the two socialist doctrines. Fourier disapproved of all violence and revolution, did not see class struggle as the pivot to socialist transformation, and desired the happy collaboration of all classes, ages, talents, and personality types.

Fourier’s Harmony permitted private property, profit making and unequal consumption—as long as everyone enjoyed a high material and cultural standard. The proletariat was not the instrument of socialist transformation; that was the mission of the enlightened of any class.

Marx comes close to Fourierism in a few of his works. One (place) is the initial post-revolutionary program outlined in the Communist Manifesto: “Establishment of industrial armies, especially for agriculture”; “Combination of agriculture with manufacturing industries . . . abolition of the distinction between town and country, by more equal distribution of the population over the country”; and “Combination of education with industrial production” (Marx and Engels [1848] 1948, 30–31).

Another, perhaps Marx (1845) at his Fourierest, is in *The German Ideology*:

> For as soon as the distribution of labour comes into being, each man has a particular, exclusive sphere of activity, which is forced upon him and from which he cannot escape. He is a hunter, a fisherman, a herdsman, or a critical critic, and must remain so if he does not want to lose his means of livelihood; while in communist society, where nobody has one exclusive sphere of activity but each can become accomplished in any branch he wishes, society regulates the general production and thus makes it possible for me to do one thing today and another tomorrow, to hunt in the morning, fish in the afternoon, rear cattle in the evening, criticise after dinner, just as I have a mind, without ever becoming hunter, fisherman, herdsman or critic.

Marxists considered other socialists to be reactionary, as well as utopian. This is not an unfair characterization. Socialist thought often exhibits nostalgia for
aspects of earlier times, even feudalism, only without violence or inequality. Even Marx sometimes held such ideas, as in *The Poverty of Philosophy* (Marx 1847):

Finally, there came a time when everything that men had considered as inalienable became an object of exchange, of traffic and could be alienated. This is the time when the very things which till then had been communicated, but never exchanged; given, but never sold; acquired, but never bought—virtue, love, conviction, knowledge, conscience, etc.—when everything, in short, passed into commerce. It is the time of general corruption, of universal venality, or, to speak in terms of political economy, the time when everything, moral or physical, having become a marketable value, is brought to the market to be assessed at its truest value.

Among the greatest differences in their ideas is that instead of the commodification of housework advocated by Marx and Engels, Fourier proposed the domestication of industrial work, local communal self-sufficiency, and small-scale “appropriate” technology. One writer has said that Fourier wanted to “feminize” the world (Coole 1988, 173). The abolition of the family—and substitute institutions for its every function—was necessary for the liberation of women and central to his doctrine.

Although they shared the periodization of history suggested by St. Simon, Fourier did not regard history as progressive; “civilization” was not superior to earlier epochs. Furthermore, Fourier did not share Marx’s enthusiasm for industrialization and centralization; he envisioned a loose association of low-tech communities. Both regarded “globalization” to be hastening a desirable federation of the world, but Fourier deplored such effects as the destruction of the Indian local textile industry (Fourier 1996, 274).

This is a necessarily brief discussion of the similarities and differences between Marxism and Fourierism. A more extensive comparison can be found in Kessous (1996, 70), who argues,

> It would be a mistake to assume that the differences between Fourier and Marx on the continuation of class differences are as great as might at first appear. For the "classes" in Fourier’s phalanxes would not be the same classes as those which exist under capitalism. In the first place, both capitalists and workers would do useful work, and both would enjoy it. . . . In other words, there would be neither exploitation nor the extraction of surplus value . . .

4. Problems of US Agriculture

How does Fourier’s fantastic plan relate to US agriculture? First, let us look at the perennial situation of farming.
In 1909, the Commission on Country Life submitted its report to President Theodore Roosevelt; it was subsequently published as a US Senate document. Although the evidence was taken in a rare “prosperous” time for farmers, the picture it paints is dreary, and the Commission fears for the survival of rural life. Among its concerns are the power imbalance between individual farmers and the corporations squeezing them on both the supply and marketing sides, depletion of the soil, the poverty of social and cultural life (even successful farmers often had no books in their houses), and the “burdens and narrow life of farm women” (US Congress 1909, 15). The Report embodied the collectivist, nationalist, and ameliorative spirit of progressivism. It set in motion valiant attempts to save the family farm and farming communities—most notably the full blooming of the Extension Service and the encouragement of cooperation. However, these policies probably accelerated the elimination of individual farmers and the domination of agribusiness.

Every period in our history tells a dismal story of individual agriculture, although we should apply Fourier’s rule of seven-eighths:

For instance, if I say as a general thesis, civilised man is very miserable, this means that seven-eighths, or eight-ninths of them are reduced to a state of misery and privation, and that only one-eighth escapes the general misfortune and enjoys a lot that can be envied. (Fourier 1996, 34)

In colonial days, feudal relations, tenancy, indentured servants, or slavery prevailed over vast areas in agriculture North and South. Small independent farmers in the South had a low standard of living. New England farmers were the one-eighth remnant; they were healthy and prosperous by Puritan standards. However, they still followed the communal shared labor and decision-making practices of the English village; their crops were diverse and provided for self-sufficiency (with hemp, flax, and wool for clothing); and everyone engaged in agriculture, including artisans and ministers. Instead of wheat monoculture, they used techniques learned from the Indians, who grew corn and beans in hills, using hoes only.

This had economic, environmental, and nutritional advantages over later agricultural practices. Still, everyone worked hard, including wives and children, to maintain a Puritan standard of living. The overseas owners of the colonies wanted to make a profit on their investments and to this end hastened the settlement of inland areas for cash crops, especially lumber. As land scarcities increased after the War of Independence, so did class divisions. Self-sufficiency declined, off-farm work increased, most sons had to find non-farm careers or migrate, and dowryless daughters became spinsters. Finally, the poor soils of New England could barely
compete with the commercial farms of the West, which benefited from canal and railroad development.

By 1850, the market dictated what was produced on most farms. The southern slave plantations (and small proprietors) produced export crops (e.g., tobacco and cotton). In the West, cattle raising was most profitable (and required least labor, which was scarce), so that is what was done, no matter the negative consequences of a beef diet to the land, the water, or nutrition, for starters. The life of the cowboy was often miserable. Grazing and cattle droves used public lands, so “free enterprise” was also a myth. Finally, the long droves ended in market or railroad towns which featured saloons and brothels for recuperation. Indigenous people and native animal species were exterminated to make way for this on-coming “civilization.” Farmers exploited themselves, their spouses, and their children, yet most farmers failed. The best bet was land speculation—buy a farm and quickly sell it to the next hopeful coming from the East. Then, either repeat the process or move into any non-farm occupation. As is true today, some held onto their farms despite net loss by working off the farm or by using natural resources (e.g., trapping, lumbering, and fishing) as a cash crop.

An apt description was provided in 1859 by Horace Greeley (1963, 52–53), editor of the *New York Tribune* and a Fourierist:

> There are too many idle, shiftless people in Kansas. I speak not here of lawyers, gentleman speculators, and other non-producers, who are in excess here as elsewhere; I allude directly to those who call themselves settlers, and who would be farmers if they were anything. To see a man squatted on a quarter-section in a cabin which would make a fair hogpen, but is unfit for human habitation, and there living from hand to mouth by a little of this and a little of that, with hardly an acre of prairie broken (sometimes without a fence up), with no garden, no fruit trees, “no nothing”—waiting for someone to come along and buy out his “claim” and let him move on to repeat the operation somewhere else . . . how a man located in a little squalid cabin on one of these rich “claims” can sleep moonlit nights under the average circumstances of his class, passes my comprehension.

There were a few women farmers, but most were farmers’ wives, and they worked and bred until they died; farmers would go through several wives. Those women who converted to Mormonism were opting for a soft life compared with the average pioneer wife.

Farming in the far Western part of the country had all the usual problems, such as the lack of willing, competent farm labor. In addition, it was made possible only by vast government-financed irrigation projects (Hughes 1987, 288). Transformation
of the landscape and diversion of water remain today the source of environmental and social problems and belie the “free enterprise” claim of our agriculture.

From the start, government subsidies and promotion of “scientific farming” hastened the domination of agribusiness—even the Homestead Act resulted in fraudulent parcellation by big business. As farmers specialized and produced for market, they lost self-sufficiency, and both their consumption and production expenditures rose. This was a major cause of the farm crisis and Populist Revolt of the 1870s–1890s (Mayhew 1972, 464).

One response to the farmers’ plight was the Granger movement (Patrons of Husbandry). The first club was organized in 1868 by Oliver Kelley, a federal civil servant in Washington, D.C. The Grange had social, educational, and political aspects; it was the first farm organization in which women participated as full members. Coincidentally, this was precisely the kind of organization that Fourier had viewed as a transition to “associationism.” He thought that Freemasonry had the potential to become a new religion, based on pleasure, with, of course, the addition of women (Fourier 1996, 196). In fact, Kelley was a Mason and incorporated its aspects of ritual and solidarity into the Grange. There are still traces of festivity and pickled-beet contests in the Grange, but its activism became channeled into a doomed Farmers’ Party (doomed by the shrinking farm population). The relative prosperity of 1900–1920 brought farmers into conservative “interest group” politics with the creation of the American Farm Bureau (Danbom 1995, 182).

After 1920, there was a long decline in farmers’ fortunes from many causes. These included a drop in postwar exports, because of European recovery and competition from Canada, Australia, and other places. Dietary and style changes were an influence, prohibition nipped sales of various agricultural products, and food processors took an increasing lump of the food dollar. Farmers were now strapped to pay for automobiles, tractors, and fuel, while sales of horses and oats plummeted (Danbom 1995, 192). Furthermore, they were enticed by a huge array of stuff in Sears, Roebuck catalogs, which included labor-saving devices especially helpful for women, along with status symbols for the parlor and intriguing undergarments.

The Depression revealed the persistent poverty and insecurity of farm life, and the Dust Storms illustrated what the agricultural “system” had done to the land. The New Deal began a period of intense government intervention in agricultural markets. Acreage limitations, price supports, commodity loans, crop insurance, and similar income support programs were directed at the larger commercial farmers. The poorer farmers, including black sharecroppers displaced from the land, migrated. Many ended up on relief, and some were eventually absorbed by the war industry.
Some urban people decided to form rural communes in order to eat, following the advice of Ralph Borsodi and others of the back-to-the-land movement. The federal government’s Resettlement Administration created a few collective farms for displaced farmers and laborers (Conkin 1959). At these, an array of handicrafts was taught, cultural activities were promoted, and medical care was provided by salaried doctors. Their creators were socialists, progressives, and pragmatists. However, like other radical programs of the New Deal (e.g., National Resources Planning Board), these communities did not survive the war. Military production enabled the communards to hit the road in Fords, and they did. In the postwar period, a major farm depression was averted by continuing government income support programs (mostly for larger commercial farmers) and using agricultural products for foreign policy objectives. Nevertheless, the decline of family farms continued. In 1959, a coalition of rural organizations urged Congress to create another Country Life Commission; by 1990, it seemed that the small farm, as a profit-making operation, was headed toward extinction.

Both agribusiness and family farms employ migrant workers and often their children. Conditions have hardly improved since Edward Murrow’s 1960 broadcast “Harvest of Shame.” As Fourier noted, a semi-slave class contradicts basic democratic ideals.

Today there are not many profitable family farms. Mechanization and chemicalization have become more perilous economically, leaving aside the net damage to natural resources (National Research Council 1989). Perhaps Fourier’s “one-eighth” have found a niche market in which they make a decent living, have a normal workday (by today’s urban standards), and do not destroy the land. The organic and “locavore” movements have resulted in wonderful food widely available, but with steep prices and no solution to the labor problem.

Probably a more common experience of new small farmers is that of the young couple who converted their ancestors’ dairy farm in New Hampshire into a diversified operation, including vegetables, fruit, chickens, emus, pumpkins, and Christmas trees (both for short-term ornamentation and discard). They also sell ice cream trucked in from a producer in Massachusetts (protecting our population against ice cream deficiency diseases). Even though in many cases like these capital costs are minimized due to inherited property, the economic returns are meager. The wife has an off-farm job and “[T]hey tend the farm from 5 a.m. to 9 p.m., seven days a week” (Anderson 1998). They enjoy it now, but is this life sustainable in the long run?

Relevant to the decline of the family farm is the decline of the family. Some farmers can find no wives, and those who have been found often choose not to engage in traditional wifely unpaid labor. They have preferred careers or must support the farm by working in shopping malls and town offices. They are unlikely
to have seven children, and those they do have want to go to the disco, not the silo, or kick around a pigskin, not skin a pig. Meanwhile, in the urban areas, many women face a dwindling pool of suitable husband material, or vanishing husbands because of the many female options available (Guttentag and Secord 1983). Here is where the Fourier solution is especially useful, for phalansteries can work without an exactly equal number of men and women. It is much harder for the family to do so; those outside the family system have to butt out one of the partners in order to get in, live in a clouded status without full benefits, or remain entirely outside.

The aging of the population (farm and other) presents many challenges. Elderly farmers need lots of help, and their children are not itching to take over. Now more people are living to be 100. Who will take care of them? Their 80-year-old children? Thousands more immigrants? Care can be the work of a community, as it was in the 19th-century communitarian societies.

In recent years, many issues relating to agriculture in addition to the small farmers’ plight have been on the national agenda. These make us wary of the market solution—agribusiness is more efficient, so let it be, and let rural people be absorbed into other occupations or agribusiness. That had in fact been a consequence of the land-grant colleges created in the 19th century. Farmers’ sons and daughters studied “scientific agriculture,” supposedly to become better farmers. Instead, they were absorbed into John Deere, Jello, and Ortho corporations, to sell inputs and commodities to the remaining farmers.


Massive unemployment in the Third World has resulted from the “technical assistance” programs promoting industrial agriculture and export crops, and from the subsidized US crops sold abroad. Less publicized is the disdain some Third World countries have for our vermin-infested food exports and genetically altered seeds and food. Of course, Fourier was correct that farmers under capitalism would
become feudal vassals of corporations. Today they must use inputs designated by food processors, are forbidden to save seed, and are more like hired hands of agribusiness. However, they provide the capital and must take all the risk. As profits determine diet, so today junk food is supported by government policies. The US Congress has a popcorn promotion policy. Children are being trained by advertising, with their schools’ connivance, to eat junk food, in their cafeterias and also along with soft drinks, from vending machines. My generation worried about pesticides in the children’s food; but today’s children do not eat meals anymore—apparently, not even at home. They live on M&Ms, colas, fritos, tacos, bagels, and pizza. Many people have no choice of diet, as they are fed institutionally, for example, students, elderly, prisoners, hospitalized, and often, workers.

Agribusiness also holds sway over textile and paper fibers, biofuels, forestry, and medicinal plants. The connection between clothing and social justice, environment, and imperialism is rarely made today, and environmental organizations sell sweatshop garments as fundraisers. This is where the industrial revolution began, with slave labor producing cotton, and children in factories and crawling through coal mines, all so we could have an ever normal stock of 40 T-shirts. Today, all aspects of agribusiness, including organic, require hired labor, and their condition remains a shame in this “prosperous” and “free” society.

5. Communitarianism

In the 19th century, communitarianism was a serious alternative to individual enterprise or family farms. Its theories were widely discussed in the intellectual world from the 1820s to the 1860s and many experiments undertaken. In 1825, Robert Owen (1970) gave a joint address to both Houses of Congress describing his proposed communities. For several years, Arthur Brisbane had a thrice-weekly column on Fourierism in the *New York Tribune*, which omitted some of the wilder aspects, but explicated the basic ideas. The advocates of associationism, as it was often called, regarded it as a preferred model for the settlement of the West (Bestor 1970). Forty-five Fourierist “phalanxes” were created in the United States; the best known was Brook Farm in Roxbury, Massachusetts (Guarneri 1991). There were also many religious communities, of which the Shaker settlements in New England, Kentucky, Ohio, and elsewhere were most numerous. Whatever their inspiration, they saw themselves as providing a practical alternative to isolated monoculture farming, slave plantations, and industrial capitalism. The Shaker literature proclaimed, “Abolition of all slavery: Chattel, Wage, Habit, Passion, Poverty, Disease,” and “Each using according to need.” These communities enjoyed a far richer cultural and material lifestyle than the average 19th-century farm family and were creative in the use of technology. The Oneida Community,
which practiced group marriage, came closest to the Fourierist dream. It lasted for almost 40 years; the records of this experiment have barely been studied by political scientists. Shakers flourished even longer, and served the celibate sexual niche, often chosen after married life.

Full consideration of communitarian human relations cannot be undertaken here. Evidence suggests that liberty, equality, and general satisfaction were often better than that prevailing elsewhere. There were few “drop-outs” from Oneida, a community which encouraged and fostered intellectual freedom. The Shakers, although totalitarian societies, offered security, good food, good music, and non-violence; religious fundamentalists in the outside world were also subjected to mind control, but without the communal benefits. Communities either prohibited or used alcohol in moderation, whereas ordinary farmers and workers tended to drink all day. Communitarians, even Shakers, were not cultish (i.e., Christians awaiting the end of the world while living in poverty), but rather a movement that attempted to solve the major political, social, and economic problems of this world, including race, sex, and class inequality. Some gestures toward women’s liberation were undertaken in “seven-eighths” of the communities. The Mormons, not without pronatalist motives, found a way to include the surplus spinsters of the East in family life. However, only the Shakers and the short-lived Nashoba experiment of Frances Wright had black members.

As a productive institution, communitarianism had many advantages. Farming, agricultural processing, and other manufacturing could be supported by the combined capital, labor, intelligence, and skills of the entire community. Skilled and educated people chose this way of life. (So did some odd ducks, but they also abided on isolated farms, where violence and abuse were hidden.) Both productive machinery and luxurious consumption goods became affordable to people of average means.

Appropriate technology (e.g., the Shaker mechanical washing machine) was applied to housework, which, although mostly performed by women, was much easier as a collective undertaking. Self-sufficiency was the rule, unlike the increasingly monocultural individual farms. Surpluses were sold locally along with value-added products that helped to insure economic viability. Their inventions were widely admired; for example, washing machines were bought by hotels and other institutions. Shakers sold seed packets and herbal concoctions by mail order; Oneida traveling salespeople distributed the community’s manufactures. Here was a model for human-scale economic development, in contrast to our slave labor, agribusiness, massive public works, highways, assembly line, military Keynesianism, and citizen-subsidized weapons exports.

Communitarianism was a promising answer to Fourier’s concern about agriculture in a democracy, which precluded peasants or slaves. He also desired
nutritious, delicious, convivial meals, yet believed that liberated women would not want to spend their days preparing them. Labor in 19th-century communities was confined to regular hours with unpleasant shifts rotated, holidays and time-off scheduled despite cows, boring work pleasant because of companionship and flirtation, and variety in work available according to taste. Indeed, among Oneida’s enterprises was the supremely Fourierist one: performing operas for paying audiences. Health and diet were superior to that of individual farmers, who were highly susceptible to alcoholism and violence. Education was provided for children and adults; both the Owenite New Harmony and Fourierist Brook Farm had notable, profitable, “progressive” schools for their own children as well as outsiders. The Shaker school in Canterbury, New Hampshire, was considered better than the public offering, and locals sent their children to it. Incentives for sustainability were built in. Unlike the normal pattern of speculative land use, communities developed a place where they intended to stay and were thus likely to promote long-range soil fertility and avoid toxic wastes. Equipment was shared by many farmers, and the communal situation encouraged repair and adaptation.

6. Implementation

Today, communalism would have many advantages for both rural and urban life. Ebenezer Howard’s ([1898] 1965) Garden City idea is still valid; rural isolation and urban congestion must give way to an intermediate form, highly self-sufficient, green, and cultured. We need to restore productivity to idle lands and unemployed people. Voluntary immigrants could find a friendly and comfortable home and decent work. The energy costs, pollution, and labor oppression of agribusiness could be gradually reversed. Chemicalized imports, including flowers, produced by plantation labor could cease. Communal self-sufficient agriculture could be resumed throughout the world, where hunger and unemployment have followed the introduction of capital-intensive cash crop farming. The impracticality of the family farm would be recognized, and the self-exploitation (and guilt) of those trying to maintain it ended.

A recent UN report on the problems of agriculture worldwide addressed the problem of equity in farming:

Important options for enhancing rural livelihoods include increasing access by small-scale farmers to land and economic resources and to remunerative local urban and export markets; and increasing local value added and value captured by small-scale farmers and rural laborers. (IAASTD 2009, 5)
Nevertheless, while the study recognized that there are many who would be farmers if land and capital, access to markets, and so forth, were available to them, it did not consider how the life of a small farmer would ultimately appear inequitable in an otherwise affluent world, which enjoyed reasonable hours of work.

How could such a fantastic scheme be implemented? How “anti-American” such ideas! On the contrary, there have been many successful cooperative agricultural or agro-industrial communities in the United States (albeit ignored in history books and Hollywood films). Throughout our history, cooperative economic activities have made individual farming tolerable: communalism in early New England; barn raisings; and insurance, supply, and marketing cooperatives.

As for its “anti-capitalist” nature, so has been our agriculture from the start: slavery; indentured workers; government subsidies for canals, research, irrigation, and development; rural electrification; price supports; “food for peace”; and so forth. In addition, monopolies have belied the “free enterprise” theory. Furthermore, for all our aversion to an imposed culture, the Extension Service, along with private organizations such as the National Recreation Association, once invigorated rural life with 4-H Clubs, folk dancing, local history pageantry, and peach-canning contests.

Some may argue that cooperatives are not in accordance with “human nature” and that people will not be able to “get along.” This ignores the eons of human tribal history, surely as genetically significant as the aggressive drives. Furthermore, people do not “get along” very well in individual families; pioneer farmers’ domains were rife with domestic violence. Communal living skills can be learned—after all, there have been successful experiments. Those older sustainable communities that had a probationary period did not admit troublemakers and those unsuited to the lifestyle. Today, the great popularity of co-housing developments indicates that there are many people who desire cooperative living; they may be the pioneers demonstrating its benefits to the more conservative citizens (McCamant and Durrett 1994).

The collective farm experience in Communist countries—in comparison with their individual farms—can indicate some benefits of the system. In Poland, where a mere 20% of farmland was collectivized, the few collective ones were among the most productive. More significant,

The development of the agro-industrial complex with small-scale industrial production concentrated in the non-harvest months has been another important factor increasing the welfare of farm families. These small-scale industrial operations are frequently employing farm women in rural areas who take advantage of the child care facilities provided by the collective farm. This process has given farm women more options in life.
and it is possible for women to rise in the collective farm meritocracy thereby reducing the power of their formerly domineering husbands. (Turgeon 1991, 3)

Hungarian collective farms were especially successful, and the Cuban collectives brought regular hours, indoor plumbing, gender equality, and cultural amenities to former peasants. In Bulgaria, collectivization was regarded as a desirable alternative to the traditional dependence on parents and in-laws among younger farmers (Creed 1998, 58). Consumers appreciated the better enforcement of pesticide levels in the collective and state farms than was the case with the individual profit-seeking farmers. Reports of astounding productivity in USSR private plots usually ignored (1) the nature of the produce (e.g., chickens, bok choy, tomatoes, raspberries, etc., rather than wheat, potatoes, rutabagas, etc.); (2) the intense, unregulated self-exploitation and that of family members on the private plots; and (3) the vast collective farm inputs (e.g., seed, machinery, fertilizer) employed (often illegally) in private cultivation. Labor time was slacked from communal responsibilities. A fair judgment of these systems must include not only productivity but also quality of life for men, women, children, and elders; purity of food; and protection of the environment. Although agricultural chemicals were heavily used in Communist systems, it was not inherent in collective farming.

A detailed communal plan for the United States would require considerable planning. Here are a few suggestions. A new communitarianism would be voluntary and might recruit among farmers and would-be farmers, immigrants, homeless, single people, retirees, and 18–22-year-olds (college courses both practical and impractical could be part of the community). A revived Citizen’s Extension Service could facilitate experimentation and electronic exchange of information.

Financing could be provided initially by redirection of agricultural subsidies to sustainable cooperative farming. Educational demonstration farms are now being subsidized by the private sector through donations and foundation grants. Capital might also come from communards on social wages, social security, private pensions, or inherited wealth. All-age communities, with opportunities for both recreation and part-time convivial work (e.g., canning peaches, teaching children carpentry, composing opera scores, trouble-shooting email service), could restore the dignity and economic usefulness of elders, while constructively employing their economic resources from private wealth, pensions, and social security.

Of course, huge sums could be liberated (and taxes become minuscule) by reducing military expenditures, now used as an economic stimulant and protection for vital supplies of bananas and oil. Healthy lifestyles and preventive health care would reverse a monumental drain on resources. Overconsumption that is pushed by advertising or pulled by loneliness would be eliminated, along with billions
spent on most children’s toys, lawn care, wild bird feeding, and much other 
profitable stuff that contributes little to happiness. Many wastes could become 
productive, such as ghost towns, ghost farms, and ghost machinery; they could be 
adapted and repaired in a labor-intensive, decentralized economy.

Appropriate technology will reduce drudgery, yet reasonable expenditure of 
human labor is entirely rational and currently an underutilized resource. Obesity is 
now endemic worldwide. As in Fourier’s Harmony, the ideal diet would be based 
on horticulture and intensive farming, and includes fruits and vegetables, legumes 
as a major protein source, and either vegan, vegetarian, or carnivorous eating of 
small animals, perhaps snails up to sheep. This more healthful regime changes 
radically the land, energy, labor, and chemical basis of agriculture. Poor soils 
could be remedied with sufficient labor so that raised beds and composting could 
be employed. Likewise, textiles (e.g., flax, hemp), building materials, fuel, paper, 
medicines, and so forth could also be produced locally from cultivated, wild, or 
recycled resources. These projects would provide challenges to entice scientists 
and engineers to become communards, although all members would participate in 
both intellectual and manual work.

Total self-sufficiency is not likely. Most communities would not be able to 
produce all their machinery, or automobiles, TVs, computers, and so forth. 
Small communal industries could be developed for cash needs: food for the local 
non-farm population, exotic crops for the region, manufacturing, consulting, health 
care, education, entertainment, and so forth. This is not so different from what 
already exists, for “farms,” especially in the Eastern United States, earn income as 
horseback riding and cross country ski facilities, petting zoos, children’s workshop 
venues, sustainable agriculture demonstration centers, sheltered workshops for 
developmentally disabled, summer stock theater barns, old book dealers, craft 
schools, meditation parlors, “Woodstock,” weddings, and so forth. A communal 
scheme is more viable as the purchased (or bartered) goods, like Fourier’s wine 
vats, would be shared among many people.

It would be reasonable, as Fourier did, to see the world as it is demographically: 
the shriveling of the family, and the elderly category poised for explosive growth. It 
makes sense to use resources that are plentiful: land (including abandoned farms), 
human labor (including that of retirees and fitness bicyclists), and ingenuity. 
Such changes would support human and environmental health, for example, local 
organic food, use of renewable resources for most needs, convivial and supportive 
communities, mental and physical work—in reasonable doses—for all, and short 
 supply lines.

What makes communitarianism a stronger option today is that the family farm 
experiment has been run with negative results (in seven-eighths of the cases) 
despite incredible natural resources, hard work, and government subsidies. All
indications are that agricultural problems are getting worse, and rural communities are dying. There is currently world overproduction of food (and textiles, and most stuff) while hunger persists. These very dysfunctions were what set Fourier on his utopian quest, which began when he saw wheat dumped in the sea to raise prices, and the urban price of apples 100 times the farm price. What he would think of the world-engulfing junk food diet cannot be imagined.

Note

1. This episode, titled The World War of Small Pastries, translated by Shawn P. Wilbur and Joan Roelofs, was published by Autonomedia, New York, 2015.

References


BOOK REVIEW

HOW TO PRESERVE CAPITALIST SYSTEM? REVIEW OF CAPITAL IN THE TWENTY-FIRST CENTURY, BY THOMAS PIKETTY

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Piketty’s book Capital in the Twenty-First Century, published in France in 2013, has been considered with a large and deep interest all around the world (Piketty 2013). It was first translated in English and is now to be translated in Japanese. Of course, this book has qualities and was seriously made. But many books, especially in the field of social sciences, have qualities and are very seriously made without receiving this kind of welcome and attention. It is why I am tempted to find in the situation of high-level crisis characterizing capitalism today one of the roots of its bright success.

On one side, capitalism is in big trouble, especially since 2008, and this trouble is not yet finished. This system is in big trouble not only because of crazy finance and because the moral values on which it is relying are vanishing. It is in big trouble because its historical role, which was to promote material production on a private basis, is going to end.
On the other side, though most of the people in the world are probably criticizing this system nowadays, they do not want to change it. They are thinking that, even if capitalism is far from being perfect, they still have to stick to what they know. They are blind concerning the future, and they are reluctant to try a new social system, because they think this new system is eventually better but only in imagination. There are reasons to explain and justify their opinion.

Piketty’s work on Capital is exactly this kind of book, bringing in the same time critics and support to capitalism, showing how much it is unbearable but exploring ways for making it bearable. It is why it is successful, relying on reformist and social-democrat inspiration. This kind of intellectual effort is an aspect of capitalism crisis, and it is why intellectual debate on these contradictory issues is so important. How is it possible to consider that, in the same time, capitalism is badly working but can work correctly? Piketty has the right to think this way. But he has the duty to bring the scientific proofs of what he writes. On the contrary, he is just bringing opinions, which are not proofs especially when he tries to prevent critics to his own assertions by criticizing Marx without serious knowledge of what he is debating. It is why his book is largely an ideological one.

World Review of Political Economy has already published an important analysis of Piketty’s book (Chen 2014). But this review of Piketty’s Capital in the Twenty-First Century is mainly focused on mainstream theories and on lessons for China. I would like, in this article, to bring a complementary view of Chen’s article by focusing on some specific Marx’s points.

My article is divided in two parts. In the first one, I want to say how much the work of Piketty is a very accurate one concerning the three following aspects: (1) gathering statistical information on inequalities and capital, (2) describing the new and aggressive extension of Capital since the end of the 20th century, and (3) showing how large are, now, economic inequalities and how higher they could be in the near future.

But in the second one, I would like to discuss three points, which appear to me as strong weaknesses of his approach: (1) Piketty is ignorant of Marx, generally speaking, and more specifically, for example, of the Marxist meaning of $K/Y$, a ratio which, he says, is for him a wonderful tool. (2) Economic inequalities are not important and growing because of “Capital” but because of the “capitalist structure”, a concept that Piketty is also ignoring. (3) Solutions proposed by Piketty to fight against inequalities are imaginary ones, because imperialism is not ready to accept this kind of utopian wishes.

1. A Skillful Critic of Some Aspects of Capitalism

In the first part of my article, I would like to show the most important qualities of the book of Piketty. It is not because I think it has big weaknesses that I would
have to say that it has no interesting points. Its success comes basically, according to me, from its social-democrat inspiration. But it would not have the success it knows if it was an ordinary dull reformist book.

1.1. Gathering Statistics at a Historical and Global Scale

American researchers in social sciences are used to explaining carefully on which data they rely to bring the proof of what they say and write. I think it is a very good habit, and as Marxist, we have only to follow this way of doing. It is a scientific way.

But the high-level interest of Piketty’s work is not only to make clear the sources which are used in his book but also to achieve the three following goals.

First, Piketty (and the people with whom he is working), gives full access to every researcher, without any kind of limitation, to their data bank. He gives access to his own website\(^1\) and to a website he did with Emanuel Saez, concerning revenues in a large set of countries.\(^2\) In the Saez-Piketty global website, we can get information relative to 13 countries of Western Europe, to the 2 developed countries of North America, to 3 of Latin America, to 3 countries of Africa, to Oceania, and finally to 6 countries of Southeast Asia (China, India, Indonesia, Japan, Malaysia, and Singapore). Of course, they are trying to extend their sources of information. So doing, Piketty avoids making the reading of his book too difficult. It is enough to read a thousand pages without having to absorb and to digest a huge quantity of data.

Second, Piketty made a big effort to give a historical view of what he says. He is not studying Capital only in the present period but since the beginning of the 18th century, at least for some developed countries of this time. Historical point of view concerning present events always gives more wisdom.

Third, he tried, as I already mentioned, to get a global view of the evolution of Capital, in such a way that he can confirm or not what he could have observed in one or two countries.

Of course, it could be necessary to discuss the statistics he is using. Piketty has the naive belief that statistics are true because they are statistics. Besides, he considers that because they are calculated according to the standards of national accounting, labeled by United Nations, they are necessarily telling the truth on economic situations. But to become operational, statistics need definitions. For example, the definition of “Capital” adopted by Piketty is highly questionable. He confuses, in the same concept of capital, quantities of value which are of very different nature. I think, for instance, that it is not possible, from a theoretical point of view, to add capital of firms and capital of households. Capital of firms is to make monetary value and profits. Capital of households (housing) is, most of the time, to consume value.
I propose, anyway, to delay this kind of discussion to one of the next books Piketty is going to publish on Capital. Because everybody who ever used statistics, especially at a global and historical scale, knows that it is quite impossible to be satisfied. Statistical knowledge is a sort of compromise. We know that statistics are far from perfection. But we can hope, at least, that they give an image of economy which is connected with true economy.

Precisely, from the reading of his book, we can find out two strong ideas. The first one is that, since the end of the 20th century, “Capital is back.” The second is that, in accordance with this return, “inequalities are growing at an increasing-speed.”

1.2. Capital Is Back

Figure 1, directly taken from Piketty’s website, is showing what was the evolution of capital in France since 1700 to 2010. What is measured through this graph is not exactly the evolution of the amount of capital but the evolution of the ratio \( K / Y \) (national capital divided by national revenue). It is the quantity of capital measured with global national income as a unit of measure. Several aspects can be easily seen from this graph.

Source: http://piketty.pse.ens.fr/fr/capital21c

Notes: The value of national capital is almost 7 times the national revenue in France in 1910 (one is on foreign countries).
The first one deals with the evolution of the capital concrete structure. In 1700, value of lands (the black part of total capital) was the most important part of total capital value. Now, it is nothing. On the contrary, housing, which was only 17% of the total value of capital at this time, is nowadays equivalent to 50% of this value.

The second aspect concerns the white part of the value of capital, which gives a certain image of “imperialism.” This part represents the net value of French capital invested in foreign countries and of foreign capital invested in France. Before the First World War (1914–1918), this quantity was important. France was a net creditor of capital to the rest of the world. It was the same situation for Great Britain. Thanks to their foreign net capital, these two countries were receiving a huge part of current revenue every year from abroad (10% for Great Britain and 5% for France). Piketty talks of a “rentier capitalism.”

He says that bourgeoisie of these countries had committed suicide by starting the First World War. In reality, they forced suicide on the people they sent to the battle, because their economic and political power were still there after the war, with the important exception, it is true, of Russia, in 1917.

Nowadays, imperialism has not disappeared. It has only a new economic structure. What we see on the graph is the net sum of assets, to foreign countries and from foreign countries. The fact that this net sum is not far from zero does not mean there are no investments abroad. It only means that these investments are rather balanced. At the end of the 19th century, imperialism was nation centered. It is, now, spread out in the world, and every bourgeois government tries to balance the two flows, in and out, more or less equal. Of course, as we will see in the second part of this article, it does not mean that there are no contradictions and no severe conflicts between the members of this global assembly.

Figure 2 is another aspect of the coming back of capital. It also comes from the website of Piketty. It is concerning the relative quantity of capital possessed by the 10% of Americans who are the richest in this country (the black superior line with triangles). There was a certain decline of the wealth of this group after 1910 up to 1950–1970. But after 1970, the relative quantity of capital they have is growing regularly. Capital is not only back, but it is back in the hands of the richest, which was expected.

This graph shows another point. The 1% of the richest Americans (the line below, with white squares) own approximately 35% of all the capital wealth of the United States. Inequalities are still growing, compared with the wealth of the poor people of American nation. I am not totally convinced by what “the Wall Street movement” says, asking Americans to fight against the “1%.” Of course, we can find that it is a very hard situation for the 9% of the superior decile to have only 35% of the total capital of America. But one can think it is bearable.
This evolution concerning capital in developed countries is general. Here is Figure 3 concerning the same groups of population (10% and 1% from these 10%) in France. After a decline of the relative quantity of their capital wealth after 1910 up to 1970, this relative part is growing after 1970 and apparently more for the richest 1% than for the other 9%. As says the proverb, “It always rain where it is wet,” even among the rich people. Globalization was and still is a very good business for the ruling classes.

1.3. Inequalities Are Growing

Figure 4 gives an image of inequalities of revenues in the United States since 1910 up to 2010. Roughly speaking, it is the same evolution everywhere. This graph represents the share in percentage of the national revenue that the richest 10% of population receive. We can observe a movement which is close to the evolution of capital value property. Before the big crisis of the thirties, the superior 10% were getting approximately 50% of the total national revenue of the States. From the forties to the end of the seventies, this part falls to around 33%. Since the eighties, this part is growing and has reached the level of 50%, which was the level they received before the thirties. It means that not only capital is back but that inequalities, which had not disappeared, are back “as before.”
Figure 3  Inequality of Patrimonies in France, 1810–2010

Source: http://piketty.pse.ens.fr/fr/capital21c.
Notes: The upper decile (the 10% of the highest patrimonies) was owner of 80%–90% of all the patrimonies in the years 1810–1910 and 60%–65% today.

Figure 4  Inequalities of Incomes in the States, 1910–2010

Source: http://piketty.pse.ens.fr/fr/capital21c.
Notes: The share of the upper decile passed from less than 30% of national income during the 1970s to 50% around in the 2000s–2010s.
Of course, social and world situation are not the same as it was in the 19th century up to the big crisis. But the conclusion of Piketty is that, because the degree of capital concentration is going to rise all along the 21st century, it is likely that inequalities are not only going to get the same level than the one they reached one century ago but that they are probably going to increase. Contrary to Kuznets, he does not think that the problem of inequalities in the context of capitalism is going to be solved quite naturally. Solutions have to be done at a political level and implemented willingly.

It is understandable that the “well-off’s” and the “tu hao’s” of all the world are not satisfied by this kind of analysis and conclusion. It is probably why the book of Piketty was severely criticized by some elements of the ruling and dominant classes. Of course, we have to take this critical aspect of his book into consideration. But it is not a reason to not discuss its content from a theoretical point of view.

2. Theoretical Points on Debate

In this economic book, theory is apparently poor. But statistics are always tightly connected with theory. It is not possible to say, from a scientific point of view, that statistics are facts and that theory comes after the facts. In his book, Piketty has to make theory to get so-called “facts.” He is always taking a theoretical point of view, saying, for instance, that capitalism is an acceptable system and that socialism is not, explaining that Marx has not understood the role and importance of techniques for the development and sustainability of capitalism, explaining that Solow gives the solutions of his problems, introducing inequalities as the most important problem of capitalism, and so on. In reality, Piketty is using theory all the time, but, often, in an implicit way, or with technical reasons.

The first point I am going to discuss in this second part is illustrating what I just said. The ratio $\frac{K}{Y}$ is mainly for Piketty a very good tool for the measurement of capital. To a certain extent, it is true. But $\frac{K}{Y}$ is more than a technical tool. It is a concept and has theoretical meaning, not only statistical efficiency.

My second point is connected with inequalities. Why capitalism produces inequalities? Does it produce more or less inequalities than a feudal system, for instance, and why? These capitalist and feudal inequalities are there of the same nature here and there? This kind of “theoretical” questions seems to be out of the research field of Piketty. I will try to show that “capitalist inequalities” are historically determined and get their roots in the “capitalist structure,” of which $\frac{K}{Y}$ is a simplified image.

My third point deals with the solutions proposed by Piketty to correct inequalities in the context of global capitalism. I am afraid they are illusions, and I am going to say why.
2.1. The Meaning and Importance of the $K/Y$ Ratio

This ratio seems to be very important for Piketty for two reasons.

(a) The first one is that this author is studying inequalities (and capital) at a world scale. He is therefore comparing capital of many countries. Suppose now that he compares directly the quantities of capital of two developed countries, United States and France, for instance. It is quite sure that he will get the result that national capital of the States is far bigger than the one of France. But is this result very interesting to study inequalities? To a certain extent, it is an expected result, which brings no special information for the topic.

If we want to compare quantities in a more significant way, we have to compare some qualitative aspects of these quantities and not directly the quantities. For example, we have to compare how much profit is returning per unit of capital, in the States and in France. At this moment, we can start more vigorously the discussion concerning inequalities.

(b) The second reason why $K/Y$ is important for him comes from the fact that he wants to know how capital is going to evolve during the 21st century.

Happily for him, in the tools box of economists, there is the Harrod-Domar (H-D) model which gives an estimation of the rate of growth, knowing the rate of saving and the ratio $K/Y$. Some economists are thinking that this tool is rotten, but if you consider, as Piketty does, that this model gives a “good” structural and robust relationship between the rate of growth, $g$, the rate of saving, $s$, and the ratio of productivity of capital, $K/Y$, you can play with this relationship and get an expression of $K/Y$ as a function of $s$ and $g$.

Instead of $g = s/K/Y$ (the H-D model), you write that $K/Y = s/g$. The result of this writing, which seems formally correct, is that, if you know $s$ and $g$, you can deduce $K/Y$.

It is why Piketty starts his book with a long discussion on the past of $Y$ and on its possible evolution. After that, he studies $K/Y$ from 1700 to 2010. Finally, making assumptions on $s$ and using his previous results and assumptions concerning $Y$, he concludes on a certain evolution of $K/Y$ during the 21st century. This is the result showed by Figure 5. This graph illustrates what I already said concerning the expectations of Piketty relative to inequalities. After a period of decrease, capital rose after 1950 in the world. He thinks that this movement will continue after 2010 ($K/Y$ is going to rise), in such a way that inequalities are going to increase all along the 21st century, and all around the world. The inequality phenomenon should become, according to Piketty, a “capitalist-global-21st century” phenomenon.

The fact that this conclusion is an explicit critic of capitalism is not a scientific reason to agree. I am not going to show in detail the weaknesses on which it relies. I am only concentrating, from a certain point of view, on the concept and on the
The theoretical interest for $K / Y$ mainly came, after World War II, from the debates raised by the Keynesian school of Cambridge, United Kingdom, and more precisely by Joan Robinson and Nicholas Kaldor. But this concept was not really new in economic theory.

Without trying to say that Marx said “everything before everybody,” it is true that his concept of “organic composition of capital” (OCC) can be considered as the first approach of $K / Y$ in the history of economic thought. This point was lighted for the first time, at least in France, by Paul Boccara, explaining that $K / Y$ and OCC are tightly connected (Boccara 1974). I am going to say why the understanding of $K / Y$ as OCC gives more information on inequalities than it comes from the way Piketty is introducing this ratio.

Piketty introduces $K / Y$ on the basis of an accounting definition.

Let $\alpha = P / Y$, the national share of profit in national income (with $P =$ the national amount of profits and $Y =$ the national income).

Divide $P$ and $Y$ by $K$, nothing is changed. It comes,

\[ \alpha = \frac{P/K}{Y/K} = \rho \cdot \beta \] (with $\rho =$ the national rate of profit and $\beta = K / Y$).
The conclusion of Piketty is “As everybody can see, the part of profits in the national income is a function of $K/Y$.” Of course, he knows it is not a theoretical explanation. Anyway, the relationship between $\alpha$ and $K/Y$ is, according to him, “the first law of capitalism.”

This is the only theoretical discussion made by Piketty concerning the economic influence of $K/Y$ on $\alpha$, the share of profits in national income. I think this explanation is very poor.

I want to say, now, that, compared with Piketty’s explanation, the OCC theory, just started by Marx, is far more stimulating.

Within his main works, *Das Kapital*, Marx tried to make the full theory of industrial capitalism, explaining why this system is powerful and why it is weak. The strength of capitalism is that it uses and develops $K$, the global quantity of tools, buildings, infrastructures, know-how, and so forth, to produce $Y$, the total product. $K/Y$ is the ratio of past labor $K$ (accumulated by capitalist) to put into motion a quantity of present labor which becomes the value $Y$ of a certain amount of goods. $K/Y$ is, by himself, the connection of Capital and Labor, the connection of past labor time and present labor time.

There are several reasons why the relationships between $K$ and $Y$ can be disturbed, even all the time. Contrary to what Piketty thinks, disequilibrium is the rule, not equilibrium. And it is the rule not only for the short term but also for the long term. This situation, which is always unbalanced, has incidences on the way $Y$ is shared.

It is why $K/Y$ can be considered as so important to understand the evolution of this share, and, consequently, of inequalities. For example, it is easy to understand that owners of $K$ have evidently the best place to get and eat the bigger part of the cake. $K/Y$ is not important because it appears in a definition of profit or for technical reasons. It is important because the core of industrial capitalism is in the struggle for the production and the share of new Labor $Y$ through the ownership of old Labor $K$.

### 2.2. Capitalist Inequalities

Piketty is not giving more explanations concerning the concept of inequality. Why capitalism produces inequalities? Why inequalities are the main economic topic? Which kind of inequalities? These inequalities are they the same in every mode of production? Do they have to be reduced, eliminated, canceled, controlled? How can it be possible?

I am not going to criticize Piketty because he has not treated all the problems. There are anyway some he should have at least rapidly treated at a theoretical level, before making calculations.
(a) The first one concerns the nature of inequalities. Theoretically, with capitalism, there is no political inequality. Everybody is equal. The consequence of this postulate is that capitalist inequalities are likely economic inequalities. And because capitalist economy is the production and consumption of value, capitalist inequalities are concerning production and consumption of economic quantities of value.

(b) The second one concerns the source of these inequalities. The answer I bring is connected to Marx theory. Capitalist mode of production relies on a basic inequality, existing between those who are owners of production means and those who are only owners of their labor force.

Figure 6 comes from a Henri Houben article explaining how the capitalist system is produced and reproduced (Houben 2014). Labor, on one hand, is producing profit which makes saving, generating wealth which is used again with labor force. This side is a brief description of the accumulation process of capital. It relies on the private property of means of production and commerce, on the quasi-private access to the banking system.

But, on the other hand, labor is producing his own means of reproduction. What this production factor can get from the production process is consumed and disappears from the economic process, which makes the labor force ready for a new round of exploitation. This side can be named the side of reproduction of labor force.

Figure 6  How the Capitalist System Is Produced and Reproduced
Notes: Labor (Travail) is producing profit, used by capitalists for Saving (Épargne) and Consumption (Consommation). Their saving go to their Patrimoines (Patrimoines), and this movement constitutes the process of accumulation for a new round with Labor. But Labor is also producing his own means of consumption. Labor goes to these means through Wages (Salaire), and this movement constitutes his process of labor force reproduction, to be ready for capitalist exploitation.

These two processes (reproduction of labor force, accumulation of capital) generate the capitalist system reproduction and generate its own set of inequalities. Inequalities of a certain nature are rooted in the capitalist mode of production and consumption. Because Piketty does not say a word of the systemic source of
inequalities, his explanation tends to be a moral one. At least, one of the problems he has to solve, when explaining how it can be solved, is the following: is it possible to modify inequalities generated by capitalism without touching the roots of capitalism?

(c) The third problem, according to me, that Piketty should have mentioned explicitly is to know between which agents these economic inequalities have to be analyzed? Are there inequalities between individuals, between classes, between nations?

In reality, the answer given by Piketty is that inequalities we have to consider are only inequalities between individuals. The so-called classes he presents are “statistical classes,” which is the usual American way of not talking of classes. In Marxist theory, classes are defined according to the role that their members play in society and first of all in economy. It is the reason why they are a “group” and not a “sum.” He does not care of inequalities between classes. What he names “the dominant classes” or the “middle classes” or the “popular classes” are only a statistical addition of individuals.

In the same manner, Piketty does not care of inequalities between nations, although this aspect of current life is so evident. There are dominant nations and there are dominated nations. How to explain this phenomenon? Is it because some people are stupid and some others are clever?

I think that the Piketty’s way to describe classes is a fake way from a theoretical and practical point of view. Class struggle is not the war of the poor people against the rich people because some are rich and some are poor. It is not a war for envy motivation. It is a war between those who are permanently rich to make the poor permanently poor.

Reciprocally, it is the war of the poor against those who have such a position in economic society that they are permanently rich and them, permanently poor. Inequalities among nations, and more generally what Marxists name unequal development, is a current topic among Marxists when they study capitalist inequalities in the world. For Piketty, it seems to be out of his intellectual interest.

I repeat that I do not criticize Piketty because he did not treat these points carefully. I am ready to understand he did what he could. In a scientific matter, he should have known that there is a basic difference between doing what he can and ignoring what he has to do.

But what about the solutions proposed?

2.3. How to Control the Fabric of Inequalities Process

Piketty has, at least, the merit of coherence. The solutions he proposes are in accordance with the analysis he makes. They are conservative solutions of the capitalist system.
Of course, he thinks and observes that industrial capitalism is permanently generating inequalities. Even after the two world wars, when capitalism was knocked down by the revolutions of Russia and China, it was able to stand up. Furthermore, in the 1970s, dominant capitalist classes of developed countries were able to start a new step of imperialism, with global freedom and deregulation for capital. The train of inequalities was becoming a high-speed train. But, in the same time, he is convinced that it is possible to control the speed of the train. Fiscal policy is, according to him, the means of such control.

Concerning direct fiscal policy, there are two big families of taxes. One is related to revenues, the other is related to capital. Observing data about fiscal policy on revenues, Piketty notes that, during the 20th century, a “fiscal revolution” happened.

To cover the Social State spending (what Western economists name the Welfare State), relatively rich people had to pay more taxes on their revenue. Capitalist and high-level wage earners (the new middle classes) had to pay revenue taxes for financing the spending needed by the poor people of society. Today, however, the level of these specific taxes seems to have reached and over passed their maximum. They are therefore declining everywhere, and Piketty shares this opinion that they are not going to be raised so much. They would have reached an historical and experimental limit.

This is the reason why he proposes a “new fiscal policy revolution,” by transferring the tax burden from revenue to capital. This transfer, of course, should be done at a worldwide scale, due to the present globalization of economic business.

As Figure 7 shows, taxes on capital, through the examples of three developed countries, are rather diminishing after the 1930–1980 period. But because capital, the source of inequalities, is going to get more power during the 21st century, and because the world gives now to large capital owners so many ways to escape fiscal policy, he proposes to install a world tax on capital.

Is it possible to install world institutions forcing the different capitalist States to put taxes on capital? It is a very large and old theoretical problem which was raised before Piketty was born. We could also say that war has to be prohibited at a world level because it is contrary to the interest of people and even of capitalists. But we can also doubt with reasonable reasons of the efficiency of such measures. Even in a global world, solutions have to be done and implemented at a national level, with the strong determination of popular classes to fight for their success, even if it is possible and necessary that agreements be signed between different nations.

Without discussing more this point, which was mainly and vigorously discussed at the beginning of the 20th century, this proposal from Piketty can be considered
as a utopian one. It is not very dangerous for the capitalists to read about that. They can sleep quiet.

3. Conclusion

As I was writing at the beginning of this article, Piketty’s book is a reformist one. It is in the same time, critical of capitalism and in favor of capitalism. It is, according to me and my theoretical references, the explanation of its weaknesses.

Of course, I do not have to appreciate the scientific quality of a book according to the political convictions of his author. But there are relationships between the two, and science is not a sort of white and comfortable cloud floating above society. Science is deeply rooted in society.

The fact that this book has big weaknesses does not mean that it has no interest. It has. As everybody does when reviewing this book, I also stressed upon its historical and statistical approaches as an illustration of this point.

But I would like to stress an idea which is, maybe, less common. In my opinion, reformist ideology has got a historical limit with globalization. The reformist use of standard Keynesian theory is no longer able to give to reformism as a doctrine enough vigor and nerves. This family of thinking has to find other theoretical ways of thinking. Piketty’s approach of modern economy is certainly one of them.

Figure 7  The Superior Tax Rate on Heritages, 1900–2013

Source: http://piketty.pse.ens.fr/fr/capital21c.
Notes: The superior tax marginal rate on heritages (concerning the highest ones) in the States passed from 70% in 1980 to 35% in 2013.
Reformism is not only attacking revenues. They are not only concentrating on revenues. They have to concentrate on capital, even if they understand capital as a quantity and not as a set of relationships.

There is also another approach in contemporary thinking to feed reformism. It deals with China. Because this country is developing in a specific way, mixing socialism, market economy, and capitalism, it appears to be, for some Western economists, a field of observation for thinking about economic reformism. I do not say that Chinese policy is reformist. I just say that the complex policy of China, which is dynamic and changing, brings a sort of food to reformist thought.

It means that Piketty’s book could be a part of a larger effort to rebuild a new reformism in a global world.

Notes
2. See http://topincomes.g-mond.parisschoolofeconomics.eu/.
3. After she was nominated as ambassador at the United Nations, Susan Rice said in an interview to Michele Norris, a journalist of NPR News (February 23, 2009, Washington), that “America is back.” This arrogant sentence, which was also used by Hillary Clinton as a leitmotiv describing American Foreign Policy, suits very well, in my opinion, the economic return of Capital. Can we say, in the same time, that Marx is back? Personally, I am not sure.
4. This expression is not new. Thorstein Veblen published his _Theory of the Leisure Class, an Economic Study of Institutions_ in 1915. Twelve years later, Nicolai Bukharin published his _Political Economy of the Leisure Class_ (1927), which was translated in French as _Economie Politique du Rentier_.
5. I once more time precise the difference between the Piketty approach of capital and mine. For Piketty, capital is a quantity, and, according to me, a quantity the definition of which is questionable because he puts housing in his definition. But the main point here is that he analyses capital only as a quantity, a statistical result. I think that capital is a relationship and not only a quantity. Of course, there is relation between quantity and power given by relationship. But I could be the biggest capitalist in China without possessing a big capital as a quantity. For example, to be a capitalist needs money for business. I do not need to be the owner of this money (of this quantity of capital) if I am able to get access to the banks and get the credit I want. There is a qualitative difference between capital as a quantity and capital as a relationship. Because he is only a statistician, Piketty is confusing the two kinds of approaches and does not see any interest in the second one.

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INTRODUCTION: THE MATERIALITY OF NATIONS IN GEOPOLITICAL ECONOMY

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Abstract: This introduction contextualizes the articles that follow in a discussion of relevant elements of the critical theme of the “materiality of nations” in geopolitical economy. In particular, it focuses on the need to understand the evolution of capitalist states and their domestic and international economic roles in terms of the contradictions of capitalism; the need to unite the normally separated economic and political logics of capitalism in an overall historical understanding; the need to understand combined development as including capitalist combined development and the dialectic of uneven and combined development as the key driver of capitalist international relations.

Key words: state and economy; combined development; uneven and combined development; geopolitical economy

Over the decades of neoliberalism, the intellectual currents that most doggedly battled its dogmas were those that resisted the assertion that the state had no economic role in capitalist societies. They insisted that capitalist states had always played critical, indeed, indispensable economic roles. The “developmental states” literature (Amsden 1992, 2001, 2007; Hamilton 1986; Wade 1990), the “sceptics of globalization” (Hirst, Thompson, and Bromley [1996] 2009; Wade 1996; Weiss 1998), and the “models” of capitalism (Coates 2000) are some of the more prominent among these. By contrast, as I pointed out in Geopolitical Economy (2013) and elsewhere (Desai 2010, 2012), neoliberalism found a most unexpected echo in various currents of Marxist and non-Marxist critical thinking that accepted an extreme “free market and free trade” understanding of capitalism. This ensured...
that in recent decades the insistence of the economic centrality of states has remained the work of non-Marxist and social-democratic thinkers.

In insisting on the “Materiality of Nations,” geopolitical economy as a new approach to the study of the capitalist world order seeks not only to combine the Marxist tradition with currents recognizing the economic centrality of states but also to accomplish it in a thorough and theoretically consistent fashion. *Geopolitical Economy* laid the foundation for this in many ways. It traced the idea of the necessarily interventionist capitalist state theoretically to the contradictions of capitalism: they had to be managed and the state was foremost among the agencies capable of, and usually charged with, doing so. It also showed that, notwithstanding the popularity of certain passages from *The Communist Manifesto* among those who would argue that Marx was the *ur*-theorist of “globalization,” Marx and Engels never had a “free market and free trade” view of capitalism. After all, they lived at a time when protectionism was growing as countries such as the US and Germany industrialized behind protectionist barriers and with considerable state intervention and challenged Britain’s early industrial lead (see also Chang 2002). Marx and Engels could hardly have failed to notice this, keen observers as they were of the economic developments of their time. Not surprisingly, therefore, not only did they recognize the centrality of the state in managing capitalism’s contradictions domestically, they also noted the international actions of economically interventionist states aimed at positioning themselves and their capitalists favorably in the world economy and its international division of labor. While the specifically capitalist pattern of international relations this implied would be systematically identified only later by Trotsky as the dialectic of uneven and combined development (UCD), it is definitely anticipated in Marx’s own writings. For instance, in his comments on Henry Carey at the end of the *Grundrisse*, Marx notes how the “disharmony” of capitalist relations of production takes its most acute forms “on the grandest terrain where they appear, the world market, and in their grandest development, as the relations of producing nations” (Marx [1858] 1973, 886–87).

In addition to tracing the idea of the materiality of nations and the critical importance of their domestic and international actions for their national capitalism, *Geopolitical Economy* also showed that the idea of UCD, though systematized by Trotsky in his *History of the Russian Revolution* in 1930, was an understanding shared by the Marxists of his generation and formed the intellectual background of the classical theories of imperialism. The latter were also the first theories of international relations—the first theories to identify a specifically capitalist pattern of international relations. *Geopolitical Economy* also proposed an interpretation of UCD, specifically of combined development, that was at once novel in contemporary Marxist scholarship and more accurate. The vast bulk of
contemporary Marxist scholarship today takes one of four positions on UCD. A first set of scholars, the largest, ignore it entirely. A second and third set treat it as a condition, whether they focus exclusively on the unevenness of capitalist development or confine the idea of combined development to the co-existence, whether in the world as a whole or in a single country or region, of modern and traditional forms, a notion not unlike that in modernization theory. And while some scholars do treat it as a project aimed at skipping steps in the process of development (by developing the forces of production), they confine the term to socialism. Geopolitical Economy reminded its readers that for Marxists of Lenin and Trotsky’s generation, combined development would have referred, first and foremost, to the state-directed industrialization of countries such as Germany and Japan, behind protectionist walls. So combined development as a project referred to the state-directed, accelerated development of the forces of production, under the “whip of external necessity” cracked by the development of other centers of capitalist production, could take capitalist forms (as in Germany, the US, or Japan from the late nineteenth century onward) as well as communist ones (as, classically, in Russia and China in the twentieth century).

This definition of combined development is critical in understanding that it has historically been the only effective form of resistance to imperialism, which would subject all less developed parts of the world to relations of complementarity to the developed capitalist regions. Combined development has been the only way of resisting this and creating, in its place, a relationship of similarity with the developed world instead. In effect, it has been the principal way in which productive power has spread around the world. In this fashion, geopolitical economy re-inscribes the normally separated field of “development studies” at the core of the study of the capitalist world order. Combined development as a struggle against subordination through complementarity, when it is undertaken (and one can assume neither that it will be undertaken nor that it will be successful when undertaken), and the resistance of the dominant countries against it form the substance of capitalist international relations.

Thus geopolitical economy insists that nations are material products of capitalist development just as much as classes are, something which Marx also recognized. In his writings of the mid-1840s on free trade, Marx scoffed at naïve free trade views:

If the Free-traders cannot understand how one nation can grow rich at the expense of another, we need not wonder, these same gentlemen also refuse to understand how within one country one class can enrich itself at the expense of another. ([1848] 1976, 464–65)
Finally, therefore, in putting the international struggle between dominant and contender powers and class struggles within them in a single frame, geopolitical economy seeks to relate the economic roles of capitalist states to capitalism’s contradictions without, of course, reducing that role to them, something in which the historical rather than theoretical or “social scientific” approach is essential (Desai, forthcoming).

This symposium is the third work to interrogate, explore, and develop geopolitical economy as a new approach to understand the structure and dynamics of the world capitalism. The two previous volumes—Theoretical Engagements in Geopolitical Economy (Desai 2015b) and Analytical Gains of Geopolitical Economy (Desai 2015c)—having explored theoretical and analytical themes more broadly, the essays in this symposium all focus on one key theme of geopolitical economy: the materiality of nations. While some engage with it generally and theoretically, others explore a particular aspect.

Jonathan Pratschke examines the contribution of Geopolitical Economy to Marxist state theory by juxtaposing it with three other major contributions, those of Robert Brenner, Alex Callinicos, and David Harvey. In the “minefield” full of “unresolved problems” that is Marxist state theory, Pratschke’s discussion of the four contributions raises critical points about the materiality of nations which need to be better understood. He points out, firstly, that the Marxist tendency to understand the relation of the capitalist state to its economy in terms of taxation and revenues, as did O’Connor, Block and Offe, is problematic. It “assumes what must be explained, namely the nature of the relationship between state and capital” and leads to the assumption that the “state is driven at all times to maximise its own power.” This assumption is clearest in Callinicos’s (2007) insistence that “there is, necessarily, a realist moment in any Marxist analysis of international relations and conjunctures” which “must take into account the strategies, calculations and interactions of rival political elites in the state system” (542). Similarly, Harvey also distinguishes, like Arrighi, between the territorial and the capitalist logics of power. If we are to produce an understanding of the drivers and characteristic patterns of specifically capitalist international relations, then, surely, the whole problem is to understand and theorize their inextricable intertwining in capitalism, an intertwining which is, Geopolitical Economy suggests, rooted in the nature of capitalist contradictions and the need for any reasonably successful capitalist state to manage and, as far and long as possible, contain them.

This intertwining can only be understood historically, rather than social scientifically. What is needed is a historical understanding of the relation between the capitalist state, its national capitalist classes, and their joint and several relations to the economy at large, an independent entity whose shape is determined as much by the balance of class forces between capitalists and other classes as by the
actions and desires of the capitalists themselves. Only such a theorization can account for the historical facts that not all capitalist states may be willing and/or able to maximize their power (or revenues). Only such a theorization can also provide the necessarily complex accounts of the role of capitalist states that are neither spectacularly successful nor spectacular failures in managing their economies but represent historically evolved combinations of abilities and inclinations which are, in turn, the complex results of internal class configurations and the state’s international position.

Secondly, Pratschke notes in relation to Harvey (though the point is also valid for many other writers) that there is a tendency to understand capitalism’s expansionism in a sort of heroic and, one might add, largely Schumpeterian fashion, rather than as driven by its contradictions, as Marx might have understood it (on the actual Schumpeterianism of much of what passes for Marxism today, see Desai 2015a). Given that the Marxist approach is rightly historical rather than “social scientific,” even the contradiction-driven expansionism of capitalists and their states needs to be historically specified for individual capitalist states (and types thereof) and the eras of capitalist development. Pratschke’s questions in this regard are all well taken: why are states and their administrators driven to compete at the geopolitical level, if not by virtue of economic considerations? Why should they pursue territorial expansion or foreign domination for their own sake?

Pratschke concludes with three entirely salutary recommendations. He suggests first that we understand capitalist contradictions and crises as motivating rather than explaining state actions. Secondly, he advises against structuralist and functionalist accounts of the relations of state and capital and understand those relations instead as (historically) contingent. This would leave open the possibility that states’ actions can sometimes go athwart capitalist’s interests. Finally, he proposes that we take the task of understanding the “international” as a determinant of state actions anew in a historical fashion which can take account of “context-sensitive” and “path-dependent” patterns.

Omer Moussaly mines the classical Marxist writers for material that can flesh out the idea of the materiality of nations. Hilferding, for instance, noted the distance between the free market and free trade rhetoric the bourgeoisie deployed in its battle against the absolutist state to win its own economic freedom and the actual policies it followed in creating and maintaining a capitalist economy: in every case the latter involved policies of protectionism, imperialism, and other state actions in line with the prescriptions of economists like List and Carey. This is as true of the so-called “late industrialisers” as it is for England (see also Desai 2013, 31–33).

When, in this vein, Moussaly draws attention to Rosa Luxemburg’s argument about the centrality of the “non-capitalist environment” to capitalist expansionism, he leads us to reflect on how and whether the near exhaustion of such an
environment today contributes to the “secular stagnation” that afflicts the western world. After all, post-war decolonization and state formation have reduced the easy access the advanced capitalist countries used to have to this “non-capitalist” environment. This not only increased the importance of domestic and working-class demand, enabling the rising real wages of the golden age (Desai 2015a), but also, with neoliberal policies restricting the expansion of world demand, made the nature of international competition for markets into a zero-sum game (Brenner 1998; Desai 2013, forthcoming).

Finally, Moussaly discusses how Bukharin conjures up a vividly dynamic conception of how the changing nature of the capitalist international system as UCD assumes that states become more and more necessary with the development of capitalism and how national economies are “engaged in a continuous process of internal regeneration” and constantly “changing their position . . . in relation to each other.” Moussally’s discussions of contemporary writers underlines the need to return to these classical texts in understanding the forms of capitalist international relations and imperialism today.

Giuseppe Montalbano’s contribution continues the work, begun by Claude Serfati (2015), of framing the EU and its evolution through UCD. Whereas Serfati had placed the long-term processes of EU integration itself, both productive and financial, in the framework of UCD, questioning, inter alia, the idea of a unified European capitalist class or capitalism, Montalbano applies it specifically to the EU’s regulatory response to its financial crisis. Focusing on the application of Basel III provisions on capital requirements and on the process of reforming Europe’s banks, he points to the asymmetrical power relations among member states and the concrete international coalitions they build depending on the needs of the fraction of capital they represent. In particular, Montalbano analyzes the competition between the UK and German-French blocs which represent “different capitalist projects embedded in social constellations of domestic and transnational economic interests.” Combining geopolitical economy with the neo-Gramscian idea of a “historical bloc” while questioning the tradition’s assumption that a “declining” US hegemony (one of Geopolitical Economy’s arguments was that there never was one) was replaced by the creation of a unified transnational capitalist class, Montalbano prefers the idea, more compatible with geopolitical economy, that “transnational hegemonic projects” are undertaken not by unified “transnational capitalist classes” but by “regional historical blocs.” This approach also entails an understanding of the domestic balance of class forces: “the class fractions more embedded in the transnational circuits of capital accumulation are nevertheless rooted in political and societal domestic contexts in which they build up the necessary hegemonic conditions of their outward expansion.” Here, like Pratschke, he also rejects rationalist models for state actions.
However, Montalbano’s originality lies in proposing that internationalized capitalist groups make contingent alliances with states whose internal (class and political) dynamics permit them to take positions aligned with the former’s interests. This approach explains both the build-up to the crisis as well as the post-crisis efforts to re-regulate the financial sector. As is widely appreciated, the depth of European banks’ exposure to the US credit bubble was exceptional, and when it burst in 2008, the weakening of the European financial system laid the basis of the Eurozone crisis that would follow. This build-up is analyzed by Montalbano thus:

The impact of the international credit expansion and the rapid development of financial operations and innovative products reacted with Continental financial systems grounded on a strict relationship between banks and industry. In this context the loopholes and regulatory arbitrages left by the difficult and downwards compromises in the FSAP process, which made the EU system vulnerable to the increasing operations in the financial markets, must be understood as a result of the competitive conflicts among national strategies of restructuration in the financial/industrial domestic capitalist patterns.

In the post-crisis regulatory response, the Anglo-American financial bloc has been pitted against a Franco-German one and the latter was able to ensure the “watering down” of some of Basel III’s most stringent capital reserve requirements, while banking regulations aimed at separating the more ordinary and necessary banking activities from the more risky and speculative proprietary trading parts of the system have, so far at least, been confined to the more important elements of regulatory discretion to the national level, ensuring that its EU-wide character remains in abeyance. Montalbano’s analysis underlines the continuing importance of national economic regulation even in the EU context while demonstrating the relevance of his conceptual innovation, that of international or regional historical blocs as critical actors in geopolitical economy.

A great deal of the attention in geopolitical economy so far has been focused on issues of trade and investment—and the surfeits of goods and capital which national capitalisms systematically create and for which states strive to find outlets through their international policies. Petar Kurecic, however, returns us to that critical driver of imperialism—searching for and securing access to raw materials or resources (see also Carpintero, Murray, and Bellver 2015). Given how important resource conflicts have always been and remain, given that the most intense wars are being fought in and over the control of the oil-rich Middle East, integrating an understanding of these into geopolitical economy is an enterprise of utmost importance and urgency.

Kurecic also performs another invaluable service when he discusses Stuart Corbridge and John Agnew’s use of the term geopolitical economy in the late...
1980s and early 1990s (which they soon dropped) and related writings and how they relate to the very different (and now spreading) use of the term initiated by *Geopolitical Economy* (2013) and other publications since, as well as the term “geoeconomics” coined by Edward Luttwak (1990; see also Desai 2013, 185). Preferring geopolitical economy in its newer usage, Kurecic employs it in an important preliminary attempt to frame an understanding of resource wars in a comprehensive understanding of the drivers of the geopolitical economy of our time, in terms of UCD and multipolarity. Based on a survey of the existing literature on resource wars and conflicts, his conclusion is that it is not the mere availability of resources that leads to conflicts: after all, many of the most powerful countries—countries that have not witnessed wars in recent memory—are among the most well-endowed with resources. Rather, in the context of the UCD between dominant states seeking to maintain their privileged position in the world economy and contender states seeking to challenge it and seeking to position themselves better in it,

the weak states, especially those located in the unstable parts of the world, being underdeveloped and resource export dependent, are most likely to be pulled into resource conflicts, which can be studied as geoeconomic-geopolitical conflicts. Those conflicts are outcomes of geoeconomic rivalries, through which dominant and contender states are expressing their “unquenchable thirst,” mainly for non-renewable resources, of which oil is currently the most important one. Consequently, these conflicts are destroying and tearing apart the states in which they are fought, thereby making those states, and the regions in which they are located, unstable in the long-term.

Finally, we come to Emanuel Sebag de Magalhães, Hélio Farias, and Ricardo Vieira’s discussion of Jose Luis Fiori’s Capitalist Interstate System (CIS) as a critical corrective to Latin American structuralism and the mainstream of International Political Economy (IPE) and its resonances with geopolitical economy. Their critique of IPE for its economism and acceptance of hegemonic stability theory (HST) resonates with the critique of “globalization” and HST in *Geopolitical Economy*, though in an interesting twist they see no contradiction between US power and that of national capitalism, arguing instead that the latter are “manifestations of the strategy of the former combined with the will to power and wealth of the local elites.” This view is hardly devoid of exemplars, particularly among the “comprador” elites of Latin America, and is quite compatible with the geopolitical economy approach which, while regarding combined development as the sole force spreading productive capacity, assumes neither that it is bound to be undertaken by all national states nor that it will succeed
when undertaken. The defects of Latin American Structuralism, as Sebag and his co-authors argue, promoted the rise of the CIS perspective in the work of Tavares and Fiori at the Institute of Economy at the Federal University of Rio de Janeiro.

The CIS approach is rooted in Braudel’s analysis of the early development of capitalism in Europe in which the interconnected development of the capitalist state and economy is explored (see also Krpec and Hodulak 2015). While, on the one hand, the “national blocs of power and capital” that were thus formed were possessed of an “expansive momentum” that led them to incorporate increasingly larger external economic spaces in order to stimulate the accumulation of capital and sustain ever-growing levels of spending associated with the evolution and spread of military power, on the other hand, “capital never lost its association, via currency, debt and the financial system, with their national states of origin, which are the source of the privileged and monopolistic positions that make possible its accelerated accumulation.”

While the CIS perspective sheds much light on the evolution of the world capitalist economy, and while Sebag de Magalhães, Hélio Farias, and Ricardo Vieira contribute to the critical task of integrating the field of development into IPE, from which it tends to be shut out without warrant, their approach remains a little one-sidedly geopolitical, rather than geopolitical economic. As the authors point out, “different national development processes occur in response to geopolitical challenges, as an invasion or threat of foreign invasion” and the problem of development is not an economic one, and is governed by the logic of power and politics, not of markets, capital and financial transactions. Consequently, the solution to its contradictions and particular issues shall be discovered not in economic theory, in class struggles based on economic interest or the “right” economic policies, but in the doctrines of war, the international alignments and the power strategies of nations.

While the logics of state and war remain insufficiently linked to those of the political and geopolitical economy of capitalism and its contradictions in CIS, it is not without its insights for geopolitical economy—for example, the idea that modern states were always hybrid beings, “half-states and half-empires,” throws new light on capitalism’s innate expansionism. For all that, however, understanding the specifically capitalist character of evolution and dynamics of the modern world order was and remains geopolitical economy’s assignment.

References


CLEARING THE MINEFIELD: STATE THEORY AND GEOPOLITICAL ECONOMY

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Abstract: Four recent books on competition and crisis in the 20th century have contributed to renewed interest in Marxist theory while reopening some contentious issues. While central to all four books, the role of the capitalist state is not theorised systematically, a weakness which reflects an enduring gap in Marxist theory. One of the challenges when theorising the state is that the latter must be situated within a complex set of multiscalar relationships involving accumulation and competition. The author argues that the state must be understood as having multiple, intersecting determinations and suggests that a satisfactory theory of the state may be constructed by showing how these determinations arise from the logic of capitalist competition and crisis. Conceptualised as generative mechanisms, they denote not only the main influences on state decisions and behaviour but also—and crucially—the fundamental limits on state decision making.

Key words: capitalist state; Marx; imperialism; geopolitical economy; competition

Introduction

Four recent books on competition and crisis in the 20th century have contributed to renewed interest in Marxist theory and stimulated wide-ranging and vigorous debate. Harvey (2003) and Callinicos (2009) review and seek to reformulate Marxist approaches to imperialism, while Brenner (2006) and Desai (2013) provide detailed accounts of global capital accumulation, competition and crisis during the post-war period. While central to all four books, the nature and role of the capitalist state is not theorised systematically, partly because, as Callinicos (2009) observes, “[t]he Marxist theory of the state is a minefield in which many
unresolved problems and unfinished debates lurk” (73). These four authors nevertheless identify mechanisms relating to accumulation, competition and the interstate system which are of central importance to state theory.

Marxists must arguably return to this “minefield,” as the development of a satisfactory theory of the state is essential to the wider development of Marxist theory. The question of the capitalist state cuts across numerous debates, from economic crisis and welfare systems to political corruption and industrial struggle. The aporias of Marxist state theory have left a trail of unresolved issues; conversely, a renewed effort to clarify these can make a valuable contribution to ongoing debates about capitalism, international relations and geopolitical economy.

One of the principal challenges when theorising the state is that the latter must be situated within a complex set of relationships involving accumulation and competition that are articulated across different levels of the social order. As Harvey (2006, xxix) observes, “It is both a virtue and difficulty in Marx that everything relates to everything else. It is impossible to work on one ‘empty box’ without simultaneously working on all other aspects of the theory.” I argue that the state should be theorised in relation to multiple determinations within a stratified social ontology, characterised by emergence and complexity (Bhaskar 1998; Callinicos 2009, 32; Marx 1973, 100–101). This implies that it is not possible to theorise the state in relation to a single mechanism, process or relationship. The challenge is thus to integrate these determinations within broader Marxist theory, maintaining a coherent account of competition, crisis and the state at the national and international levels.

The four books discussed here were chosen for a number of reasons. Firstly, while each author accords a central role to the capitalist state, there are striking gaps in their theoretical treatment of this topic. Two of the books provide concrete historical analyses (Brenner and Desai), while the other two (Harvey and Callinicos) provide a more abstract theoretical treatment of Marxist theories of competition, crisis and imperialism. As I will show, all four offer a strategic vantage point for theorising the state, as they emphasise the dimension of the international, which has often been ignored in Marxist state theory (Barker 1978), but is arguably of crucial importance.

I will begin by outlining how the authors approach the state and theorise its role, highlighting any difficulties or lacunae in relation to this aspect of their analysis. I will then describe three determinations which together can make a useful contribution to explaining state decision making and help to define the limits to this process. Once developed in an appropriate manner, I believe that these determinations can yield a powerful account, grounding a distinctively Marxist theoretical approach to the capitalist state.
Competition and the State: Brenner and the Long Downturn

Robert Brenner’s work on the causes and consequences of economic crisis during the post-war period has been widely discussed (Clarke 1999; Dumenil, Glick, and Levy 2001). This discussion has centred on his approach to economics and the role he assigns to overproduction in explaining the “long downturn” in capital accumulation since the 1960s, while his treatment of the capitalist state has not been analysed in detail. At a systemic level, Brenner (2006) argues, “the economy as a whole constitutes a field of natural selection by means of competition on the market which weeds out those units that fail to produce at a sufficient rate of profit” (13). As investments yield profits only after having proved themselves in a potentially destructive competitive war (Brenner 2006, 27–28), there is a constant risk that producers collectively expand supply beyond the limits of the market.

In Brenner’s view, the perpetuation of crisis tendencies during the long downturn was due to two factors: (a) the profit-maximising steps that capitals found rational to take in response to declining profitability, and (b) the capacity of the state to reduce, defer or deplace the devaluation of national capitals by intervening in the economy. Starting with (a), Brenner (2006) argues that higher cost firms often seek to defend their market share by lowering prices, “unless and until the price of the cost-cutting firm’s goods falls so low as to prevent them from securing the average rate of return even on their circulating capital” (29). Rather than leaving their line of production, such firms may seek to exploit their experience, knowledge and contacts by making new investments, cutting costs or reorganising production, which exacerbates the problem of overproduction. In this way, uncoordinated (but nevertheless rational) profit-seeking behaviour by firms can, at the aggregate level, lead to a generalised decline in the rate of profit.

As far as (b) is concerned, Brenner suggests that states can modify the impact of competitive pressures by increasing public spending, cutting taxes or reducing interest rates. They can also intervene in other ways, by increasing tariffs or subsidising productive investments, for example. Brenner provides a number of examples of this kind of intervention, showing that Keynesian subsidies to demand and measures to reduce interest rates have proved to be particularly effective in supporting firms saddled with high costs of production. His analysis also traces the complex trade-offs and contradictions that are inherent in all such interventions.

Brenner suggests that the economic interventions of states, and not just firms, may have unfavourable aggregate-level effects. He treats the state in an analogous manner to the firm, arguing that the strategies which may be rational for individual states may nevertheless exacerbate systemic overproduction, as occurred during the “long downturn.” This way of theorising the state in relation to competition is interesting, although Brenner’s account arguably has weaknesses. First, he
suggests that nation-states are driven to promote the profitability of capitalist firms due to their reliance on tax revenues, as the following extract illustrates:

Because all elements of society depend on private investment for economic growth, for employment, and for tax revenue to finance state expenditures, governments are obliged to make the profitability of “their” capitalists a priority, at least given that capitalist property relations are unchallenged. (Brenner 2006, 23)

The idea that the state has a direct interest in profitability and growth because it relies on revenues generated by capitalist production may be found in O’Connor (1973), Block (1977) and Offe (1984). This approach was developed as an alternative to instrumentalism—a core element of the classical Marxist theory of the state—which came under sustained criticism during the 1970s. Rather than providing a theoretical framework for analysing state decisions, however, this notion of “institutional self-interest” appears to assume what must be explained, namely the nature of the relationship between the state and capital. On the same grounds, it could equally be argued that the state has an “interest” in nationalising industry, strengthening industrial regulations, keeping taxes at a high level or even creating a Soviet-style regime (cf. Wright 1978). The only way of grounding such an interest would be to argue that the state is driven at all times to maximise its own power, and this is the position adopted by Callinicos, as I will show. Arguably, this presupposes an ahistorical driving force along the lines of Morgenthau’s (1945) animus dominandi.

Second, as he clarified in a subsequent journal article, Brenner posits the existence of an indirect influence which compels state managers to revise or abandon policies that disrupt accumulation:

The bottom line, from this standpoint, is that if those in control of government implement domestic or foreign policies that interfere with and disrupt profit-making and capital accumulation, they will face slowed growth or even recession, frustrating the pursuit of whatever goals they are seeking. The general result is the operation of a kind of homeostatic mechanism, which confines government policy to that which is compatible with, or falls within the limits set by, the requirements of capital accumulation. (Brenner 2007, 83)

Brenner’s “homeostatic mechanism” posits that state policies tend to be maintained or revised on the basis of their effects on growth and profitability in an evolutionary process involving what we might term “survival of the fittest (strategies).” In line with his discussion of overproduction and the strategies of firms, Brenner emphasises the possibility that the state may not succeed in promoting
capital accumulation, which implies that this mechanism can, at best, identify “local maxima” that improve profitability within the constraints imposed by the structural characteristics of the system as a whole:

Not only is it the case that foreign policy as actually implemented is always an outcome of the imperfectly co-ordinated actions of multiple states, so that it may easily turn out to contradict the interests of all of them. But, even more to the point, when the latter turns out to be the case, the standard mechanism that tends to keep domestic policy in line with the requirements of capital accumulation—viz. states revising their policy when it is seen to be undermining profits and slowing growth—may be unable to operate, because the necessary revision cannot be accomplished by states acting individually but requires co-ordinated co-operative action among two or more states, which, for any number of reasons, may be impossible to bring about. (Brenner 2007, 84)

This account aims to provide a “weak” functionalist account of state policy by specifying the mechanism that keeps this aligned with the requirements of capital accumulation. In this sense, it is superior to “strong” functionalist theories which merely assume that this alignment occurs (Cohen 2000). However, the mechanism proposed by Brenner is arguably too weak, not least because public policies are typically implemented in complex and dynamic combinations and because their effects may not materialise for many years, by which time the competitive environment may have changed considerably. While firms can fail, establishing a solid link between firm-level decision making and economic competitiveness (in an “evolutionary” model of firm survival), the same is not true of states. Furthermore, to the extent that macroeconomic data reflect the influence of policies on profitability, these data are certainly not unequivocal. A period of low growth may be interpreted in contrasting ways: for example, as a phase of salutary restructuring which prepares the way for future growth or as the beginning of an enduring decline.

As several authors have pointed out, the very notion of the “requirements of capitalist accumulation” is problematic, in the presence of conflicts between different fractions of capital and in relation to criteria such as short-term or long-term growth (Clarke 1991). Brenner also assumes the existence of distinct national blocs of capital, which must be justified. Above all, it is not clear how states tackle these kinds of issues; were it possible to “learn from one’s mistakes” in the straightforward way he indicates, state strategies would not be the problematic and risky undertakings they appear to be.

In overall terms, Brenner follows the trend of post-war Marxist state theory, preferring a functionalist rather than instrumentalist explanation of state decision
making. Numerous scholars have characterised the role of the capitalist state as functional to capitalist accumulation, referring to such tasks as the defence of private property (Wood 2003), the separation of physical coercion from the point of production (Poulantzas 1978a), the separation of mental and manual labour (Poulantzas 1978b) or modes of economic regulation (Lipietz 1987). To the extent that they identify mechanisms that mediate between capital accumulation and the state, however, these accounts are generally less than convincing. By introducing the homeostatic metaphor described above, rooted in competition between national capitals, Brenner provides an interesting and original contribution which allows, at least in theory, for states to fail in their goals. However, this mechanism implies a degree of reflexivity, awareness and autonomy that states evidently do not possess. He must also assume that having identified a set of policies to maximise capitalist accumulation within their boundaries, state managers are driven to apply these.

There is thus a close analogy between Brenner’s account of competition between rival producers and his account of state decision making. In both cases, he posits mechanisms that are rooted in uncoordinated competition which generate homeostatic tendencies via feedback effects. Rather than emphasising functional adaptation, however, he argues that the very nature of capitalist competition prevents these mechanisms from functioning smoothly, giving rise to dysfunctional aggregate-level outcomes. In this sense, his theory implies the opposite of “homeostatic regulation.” At the level of the firm or the individual state, we can therefore find an orientation towards profit seeking, but at the aggregate level, the result of the interaction between firms or states may be (typically) unfavourable to all actors.

Capital and the State: Harvey and the Dialectic of Imperialism

With the aim of providing a Marxist account of the US invasion of Iraq in 2003, David Harvey (2003) develops a distinctive theoretical approach to imperialism which draws on his own earlier work on the spatial implications of political economy (Harvey 2006) and on the writings of Giovanni Arrighi (1994) and Hannah Arendt (1968), among other authors. Harvey views capitalist imperialism as a contradictory fusion of a territorial and an economic logic of power, which are locked in a dialectical relationship.

The first element relates to the political, diplomatic, and military strategies used by states to assert their interests and to achieve their goals. It reflects imperialism as a political project which is planned, developed and implemented by social actors whose power derives from their command over a territory and its human and natural resources. The second element involves production, trade and commerce, or what Harvey refers to as the “molecular processes of capitalism.” It reflects imperialism as an economic project which is rooted in the interests of
capitalists and their capacity to mobilise and deploy capital. He acknowledges Arrighi as the source of this distinction, and like the latter, he views these as broad “logics of power”:

What Arrighi refers to as the “territorial” and the “capitalist” logics of power are rather different from each other. To begin with, the motivations and interests of agents differ. The capitalist holding money capital will wish to put it wherever profits can be had, and typically seeks to accumulate more capital. Politicians and statesmen typically seek outcomes that sustain or augment the power of their own state vis-a-vis other states. (Harvey 2003, 27)

Harvey explores the contrast between these opposing forms of social power, noting the distinction between the fixed territorial boundaries of the state and the shifting locations of capital in continuous space. Although institutional arrangements play an important role in “setting the stage” for capital accumulation and the latter has far-reaching repercussions for the state,

The fundamental point is to see the territorial and the capitalist logics of power as distinct from each other. . . . This dialectical relation sets the stage for an analysis of capitalist imperialism in terms of the intersection of these two distinctive but intertwined logics of power. (Harvey 2003, 29–30)

The “endless accumulation of political power” which Harvey associates with the imperial ambitions of Washington is inspired by his reading of Arendt, who suggests that “[i]mperialist expansion had been touched off by a curious kind of economic crisis, the overproduction of capital and the emergence of ‘superfluous’ money, the result of oversaving, which could no longer find productive investment within the national borders” (Arendt 1968; quoted in Harvey 2003, 142). This endless expansion of power is driven by the spatial dynamics that are inherent in capitalism as a mode of production. Crises of overaccumulation are endemic to capitalism, demanding that profitable ways be found to absorb the mounting surplus. Overaccumulation within a given territorial system gives rise to a surplus which can only be absorbed through temporal or spatial displacements. As Lenin also argued, Harvey suggests that inter-imperialist rivalry and war during the late nineteenth and early 20th centuries were driven by a need to find geographical outlets for this surplus and the need to protect foreign ventures:

The consolidation of bourgeois political power within the European states was, therefore, a necessary precondition for a reorientation of territorial politics towards the requirements of the capitalistic logic. (Harvey 2003, 43–44)
In this sense, the “new” imperialism represents a continuation of the “old,” and it evolves in concomitance with the accumulation of capital. Alongside military intervention and direct administration, however, it has developed a battery of new weapons for preserving “asymmetries in exchange,” including the raiding of assets following financial crises, the commodification of public/common goods (what Harvey refers to as “accumulation by dispossession”) and the liberalisation of markets for capitalist commodities and investments. Harvey (2003) suggests that these strategies are motivated by economic imperatives but implemented by the state, as “the political entity, the body politic, that is best able to orchestrate institutional arrangements and manipulate the molecular forces of capital accumulation to preserve that pattern of asymmetries in exchange that are most advantageous to the dominant capitalist interests” (132–33).

Harvey’s theoretical approach is open to challenge on a range of grounds, starting with the way he develops and deploys the concept of “overaccumulation.” As I will show later, the classical Marxist theory of capitalist crisis emphasises under-consumption, overcapacity and the tendency of the rate of profit to fall rather than overaccumulation. Crisis theories that focus on this latter concept tend to imply that crises can be avoided as long as it is possible to find a way of profitably reinvesting surplus capitals (Harvey 2003, 64), which implies that crises should not be encountered until a physical limit to the expansion of accumulation is encountered. This is difficult to reconcile with the Great Depression, for example, which Harvey (2003) partly recognises, as the US was “still as much a potential absorber as a producer of surplus capital” (48). It also contrasts with the evidence suggesting that 19th-century colonial expansion was accompanied by an increase in the flow of commodities, rather than in the flow of monetary capital, as Callinicos notes, in a pattern that was destined to intensify after the Second World War (Callinicos 2009, 179).

Harvey clearly views the distinct territorial and capitalist logics of power as essential to theorising the state, although they are often difficult to distinguish in his concrete analyses. The state is controlled by politicians and statesmen who “typically seek outcomes that sustain or augment the power of their own state vis-a-vis other states” (Harvey 2003, 27). This implies that the territorial logic is an expression of the interests of state managers, which are distinct from, but related to, those of capitalists. The success of each group depends, at least in part, on the capacity of the other to realise its goals, although the two logics “frequently tug against each other” (Harvey 2003, 29). The Vietnam War cannot be explained solely in terms of capital accumulation, just as the Cold War was not solely a question of territorial dominance. No reduction is possible, and “[t]he difficulty for concrete analyses of actual situations is to keep the two sides of this dialectic simultaneously in motion and not to lapse into either a solely political or a predominantly economic mode of argumentation” (Harvey 2003, 30).
This is a simple and avowedly non-reductionist way of analysing state policies, strategies and decisions through the lens of territorial/political dynamics, on the one hand, and capital accumulation, on the other. It has a rather different logic to Brenner’s approach and suggests that in any given case the ways in which the two logics combine must be analysed concretely.

There are nevertheless several weaknesses, which I will briefly summarise. Firstly, as in the case of Brenner, we are faced with a fundamentally incomplete theory, as Harvey (2003, 127–28) himself acknowledges. Secondly, there is a problem of indeterminacy, as the only warrant we have for considering the state as a distinctively capitalist state (i.e., one which protects and promotes the interests of capital) is once again based on the notion of institutional self-interest:

If, for example, the US forces open capital markets around the world through the operations of the IMF (International Monetary Fund) and the WTO (World Trade Organization), it is because specific advantages are thought to accrue to US financial institutions. The state, in short, is the political entity, the body politic, that is best able to orchestrate these processes. Failure so to do will likely result in a diminution of the wealth and power of the state. (Harvey 2003, 32)

The economic implications of state policies thus become a contingent issue, depending on the perceptions and convictions of state managers who are driven by the need to sustain or augment the power of their own state vis-à-vis other states in the international system. At the same time, it is because the state needs capital to finance its own objectives that it promotes the profitability of capitalist firms. This introduces an indeterminate dualism into the heart of the state and undermines the classical Marxist emphasis on the capitalist nature of the state.

Thirdly, the notion that state managers are driven by a territorial logic and that they possess a distinct set of interests with respect to capital raises numerous difficulties, not least because politicians often appear to be more concerned about re-election than about sustaining or augmenting the power of their own state. For the territorial logic to function autonomously, it must be identified with a social group or class which has distinct and clearly defined interests, which impose themselves upon the members of this group just as the accumulation of capital imposes itself upon the capitalist. This is the approach adopted by Callinicos, although it gives rise to further difficulties, as we will see.

Fourthly, Harvey describes the molecular processes of capitalism as flowing across national borders and assuming a global network configuration, with a hegemonic hub and a cascading series of spatio-temporal fixes. He does not specify, however, the relationships and processes that mediate between the fluid processes of capital, on the one hand, and the centralised decision making of territorial
states, on the other. Rather than simply affirming that there is a relationship between a territorial and a capitalist logic, the challenge of describing the nature and dynamics of this relationship remains.

**Callinicos and the “Minefield” of Marxist State Theory**

In *Imperialism and Global Political Economy*, Alex Callinicos addresses a similar set of issues to those tackled by Harvey, albeit with a particular focus on the historical evolution of theories of imperialism and the insights provided by International Relations. Like Brenner, Callinicos (2009, 28–29) sees economic competition as one of the fundamental social mechanisms of capitalism, obliging rival firms to reinvest profits in improved and expanded production. And, like Brenner, Callinicos treats recurrent crises as a consequence of the way in which competition encourages rival capitals to expand production beyond the limits of the market.

Callinicos’ main argument is that imperialism, and the role of the capitalist state more generally, cannot be understood without making reference to two determinations—economic competition and geopolitical competition. This formulation recalls Arrighi’s (1994) distinction between territorialist and capitalist modes of rule and is similar to Harvey’s twin logics of power, as described above. Callinicos (2005) acknowledges that this introduces a degree of indeterminacy in the analysis of state policy, but argues that this is necessary in order to allow “some free play to other dimensions of the social” (15). This helps to avoid economic reductionism, “a possibility most fully realized in the theory of state monopoly capitalism developed by the Communist Parties after the Second World War, where the state is understood as the tool of the big monopolies” (Callinicos 2009, 71). Callinicos concludes with the following summary of US imperialism:

> the US practises a non-territorial form of imperialism, working on the rule of thumb that an open liberal international order will generally benefit American-based capitals. Secondly, for its hegemony to function in a generally stable fashion, it would, in any case, have to secure significant benefits to other capitalist states. (2009, 190)

There is an evident contradiction between the inherently territorial bias of geopolitical competition, on the one hand, and the allegedly “non-territorial” nature of US imperialism. Callinicos develops his argument through engagement with the field of International Relations, primarily because he is convinced that the geopolitical level must be theorised explicitly as a distinct determination within the Marxist approach:
But understanding the state system as a determination of the capitalist mode of production would remain completely formal without some account of the mechanisms that bind states and capitals together. (Callinicos 2009, 83)

Callinicos (2009), in seeking to fill this gap, warns that “[t]he Marxist theory of the state is a minefield in which many unresolved problems and unfinished debates lurk” (73). Among these unresolved problems are, clearly, many failed attempts to specify the mechanisms that “bind states and capitals.” Firstly, Callinicos (2009) argues, we must assume that capitalists and state managers constitute distinct groups of actors with contrasting interests, which for the latter group entail “maintaining the power of their state against both the population subject to it and other states” (84–85). Concretely, this means that state managers have a direct interest in facilitating investments, as their capacity to achieve their own goals depends on the resources generated by capitalist production, in line with the positions of both Brenner and Harvey, as shown above.

Callinicos uses the mechanism of “institutional self-interest” in capitalist accumulation to ground a (weakly) functionalist account of the relationship between state managers and capital accumulation, like Brenner, and drawing on Block (1977). Driven by self-interest, but in pursuit of goals which are distinct from capital accumulation per se, state managers engage in “a partially blind, partially ideologically directed, discovery process” that seeks to maintain or restore favourable conditions for capital accumulation:

The convergence posited by Block actually occurs between the interests of the managers of a given state and those of specific constellations of individual capitals particularly concerned with and having leverage over the state in question. (Callinicos 2009, 87)

If specific capitals manage to exploit their leverage over the state and state managers come to view the aims of these actors as compatible with their own, then we can expect favourable state strategies. Conversely, it is possible that individual capitals do not obtain leverage over the state, with the result that policies are unfavourable. The only limits on this process derive from a notion of feedback similar to that expounded by Brenner, which we briefly described earlier, and is expected, once again, to bear a considerable theoretical load.

The assumption that state managers have an interest in “expanding the internal and external power of the state” must be justified, and the kinds of actions, strategies and decisions that might relate to this general goal must be specified. In short, the abstract notion of “expanding state power” does not help us to understand the relationship between the two forms of competition identified by Callinicos. As
well as demonstrating that there is a pressure on the state to promote capitalist accumulation, he would have to show how the drive to expand state power can contradict this, both in general and in more specific cases.

With the aim of reinforcing his theoretical approach, Callinicos suggests that state managers are guided by specific “rules of reproduction,” which endow them with distinct interests. This idea comes from Brenner’s (1986) analysis of feudalism, which describes the drive towards state building (“political accumulation”) as a “precapitalist analogue to the drive to accumulate capital.” According to Brenner, the economic structure of the feudal mode of production generates an incentive to adopt a military logic of territorial expansion as a means of reducing the risk of invasion and thus defending the state. By analogy, geopolitical competition in Callinicos’ interpretation becomes a zero-sum game in which state managers attempt to defend their state by enhancing its power, both internally and externally. This raises a basic question: why are states and their administrators driven to compete at the geopolitical level, if not by virtue of economic considerations? Why should they pursue territorial expansion or foreign domination for their own sake?

**Geopolitical Economy and the State: Desai on Uneven and Combined Development**

The fourth author that I examine here is Radhika Desai, who analyses the nature and dynamics of post-war development in the advanced capitalist countries, with a specific focus on the US. Desai analyses several issues which are relevant to theoretical analysis of the role of the state, starting with the theory of “uneven and combined development,” which she treats as a fundamental explanatory category in relation to capital accumulation on a world scale. This approach highlights the central importance of the nation-state and the international level, suggesting that the capitalist world order is shaped decisively by interactions between states as they seek to manage capitalism and its contradictions.

Uneven and combined development views capitalist states as “nationally organized blocs of capital” (Desai 2013, 52), an assumption that unites her with Brenner, Callinicos and Harvey, although the latter places greater emphasis on borderless flows of capital. Desai’s insistence on the materiality of states and her powerful critique of cosmopolitan ideologies foreground the actions and strategies of nation-states against the backdrop of economic crisis and international competition. On the one hand, states intervene actively in the domestic economy in response to crises. On the other, they seek to reproduce or transform the structure of international trade and competition. State interventions in these two spheres are closely interlinked, forming part of a systemic dynamic which is captured by the concept of uneven and combined development.
Simplifying, dominant states seek to perpetuate and extend the uneven economic configurations that favour them, while contender states seek to harness the potential of combined development, exploiting their capacity to compress different stages of economic development into a shorter and more intense burst of growth (Desai 2013, 2–3). The UK occupied a dominant role in the world economy in the 19th century, by virtue of being the first industrial capitalist state, and later the US sought to emulate its imperial prerogatives:

By the early twentieth century, as US capitalism became more concentrated and centralized, its powerful corporate capitalist class set a more concrete goal: that of replacing the United Kingdom as the “managing segment of the world economy” . . . (Desai 2013, 65)

Combined development embraces characteristic combinations of state interventions, involving tariff policies, macroeconomic policy, research grants, subsidies to industry or tax incentives, development of social and material infrastructures, policies for upscaling/upgrading production, direct state management of productive capital, state backing for financial institutions, negotiating access to new markets for exports and (forced) urbanisation. Through the mobilisation of state capacities, what was initially an incremental and endogenous process can be emulated and adapted to a new context as a conscious strategy that is implemented in an integrated and planned way:

Seeing both communism and national developmental capitalisms as forms of combined development makes it easier to see why so many critical writers insist that both were the targets of the US cold war: it was more an exercise to maintain capitalism’s unevenness than an ideological crusade. (Desai 2013, 11)

A key argument of Geopolitical Economy is that contender (combined) development has contributed decisively to the emergence of a multipolar world system, accounting for the fundamental geopolitical transformations of the past 150 years. For this reason, it poses a threat to the economic dominance of the most advanced capitalist countries, which have historically responded by exploiting the capacities of “their” state to isolate or neutralise contenders. This struggle has often been waged by seeking to impose “free trade,” a distinctive form of imperialism which prevailed after the collapse of colonial empires. In the presence of preexisting asymmetries in capitalisation and technological development, trade liberalisation ensures expanding markets for capitalists in developed countries, reducing the impact of combined development.

Drawing on Brenner’s work, Desai (2013, 12) argues that the increasing saturation of domestic markets in the advanced capitalist countries during the post-war
period meant that the geopolitical economy of the later 20th century was characterised primarily by a struggle for limited markets, which increasingly became a zero-sum game. The combined development of recovering economies that powered the long boom simultaneously created the overcapacity and overproduction that provoked the long downturn, which has persisted primarily because “firms and governments of states with politically enfranchised working classes were unwilling to permit a ‘slaughter of capital values’ on a scale sufficient to end it” (Desai 2013, 25).

Desai convincingly argues that other theorists have underestimated the extent of the challenge that combined development poses to dominant capitals and the central role of the state in both enhancing (via imperialism) and reducing (via contender development) economic unevenness at a global scale. She criticises Callinicos for emphasising uneven development and thus underplaying the economic role of the state.

As noted above, Desai (2013, 145) argues that nation-states are nationally organised blocs of capitalism and states that “[w]hat is needed, in addition to a proper political economy that theorizes states’ roles in terms of capitalist crises and class struggles, is an account of the drivers of international competition and UCD” (146). But Desai does not pursue the goal of developing a theory of the capitalist state. Her description of the role of the state in managing contradictions and crises is essentially an empirical generalisation, rather than an analytical conclusion. This is the main “gap” in her account; this failure to theorise the state reduces the impact of her detailed historical construction and its capacity to identify more general and more powerful explanatory mechanisms.

Desai situates state strategies in relation to financial flows and movements, by contrast with Harvey who emphasises military interventions and expenditures. In the US case, this leads to a thought-provoking account of the role of finance capital in relation to crisis, state decision making and imperialism. Desai (2013) interprets financial flows from the perspective of capitalist crises, imperialism and the state, suggesting that financialisation was essentially a US-centred phenomenon that “undergirded the dollar’s career as the world’s money” (17–18), one of a long line of self-defeating measures with this aim. It is essential, she suggests, to understand the relationship between financialisation and state policy. A recurrent theme in her analysis is the contradictory nature of US attempts to defend the dollar as the world’s currency, which recalls Brenner’s analysis of the “pendulum” of exchange rates and competitiveness.

The “problem” of the state emerges spontaneously within this context, as we ask why dominant states should seek imperialist dominance and contender states to promote combined development? Why did the US aim to become the “managing segment of the world economy” from the early 20th century? As in the case of
the other authors, Desai does not tackle this theoretical challenge directly, developing her argument primarily through concrete historical analysis. In broad terms, she suggests that the fundamental role of the state is to manage the tendencies towards injustice and crisis which are endemic to capitalism, as well as managing the relationship between the capitalist and other propertied classes, and between the propertied classes and popular classes (Desai 2013, 29).

Desai suggests that in both the UK and the US, industrial capital was historically subordinate to finance capital. In the case of the UK, this was due to the financial and commercial role of British capital in the late 19th century, supported by its colonial empire. The US, on the other hand, “sought vainly to emulate the United Kingdom’s financial role” (Desai 2013, 51). In the US case, the state was forced to continually balance between the demands of finance capital and industrial capital by maintaining a high level of internal demand (via “military Keynesianism,” for example) while pursuing a strong dollar (by increasing interest rates, where necessary, and inducing other states to support this aim). Demand management alone could not deliver non-inflationary expansion and became unbearable for US capital as a whole whenever the value of the dollar began to slide in currency markets.

The preceding discussion suggests that a satisfactory Marxist theory of the state cannot be expected to emerge from either concrete historical analysis, in the form of empirical generalisations, or abstract theory. The nature and role of the capitalist state can only be brought into focus by approaching the core issues that surround the state from different perspectives and gradually folding together the required elements, at appropriate levels of abstraction. This is a complex and demanding task, which requires a sustained collective effort on the part of Marxist scholars. On the basis of the comparative analysis of the four books discussed above, it is nevertheless possible to identify three elements which are central to this aim.

The first element relates to competition and crisis and is the subject of the next section, which introduces the first determination that is central to understanding state decision making. The second element involves a specific mechanism that mediates between capital accumulation and the state, based on direct pressure, which constitutes the second determination. The final element relates to the international level and constitutes the most original contribution of this analysis. I argue that this international-level determination is essential in order to theorise the limits that capitalism places upon the state.

**Competition and Crisis**

One of the elements that the four books have in common is their emphasis on the relationship between economic crisis and the state. Desai defines the main role of
the state as that of managing the effects of crises, while Harvey dedicates a large part of his book to the ways in which different states have mobilised “spatio-temporal fixes” to alleviate the effects of overaccumulation. Paraphrasing Callinicos (2005), any adequate Marxist theory of the capitalist state must articulate in an appropriate way with broader theories of the “relations, mechanisms and tendencies of the capitalist economic system” (68), including fundamental economic trends, class struggle and social reproduction.

Brenner, Desai and Callinicos all subscribe to a similar version of Marxist crisis theory, which emphasises the intrinsic tendency towards overproduction which characterises capitalism as a result of the unplanned, chaotic and competitive nature of capitalist production. Overproduction hits profits, which encourages hoarding of capital (rather than reinvestment), leading to “underconsumption.” This implies that total potential surplus value cannot be realised, which further exacerbates the effects of overproduction (cf. Desai 2013, 37). This mechanism is closely related to the tendency for the rate of profit to fall, as the same process which generates overproduction in the primary and secondary sectors of the economy also tends to reduce the “organic composition” of capital via increased investments in fixed plant relative to paid labour, under the pressure of competition.

As far as the state is concerned, crises lead to increased pressure for interventions in various areas of the economy, including the financial system (provision of cheap credit), economic demand (deficit spending), support for firms (subsidies, tax cuts) and protection for workers (unemployment benefit). For example, Brenner argues that major recessions were only avoided during the long post-war downturn by the massive growth in both public and private debt, made possible by the expansion of government borrowing. We might conclude by arguing that the endemic and systemic nature of crises under capitalism does not explain state decisions, it merely motivates them; crises form the context of state interventions rather than their content. As Brenner and the other authors observe, the state can reduce, defer or deplace the devaluation of national capitals by intervening in the economy. Whether and how it does so must be explained by more concrete determinations.

Bonds between Capital and the State

Another element that is common to the accounts of all four authors relates to the ways in which capitalists seek to influence state decisions and behaviour. Brenner notes,

Relative to their US counterpart, the German and Japanese governments found themselves subject to the coordinated, insistent pressure of combined
manufacturing and financial interests to provide policies oriented to the growth of domestic production rather than investment and lending overseas. (2006, 49)

In a similar vein, Callinicos makes the following observation:

The Marxist theory of imperialism, and indeed of the state more generally, is sometimes caricatured as reducing the motivations behind public policy to direct economic interests. It is tempting to say that the Bush-Cheney administration—memorably described by Mike Davis as the executive committee of the American Petroleum Institute—showed that the caricature is sometimes true. (2009, 15)

This is the terrain of classical Marxist “instrumentalism” whose apotheosis is captured by Engels’ (1910) description of the state as “essentially a capitalist machine, the state of the capitalists, the ideal personification of the total national capital” (30). Instrumentalism is arguably an essential element of Marxist state theory and a fundamental achievement of classical Marxism. However, as in the case of functionalism, it is necessary to distinguish between “strong” and “weak” versions. In the case of “strong instrumentalism,” the state is assumed to be a capitalist machine that is subject to direct control. In the absence of alternative theoretical accounts, this approach has helped to orient revolutionary praxis, focusing attention on how state capacities are deployed in defence of the dominant class. This assumption is, however, as theoretically problematic as it is practically useful. The fact that the state can be used as an instrument of class power does not imply that it always is used in this way.

Capital can only directly influence the state in its plural form (“many capitals”), and individual capitals can be expected to seek interventions which reinforce their position in competitive markets. This leads to a multitude of conflicting and contradictory pressures, none of which may reflect “the general requirements of capitalist accumulation.” “Weak instrumentalism” suggests that individual capitals seek to influence the state, but do not necessarily succeed in this aim. In order to explain why certain interests are more likely to obtain the support of the state, we therefore need a theory of “political leverage” which indicates how state managers interpret and respond to the demands of capitalists. This would include issues such as lobbying, the strategic importance of various forms of production, employment creation, contribution to political funding and the payment of bribes.

The notion that states are influenced directly by capital implies a contingent link between capital and the state, which leaves open the possibility that public decisions can be made against capitalist interests. As I suggested earlier, this kind of contingency is problematic for a Marxist theory of the capitalist state. One way of eliminating this contingency is to add a functional imperative, but all attempts
to specify such a constraint from the “State Debate” onwards have failed. Another way of addressing this difficulty is to accept contingency while introducing an additional determination at a lower level of abstraction. This is what we will do in the next section, where we will outline an indirect relationship between capital and the state which avoids the aforementioned difficulties.

Recapitulating, what is needed is a way of identifying the limits which compel state managers and institutions to promote capital accumulation. Rather than substituting the two determinations introduced above, this should complement and enrich them while avoiding structuralist and functionalist arguments. In ontological terms, the most abstract determination relates to the competitive nature of capitalism as a mode of production, which inevitably generates unevenness in accumulation over space and time. Uneven and combined development and crisis provide the context within which states intervene in the economy. These interventions are influenced, but not determined, by the demands voiced by specific capitals, their political leverage and by class struggle. However, as I will argue below, there is also a crucial third determination that operates at the international level to constrain state decision making.

**The International as Determination**

There are various ways of introducing the international as a determination within the movement of Marxist theory from the “highest” (most abstract) to the “lowest” (concrete) levels. One strategy is to identify examples of this effect and to generalise from them. Another is to consider the nature and aims of state hegemonic projects in more abstract terms, and a third way is to derive the international determination from specific characteristics of the international system. I will draw on all three lines of argument in making my case, starting with historical moments in which the role of the international has manifest itself. Two such episodes occurred in recent years and are described by Desai:

the Great Recession [after 2007] happened because [uneven and combined development, UCD] forced certain policy decisions, critically the raising of interest rates beginning in 2004, and created certain conditions, most importantly the rise in long-term interest rates beginning in 2007. These brought down the last and most fragile financialization that sustained the dollar’s world role. The 2008 financial crisis spelled its end. . . . The dollar had never had a stable basis, and with the greater advance of UCD and multipolarity, the United States cannot furnish even another unstable and volatile one. (2013, 274–75)

The historical evidence shows that the US state has repeatedly intervened to restore confidence in the dollar, typically by seeking to reduce payment deficits or
raise interest rates. These episodes reveal a mechanism which “forces” states to take certain decisions and which mediates between uneven and combined development and the concrete level of state decision making. This determination does not depend directly on competition between capitals, economic crisis or explicit forms of political influence. While this mechanism manifests itself through financial flows, it expresses a deeper, immanent logic of capitalism. This logic confronts the state as an alien, coercive force which is irreducible to the conscious actions of states and capitals, just as Marx argued that “under free competition, the immanent laws of capitalism confront the individual capitalist as a coercive force external to him” (1992, 381; quoted in Desai 2013, 43).

Even the most powerful states—in this case the US—are ultimately subject to this logic. When financial outflows began to accelerate in 2004, threatening the value of the dollar and the ability of the US to finance its deficits, state managers reached the conclusion that intervention within the domestic economy could not be avoided. Of course, this mechanism does not indicate precisely how states should intervene—this issue will typically be subject to direct forms of lobbying and pressure by capitals and other states, consultations with strategic advisors, public discussion and various forms of class struggle. But it is sufficient to place theoretical limits on state decision making, due to the way in which it induces state managers to act decisively and without delay, based on the conviction that any failure to take action will be penalised. States ignore these constraints at their own risk, as the experience of the Syriza government in Greece in early 2015 illustrates.

The second way of grounding the thesis of the international as a determination is to consider state hegemonic projects. One way of tackling this issue is to ask why the US adopted and maintained the strategic aim of becoming the “managing segment of the world economy” from the early 20th century. As both Brenner and Desai illustrate, this “imperial mimesis” imposed heavy costs on the productive economy of the US and the living conditions of US citizens. The motivation for this strategy arguably rests with the fact that any state which successfully constitutes itself as the “managing segment of the world economy” has a greatly enhanced capacity to withstand international pressures mediated by financial markets. This is due to their ability to ensure that the domestic currency becomes (almost) unassailable. In turn, (almost) unlimited access to capital via international markets ensures that demand can be created artificially for commodities produced by domestic producers.

As well as reducing the coercive pressures of the international financial system, the “manager of the world economy” has the ability to exert considerable influence over other actors. This helps to explain why the concept of “hegemony” has been so important in International Relations (and other disciplines), despite the
scarce evidence for enduring state hegemonies under capitalism (with the exception of the UK, as Desai indicates). There is no functional requirement for a global hegemon, but there are great gains to be made whenever a state can even approximate this role.

This raises the question of whether it is appropriate to treat capital as “national” or “nationally-organised.” Like “institutional self-interest,” the notion of “national capital” arguably assumes what must be explained: the nature of the relationship between capital and the state. But in a sense (and simplifying greatly), productive capital is always national (as it is at least partially enclosed by national boundaries) while monetary capital is international. The state encloses certain parts of these “molecular” productive and financial processes within its boundaries, becoming dependent on what we have described as the “international determination.” It is therefore of lesser importance whether these capitals are national, foreign or multinational (if this distinction even has sense); what is important is that by investing within its borders, they come to depend in specific ways on the state and state policies.

Central banks play an important role in the operation of this third determination. Due to the enormous influence of fiscal policy on international competitiveness, central bankers have become the true “managers of the economy” in developed countries. They form part of the state while simultaneously representing capital; they interpret international pressures while maintaining a role in developing and deploying national economic strategies. Desai provides a useful illustration of this Janus-faced role:

well before this meeting Greenspan had impressed the urgency of deficit reduction on the president-elect, dangling the carrot that it would free up capital for private investment and growth, brandishing the stick that without a credible deficit reduction plan the bond markets would demand higher returns . . . and making the barely veiled threat that the Fed would not lower interest rates without such a plan. (2013, 193)

As mentioned above, the third way of theorising the international determination is to derive this from specific characteristics of the international system itself. In abstract terms, this can be done by focusing on the contradiction between the borderless, continuous space of capital accumulation and the discrete units that comprise the international system of nation-states. Productive capital is “nationally-organised capital” as described above and is consequently exposed to incentives and disincentives encoded by state policies, institutions, national cultures and social practices. There is a complex relationship between such national factors, on the one hand, and profit rates, on the other, which cannot be determined ex
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ANTE, but only ex post. As it is generally impossible to estimate these effects empirically, as I noted above in my critique of Brenner’s notion of “homeostasis,” other mechanisms must intervene to explain why and how policies evolve and change over time.

One such form of mediation involves the emulation of specific models, as in “contender development.” These “blueprints” may be implemented in a range of different contexts, creating a temporal and geopolitical structure of emulation whereby innovators run greater risks but stand to reap greater rewards. Rather than adopting a single policy and waiting to see whether it boosts profitability, an integrated model of state intervention is developed and deployed en tout. Another form of mediation involves the emulation of individual policies of countries with a high rate of economic growth. There are many examples of these cascading forms of emulation in which evidence of the individual impact of policies on profitability played little or no role.

It would thus appear that state decision making is not always (or even typically) carried out “blind,” although this does not imply that the policy arena is an evolutionary system subject to a well-behaving selection mechanism. Instead, variations represent context-sensitive and path-dependent configurations which reflect the influence of collective learning and emulation. Often, the models that are emulated are those instantiated by states at the apex of the geopolitical hierarchy. Although there are no guarantees that these models can be emulated and many reasons for believing that this is difficult in practice, other states may apply these either individually (“policy emulation”) or in combination (“contender development”), in the hope of boosting growth.

Conclusions: The Challenge of Marxist State Theory

In the previous sections of this article, I discussed how four Marxist scholars theorise the capitalist state. I showed that there are crucial gaps and uncertainties in these accounts, which coincide with the aporias of Marxist state theory. The overall impression one has when reading these and other works is that the topic of state theory has indeed become a theoretical minefield over the course of the last 50 years. Marxists who are forced to enter this minefield seek to limit their moves and to avoid false steps, which means that theoretical preferences and propositions often remain implicit, even in works which accord a central role to the state.

Because of its transversal importance, however, it is impossible for Marxists to avoid theorising the state. The four authors discussed here adopted what can only be described as minimalistic theories, parts of which remain implicit, thus reducing the risk of being accused of structuralism, functionalism, instrumentalism or...
economic reductionism. As I showed, this often entails assuming that states have an interest in capital accumulation due to the fact that their ability to realise their own aims (whatever those may be) depends on the resources generated by capital. I stressed the inadequacies of this approach and underlined the weakness of dualistic approaches which distinguish between territorial and capitalist logics.

As an alternative, I proposed a theoretical framework which treats the state as a site of multiple determinations and seeks to theorise the specific mechanisms underlying these determinations in a holistic and ontologically stratified manner. The first determination is rooted in the competitive logic of capitalist accumulation, which contributes to its contradictions and crises. While this serves to define the context of state decisions, the second determination helps to define their form, via the concept of direct influence (weak instrumentalism). This includes various forms of class struggle—bottom-up and top-down—as noted earlier. By engaging with the political sphere in various ways, capitalists seek to use the state in an instrumental fashion by lobbying, convincing or bribing political decision-makers and exploiting their financial size, strategic importance and capacity to provide employment. While the first and second determinations yield only a contingent bond between capital and the state, the third serves to establish limits on state policies. This is the determination of the international, which comes into view particularly when the interactions between states are studied over time. It is, in this sense, a corollary of the finding that nation-states are crucial economic actors. Of varying intensity over time and space, this determination is of primary importance even in relation to the most powerful nation-states.

All three determinations have temporal and multiscalar dimensions, whereby strategies are formulated within the constraints of past strategies and within the context of existing structures and relationships. Crucially, strategies are influenced by the actions taken by other states. Rather than reflecting a distinct territorial logic of power or geopolitical competition, states enter into conflict with each other (or construct alliances) in the course of their attempts to manage the domestic effects of capitalist crises. These attempts are shaped by the nature of those crises, by the direct pressures applied by capitals, by class struggle and the way in which the scalar competitive logic of capitalism manifests itself via financial flows and systemic pressures. The concept of geopolitical competition thus captures the emergent ways in which these processes, contradictions and struggles unfold and develop at the international level. As for all emergent phenomena, specific theoretical tools and concepts are required to study geopolitical competition, which cannot be “read off” from economic crises or competition. It is thus appropriate to give weight to the agency of state managers and to recognise the role of state strategies in relation to the process of development.
References

A CENTURY OF MARXIST DEBATES
CONCERNING CAPITALISM, IMPERIALISM AND IMPERIALIST COMPETITION

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Abstract: The mechanistic association of capitalism to western imperialism has paved the way for current “globalisation” and “empire” discourses while minimising the importance of the nation-state. Conversely only a small number of neo-Marxists think otherwise, and our paper, by returning to classical Marxist theorists of imperialism, tends to valorise their minority position.

Key words: Marxism; capitalism; state; imperialism; Radhika Desai

The richer the political thinker is, the more diverse are the critics in their appreciation of their writings. In order to put their discourse within the reach of the common reader, some use simplifications which often amount to a trans- or deformation. Others underline some minor aspects to the detriment of its major premises. Even if more than one analysis would be acceptable, this does not mean that critics are free to say whatever they want about an author’s production. Out-of-context references to the world market applied to the Communist Manifesto led a number of neo-Marxists to agree that the global spread of capitalism reflects faithfully the core of Marx’s political thought. Therefore, it was considered relevant to emphasise Marx’s notion of free trade.

Rejecting such trends of thought, albeit widely shared in Marxist literature, Radhika Desai, in her article “Marx, List, and the Materiality of Nations” (2012), counterclaims that Marx and Engels envisaged the necessity of the state in capitalist development. It has been well established, Desai adds, that the Bolsheviks promoted
the principle of national self-determination and that Marxists were pioneers in the study of international relations through their analysis of imperialism. Furthermore, the national state has never ceased to play a major role contrary to the theories of “globalisation” and “empire.”

The mechanical associating of capitalism to western imperialism has paved the way to ascribe Eurocentrism to Marxism. Yet one of the early Marxist thinkers, namely Rosa Luxemburg, attempted to develop the outlines of a theory explaining relations between capitalist states as well as their relationship to the non-capitalist countries. In *The Accumulation of Capital* there are many statements which affirm that Marx subscribed to the idea that “[T]he separation between politics and the economy was merely formal; it was also ideologically and politically fundamental to capitalism and imperialism” (Desai 2009, 191). The constant drive towards expansion inherent to capitalist production was a force that pushed the latter out towards non-capitalist parts of the world in search of raw materials and cheap labour. This task was mainly accomplished by centralised states. Luxemburg (2003) wrote that the principal tools used to spread the capitalist mode of production “are political force (war, revolution), oppressive taxation by the state, and cheap goods; . . . In Europe force assumed revolutionary forms in the fight against feudalism” (349). She went on to write that in the non-capitalist parts of the world, this mode mainly assumed the form of colonial policy.

By misunderstanding the material forces involved in classical Marxist analysis, many adepts and scholars of globalisation underestimated the major role played by states. This was not necessarily the case in Marxist theorising at the beginning of the twentieth century. In order to back up her statements regarding the materiality of nations, Desai (2012) proposes to analyse in depth the few Marxists “who attempt to account for the material basis of nationalism as an ideology . . . and for the role of the state in capitalism” (48). She argues that an artificial conception of capitalism which is based on omitting to assign any significant role to the state could hinder the Marxist geopolitical analyses from reaching satisfactory conclusions. Against many researchers who claim that current transformations within capitalism diminish the role of the state, a minority rightly advocate the relevance of critically re-examining this assertion.

Rudolf Hilferding exposed, for example, the economic relationships between capital and the state in his major work *Finance Capital*. In his view, the application of tariffs and other forms of protectionism as well as the notion of national economic territory that expanded beyond the borders of the state were essential to understanding imperialism. Hilferding (1981) also wrote on the relation between the rise of finance capital and the increase in state power which in turn had economic consequences, “Economic power also means political power. . . . The greater the degree of concentration in the economic sphere, the more unbounded
is the control of the state” (370). He illustrated his view by pointing out that even in a country which outwardly professed liberal principles such as England, “The triumph of laissez-faire was far from complete. . . . The theory of the Manchester school had an even smaller influence on the actual course of foreign policy” (301–2). According to Hilferding, states and the ruling classes that govern them play a central role in the explanation of international relations and geopolitics.

Passing in review the rise of capitalism during the eighteenth century, Desai, for her part, observes that Adam Smith supported free trade to the detriment of protectionist mercantilism while favouring national economy. According to him, colonialism is immoral and consequently will not prevail in the long run as a political solution to economic problems. As for Ricardo, he argues that “free-trade compelled each county to specialize in what it produces most efficiently and thus maximized welfare” (Desai 2012, 54). Last but not least, Smith’s invisible hand would supposedly take care of sharing equally wealth and prosperity among distinct nations.

Though well aware of the theory and practice of free trade, Marx and Engels identified nonetheless the capitalist state by its important role: “It furthered [capitalist] interests not only against the feudal and working classes domestically but also against capitalist classes of other states internationally” (Desai 2012, 55). They both gave enough arguments against a free trade like interpretation of their writings, “When Marxist proponents of globalisation ritualistically quote the Communist Manifesto to testify to capitalism’s inherent cosmopolitism, they overlook that Marx and Engels said a few pages down: that the bourgeoisie also created ‘political centralisation’” (Desai 2012, 56). As Desai quoted, Marx and Engels emphasise the national character of class struggle. Though Marx may have favoured free trade at one point, in order to hasten the end of capitalism, he was fully aware that protectionism would have the same effect. Therefore, it is unrealistic to consider Marx as an unconditional proponent of free trade.

Often underscoring the economic role of the state in capitalist society and its contribution in favour of the bourgeoisie in their struggle against the workers, Marx and Engels believed that as the intervention of the state facilitated the passage from feudalism to capitalism, it will as well act to ensure the transition to socialism. Desai notes that Marx and Engels gave as much priority to political concerns as to economic ones and concludes that, according to Marx, the state takes care of productive forces, promotes domestic industry and trade. The economic expansion advocated by the bourgeoisie does not reflect a globalising vision, and one has to see the contradictions of capitalism at the root of geopolitical tensions. At the beginning of the twentieth century, Nicolai Bukharin and Vladimir Lenin further developed a Marxist theory of imperialism both as an advanced stage of capitalism as well as a creation of national blocs of capital set
in the context of a world economy. In *Imperialism and World Economy* (1972), Bukharin contends that the tensions among competing capitalist states would inevitably lead to armed conflict, “From the point of view of the ruling circles of society, frictions and conflicts between ‘national’ groups of the bourgeoisie [...] lead in their further development to war as the only solution” (104). The push towards internationalisation of production and exchange fosters at the same time competition and attempts to obstruct the economic expansion of other states.

Our paper has two main parts: in the first one, we give a review of the classical Marxist writings on imperialism in order to explain the unequal economic and political relations between developed capitalist countries and the rest of the world in a historical perspective that includes the centrality of the state. This will serve to counter the cosmopolitan and globalising deviations identified by Desai in current Marxist writings. Desai (2010) argues, with reason, against the vision in which “politics, nation-states and geopolitics were subordinate effects of a pure and cosmopolitan capitalist economy” (479). In the second part, we examine the new Marxist explanations of neo-imperialism and neo-colonialism as developed by Ellen Meiksins Wood in *Empire of Capital* and David Harvey in *The New Imperialism*. By applying some of Wood’s and Harvey’s ideas in combination with Desai’s critical thought, we believe that we can give a more pertinent description of current forms of imperialism and the role played by the state.

**The Classical Marxist Theorists of Imperialism and the Role of the State**

One of the first Marxist thinkers to address the imperialism problematic was Rudolf Hilferding (1877–1941). A medical doctor by profession, he was nonetheless one of the most brilliant economic successors of Karl Marx at the turn of the twentieth century. In 1910 he wrote a classic treatise on finance capital that would influence other Marxists such as Lenin and Bukharin. Hilferding (1981) told his readers that his goal was to study the new tendencies at work in the now worldwide capitalist economic system by identifying two major characteristic features in the latest phase of capitalist development, “Those processes of concentration which, on the one hand, ‘eliminate free competition’ through the formation of cartels and trusts, and on the other, bring bank and industrial capital into an ever more intimate relationship” (21). Finance capital is, therefore, the newest form of capital given that the various capitalist states in formation play, according to Hilferding, in its development and consolidation.

In the first few chapters, Hilferding (1981) notes that credit in the capitalist system appears as a “consequence of the changed function of money as a means of payment” (82). Due to its development, banking credit slowly replaces commercial
credit, a process designated by Hilferding as a transition from commercial to investment credit that plays a major role in international relations as capitalism develops. Hilferding also remarks that during the emergence of powerful national capitalist economies, countries such as England extended credit to states that used to buy its products but ceased to do so later on. “The situation is different today: credit is not provided exclusively or mainly in the form of commercial credit, but for capital investment, the object of which is to gain control of foreign production” (Hilferding 1981, 92). He concludes, therefore, that the dependence of productive capitalists on investment credit is a necessity arising out of competition.

Already we see that Hilferding is exploring the ways capitalist nation-states employ specific strategies to increase their capacity to control foreign production and augment their economic power vis-à-vis their rivals. These processes also coincide with the transition from the individual capitalist enterprise towards large corporations which Hilferding (1981) defines as an “association of capitalists. It is formed by each capitalist contributing his share of capital, and . . . the degree of his influence, is determined by the amount of capital he contributes” (118). Hilferding argues that in their capacity to increase their own capital, corporations function in many ways like banks. There is also a strong tendency to concentrate capital in the money form and to make it available to producers mainly through the banks.

With regard to a growing tendency towards concentration and centralisation of capital within competing nation-states, it is very plausible to acknowledge a similarity between capitalist and political forms of domination. As Hilferding (1981) argues, “The monopolistic association is an organization for economic domination, and there is therefore a close analogy with the organizations of state domination” (206). The highest forms of economic domination are those of national banks, trusts and cartels of which fusion and interaction become what Hilferding (1981) defines as finance capital, the “synthesis of usurer’s and bank capital, and it appropriates to itself the fruits of social production at an infinitely higher stage of economic development” (226). He also notes the growing tendency towards the export of capital and commodities from more developed nations to less developed ones. He remarks that this tends to create unequal terms of exchange and levels of development. “This is precisely the reason for the rapidity of capitalist expansion. It enables the most advanced capitalist countries to increase their industrial production and their exports far beyond their imports from the undeveloped countries” (Hilferding 1981, 279).

These ill-matched relations between states with varying degrees of capitalist development play a major role in the manner capitalism evolves in different geographical areas. Although Hilferding is well aware of the fact that the bourgeois state favours certain economic results, he also has a dialectical view of
this process. Though a given state may have an important economic role to play, it is often directly affected by tendencies occurring within other countries, “It is equally impossible to derive general laws about the changing character of crises from the history of crises in a single country such as England, precisely because the capitalist crisis is a phenomenon of the world market” (Hilferding 1981, 288). It is noteworthy to underscore here that certain elements of what Desai describes as the cosmopolitan view of capitalism are sometimes present in Hilferding’s work. The first four sections of Hilferding’s book lead us to what is, from the point of view of imperialism and the materiality of the state, the most interesting part of the work. It is in this fifth and final section that Hilferding’s ideas about the state and its role in modern capitalism come to the fore.

For Hilferding, finance capital signifies the unification of various forms of capital: industrial, banking and commercial. But like all processes, this unification was a long historical one. Hilferding explains that, for the nascent bourgeoisie, the state could often be seen as an obstacle to commerce and free trade. Political economy and liberalism, viewed as a form of rebellion against state meddling in economic affairs, were the ideological vehicles of the rising bourgeois class, “Thus the policy of the bourgeoisie comes to be based upon political economy and its struggle against mercantilism becomes a battle for economic freedom, which in turn develops into a broader struggle for individual liberty against the tutelage of the state” (Hilferding 1981, 301). Yet a few sentences further on, Hilferding also remarks that these ideological convictions did not always influence actual practice, that even in England the principles of laissez-faire were never applied systematically and that the bourgeoisie found many uses for the state in the consolidation of their class power. For example, trade and the colonial policy towards India were never viewed as simply an economic affair, “India, was never regarded as a mere market; dominion over India assured a large and influential class of high incomes as a ‘tribute for good government’” (Hilferding 1981, 303). He then explains that England’s industrial preeminence led to protectionist logics in continental Europe and America. Hilferding believes that the theories of List and Carey are the logical ideological reactions of economic nations wishing to pave their own path towards economic development. According to Hilferding, List’s theories are not systematic refutations of free trade ideas as defended by Ricardo but rather an economic policy which would really make the free trade system feasible, by facilitating the development of a national industry for which that system would be appropriate. This was the only purpose which List’s “educational” tariffs were intended to serve, and he therefore proposed low tariffs designed to
eliminate the disparity between England’s superiority and Germany’s backwardness. (1981, 304)

An interesting twist is that countries such as Germany and the US were, not long before, developing their industrial capacities even though protective tariffs changed their nature. From being a means towards development, tariffs became a weapon to promote national economic supremacy; and from being a temporary measure to ensure survival of national industry, they were now being promoted by highly competitive industries within the most developed states,

The higher the tariff, the more the domestic price can be raised above the price on the world market; and so the “educational” tariff has evolved into a high protective tariff. The protagonist of friendly agreements and advocate of the gradual reduction of tariffs has become a fanatical high tariff protectionist. (Hilferding 1981, 308)

From being a defense against foreign industries, tariffs became a tool of conquest. The export of capital becomes the means of expansion of what Hilferding calls the “national economic territory” of powerful capitalist states beyond their borders. The opening of new markets and the exploitation of raw materials in colonial territories increased progressively. Similarly, Marx remarks that these practices also plant the seeds of modernisation of economic life in pre-capitalist economies. Although this economic development of non-capitalist territories was done mainly for the direct advantage of the colonial powers, it eventually provided the basis for autonomous economic development. Furthermore, Hilferding notes that the violence of colonial policy of advanced capitalist states is not in contradiction with the general historical method of capitalist expansion. To exert economic pressures, the colonialist often resorts to political and military means of coercion to obtain the desired result: “These violent methods are of the essence of colonial policy, without which it would lose its capitalist rationale” (Hilferding 1981, 319). In this perspective, the state is the main tool which the bourgeois classes of imperialist nations use to subdue peoples in foreign territories.

Hilferding concludes his book by warning that the increased concentration of economic power leads to an unbounded and limitless desire for power by the state, a theme that David Harvey and Ellen Meiksins Wood will develop later on. But for now, we shall turn to Luxemburg, Bukharin and Lenin, who proposed some improvement to Hilferding’s notions of imperialism and the state. Hilferding nonetheless deserves particular attention, both for his original ideas in general and for his comments on List and Carey which corroborate Desai’s vision of the materiality of nations.
Rosa Luxemburg (1871–1919) was one of the most influential Marxist thinkers of her generation. She was also one of the first women in Europe to receive her doctorate in economics and to become a major political actor within the workers movement. Although her untimely death at the hands of reactionary German soldiers deprived us of what could have been further profound intellectual contribution, she nonetheless left behind an impressive body of work. We will focus on her most elaborate economic treatise, *The Accumulation of Capital* (1913). The main topic of this book is the problem of enlarged reproduction of the capitalist economy. How does capitalism not only reproduce itself and its material basis but also expand from one cycle to the next despite setbacks and crisis?

Luxemburg sees a tendency in this expanded reproduction for more and more value to be stored in the production of an ever-increasing quantity of means of production. This in turn increases the productivity of labour through constant technological innovations, “Society has increasingly more labour time and labour power to spare, and it makes use of these for the manufacture of means of production on an ever increasing scale” (Luxemburg 2003, 64). This increasing scale and constantly augmenting productivity will create problems for the realisation of surplus value and expanded reproduction of the system as a whole. Although looking at some mathematical formulations contained in Marx’s schema of expanded reproduction in volume two of *Capital* seems to point to the possibility of continuous expansion, Luxemburg claims that the impossibility of such a scenario is obvious when one looks at the concrete social conditions of accumulation.

For such an expanded reproduction to occur, not only must the material conditions be made available to the capitalist class, such as raw materials, abundant workforce, etc., but there also needs to be sufficient consumer demand for the increased production. If the commodities produced do not find buyers, surplus value cannot be realised and capitalist enterprises fail to make profits. In such a situation, there is, from a capitalist point of view, overproduction and this eventually leads to crisis. The question that Luxemburg asks is where do the consumers come from? In quest of an answer, she proceeds to an investigation of all proposed solutions from Ricardo and Sismondi to Marx and finds them all lacking in various respects. She then remarks that the various solutions proposed to the problems arising out of expanded reproduction are, for the most part, a reformulation of past errors.

Much as with Hilferding, the main points of Luxemburg’s treatment of imperialism and the nation-state are found in the final section of her magnum opus. It is in these concluding chapters that she will attempt to define the material and historical limits of expanded capitalist reproduction. She believes the answer to these limits can be found by examining the social setting within which capitalism historically developed. Luxemburg (2003) concludes that “The decisive fact is that the surplus value cannot be realised by sale either to workers or to capitalists, but only if it is
sold to such social organisations or strata whose own mode of production is not capitalistic” (332). The production of surplus value in mainly capitalist economies is in constant interaction with less developed or even non-capitalist social formations. It is in this exchange with underdeveloped areas, from a capitalist perspective, that the system is able to continually expand despite recurring crises. Luxemburg argues,

> From the aspect both of realising the surplus value and of procuring the material elements of constant capital, international trade is a prime necessity for the historical existence of capitalism—an international trade which under actual conditions is essentially an exchange between capitalistic and non-capitalistic modes of production. (2003, 340)

This leads her also to criticise Marx, somewhat unjustly, for thinking that once primitive accumulation has been accomplished in Western Europe, the capitalist system can expand according to its own inner laws. As Luxemburg illustrates, the use of state power and the domination of western nations across the globe during the rise of capitalism is part and parcel of its very functioning. Luxemburg therefore distinguishes between internal and external markets describing them respectively as two interacting spheres,

> In this light, the internal market is the capitalist market, production itself buying its own products and supplying its own elements of production. The external market is the non-capitalist social environment which absorbs the products of capitalism and supplies producer goods and labour power for capitalist production. (2003, 347)

This leads to a contradiction that while the more developed nations become more dependent on their mutual commerce, they also view themselves as hostile entities each attempting to grab as much as possible of the rest of the non-capitalist world. Luxemburg goes on to say that once the natural economies of pre-capitalist segments of the globe enter into contact with capitalist nations, a disintegration of non-capitalist forms of economic production and exchange occurs. This process is long and arduous and often accompanied by military interventions of the colonial powers against their new, and mainly unwilling, subjects. One of the main obstacles is the introduction of private property in land as well as its use with an eye to maximising its productivity from the perspective of producing profit. The destruction of peasant economies and non-commoditised forms of production and exchange is imposed by force. The granting of public land to private interests occurs even in countries where a capitalist class was well established such as in Canada but where it has not yet managed to control the vastness of the territory through economic
means. As Luxemburg (2003) noted, “In Canada, public lands were lavished upon private capitalist companies on an even more monstrous scale than in the United States” (390). The state in that case accelerated the process of creating a more powerful private sector and preventing non-capitalist forms of settling to occur on any kind of vast scale. This is how states could play a major role in the developing of national economies in certain directions rather than in others.

Luxemburg finally identifies the current period as an imperialist phase of capitalism. She defines it as “the political expression of the accumulation of capital in its competitive struggle for what remains still open of the non-capitalist environment” (Luxemburg 2003, 426). She immediately qualifies this statement by adding that though immense parts of the globe are still up for grabs they will not suffice to contain increases in productivity from the centres of the capitalist economy. They are but temporary solutions for the problems of capitalist accumulation.

As a matter of fact, imperialism grows into an ever more aggressive competition among major colonial powers. Luxemburg emphasises the two aspects of capital accumulation: the first mainly within the core countries where capitalist social relations are highly developed and the second between these core states and the non-capitalist world. Increased militarism and taxation also accompany this competitive race between nations under bourgeois domination.

Nikolai Bukharin (1888–1938) is often viewed as the most theoretically inclined Bolshevik leader. His works on historical materialism as well as on economic questions were always of the highest quality. In particular, his treatise on imperialism highly influenced Lenin’s own understanding of the world economy during the period of the First World War. In *Imperialism and World Economy*, Bukharin explains that though nations may have an influence on their economies they are also influenced by the global reach of the capitalist system. It is because nations are competing for economic supremacy within this system that we can understand the growing tendency towards conflict,

This is why the struggle between modern national economic bodies must be regarded first of all as the struggle of various competing parts of world economy just as we consider the struggle of individual enterprises to be one of the phenomena of socio-economic life. (Bukharin 1972, 17)

Bukharin goes on to explain that the growth of the world economy can be viewed in two different ways. The first is extensive, mainly regarding the manner in which capitalism expands towards new territories not yet under its control. The other is intensive and functions by increasing the productive forces and capacities within countries already on a capitalist path of development. The state, in both instances, can and often does play a crucial role.
Bukharin notes, much as did Hilferding, a growing tendency towards monopoly and concentration of capital within developed nations. Thus, starting from powerful national bases of capital accumulation, the power of imperialist nations spreads across the world and integrates less developed countries within an intricate web of financial connections. Bukharin (1972), in this sense, does prefigure a certain notion of what will be called globalisation, “International economic relations are extended through countless threads. . . World finance capitalism and the internationally organised domination of the banks are one of the undeniable facts of economic reality” (60).

After acknowledging that the growing tendency points towards economic integration of the globe, Bukharin notes that this is far from meaning that national economic centres underestimate their differences. Each national bourgeoisie seeks its own, politically defined best interest. As Bukharin notes, “The process of the internationalisation of economic life can and does sharpen, to a high degree, the conflict of interests among the various ‘national’ groups of the bourgeoisie” (1972, 61). These different national groups often enter into conflict over spheres of influence, domination of less developed regions, spheres of investment and access to natural resources, which sometimes lead to war.

On the question of the form of the modern state, Bukharin tends to take a somewhat mechanical view. States became more and more necessary as the economic foundations of a capitalist economy grew. What is more interesting is the fact that he perceives national economies as living phenomena that change over time, like all living forms, “national economy” was, and is, engaged in a continuous process of internal regeneration: molecular movements going on parallel with the growth of productive forces, were continually changing the position of individual “national” economic bodies in their relation to each other, i.e., they influenced the interrelations of the individual parts of the growing world economy. (Bukharin 1972, 63–64)

A notable fact is that, much as did Hilferding, Bukharin remarks that List and other protectionist thinkers were to a certain degree promoting logical policies from the perspective of newly developed capitalist national economies. But the fact that, in the imperialist phase of capitalism, many powerful nations have built up high tariff walls and other protectionist measures is a sign of something quite different.

This process of “nationalisation” of capital, i.e., the creation of homogeneous economic organisms included within state boundaries and sharply opposing each other, is also stimulated by changes taking place in the three large spheres
of world economy: the sphere of markets for the sale of commodities, the sphere of markets for raw materials, and the sphere of capital investment. (Bukharin 1972, 80)

At this point we will shift to Lenin who synthesises many of Bukharin’s and Hilferding’s points of view in his famous 1917 pamphlet, *Imperialism, the Highest Stage of Capitalism*.

Vladimir Ilyich Lenin (1870–1924) was one of the leaders of the Bolshevik party since its formation in 1903. Lenin led the Soviets to power in October 1917 and was elected head of the Soviet government until 1922, when he retired due to ill-health. Beyond his important political role, he was also a prolific writer and had a particular talent for summarising the contributions of other Marxist thinkers while expressing his own incisive critical reservations. His short treatise on imperialism is no exception and deserves to be included in our overview of classical Marxist theories on imperialism and the importance of nation-states. As we have noted, much ground was already covered by Lenin’s predecessors; therefore, we will focus on Lenin’s main conclusions.

Lenin notes that it is the inherent tendencies of capitalist imperialism that explain the First World War. This war was, according to Lenin, a war for the division of the world among the great powers. For him this is the logical outcome of a process that culminated at the beginning of the twentieth century, the passage through which the domination “of capital in general made way for the domination of finance capital” (Lenin 1977, 666). Although Lenin accorded much importance to the economic changes in capitalism, both within nations and at the level of the world economy, he refused to view the political domain as either entirely separate or entirely determined from the economic sphere. As Lenin correctly noted,

The epoch of the latest stage of capitalism shows us that certain relations between capitalist associations grow up, based on the economic division of the world; while parallel to and in connection with it, certain relations grow up between political alliances, between states, on the basis of the territorial division of the world, of the struggle for colonies, of the “struggle for spheres of influence. (1977, 689–90)

Here we have a confirmation of Desai’s main contention that states and their policies have a direct role to play in the historical development of capitalism.

**Contemporary Marxist Thinkers on Imperialism**

The US interventions in Iraq and Afghanistan at the beginning of the twenty-first century and their consequences have sparked an ongoing debate about the nature of
capitalism and its relation to imperialism. The Cold War with the Soviet Union and the containment of communism could no longer account for massive military interventions and long-term occupations of foreign lands by US forces and their allies. David Harvey, a world-renowned geographer and Marxist theoretician, wrote a short treatise attempting to explain the changes that led to this particular outcome.

In his book *The New Imperialism*, David Harvey states that his goal is to examine what role imperialism plays in global capitalism. He calls the new imperialism as practiced currently by the US capitalist imperialism. By this Harvey means a “contradictory fusion of the ‘the politics of state and empire’ (imperialism as a distinctively political project . . .) and ‘the molecular process of capital accumulation in space and time’ (imperialism as a diffuse political-economic process . . .)” (2003, 26).

Harvey goes on to affirm that this is very close to what Giovanni Arrighi defines as the “territorial” and the “capitalist” logics of power that change as capitalism develops over time. By analysing both of these logics separately, Harvey (2003) claims that Arrighi focuses on the role of one factor or another in specific situations while envisaging them in their dialectical interaction: “Imperialist practices, from the perspective of capitalist logic, are typically about exploiting the uneven geographical conditions under which capital accumulation occurs” (31). Harvey pays attention to the importance of what he calls the “asymmetries” that come about through the mechanisms of unequal exchange and monopoly powers. For these mechanisms to continue functioning over long periods of time, the use of the power of the state is essential. He also goes on to claim, much as Hilferding, Luxemburg, Bukharin and Lenin did, that imperialism is related to a certain stage of development of capitalism; what differentiates the current form is that “there are times in which the territorial logic comes to the fore” (Harvey 2003, 33). Nevertheless, Harvey admits that this can be particularly difficult to grasp and that the open dynamics of capital accumulation across space often encounter various political and military barriers. Without entering into details about what he wanted to convey precisely, it is obvious that nation-states and political power have an important impact on some particular phases of capitalism.

Furthermore, Harvey analyses the notion of hegemony and the role of hegemonic power in the global system. He tends to agree with Arrighi when he claims that in order to be hegemonic a powerful capitalist state must create an environment where both allies and potential rivals see some benefit in playing along. As Harvey writes, “Arrighi emphasizes the accumulation of collective power as the only solid basis for hegemony within the global system” (2003, 37). Arrighi himself was largely inspired by the work of Antonio Gramsci (1891–1937), the Italian communist thinker who wrote the manuscript of the now widely known *Prison Notebooks*. The main idea that Harvey takes from Arrighi is how the latter applies Gramsci’s notion of hegemony, a balance between coercion and consensus, in the analysis of international relations.
The historical period that most interests Harvey is the one he calls neoliberal hegemony that begins sometime in the 1970s. Here Harvey (2003) is clearly inspired by Rudolf Hilferding, the classical Marxist thinker and his analysis of finance capital as applied to the US, in particular, where, “Finance capital, in short, moved centre-stage in this phase of US hegemony, and it was able to exercise a certain disciplinary power over both working-class movements and state actions, particularly whenever and wherever the state ran up significant debts” (64). Like Luxemburg, Harvey mainly considers that primitive accumulation does not end once capitalism is established in Western Europe but continues to this very day. In particular, he views his concept of accumulation by dispossession as his main contribution in consolidating Luxemburg’s brilliant intuition. Despite Harvey’s keen observations and original analyses, he seems to lean heavily on Arrighi’s world-system perspective. For an alternative outlook, we now turn to Ellen Meiksins Wood.

Ellen Meiksins Wood is known for her work in several scientific fields of analysis. She has written extensively on the history of political thought, the origins of capitalism, as well as on contemporary imperialism. It is her contribution to this latter topic that we shall now examine. Wood (2003) begins her analysis by stating that what differentiates twenty-first-century imperialism from its previous forms is that it relies more on economic than more direct mechanisms of constraint, “What makes class domination or imperialism specifically capitalist is the predominance of economic, as distinct from direct ‘extra-economic’—political, military, judicial—coercion” (4). By this she means to say that today imperialist intervention mainly resorts to military coercion in order to subdue recalcitrant states to abide by the dictates of global financial capital. The overwhelming power of the US military is, according to Wood, a kind of global police force that protects both its own national interests as well as bourgeois political domination in general. The US plays a more global role, whereas each individual state plays an internal role in the functioning of their own economy and in maintaining law and order within its borders. This is done mainly, according to Uncle Sam, in order to keep the world economy functioning as smoothly as possible despite recurring crises which are inherent to the system itself.

Like Lenin, Wood argues that capitalist imperialism is a specific form of historical domination, which is different from previous ones. Wood (2003) emphasises particularly the fact that “Capitalism is distinctive among all social forms precisely in its capacity to extend its dominion by purely economic means” (12). The whole argument in her treatise can be summed up by saying that even the forms of imperialism that other authors viewed as capitalist are far from being accurate.

The city-states of Italy, the Dutch commercial empire and even the British Empire were at best odd mixes of pre-capitalist and capitalist forms of
imperialism. This is due, according to Wood, to the fact that most of the world was not yet integrated into the capitalist system and that much of the wealth accumulated by these established powers was through robbery, collection of tribute and exploitation of non-free forms of labour such as slavery. Wood never denies the fact that these historical practices were necessary steps which led the way to the first truly capitalist empire, namely that of the US. She just claims that what is new is that global capitalism has fully expanded and that now all nations are, in various ways, subject to the inherent laws of capitalist accumulation.

In fact, capital’s drive for relentless self-expansion depends on this unique capacity [to extend its dominion by purely economic means], which applies not only to class relations between capital and labour but also to relations between imperial and subordinate states. (Wood 2003, 12)

Her analysis of the historical development of empires which preceded that of the US is quite impressive given the many sharp distinctions she made. For her part, Radhika Desai argues that Marx had in general a much more dialectical and historical perspective when analysing the role of nations and the power of states in the development of capitalism than most contemporary Marxists.

**Concluding Remarks**

In our present paper, we established the relevance of various statements concerning imperialism. We showed that, even in the age of globalisation, the nation-state is still playing a major role, albeit underestimated by many political theorists. Conversely the arguments presented by Desai in favour of the minority of interpreters who emphasised the role of the state turned out to be far more convincing. In addition, her views were backed by well-known economists and political thinkers such as Rudolf Hilferding who underlined that the rise of finance capital—contrary to what is largely accepted—strengthens the control of the state. For him, neither international relations nor geopolitics in a capitalist world can be defined without understanding the importance of the state.

Furthermore, Desai offers an original interpretation of Adam Smith’s doctrine which shows that his condoning of free trade is compatible with his favouring of a vibrant national economy. She also considers that Ricardo’s premise concerning the specialisation of a country in its efficient products is compatible with his nationalist-oriented predilection. As for Marx and Engels’ understanding of free trade and protectionism, Desai points out their nuanced views. For Marx, the state fulfils many socioeconomic tasks and above all, because it was essential in the
transition from feudalism to capitalism, it may, in many capacities, help to organise proletarian rule.

In addition, it is important to recall that Lenin and Bukharin had emphasised the tension among competing capitalist states. As Desai (2012) correctly remarks, “These Marxist theories did not merely explain imperial competition but also the underlying intensification of international industrial competition” (52). For all these reasons, we tend to share Desai’s criticism of cosmopolitan understandings of the capitalist economy. By associating some of Wood’s and Harvey’s ideas to Desai’s reflections, we concluded that globalisation did not diminish the important role of the state.

In the logic of “globalisation” and “empire,” states are becoming relics of the past. Conversely, some Marxists nevertheless attribute an importance to the state. Classical Marxists, in particular, tend to emphasise the role of the state contrary to globalisation adepts who adopt less useful tools in their analysis. It is wrong to simply ignore traditions which underscore the importance of nations in the development of capitalism. We prefer the dialectical approach adopted by Desai, regarding the relation between the state and capital, which is in conformity with Marx’s own historical and materialist method.

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References
GEOPOLITICAL ECONOMY AND COMPETING CAPITALIST BLOCS IN THE EU POST-CRISIS FINANCIAL REGULATION: TWO CASES FROM THE REFORM OF THE BANKING SECTOR

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Abstract: In this contribution I will test the geopolitical-economic approach as formulated by Desai (2013) in the analysis of the EU’s regulatory response to the financial crisis by focusing on two relevant pieces of legislation in the post-crisis reform of banking governance: the adaptation of the Basel III agreement to the package on Capital requirements, composed of a regulation and a directive, and the ongoing legislative process concerning the structural reform of banks. As I try to show, the concept of “competing geopolitical bloc” derived from the work of Desai, but even detectable in some recent Neo-Gramscian literature, is useful in analysing the shortcomings of the European regulatory response to the 2007/8 economic and financial crisis.

Key words: geopolitical economy; financial crisis; banking regulation; CRD IV; Bank Structural Reform

In this paper I show how a geopolitical-economic approach can account for the shortcomings of the European response to the 2007/8 economic and financial crisis. Specifically, it helps us to focus on the competing capitalist blocs of states and social classes underlying the uneven development of EU economic integration. I propose to apply this approach to the analysis of two crucial reforms in the EU banking sector: the translation of the Basel III standards in the post-crisis reform package on capital and liquidity requirements—the Capital Requirements Regulation and Directive IV (CRR/CRD IV)—and the ongoing legislative process...
on Bank Structural Reform. Our analysis of these two important elements of the post-crisis financial reform agenda permits us to assess the usefulness of a geopolitical-economic understanding of EU politics in post-crisis financial regulation.

The paper will be divided into two parts. In the first part I will contend that the concept of the uneven and combined dynamic of the capitalist system, as reformulated in geopolitical-economic theory (Desai 2013), allows scholars to develop an adequate analysis of EU economic governance as a regional field of struggle among competing capitalisms supported by different class and national economic constituencies, mirrored in the asymmetrical power relationships among member states. The operation of capitalist classes transnationally here emerges not as an instance of a transnational capitalist class (TCC) but rather as concrete political coalitions among major and minor EU governments, each advocating a market regulatory approach suited to the expansion of the fraction of capital they represent.

In the second part I will test the above theoretical scheme through an analysis of the two elements of the EU’s reform of banking governance mentioned above: (1) the issues concerning the minimum capital requirements and the introduction of a non-risk-based leverage ratio to ensure the resilience and stability of financial institutions in stress situations, and (2) the separation of trading-related activities from the deposit-taking function in the universal banks contained in the proposal for Bank Structural Reform still under debate in the European Parliament and the Council. As I will argue, an analysis of the interests and outcomes at work in these reform processes shows the importance of a theoretical focus on the conflicts and changes among regional coalitions of leading states and influential domestic/transnational capitalist groups. In particular, we will see how competition between the UK-led and the German–French-led blocs, both reflecting different capitalist projects embedded in different social constellations of domestic and transnational economic interests, could adequately account for the watering down of the most advanced Basel III standards in the final CRR/CRD IV, as well as for the current terms of the debate in the case of the Bank Structural Reform.

**A Geopolitical-Economic Approach for the EU Economic Governance**

In this section my aim is to show how a geopolitical-economic approach can be extended to include the Neo-Gramscian analysis of contemporary capitalism while overcoming the theoretical biases in it which stem from its linkage to the world system tradition. The analysis of EU financial and economic governance offers a good test for such a theoretical encounter, fostering a renewed Marxian understanding of the primary economic role of states and of inter-state relations in terms of competing capitalisms in an increasingly multipolar world.
Against a “cosmopolitan” Marxism conceptualizing capitalism as a globally unified whole, as do the approaches based on the concepts of Globalization and Empire, geopolitical economy brings the theoretical focus back on the role of nation-states as primary agencies of capitalist accumulation and expansion. The capitalist system and its structural contradictions are recast in the “uneven and combined development” of competing state-capitalist patterns at a world level (Desai 2010a, 2010b, 2012, 2013). Relying on a deep reappraisal of the Marxist analysis of the grounding role of the state, as well as on evidence from historical enquiries, Desai showed the ideological nature of the approaches based on the assumption of an accomplished totality and coherence of the international capitalist regime which is unable to account for the complexity of an increasingly multipolar system. So the roots of the cosmopolitan narratives, as well as of the different strands of Hegemonic Stability Theory, upon which most of the neo-Marxist debate on contemporary capitalism has been based, are exposed in the ideological frameworks for the various and never-achieved world leadership plans of the US (Desai 2013). The alternative geopolitical-economic approach fits well with a Neo-Gramscian conceptualization of international politics and also contributes to freeing its core concepts of hegemony and historic bloc from any “cosmopolitan” world system assumption. The latter underlies the theoretical framework of founding Neo-Gramscian works in international relations (IRs). In Production, Power and World Order, Cox (1987) fundamentally shares a basic assumption of the world system theory in considering the core function of the hegemonic state in shaping the international system according to the unified global expansion of capitalism model. Against the economistic and structuralist models, Cox and his followers introduced to this theoretical framework the Gramscian-inspired concepts of hegemony and “historic bloc” to grasp the inner combination between the outward expansion of a given state’s capitalism and the institutionalization of a political and societal consensus in subordinated states as constitutive components of a world hegemony. Such a premise implicitly confines the historical stages of world capitalist development to periods dominated by successive hegemonic states. Such confinement leaves little room for a historical analysis of the dialectic of uneven and combined development between state-organised national capitalisms in shaping the world disorder in which capitalism is embedded (Budd 2013). Moreover, by treating the societal transnational consensus, expressed in a “historic bloc,” as a requirement of world hegemony, these scholars illegitimately postulated the necessary or recurrent role of international consensus building as a condition for the same capitalist expansion. In this way the core–periphery distinction of world system theory is translated into the opposition between hegemony in the core system, i.e., the hegemon and its allied states, and passive revolution in peripheral states, characterized as the affirmation of a capitalist mode of
production without societal consensus. Such a schematic representation neglects the fundamental intertwining of progressive and conservative tendencies in the class compromises under nationally and internationally oriented capitalist hegemonies. Indeed, the Gramscian concept of “passive revolution” allows us to better conceptualize a grounding feature of all the capitalist hegemonies: i.e., the top-down gradualist and “molecular” absorption of relevant societal demands needed to forge the minimum consensus required to reproduce the system of class exploitation (see Montalbano 2015; for a similar view see Desai 1994, 62–63).

Apart from these theoretical biases, the first generation of Neo-Gramscians laid the grounds for an insightful understanding of historic blocs as complexes of states and social classes and primary agencies in international politics. In that same tradition, some scholars have focused more deeply on the alliances and conflicts between state powers and capitalist groups, both domestically and transnationally oriented (Overbeek 2000; van der Pijl 1998; Arrighi 2010), as constitutive of the same-class formations. Yet, most of this literature implicitly treated the emergence of an Atlantic transnational capitalist class TCC as a “proxy” of the declining US hegemony in building up a new “neoliberal” consensus against a post-war Keynesian model in crisis. In the vacuum created by the inability of the allegedly hegemonic state to provide “public goods” for orderly world capitalist development, the agency of the TCC, as bearers of the most internationalized productive and financial capital circuits, has been assigned the role of assuring a novel form of hegemonic consensus among the leading domestic capital fractions and political élites, so that a new unified and orderly capitalist expansion under the label of Neoliberalism could take place (Gill 2008, chap. 7). Indeed such a conceptualization of the TCC has been a key feature of the neo-Marxist theses on Globalization which assume, theoretically (and politically), a demise of the role of states, as well as of class conflicts at a domestic level (Robinson 2004). According to the latter scholarly strand, the TCC is the historical result not of an inherently conflictual process of class formation in contemporary capitalism, but rather a smooth incremental process or an already accomplished fact, constituting the engine of a global capitalism definitively overcoming interstate conflicts. Against this position, some scholars representing the so-called Neo-Gramscian “Amsterdam school” reframed the relationships between the domestic social classes and the more transnationalised fractions of capital in terms of conflicting “hegemonic projects” (van Apeldoorn 2004). Such an approach emphasizes struggles and compromises among competing blocs of states and classes even as it assumes that leading domestic and/or transnational interests define different hegemonic “attempts” to organise a unified world capitalist model. The latter Neo-Gramscian approach fits with a geopolitical-economic framework in that both focus on conflicting capitalisms as constitutive of the world multipolar system and on the primary agencies of
states in the international politics. But if the Neo-Gramscians gave more attention to the blocs of domestic and transnational class interests, paying less attention to the specific role of states in the formation of competing “hegemonic projects,” a geopolitical-economic approach could better reframe that same notion of historic bloc in terms of competing blocs of states/classes. In this view, such blocs are the proper object of analysis and the relevant actors at the international level. Therefore, against assumptions about an already unitary and coherent transnational class representative of capitalist globalization, geopolitical economy can see various transnational hegemonic projects as those of regional historical blocs. The transnational dimension does not exclude the domestic one but entails it. Domestic class fractions may be more or less embedded in the transnational circuits of capital accumulation, but all are rooted in political and societal domestic contexts in which they build up the necessary hegemonic conditions of any outward expansion.

The EU polity represents a good candidate to test the geopolitical-economic approach. Beyond the mainstream intergovernmental and neo-functional grand theorizing, a focus on the regional blocs of state/classes takes into account both recurrent and changing patterns of transnational coalition building among leading member states and influential class agencies in shaping EU economic integration. Besides its different epistemological grounds, geopolitical economy differs from liberal intergovernmentalism in its class analysis of the states’ interest formation, grounded on the antagonism and mediations between capital and labour (the most rigorous theoretization being that of Moravcsik 1998), and its focus on the transnational patterns of state/class alliances. Viewed thus, the more transnationalised groups are better able to construct cross-border alliances with foreign member states to win their support in influencing EU policy making. Similarly, the proposed approach differs from the varieties of capitalism literature in focusing on the social conflicts and compromises sustaining and changing the institutional patterns of a national capitalist regime and exploring the contingent and contradictory processes of states’ interest formation against the rationalist assumptions of the latter approach (see Hall and Soskice 2001 for a representative work). Differently from neo-functionalism and other approaches stressing the role of supranational and transnational actors, geopolitical economy treats nation states as the fundamental decision-makers in the EU system, so that both the relevant economic and institutional actors need to build a consensus with the leading EU member states in order to attain the desired goals (see, for example, Sandholtz and Stone Sweet 1998).

According to the theoretical approach here devised, the driving forces of EU integration lie in the contingent encounters between the positions of the economically leading member states (rooted in domestic class struggles and compromises) and those of the more advanced and transnationalised capitalist groups. The
contingent and changing contours of coalitions between and among these make European integration a complex and often contradictory process, mirroring the member states’ leading social forces and strategies in the world competition of capitals, while the gradual institutionalization of a supranational polity prompts the fixation of asymmetrical power relationships, creating an uneven playing field among EU state actors. The case of post-crisis financial governance, as we will see, offers an example of this “uneven and combined” framework characterizing EU economic integration.

**Financial Regulation and “Geopolitical-Economic Blocs”**

The EU’s pre-crisis financial regulatory framework has generally been depicted in the literature as dominated by a neoliberal model of governance, promoted by Wall Street and London, based on a light-touch and market-based regulation of the financial markets mirroring the US-led financialization of the world economy (as relevant examples, see Bieling 2003; Posner and Véron 2010), gradually overcoming Europe’s originally more production-focused financial system in a “battle of the systems” (Story and Walter 1997). These studies typically underestimate the extent to which the emerging features of the EU’s financial sector are responses to international competition, as well as to the changing features of national industrial systems. The label neoliberalism functions much as Globalization in fostering the appearance of a coherent and uniform model of financial capitalism successfully imposed by the US on domestic economies of subordinated states. A closer look at the empirical literature on EU financial governance, however, shows how the building up of a single market of financial services has taken place not as an entirely US- and UK-led process against the resistance and defensive positions of other EU member states but as a complex set of compromises among national financial market models competing within the EU framework for a favorable position in the regional and international markets (Quaglia 2010; Moloney 2012; Ferran 2012). Yet, neither the most recent pluralistic approaches (for a review see Helleiner and Pagliari 2009), nor the state/financial industry nexus conceptualized by the “competition politics” (Mügge 2006), could adequately account for societal struggles and political compromises involving both capital and labour, as well as corporate and non-corporate diffuse interests, which underlie the formation of the governments’ positions. As a result, societal cleavages and conflicts underlying the states’ varying interests in financial regulation and the relevance of regional coalitions involving both states and transnational classes receive little attention. The latter point has been scrutinized by a growing literature on the emergence of a transnational private governance as the basis of the “market-based approach” of the pre-crisis global financial architecture (Nölke and Graz 2007; Underhill and Zhang...
taking place “in the shadow of the state” (Helleiner and Pagliari 2010, 48; see also Abdelal 2007). A similar state- and class-based approach has been proposed by Macartney (2009, 2011) in his original “varieties of neoliberalism” approach to economic and financial governance. Though it provides a crucial basis for an encounter between the Gramscian and the geopolitical-economic strands, the latter fundamentally shares a “cosmopolitan” bias in describing each competing capitalist model as a “domestic variety” of an overwhelming neoliberal framework. Even in this way neo-liberalism, like the category of Globalization, becomes too large a label which risks overshadowing the inner specificity of the conflicting blocs of interests or, alternatively, excessively blurring the same peculiar features of the US and UK Neoliberalisms, which are implicitly treated as the “pure form” of neoliberalism (Macartney 2009, 458–59). Moreover, such an approach seems to underlie the dangerous equation between class power in contemporary capitalism as such, and neoliberalism, so that any deviation from a neoliberal pattern of economic regulation comes to be reduced to a breach of the same capitalist class power. But, as we will see, that could not be the case: a deep shift from the “neoliberal” regulatory and supervisory approach in the financial governance can be supported by the same capitalist states and classes in order to resolve the crisis of a previous accumulation regime without implying any shift in the distribution of class power. Against any simplistic reductionism, the overall neoliberal agenda in EU financial governance must be regarded as a detectable pattern in a set of variegated political compromises grounded in the conflicting interests and alliances among the different financial/industrial capital fractions embedded in the domestic state/society configurations.

The hegemonic role of the US–UK financial bloc at a transatlantic level can be assessed in the general regulatory and supervisory approach embedded in the realization of the Financial Services Action Plan (FSAP) for the creation of a European single financial market (Quaglia 2010). In the context of a G7 agenda for a new financial architecture weakening its regulatory priorities after 2001, the FSAP was launched to complement the broader “Lisbon Agenda” for a common regulatory and supervisory framework to enhance cross-border operations and competition in EU financial services. In the years of financial integration prompted by the FSAP, the majority of EU states experienced different degrees of growth in financial services’ share of GDP, a growth in capital markets and an increasing reliance of national banking systems on securitization activities and other market-based sources for financing productive sectors (European Commission 2007). If a US-led market-based framework characterized the FSAP agenda and its concrete outcomes, such a process has been neither linear nor homogeneous across the EU space. The impact of international credit expansion and the rapid development of financial operations and innovative products reacted with continental
relationship-based (as opposed to market-based) financial systems grounded in close relationships between banks and industry. In this context, the loopholes and possibilities for regulatory arbitrage left by difficult and downward compromises in the FSAP process, which made the EU system vulnerable to increasing financial market operations, must be understood as a result of competitive conflicts among national strategies for restructuring domestic finance-industry relationships. The unevenness in financial services integration in the EU has been particularly evident in the case of Germany, where the conservative behaviour of a traditional savers-oriented system of publicly owned Landesbank and mutual banks had to be balanced with the pressures from the emerging transnational German financial groups pushing for a more UK-style approach (Zimmermann 2012, 488–89). Even if the German financial market grew more slowly compared with other EU member states, the interconnectedness of its banking sector in the circuits of world financial capital has been evident in the development of European financial champions like Deutsche Bank, Commerzbank and Allianz, as well as from the systemic role assumed by structured financial products in domestic private and public-owned banks. The Basel II standards on capital requirements and their translation into EU policy are a good example of how the combination of the US-UK approach and the willingness of the continental EU member states to retain national regulatory and supervisory power fostered a differential modernization of the banking sectors in the various member states, the absence of regional coordination in risk management and oversight, and the growing interdependence between domestic funding channels and the transnational circuits of securities markets (Claessens and Underhill 2010). The low-minimum capital thresholds, the non-mandatory character of tougher prudential measures, the lack of countercyclical measures and liquidity standards, the large reliance on internal risk assessment methods and the long phasing-in arrangements contained in the first directive on capital requirements—transposing the Basel II international agreement—allowed a largely under-regulated expansion of new sources of credit, securitization and financing instruments for both the private and public sectors, decisively contributing to the credit boom and asset price inflation in the pre-crisis period.

The eruption of the financial crisis cast doubt on these regulatory arrangements and European finance needed to rebuild on new foundations the geopolitical blocs underpinning its accumulation strategies. Policy-makers and regulatory agencies in the states most severely hit by the crisis rapidly espoused and brought to international regulatory and standard-setting bodies the need for a shift in the micro-/macro-prudential regulation and oversight of the financial institutions and instruments (Baker 2010, 2013). As national states heavily intervened to bail out defaulting banks with tax payers’ money, the financial sector’s responsibilities came under hostile public scrutiny which threatened its privileged and “behind the scenes”
relationship with national and European policy-makers. The financial crisis thus led to a legitimacy crisis of the previous market-based financial governance (Helleiner 2010; Helleiner and Pagliari 2009), making it necessary for the financial industry to find a new strategic role in the states’ capitalist blocs. Thus, the post-crisis regulatory response at the EU level is better analyzed in terms of a strategy directed at restoring the financial market’s functioning as a condition of its further expansion, at the same time countering and neutralizing attempts to reduce the size and structural power of transnational financial capital. If the “neoliberal” strategy of financial governance caused enormous economic losses which also affected its broader legitimacy and policy influence, a new “macro-prudential” model could represent a viable trade-off to restore market positions and regain legitimacy.

The EU’s post-crisis financial reform process can thus be analyzed through the lens of the conflicts and compromises between leading geopolitical-economic blocs and the transnational-oriented financial interests in their attempts to reconstruct, on a new basis, a renewed alliance of national European financial capitals aimed at enhancing their respective positions against the risks of most intrusive regulation or even structural changes in the dominant power relationships at domestic and international levels. The cases of capital requirements and Bank Structural Reform are illuminating instances of this exercise because they involve fundamental issues of bank lending and financing of investment in businesses and the real economy and the politically sensitive issue of too-big-to-fail banks.

The New Capital Requirements (CRR and CRD IV)

The revision of the Basel II framework on the capital adequacy standards has been an overriding issue on the international regulatory agenda. The looseness in the thresholds and composition of the minimum internal capital, together with over-reliance on credit rating agencies and the variety of internal risk assessment models permitted, were targeted by policy-makers and regulators as fundamental vulnerabilities conditioning the wave of banks’ failures after the bursting of the subprime bubble. The G-20 summit of Pittsburg in 2009 put the need for new standards on the quantity and quality of bank capital and the prevention of excessive leverage on the international agenda (G20 2009). Under this strong political mandate a new round of negotiations began among public authorities and the financial industry within the Basel Committee on Banking Supervision aimed at delivering a new set of international standards for financial institutions to be phased in by 2012.

This quest for tighter international rules required balance between setting up global common standards and their implementation in divergent domestic banking systems and socioeconomic contexts. The new Basel III standards (approved in 2010) set the overall frame of the first stage of negotiations in the EU on the
changes in capital adequacy requirements. The two main factions in contention on this issue were the US–UK-led and the Germany–France-led blocs, reflecting the different interests embedded in domestic financial and economic systems and distinct transnationalised market strategies. The diverging interests of these blocs can be more or less directly linked with differences in their links with industry and SME, their access to funding and entire national economic systems. In the following section I will distinguish the positions of these two competing blocs and the socioeconomic interests that underlie them while assessing the transnational strategy of each. Given the length and complexity of the final capital adequacy requirements package, I will focus on two of its more contentious elements only: the core minimum capital requirements and the leverage ratio.

The two main Basel III measures here taken into account entailed

(a) raising the minimum threshold for common equity Tier 1 Capital (CET1, composed of equity instruments of the highest quality) to 4.5% of risk-weighted assets (RWA), from the minimum of 2% of RWA established in Basel II, deducting from the computation the “silent participation” of state shares in private/publicly owned banks, as well as the shares of the banking groups’ insurance subsidiaries, while allowing possible adaptations for non-joint stock companies (BCBS 2010, 12–13) and

(b) introducing a new non-risk-based leverage ratio as systemic countercyclical provision to limit banks’ and investments firms’ risk-taking on the basis of internal risk-weighting assessment.

Continental banks, especially in Germany and France, stood to lose considerably from the equity requirements of Basel III because of their large non-equity core capital structures (based on mixed equity and non-equity shares unlike UK banks with their largely equity capital), the importance of the hybrid private/public banks (particularly in Germany, with the Landesbanken playing a central role in the regional economies), and the inclusion of the insurance subsidiaries shares in the minimum requirements (especially in France) (see Howarth and Quaglia 2013). Basel III did not envisage maximum capital requirements, an omission supported by the UK so as to allow for higher capital requirements which would make the British financial sector more attractive for investors and give it a competitive advantage over banks of other member states. By contrast, Germany and France pushed for such a measure so as to level the playing field with UK banks.

Together with the new capital requirements, largely based on the banks’ internal risk-assessment, the introduction of a non-risk-weighted leverage ratio was promoted by the ECB as “the primary regulatory tool for bank capital” (OECD 2013, 2) to balance the risk-sensitive modeling and arbitrage on which Basel II
was grounded. Such a measure was strongly criticized by the majority of the member states, with the business interests of Germany and France in the forefront. The regulators and the financial industry both pointed to the costs of a massive deleveraging in still-recessionary conditions, as well as to the dangers of a uniform non-risk-based ratio applying across differentiated national banking sectors, and of the consequences for bank lending to the industrial sector and SMEs.

A flexible approach to and revision of the main Basel III innovations was advocated by a large “Continental bloc” of domestic banking interests, with Germany and France in the forefront as the leading EU states, meeting at the same time the preferences of most of the transnational financial fraction. The Commission’s open consultations from 2009 to 2011 on the changes to introduce to existing capital adequacy requirements rules witnessed a predictable coalition of financial and industrial interests and national governments across continental Europe expressing an almost unanimous opposition to the most rigid provisions contained in Basel III.

In an analysis of the depositions during the consultation process, two main positions emerge: a) a large coalition of domestic and cross-border finance/industry interests, led by Germany and France, proposing to water down the Basel III measures on Capital requirements and the leverage ratio and to fine-tune them at EU level, and b) a narrower coalition, led by UK authorities, fostering a coherent adoption of the key measures in the Basel III agreement. The Germany and France-led bloc reflects both their domestic banking structures (focused on business funding through bank lending) and the interests of European cross-border banking groups striving to loosen the most rigid regulatory requirements. They commonly oppose “one-size-fits-all” measures and the overly burdensome capital adequacy requirements which restrict investment in the real economy and prolong the recession. They blame the restriction of the instruments eligible as the core tier 1 capital for especially undermining the publicly owned German banks and the French bank/insurance conglomerates. While the French financial authorities asked for a level playing-field taking into account European specificities of non-joint stock companies and financial conglomerates in the definition of the core tier 1 capital (French Ministry of Treasure et al. 2010, 11), the German Ministry of Finance proposed to relax the Basel III requirements and to adopt a “principle-based” approach “without reference to any specific instruments”, an approach “which is neutral with respect to the legal form of institutions” (German Federal Ministry of Finance 2010, 9).

Even more categorical was the German–French position on the leverage ratio, with the German delegation’s deposition affirming in bold type that it opposed “the introduction of a binding leverage ratio,” denouncing its design as amplifying the risk of credit crunch during times of high losses. “Had this leverage ratio been binding during the crisis,” it added, “the losses made during the crisis would have forced institutions to reduce their leverage even more than they have already been forced
to do in order to cope with the risk-based minimum capital requirements” (German Federal Ministry of Finance 2010, 13). French authorities opposed the binding leverage ratio on more or less the same terms, asking that it be treated “as an undisclosed pillar 2 indicator for supervisors in their dialogue with financial institutions” (French Ministry of Treasury et al. 2010, 2). These criticisms substantially overlapped with those expressed by the German and French banking associations (see ZKA 2010, 24–25, 47; FBF 2010, 11, 28; Groupement National de la Coopération 2010, 5) and articulated by the European Banking Federation, which—already during the Basel III negotiations—harshly denounced the introduction of a leverage ratio as a “step backwards,” in sharp “contradiction with the spirit and purpose of the Basel II rules” in that it “removes the incentives for institutions to improve their risk management practices” (EBF 2010, 114). Together with domestic banks’ umbrella organizations, even the representatives of most European transnationalised banking groups sought a flexible and differentiated approach to the implementation of Basel III. So the European Roundtable on Financial Services stressed the strict relationship between the banking and productive sectors in the European domestic financing systems, based on banks’ credit rather than capital markets as in the US case, in order to warn about the detrimental effects of the new restrictions for the real economy (EFR 2010, 2–3). As one might expect, given the inner links between financial and industrial capital in continental Europe, German and French business organizations aligned with domestic banks’ interests (see FGI 2010; MEDEF 2010). As the Federation of German Industries clearly pointed out, the rigid transposition of the Basel III leverage ratio into the new capital adequacy requirements package, as originally proposed by the Commission, would “[put] German banks at a greater disadvantage than other European and Anglo-Saxon banks” (FGI 2010, 4). Interestingly, the position of the trade unions did not conform to those of the business sector to constitute a broad category of the “producers’ interests.” For example, the Austrian Federal Chamber of Labour issued a detailed position paper on the CRD IV proposal in which it recognized the need to include capital of non-joint stock companies in the core capital requirements (provided that it met the Basel III core tier 1 criteria), while strongly supporting the introduction of a narrowly defined leverage ratio as a measure to address the shortcomings in the internal risk modeling, “thereby limiting the risk of too big/interconnected to fail and of too big to be rescued” (BAK 2010, 10).

For their part, UK financial authorities were the main promoters of the tighter definitions of core tier 1 capital thresholds and the introduction of a non-risk-sensitive leverage ratio. In its written response to the 2010 consultation, the UK Treasury—in concert with the Bank of England and the FSA, agreed with the core capital adequacy criteria and asked that “[n]on-joint Stock (NJS) companies should also be required to meet these criteria in full,” while also warning that the latter
“need to work for NJS companies” (UK Treasury 2010, 12). In the same way, the UK strongly supported the imposition of a binding leverage ratio “serving as a mitigant against both over-reliance on an individual bank’s modelling and measurement of risk, and also excessive, unsustainable growth in absolute balance sheet size,” so asking for it “[to] be a mandatory element in Pillar I of the CRD” (2010, 15–16). In taking these positions, the UK was joined by EU member states with relatively deleveraged banking sectors, like Italy (see Banca d’Italia 2010, 7).

The lines of debate on the final legislative texts voted on by the European Parliament and the Council (EU 2013) largely conformed to those on the Commission’s original proposals (see Howarth and Quaglia 2013; European Commission 2011a, 2011b). The definition of the capital adequacy ratios in the final CRR text, while maintaining the Basel III thresholds, broadened the criteria defining the CET1 capital to include other high-quality forms of capital which meet the 14 criteria for loss-absorbing capital (European Commission 2013, 15) than just “ordinary shares,” i.e., the equity shares set by Basel III. This largely eluded the Basel III prescription to phase out public “silent participation” (i.e., the governments’ lending and shares) in banks’ equity base. At the same time, the treatment of “minority interests” in the proposed regulation allowed more favorable treatment of insurance entities, put under the regime of the financial conglomerates directive (European Commission 2013, 17). Besides relaxing capital adequacy criteria, the other major innovation of a binding leverage ratio was substantially bypassed—at least temporarily—by confining it to Pillar 2 (i.e., the non-binding additional measures whose enforcement is left to the different financial institutions’ supervisors) and making its possible future inclusion in Pillar 1 (i.e., the mandatory measures) conditional on further impact assessments and reviews by the European Banking Authority (EBA). Even in this case, the possibility of a differentiated leverage ratio based on various national business models (European Commission 2013, 23–24) is left open. On the issue of harmonization, the final compromise allows a certain range of flexibility in the introduction of tougher capital requirements as systemic risk capital buffer and other prudential requirements (e.g., risk weights and large exposure limits) (European Commission 2013, 11).

In the end, a Continental bloc formed through an alliance of German and French domestic interests with transnationalised European banks found a compromise which, though not dismissing the framework of Basel III, was successful in watering down its most burdensome requirements.

The Bank Structural Reform

The project of a comprehensive reform of the banks’ business structures in the EU has been deeply undermined by national legislative initiatives in the UK, Germany
and France, aiming to safeguard the interests of their national financial champions while appearing to address public concerns. Between them, they have made the prospects of a harmonized European-wide reform dimmer. Harmonization would represent a crucial step in the accomplishment of a European Banking Union because it directly addresses two core and interlinked issues arising from the crisis. First, it deals with the too-big-and-too-complex-to-fail banks, which required systemically important financial institutions to be bailed out by governments. It also deals with the business models of universal banks which combine routine and essential deposit-taking, lending and payment services with more risky trading-related activities. Still under EU trilogue negotiations among the Commission, the Council and the European Parliament at the time of writing, this regulatory initiatives being so substantially watered down by the leading interests of the different states’ financial actors so as to hinder a common European framework which could damage EU transnational financial firms.

In February 2012, Commissioner Barnier established a high-level expert group chaired by the governor of the Bank of Finland, Erkki Liikanen, with the mandate of providing a preliminary report on a possible reform tackling the banks’ business models at European level in order to “reduce the probability and impact of failure, ensure the continuation of vital economic functions upon failure and better protect vulnerable retail clients” (European Commission 2012). The final set of recommendations included the assignment of the banks’ “proprietary trading and all assets or derivative positions incurred in the process of market-making” into separate legal entities, although remaining in the same banking group. According to the proposal, the separation would have been mandatory only if the concerned trading activities exceeded a certain amount compared to the bank’s total assets. Even so, it would be decided by the supervisors on the ground of specific thresholds issued by the Commission, while the “small banks” would be exempted. Each of these new trading entities in the banking group would have to comply with the capital requirements in CRR/CRD IV (High Level Expert Group 2012, 101–2). While some dissent emerged in the expert group on the issue of mandatory separation (2012, 100), the final Liikanen report opened the path to a common European framework to deal with the riskiness in the structure of universal banks. Nevertheless, in the course of 2013 the governments of Germany, France and the UK approved their national laws on the structures of banking business. So when the stakeholders’ consultations on the Liikanen proposals opened, the leading EU states were already completing and implementing different national legislative solutions. By so doing these governments largely responded to the double political need to gain electoral consensus on an issue, such as the too-big-to-fail banks, which received so much attention in the post-crisis public debate, while at the same time reaching a compromise with the respective national banking sectors and
transnational financial firms. Moreover, by moving before the Commission proposals appeared, these initiatives set the terms for the European legislative process, ensuring that it had to provide a great range of flexibility and national derogations in the final EU legislation. The main features of the three reforms are summarized in Table 1.

The UK’s rigid “ring-fencing” approach mirrors the regulatory shift in its national financial authorities, while being rooted in the structure of the British banking system which, as already noted, is less reliant on deposit-taking functions than the universal banks of Continental Europe (Quaglia 2010). For their part, the German and French approach treats proprietary trading differently, permitting it to universal banks and exempting them from legal separation requirements. In the German case, the exceeding of very high thresholds for credit institutions (100 bn euros of trading assets or if the latter exceed 20% of the total assets; 90 bn euros of deposit-taking institution’s total assets) entails the separation of proprietary trading and a few other operations (high-frequency trading not constituting market-making, lending and guarantee transactions with hedge funds or with highly leveraged alternative instrument funds), while the majority of trading operations, including market-making, will be allowed for large credit institutions (Finance Watch 2013a, 5–6). In a similar fashion, Art. 2 of the French law considers several exemptions from the proprietary trading prohibition, including operations related to market-making (République Française 2013). As stated in a joint German–French deposition to the consultation, the principle underlying their national reforms has been that of ensuring financial stability and consumer protection, while at the same time avoiding any measures potentially damaging the “financing needs of the economy.” This requires preserving market-making as a “natural complement to securities underwriting” (Joint German and French Response 2013, 1).

Thus, the Commission’s stakeholder consultation that opened in May 2013 saw clearly distinct factions. The UK, German, and French governments underlined
the importance of their respective reforms as the pathways for the Commission to follow in the drafting of its proposals, with the national banking and industrial trade associations largely supporting their national legislative initiatives and opposing a tougher European regulatory layer (see BBA 2013; CBI 2013; FBF 2013; AFEP 2013; DK 2013). Transnational firms like Deutsche Bank and Crédit Agricole fiercely contested the Liikanen and Commission arguments, as well as the one-size-fits-all approach, proposing that any structural change should be contingent on regulatory assessments within the resolution-planning process, as regulated in the already enacted Recovery and Resolution Directive (Deutsche Bank 2013, Crédit Agricole 2013; Barclays 2013). On the opposite side, consumer associations, NGOs and trade unions largely supported stronger rules on mandatory separation between trading and retail banking activities (see Finance Watch 2013b; UNI Europa 2013; Financial Services User Group’s 2013).

In the end, the final Commission proposal contained weaker provisions than the Liikanen proposals and was closer to the existing UK, France, and German laws. However, it also subjected a broader range of trading activities to the separation requirement than envisaged by the new German and French laws. The latter point became the target of severe criticisms from the very start of the legislative process.

According to the Commission’s proposal, the Regulation on Bank Structural Reform would apply to EU credit institutions, including branches and subsidiaries (domestic and in other countries), as well as to foreign institutions located in Europe⁴ (European Commission 2014a, 22–23). It substantially narrowed the scope of mandatory separation in the case of sole proprietary trading activities, defined as “the desks’, units’, divisions’ or individual traders’ activities specifically dedicated to taking positions for making a profit for own account, without any connection to client activity or hedging the entity’s risk” (European Commission 2014a, 24, 27). The activities related to the buying and selling of money market instruments for cash management, as well as trading in EU states’ bonds, were thus exempted from the prohibition (European Commission 2014a, 26). As the Commission highlighted in Annex A of its Impact Assessment, the impact of such a measure would be limited if not minimal, given that the size of the proprietary trading of the large European banks has been already reduced to a significant extent and now represents a marginal business activity⁵ in their balance sheets (European Commission 2014b, 56–58).

The third chapter of the proposal allows other market-making, trading and investments activities to be performed by the banking groups, but subjects them to monitoring by supervisory authorities which may require their separation from the deposit-taking entities if certain thresholds are exceeded or impose other kinds of separation (European Commission 2014a, 27–29). The definitions of the metrics indicating the size, leverage, complexity, profitability, market risk and...
interconnectedness (European Commission 2014a: 28–29) are delegated to the binding implementing technical standards to be developed by the EBA, the EU banks’ micro-level supervisory authority composed of representatives of national supervisors. Deposit and credit institutions are expected to be exempt from restrictions on trading in derivative instruments for risk management purposes so long as this trading takes place under the supervision of competent authorities (Art. 12), while mutual, savings and cooperative banks are allowed to retain some deposit and trading functions if the competent authority considers that they are “indispensable for the functioning of the group,” provided they have “taken sufficient measures in order to appropriately mitigate the relevant risks” (European Commission 2014a, 10). In order to be integrated with existing national legislations, the proposal considers possible derogation from separation requirements in Chapter III for credit institutions already subject to laws having “equivalent effects” to the provisions contained in the EU regulation (European Commission 2014a, 37). In this way the proposal is expected to leave substantially untouched the existing national regimes of banks’ separation, while assigning the actual definition of critical thresholds to make the separation possible or mandatory to national supervisory authorities and negotiations within the EBA, a technocratic body that is highly exposed to financial industry lobbying.

The Commission proposal soon faced strong opposition from the financial industry and intense lobbying pressure has been directed to the European Parliament and the Council. In November 2014 the European Banking Federation issued a report which denounced the likely consequences of the proposal including an increase in funding costs for the trading entity and for the core banking group, with highly negative consequences for the funding of the real economy (EBF 2014, 4–9). Two months later the Association for Financial Markets in Europe, one of the European associations of larger banks and investment firms, commissioned a report from PricewaterhouseCoopers, according to which the proposal would have introduced large costs for the financial industry, so as to reduce market liquidity with detrimental effects for the users and the overall real economy (PWC 2014). The latter conclusion has become the main argument for the first report of the European Parliament legislative resolution on the Commission proposal, released in January 2015 by the ECON rapporteur Gunnar Hökmark (EPP) and containing a set of 90 amendments which substantially overturned the original draft mostly in line with the fierce opposition of the financial industry. The report takes as its basis the need for a better compromise between the already introduced invasive set of prudential rules for the banking industry and the promotion of a Capital Markets Union in which the universal banks would enhance their capability to provide liquidity to restore growth and competitiveness (EP 2015, 52–54). According to the ECON report, the proposal on Bank Structural Reform
introduces a new layer of regulation too burdensome for universal banks and extremely counterproductive in that it illegitimately assumes the business model, size and trading activities of a bank to be the central issues to deal with, in order to improve the stability of the banking system. Contrary to the Commission’s basic approach, the ECON proposes a risk-based model aimed at ensuring banks’ stability in which the separation of trading and deposit-taking activities is included as one of various options for the supervisory authority and properly the last resort measure, the first ones being “enhanced supervision or higher capital requirements” (16, 27–30, amendment 19, 44, 47). Along this line of reasoning, more possibilities of derogation from the Regulation are foreseen without the approval of the Commission (7–8, amendment 4), the scope of derivatives trading allowed for credit institution is enlarged (22, 32, 33, amendments 31, 52) and the risk thresholds for the supervisory intervention are linked with the risk exposure criteria of the CRR/CRDIV (so largely referred to the banks’ internal risk modeling) (17, 26, amendments 21, 41). As Finance Watch and other consumer associations have alleged, these amendments would definitively hollow out the Commission’s proposal so as to make the Bank Structural Reform “an ineffective shell” (Finance Watch 2015).

Since the legislative process and debate are still ongoing, substantial support from the ECON parliamentary committee for the arguments of the financial industry—together with the aforementioned resistance of key states—could deeply undermine the completion of a proper European law on banking, particularly one that separates deposit taking from proprietary trading activities. In this way the “circumscribed” approach of the German and French laws will likely remain untouched by a more intrusive EU-level legislation entailing further costs and binding requirements damaging the competitiveness of the national financial/industrial capitals.

Conclusions

The above case studies offered good tests for a geopolitical-economic understanding of the EU’s post-crisis financial regulatory agenda by recasting the Neo-Gramscian concept of historic blocs to provide a framework for understanding inter-state interaction in the EU context. The outcomes of the capital requirements package negotiations on the tier 1 capital adequacy and leverage ratio, as well as the ongoing debate for a Bank Structural Reform, show how changing coalitions of leading states and transnational economic interests comprehensively explain the concrete shaping of a new regulatory consensus in European financial governance. In the case of CRR/CRD IV a regional bloc of domestic and transnational financial interests clustered around the German and French governments conditioned a
compromise through which the basic framework of Basel III has been adapted to national banking systems, while the most innovative measure of a non-risk-based leverage ratio has been not rejected as such, but included as a non-binding requirement by postponing further negotiations for its introduction to 2018. In a similar way the need to enhance consumer protection and address the too-big-to-fail issue has been actively pursued by the German and French governments with the support of the financial industry which also prioritized the need to restore investors’ and the public’s confidence in the post-crisis reform process. But in order to avoid a radical shift in the universal banks’ business structures, the German and French governments acted well before any common EU legislative framework was proposed so as to preserve the competitiveness of the respective banking sectors. This also suited the transnational financial industry, which was opposed to a further and stricter European layer of legislation undermining their market-making and trading activities, by advancing as an alternative a resolution- and risk-based approach against a one-size-fits-all model. In both cases a substantial shift from the pre-crisis financial governance approach cannot be denied. However, the nature of the shift has been not toward an international and European regulatory reform agenda but toward a renewed compromise between the states’ internal economic and societal interests and the most transnationalised European financial interests. In this new set of compromises, the balance of interests appears to be skewed, once again, to the leading domestic and transnational financial industry interests.

So neither a purely interstate perspective nor an exclusive focus on the transnational actors could account for the complex outcomes entailed in the EU reform of the banking governance. If further empirical research is indeed needed, an approach based on “geopolitical-economic blocs” promises to be a valid neo-Marxian alternative to the mainstream theorizing of EU economic and financial integration.

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Notes

1. The percentage of assets, weighted according to different risk-assessment models established under the Basel II agreement.
2. The German law was definitively approved in June 2013 (Deutscher Bundestag 2013), the French one a month later (République Française 2013), while the UK Banking Reform Act was passed in December 2013 (UK Government 2013).
3. The German law was approved in the context of the German federal election (September 2013): Merkel’s government had to rapidly counteract the competing Steinbrück’s social-democratic program on a national banking structural reform (see Buergin 2013). In the French case, the law on banking separation was one of the principal financial reforms pursued by Hollande soon after his election in May 2012.

4. The institutions in question must register, for three consecutive years, “total assets amounting at least to EUR 30 billion and trading activities amounting at least to EUR 70 billion or 10 per cent of its total assets” (European Commission 2014a, 23).

5. The Commission Impact Assessment openly states that “[t]he impact on the banking industry should also be limited, given claims that banks no longer engage in this activity to a material extent” (European Commission 2014b, 58).

6. While this article was already under review, on June 19, 2015, the ECOFIN agreed on a common negotiating stance on the banking structural reform: unfortunately I have not had the possibility to take it into account here.

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