1. Introduction

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THE PRECARIOUSNESS OF WORLD MARKETS

The chapters in this volume are written in the context of vigorous but potentially unstable developments in the world capitalist system. Especially in the second half of the twentieth century, capitalism has achieved spectacular rates of innovation and growth. But the system is still menaced by financial crises and economic recessions. There is widespread uncertainty about the future. The crash of 1929 is a distant memory. But there was also more recently the collapse of the Bretton Woods agreement in 1971 and the massive and disruptive East Asian and Russian devaluations of 1997. Arguably, furthermore, if the US Federal Reserve Bank had not bailed out the Merton–Scholes, Long Term Capital Management hedge fund in 1998, there could have been a world financial collapse. Today, world financial institutions are vulnerable and insufficiently developed to cope with the huge volume of global financial speculation. Many less-developed countries are still burdened by debts that they have little chance of repaying to their rich lenders. Huge trade deficits have piled up in even the richest of nations, defying the dogma of the self-regulating market. At the same time, the doctrinal reliance on unregulated markets inhibits attempts to regulate and stabilize the world financial system.

The spread of world markets has put all national economies in a precarious position. The less-developed economies are particularly vulnerable. The World Bank and the International Monetary Fund have obliged them to enter the global market. Waves of speculative funds flow electronically across national boundaries, in turn boosting expectations and then dashing them again. The possibility of crises depends on little else but a concurrent withdrawal of financial capital, from major economic operations across the world. This can result from a growing and self-reinforcing wave of financial panic, spreading rapidly around the globe. Its likelihood is all the greater because of deregulation. Globalization makes the impact of any crisis more vast.

Many mainstream economists still believe that the unfettered market is the only viable means of economic coordination. For them, free markets are a

necessary and perhaps even sufficient condition for the efficient allocation of resources. Typically, any failure of markets to deliver this outcome is often attributed to restrictions and impediments to their free operation. Further deregulation is thus seen as the only possible policy solution. All markets for labour, capital and their products must be free of all regulations and constraints. The doctrine has become self-reinforcing: if the economic system is working then this medicine is clearly doing its job; if the economic system has problems, then a bigger dose of the same medicine is clearly required. As we never actually reach the ideal destination of a wholly pure and free market then it is always possible to call for another dose of deregulation. This argument is clearly circular and non-falsifiable.

However, this view is challengeable on both theoretical and policy grounds. The naive, idealized view of a 'pure' market is untenable. History shows a rich diversity of real, market economies. Markets are themselves institutions, embedded in a social and cultural framework. The alternative view, presented here, is of a historical and geographical diversity of capitalist systems. To understand capitalism in evolution, this diversity must be taken into account. Furthermore, capitalism is always and necessarily impure. The pure, free market system has never existed and can never exist. The analysis of capitalism requires an understanding of the ways in which different economic subsystems are combined. It cannot proceed on the basis of the unrealizable goal of a pure system.

THE AMERICAN MODEL AND ITS RIVALS

From 1917 to 1989, there was rivalry between centrally planned and capitalist solutions to the problems of economic stability and growth. However, with the collapse of the Soviet Union in 1991 and the conversion of China into a market economy, the proponents of market capitalism claimed victory. The collapse of the Soviet system was widely interpreted as a demonstration of the failure of central planning. Furthermore, even Western advocates of a mixture of markets and central planning lost heart. Not only the communist movement but also the social democratic parties of the world were placed in a doctrinal crisis.

In addition, by the early 1990s, the period of rapid growth of the Japanese economy had come to an end. Accordingly, Japanese capitalism was no longer paraded as an alternative 'model' to the American system. The Japanese recession led to similar slowdowns in other, formerly fast-growing, East Asian economies. By the end of the 1990s, the American model of capitalism was seen as the only possible option. Its former challengers – such as Russia and Japan – had substantial difficulties of their own. Soviet-style systems of central planning had collapsed and the Japanese economy had endured a

decade of sluggish overall growth. The rivals of Sovietism, on the one hand, and alternative capitalisms, on the other, had withdrawn from the race. The American model was apparently supreme.

Again, this view is challenged in this book. In some chapters the reasons for the Japanese slowdown are dissected. In others it is argued for a plausible variety of capitalist systems. Overall, this book brings together the writings of several global scholars, from different intellectual traditions and geographical locations, to consider the recent and future evolution of the world capitalist system. The authors come from each part of the so-called economic 'triad': Europe, East Asia and North America. By representing diverse opinions, from a variety of divergent socioeconomic contexts, this book aims to contribute to the analysis of the modern global economy and to open up critical conversations that may lead to further fruitful research.

MARXIST ECONOMICS AND BEYOND

Perhaps the greatest single analysis of the nature and development of the capitalist system was that by Karl Marx. Although his analysis and predictions have been challenged, his book *Capital* remains one of the greatest works on capitalism and its evolution.

All the authors and editors of the present volume have been influenced to some degree by Marxism. However, among them there is no unanimity of attitude here to Marxist analysis. Some are Marxists: others are not. But what all authors and editors share is an appreciation of Marx's position and a similar concern to reveal the dynamics of capitalist development.

For a brief period in the 1970s, Marxist economics was discussed in the universities of Western Europe and North America. Since 1945, Marxist ideas have been generally more prominent in Japan. In economics, one of the most influential Japanese Marxists was Kozo Uno (1897–1970). He developed a distinctive version of Marxist analysis that remains central to all discussion in this area in Japan.

An understanding of Japanese Marxism requires some knowledge of the works of Uno. However, only a small proportion of his works have been translated or discussed in English (Sekine, 1975; Uno; 1980, Itoh, 1980). Uno's work raises important questions concerning the role of different levels of analysis. It has also fuelled an important theoretical debate on how to deal analytically with the manifest varieties of capitalism of the late twentieth century. For these reasons, a brief discussion of some of his ideas is included below.

Since the 1980s the proportion of academics adhering to Marxism in Japanese universities has declined. Marxism was never so prominent among

intellectuals in North America or even Western Europe, as it was in Japan from 1945 to 1980.

Accordingly, in the 1980s and 1990s there has been the growth of alternative (non-mainstream and non-Marxist) approaches to economic analysis in all three parts of the 'triad'. One of the most important of these was the French *régulation* school. In large part this came out of Marxism but soon acquired an identity of its own. As well as Marxism, it also drew on writings in the Post Keynesian tradition. Other post-Marxist groupings formed in North America, for instance the grouping of 'radical economists' at the University of Massachusetts at Amherst. Furthermore, a rival of 'old institutionalist' and 'evolutionary' approaches spread across all three parts of the triad. All these strands of thinking, including Marxism, are represented in this volume.

THE NATURE OF CAPITALISM

Capitalism is defined as a system in which markets and commodity production are pervasive, including a labour market and a capital market. Capitalism is essentially a type of market system involving extensive private property, capital markets and employment contracts. However, markets and private property are necessary but not sufficient features of capitalism: not all market systems are capitalist systems. In short, capitalism is generalized commodity production. Commodities are goods or services that are destined to be objects of market or other contractual exchange. Capitalism is generalized commodity production in a double sense. First, because under capitalism most goods and services are destined for sale on the market, that is, they are commodities. An important example is the existence of a market for capital. Second, because under capitalism one type of item is importantly a commodity: labour power, or the capacity for work. In other words, an important feature of capitalism is the existence of a labour market in which labour is hired by an employer and put to work in a firm according to the terms of an employment contract.

In *Capital*, Marx (1981, p. 1019) clearly identified a 'characteristic trait' of the capitalist mode of production as follows:

It produces its products as commodities. The fact that it produces commodities does not in itself distinguish it from other modes of production; but that the dominant and determining character of its product is the commodity certainly does so. This means, first of all, that ... labour generally appears as wage-labour ... [and] the relationship of capital to wage-labour determines the whole character of the mode of production.

Under capitalism, wage labour is a key characteristic of capitalist firms and most production takes place in capitalist firms. The ‘capitalist firm’ was regarded by Marx (1976, pp. 291–2) as an institution where:

1. ‘[T]he worker works under the control of the capitalist to whom his labour belongs’ and
2. ‘the product is the property of the capitalist and not that of the worker’.
3. Further, such capitalist firms produce commodities for sale in the pursuit of profit.

Point (1), as Marx elaborated elsewhere in *Capital*, implies an employment relationship between employer and employee. Points (2) and (3) imply the existence of private ownership of the means of production. They are also tied up with the fact that the capitalists, rather than the workers, are the ‘residual claimants’: they take up the profits and losses from the sale of the products, after all other costs are paid. The definition has formal and legal, as well as cultural and informal, aspects. It entails an employment relationship and excludes cooperatives and one-person firms, as Marx himself made clear on repeated occasions.

THE CONCEPT OF PURE CAPITALISM AND MULTILAYERED ANALYSIS

Both mainstream and Marxist economics have been dominated by notions of an ‘ideal’ or ‘pure’ capitalist system. Just as mainstream economists have sometimes posited an ideal or optimal capitalist arrangement, Marxism is also dominated by a primary focus on a single, fundamental capitalist type. One of the theoretical problems discussed in this book is whether or not the analysis of different capitalist systems can proceed from a single model of ‘pure’ capitalism, and if so, how. This problem can be seen in attempts by Marxists to deal with the post-war diversity and varied dynamics of different forms of capitalism. This problem was acutely obvious in post-war Japan. Did the then dynamic Japanese economy represent an advanced stage of capitalist evolution or was it simply catching up with America or Britain?

Of course, Marx’s own writings are of limited use here. British capitalism was the only developed capitalist economy that Marx could observe. Marx saw the system of capitalism in Britain as the most developed form of a model that would spread around the globe. It was widely believed that all capitalist economies would follow in the footsteps of the British capitalism.

This prevailing view among nineteenth-century commentators is very similar to the popular view today of America as the ideal or ultimate model of

capitalist development. Then and now, the enduring possibility of a variety of forms of capitalism is downplayed. However, the excuses for this error today are much weaker than those that would apply to the nineteenth century. Today, the variety of different forms of capitalism is manifest (Berger and Dore, 1996; Hollingsworth and Boyer, 1997; Kenworthy, 1995; Whitley, 1999).

Marx did not anticipate the varied historical evolution of capitalist economies and their geographical diversity. His analysis neglected possible divergent forms of capitalist evolution. He focused on capitalism in its British and allegedly most 'pure state'. Hence Marx (1976, p. 90) wrote in the preface to the first edition of *Capital*: 'The physicist ... wherever possible ... makes experiments under conditions which ensure that the process will occur in its pure state. What I have to examine in this work is the capitalist mode of production'.

This idea of examining capitalism in a notional 'pure state' inspired Uno. His work at the first level is largely an attempt to clarify and systematize the conceptual foundations of Marxist economics. He made explicit within Marxism the necessity of different levels of analysis. At the most abstract level, Uno articulated the notion of 'pure theory' and identified a core concept of 'pure capitalism'. As Uno (1980, p. xxii) elaborated in a work originally published in Japanese in 1964:

[T]he pure theory of capitalism must presuppose the abstract context of a purely capitalist society ... The pure theory, in other words, reproduces a theoretical capitalist society, the self-containedness of which conclusively demonstrates the ability of capitalism to form an historical society.

Like Marx, Uno suggested the idea of a feasible and 'self-contained' capitalist system. This 'purely capitalist society' would have no impurities. An impurity is a partially integrated subsystem of a substantially different structure and type. The family is an example of an impurity, because it is not structured like a capitalist firm and does not work like a capitalist firm; it does not typically employ workers or sell products. Marx believed that the family would change its forms and functions in accord with the historical development of capitalism, but did not much refer to the role of the family in his theoretical system in *Capital*.

Uno took a similar line. Like Marx, he believed in the *theoretical* possibility of a 'pure' capitalist system. Even if it never existed in reality, it was deemed to be theoretically possible. Marx and Uno openly recognized the *empirical* existence of impurities; capitalism historically had never presented itself in a pure form. However, they regarded these impurities as dispensable at a level of research; the impurities had no functional role for the basic system as a whole. The notion of a 'purely capitalist society'

involves a denial of the *necessary* role of any impurities at the most basic level of study.

While Marx and Uno recognized the empirical fact of diverse forms of capitalism, at the most abstract level they focused theoretically on a single, pure form. For Marx, the purist form of capitalism had been manifest in England in the nineteenth century. Uno developed this line of thought by arguing that such a free market version of capitalism contained inbuilt tendencies to self-purification. Thus Uno and most of his followers defended the concept of 'pure' capitalism by the argument that 'actual capitalism in its liberal stage of development demonstrated a tendency toward self-perfection, divesting itself more and more of pre-capitalist economic relations' (Sekine, 1975, p. 857). In other words, the theoretical possibility and centrality of 'pure' capitalism was underlined by the supposed tendency of capitalism to purify itself more and more in the process of its ascendance from the previous order. The growth of markets broke down residues of the feudal order and commodified the world.

It was Uno's belief that 'pure capitalism' could be analysed with the theoretical tools outlined by Marx in *Capital*. The most fundamental theoretical picture was of a closed, completely commodified and self-perpetuating 'pure capitalism', where all produced goods and services were sold as commodities on a free market. For Uno, this abstraction was necessary to provide logical and theoretical clarity concerning the essential features of the capitalist system, which were common to all capitalist systems.

However, Uno was sensitive to the fact that different capitalist systems had developed in different ways and exhibited different trajectories of development. Accordingly, he argued that additional levels of analysis were necessary. In an attempt to reconcile Marx's theory with the existence of historical and geographically diverse forms of capitalism, Uno proposed three levels of analysis. The first and most abstract level comprised the basic principles of Marx's theory, developed further where necessary. This was the level of 'pure capitalism' as discussed above.

The next level of analysis embodied an attempt to explain the historical development of the capitalist world system. This intermediate theory involved a 'stages theory of world capitalist development'. This required an examination of the historical development of the globally dominant capitalist systems. At this level, Uno outlined a 'stages theory', arguing that in its evolution, capitalism passes through a number of successive stages. Earlier, 'mercantile' capitalism had been succeeded by the 'liberal', free market capitalism of the nineteenth century. However, within this context of competitive markets, monopolies, cartels and trade unions had emerged. Hence the 'liberal' phase of capitalism had been followed, in the twentieth century, by the less pure, 'finance' and 'imperialist' stages of capitalism.

At the third level of research, the concrete development of individual capitalist countries would be analysed. Each level of analysis must embody the principles of the levels of greater generality and higher abstraction. In other words, analyses at the third level must incorporate the relevant elements of the 'stages theory' at the second level, by embodying the principles pertaining to the actual stage relating to the individual country involved. Furthermore, all analyses at both the third and the second – 'stages theory' – levels must be guided conceptually by the basic principles in performing more concrete studies of capitalist economies at each level. At the same time, each level of analysis had a degree of autonomy, based on the identification of specific properties and degrees of historical concreteness pertaining only to the level in question. These specific properties of research could not be obtained from the other levels of analysis.

VARIETIES OF CAPITALISM AND THE SIGNIFICANCE OF IMPURITIES

Marxists have sometimes debated the possibility of multiple paths of economic development. Towards the end of his life, and inspired by debates about the possibility of a quite different path of capitalist development in Russia, Marx himself showed a belated recognition of path dependence and historical contingency. He wrote in 1877:

[E]vents strikingly analogous but taking place in different historical surroundings led to totally different results. By studying each of these forms of evolution separately and then comparing them one can easily find the clue to this phenomenon, but one will never arrive there by using as one's master key a general historico-philosophical theory, the supreme virtue of which consists in being super-historical. (Marx, 1977, p. 572)

Nowhere is the concept of path-dependent capitalist development dramatized so acutely as in Japan. Japanese capitalism uniquely combines elements of its relatively recent feudal past with a dynamic organizational and technological impetus. Norms of group identification and loyalty have been harnessed within the modern Japanese corporation.

Although Marxists have often had difficulty in embracing the concept of path dependence, Uno's work arguably contained the possibility of divergent paths of development at the second and the third levels of research. Especially in his stages theory of imperialism, he presented three types of leading economy in the world – namely Germany, the UK and the USA – with each characterized by path-dependent evolution. The particular path dependence of Japanese economic growth cannot be studied adequately with just the

basic principles of capitalism. Other levels of analysis are required, informed by the comparative experiences of other latecomers, such as Germany.

Uno's depiction of the 'stages' of capitalist development is arguably incomplete as it was derived from capitalist world history up to 1914. This year marked the end of Britain's imperial hegemony. By 1945 it was not Britain, but the United States that led and provided the emulative model for the world. Furthermore, the age of classical imperialism, through the acquisition of colonies, had all but ended. By the 1960s the British Empire was no more. A fundamentally new era of capitalist development seemed to unfold. It would seem inadequate to react to these changes by treating them as less fundamental, for instance at the second or third levels of Uno's scheme.

The general failure to appreciate the possibility of path-dependent development led to difficult questions concerning the nature of the capitalist system in Japan. For example, regarding the Japanese economy of the 1930s from a Marxist viewpoint, it was very difficult to identify whether it was a capitalist economy or a pre-capitalist economy, since there were many differences from a pure capitalist economy. The 'orthodox' Japanese Marxists – the *Koza-ha* school – asserted that Japanese capitalism was still largely based on feudal agricultural social relations in villages. Another Marxist *Rono-ha* school denied this, and argued that the Japanese society had been basically a capitalist economy since the 'bourgeois revolution' of the Meiji Restoration (Itoh, 1980, pp. 30–37). Uno intended to overcome these one-sided views by introducing an intermediate stages theory, between basic principles and the concrete analysis of (Japanese) capitalism.

As in Germany since the late nineteenth century, Japanese capitalism made use of its remaining peasantry as a source of both agricultural products and as a market for manufactures. Japanese capitalism also made use of the ancient Japanese culture of group identification and workplace loyalty. For much of the twentieth century, Japan made use of these feudal remnants to increase its productivity and strengthen its competitive power. As Thorstein Veblen remarked with amazing prescience in 1915: 'It is in this unique combination of a high-wrought spirit of feudalistic fealty and chivalric honor with the material efficiency given by the modern technology that the strength of the Japanese nation lies' (Veblen, 1934, p. 251).

In contrast, many Marxists in many countries have been restricted by the widespread but mistaken notion that capitalism in all countries must necessarily go through the same sequence of stages of development.

Some authors argue that the concept of pure capitalism and the denial of path-dependent development, go together. The idea of capitalism always being driven towards a pure model implies a universal law of capitalist development in which all countries gravitate to a single path. Their unique cultural and institutional residues, acquired in the specific circumstances of

their own history, have no affect on the final outcome. They may be acknowledged empirically, but ultimately they play no causal role. Others argue that the notion of 'pure' capitalism is theoretically indispensable. The issue here is whether the Uno-style view, that capitalism develops towards a pure model, rules out the possibility of multiple paths of capitalist development. Most of Uno's followers admit the possibility of different paths of development at more concrete, second and third levels of research. The question then is how and why path dependence is admitted at one level and not at another. This is a problem for further research within a multilayered theoretical analysis.

Notably, even nineteenth-century Britain had an open economy, with many impurities. It relied upon overseas imports of raw materials and on overseas markets for manufactured goods. Furthermore, it was a socially integrated and far from completely commodified economy.

As many writers have argued, there are general limits to the extension of market and contractual relations within capitalism. Joseph Schumpeter (1976, p. 139), for example, argued persuasively that such older institutions provide an essential symbiosis with capitalism, and are thus 'an essential element of the capitalist schema'. Schumpeter's insight was to show that capitalism depends on norms of loyalty and trust which are in part descended from a former epoch. The spread of market and contractarian relations can threaten to break up cultural and other enduring bonds from the past that are necessary for the functioning of the system as a whole. In particular, as Schumpeter and others emphasize, the state is partly responsible for the bonding of society and the prevention of its dissolution into atomistic units by the corroding action of market relations. Accordingly, Polanyi (1944) showed that even in '*laissez-faire*' Victorian Britain the state was necessarily intimately involved in the formation and subsequent regulation of markets. Furthermore, he argued that all markets are themselves socially and culturally embedded, and there are many possible different manifest forms of markets and exchange.

From this perspective, there is no difficulty accepting the idea that coexisting capitalist systems can develop in different ways, especially in different local circumstances. The evolution of a system depends on both its history and its context: path dependence is thus acknowledged. It is not even necessary to claim that one impure system is 'more advanced' or 'higher' than another. After all, what is dynamic or efficient in one context may be less dynamic or efficient in another.

Once we admit the existence of necessary impurities then arguably no socioeconomic system can be adequately understood in its 'pure' form alone. All systems must be understood in terms of a dominant structure along with necessary impurities. Having established this, the possibility of systemic varieties and their path-dependent evolution is admitted.

The fact that the need for a dissimilar subsystem can be fulfilled by one or more of a variety of possible subsystems is of theoretical significance. The particular subsystem, the nature of the combination, and the precise boundaries of the demarcation profoundly affect the nature of the specific variety of capitalist system. We are led to acknowledge that an immense variety of forms of any given socioeconomic system could exist. In particular, an infinite variety of forms of capitalism is possible, depending on their historical baggage of impurities.

The response of most Uno-inspired Marxists to these arguments is sometimes to admit the necessity of impurities, but then to insist that these are not placed at the most fundamental level of analysis. Then the concept of pure capitalism can remain. Any impurities would be accommodated at a second or higher level of analysis.

From the viewpoint of one of the editors of the present volume, a problem with this response is that the model of pure capitalism is not sustainable in principle. A pure capitalism could not work in reality. Yet recall Uno's (1980, p. xxii) declaration that 'the pure theory of capitalism ... reproduces a theoretical capitalist society, the self-containedness of which conclusively demonstrates the ability of capitalism to form an historical society'. However, once it is admitted that a pure capitalist system cannot function, we are unable to reproduce in any 'pure theory' of a 'self-contained' capitalism which demonstrates any historical viability whatsoever. Without the addition of impurities, *at this fundamental level of analysis*, we are unable to construct a viable theoretical conception or ideal type. (See Hodgson (2001) for an extended argument along these lines and a different proposal involving no less than five levels of analysis.) In sum, Uno's own argument suggests that impurities, in so far as they are necessary for capitalist economy to function, must be included at the most fundamental level of analysis. Notably, a group of Uno's followers have abandoned the notion of 'pure capitalism' although in a slightly different context, by emphasizing the notion of world capitalism (Itoh, 1980, p. 44).

As well as neglecting subsystemic impurities in the principles, Uno actually tended to overlook the functional integration of varied socioeconomic systems within the world order. The irony is that the modern development of Japan, from 1868 to the current period, has been overwhelmingly a case of structural interaction with a global system. Much of the dynamic of this interaction has resulted from the combination of the special features of the Japanese system with a contrasting and variegated world.

The Meiji Restoration and Japan's subsequent development was not simply the transcendence of feudalism but the ending of global isolation. The Meiji Restoration was triggered by the arrival of American ships in Tokyo Bay. Japan subsequently imported Western technology and ideas. Post-1945

Japan has depended on its intimate political and trading relationship with the United States, both as a guarantor of political stability and as a huge market for Japanese exports. With increasing globalization in the last third of the twentieth century, Japan played a crucial role in the global development of knowledge-intensive production and high-technology products.

Systematic interdependence at a global level is not confined to Japan. For example, eighteenth-century British capitalism depended on the overseas colonies and the transatlantic slave trade. There is the general possibility that an open system can rely in part on elements of a geographically separate system, as well as dissimilar subsystems within the same social formation. Exogenous influences and events are important.

Accordingly, systems can depend on dissimilar adjacent systems as well as on subsystems. In contrast, most Marxists have traditionally underestimated the importance of exogenous influences, seeing the dynamic forces of economic development as coming largely from within. The emphasis on the 'inner' laws of system development is a corollary of the idea of a 'pure' type. The notion of system purity is upheld by ignoring the importance of influences from outside the system.

A similar criticism can be made of the work of Schumpeter. He defined economic development as involving 'only such changes in economic life as are not forced upon it from without but arise by its own initiative, from within' (Schumpeter, 1934, p. 63). Schumpeter never made a secret of the fact that his theory of capitalist development – with its emphasis on the role of endogenous change – was highly influenced by Marx. Clearly, the importance of endogenous factors such as entrepreneurial activity and technological innovation should not be denied. The point is that Schumpeter should have given due stress to exogenous factors as well. Arguably, in this omission he was misled by Marx.

The global interaction between different national systems has been of significance for hundreds of years. Nevertheless, the globalizing developments in the closing decades of the twentieth century make such issues doubly important. Any resolution of the problem of historical specificity must take global integration into account. We are dealing not simply with national systems or regional blocs, but also with a global system in which the national and regional elements are themselves subsystems. Any taxonomy or periodization of socioeconomic systems must take this factor into account.

THE CONTENTS OF THIS BOOK

This book itself evolved out of a volume originally published in Japanese.¹ Part I offers some general perspectives on the theory of capitalism.

In Chapter 2, ‘Contested exchange: a new microeconomics of capitalism’, Samuel Bowles and Herbert Gintis explore the nature and limits of the contractual relation. In neoclassical theory it is usually supposed that: ‘Exchanges are solved political problems where contracts are comprehensive and enforceable at no cost to the exchanging parties’. However, many important commodities, including labour power and money capital, are not exchanged in such a manner since ‘some aspect of the object of exchange is so complex or difficult to monitor that comprehensive contracts are not feasible or enforceable by a third party’. In this case ‘the de facto terms of an exchange result in part from the sanctions, surveillance and other enforcement activities adopted by the parties to the exchange themselves’. They define such a transaction as a contested exchange. They conclude: ‘Our conception of power in a competitive economy invites a reconsideration of the boundaries traditionally drawn in liberal political philosophy between the marketplace, represented as a private arena of voluntary transactions devoid of coercion on the one hand, and the state as public arena vested with coercive enforcement capacities on the other’. However, ‘private enforcement is ubiquitous, particularly in labour and credit markets, and hence the time-honoured private–public partition is unsustainable’.

In Chapter 3, ‘Economic theory and the complexity of capitalism’, Yoshinori Shiozawa develops a theory of continuous economic history, using insights from complexity theory. Shiozawa argues that existence of concurrent factors and relations makes it impossible to understand economic systems through reductionist methods. He argues that ‘history is a process of constant change in which distinct boundaries cannot be identified’. Consequently, an approach to history in which ‘the flow of time is appropriately segmented, and each segment is then held to be a distinctive stage with its own structure’ is invalid. In actual history, where commodities, production methods, and social processes coexist and intermingle, a continuous vision of history is more appropriate.

In Chapter 4, ‘The development of the market economy and the formation of voice’, Kiichiro Yagi shares an interest with Bowles and Gintis in the demarcation between public and private coordination. He develops contractual theory from an institutional point of view. Yagi follows Albert Hirschman’s (1970) twin concept of voice and exit. Voice involves an attempt to change the situation without fleeing from it; this involves mechanisms of political coordination. Exit means the breaking of the relations with one agent and the search for other opportunities; this involves market coordination. Yagi argues that under certain historical conditions it is possible to institutionalize both market and political coordination, to induce economic development, through the combination of loyalty and voice. He argues that the post-war system in Japan is a prime example of this institutionalization. Yagi thus challenges the

view that American capitalism is the only possible institutionalized arrangement.

Part II of this book focuses more directly on the theoretical appreciation of the coexistence of different types of capitalist system.

In Chapter 5, ‘The evolution of capitalism from the perspective of institutional and evolutionary economics’, Geoffrey Hodgson criticizes aspects of Marxist economics and develops an institutional and evolutionary approach. Hodgson criticizes the concept of ‘pure capitalism’ found in the works of Marx and Uno. To remedy this defect, Hodgson introduces the impurity principle. This is the idea ‘that every socioeconomic system must rely on at least one structurally dissimilar subsystem to function. There must always be a coexistent plurality of modes of production, so that the social formation as a whole has the requisite structural variety to cope with change’. This leads to the notion that the capitalist system – like other economic systems – depends upon this internal variety and could not survive without it. Furthermore: ‘Given the potential variety of systemic combinations, and the reality of path dependency and cumulative causation, an immense variety of institutions and forms are feasible’. Because a wide variety of combinations of dissimilars are possible, then a wide variety of different capitalist socioeconomic formations are feasible, and can in principle coexist.

In Chapter 6, ‘Information technology and the “biodiversity” of capitalism’, Ugo Pagano develops another approach to the analysis of varieties of capitalism, focusing particularly on information technology. He argues that Marxist theory embodies two views which could be named a ‘technological deterministic view’ and a ‘romantic view’ of history. The former view stresses the influence that the characteristics of productive forces have on property rights. The latter stresses the influence of property rights and institutions on the characteristics of the resources that are employed and developed. The former view is similar to that of American radical economists, while the latter to that of new institutional economics:

[I]n the new institutional economics the nature of rights and organizations is endogenously and efficiently determined by the characteristics of the resources employed in the firm: namely their degree of specificity and their monitoring requirements. By contrast, in the radical literature, which has inherited the tradition of the Marxian ‘romantic view’ of history the characteristics of the resources employed in the firm are in turn determined by the rights which owners of different factors have on the organization.

Pagano sees that these determinations are mutually reinforcing, and he calls ‘these self-reinforcing relations between organizational rights and technology “organizational equilibria”’. He observes that ‘multiple organizational

equilibria are still likely to characterize the future of modern economies in the age of information technology’.

In Chapter 7, ‘The diversity and future of capitalism, a “*régulationniste*” analysis’, Robert Boyer analyses the diversity macroeconomic performance in terms of differences in national modes of regulation. He recognizes four different regulation modes. First, in the United States, ‘market forces and countervailing public mechanisms shape and reshape social and economic dynamics’. Second, in Japan, instead of internal markets ‘there are mechanisms of corporate *régulation*’. Resources are allocated neither by pure market mechanisms, nor by planning, but by mechanisms operating in between, at the intermediate level. Third, in the Scandinavian countries, Austria and to a lesser extent Germany, negotiation between workers’ unions, business associations and public authorities, typically pan out in compromises at the national level. This is the social democratic approach. Fourth, most other European countries, with the exception of the United Kingdom, follow ‘a state-led *régulation*’. Boyer argues that: ‘One central message is therefore that there is *no single one best régulation mode* and that the history and the nature of the political process both constrain and structure the institutional architecture’. However, the breakdown of political alliances in the 1990s within each *régulation* mode has created considerable uncertainty concerning the survival of each type.

Part III addresses the evolution of the global capitalist system as a whole, and the impact of globalization on specific economies.

In Chapter 8, ‘Where are the advanced economies going?’, Robert Rowthorn addresses deindustrialization and globalization as the most significant developments after the 1980s. Employment growth is the difference between output growth and productivity growth. In the industrial sector, productivity growth surpassed output growth, while in the service sector, output growth surpassed productivity growth. As long as overall economic growth is strong, deindustrialization can occur without increases of unemployment. But poor economic growth has caused deindustrialization with severe increases in unemployment. Regarding recent globalization, Rowthorn emphasizes two new tendencies: intra-industry trade and foreign direct investment. Intra-industry trade ‘occurs when countries at the same level of development exchange with each other products which are broadly similar in character – or even identical’. Rowthorn argues that ‘Intra-industry trade is mainly an internal phenomenon *within* the large regional blocs’ and that it is not a recent phenomenon. It has been well developed in large regional blocs, such as in North America. For Rowthorn: ‘The fundamental question is not why do transnational corporations exist, but why does any kind of multi-plant firm exist? And given that multi-plant firms do exist, why was their formation confined within national boundaries for so long?’. He answers: ‘Firms ini-

tially penetrate new markets, be they in other regions or other countries, by “exporting” from their existing production facilities. When sufficient sales have been achieved in the new market, it becomes feasible to set up local production facilities on a scale large enough to exploit economies of scale’. Thus, there is a natural cycle, whereby firms at first export to new markets and then serve them by local production once exports pass a certain threshold. He concludes that these two tendencies may lead to regional economic blocs:

Within regional blocs, direct investment and trade are often complementary. Investment may lead to an internal division of labour within the same firm, whereby plants in different countries of a bloc collaborate in producing the same product, or else specialize to produce different goods for export to the entire bloc or beyond. *Between* regional blocs, there is less complementarity, and direct investment may lead to the replacement of trade by local production.

In Chapter 9, ‘The evolution of Japanese capitalism under global competition’, Makoto Noguchi addresses the relationship between the Japanese economy and the global economic system. He argues that the strength of the Japanese production system in the 1980s and its weakness in the 1990s must be explained by reference to its historical background. In the 1980s, ‘a firm’s chances of competitive advantage rested on its ability to respond flexibly to the varied and capricious demands of multi-stratified households’. Firms were caught in the dilemma of diversifying their products at the cost of efficiency of mass production. The flexibility of labour management specific to the Japanese system was fitted for these historical conditions. In contrast, in the Anglo-American type of corporate system, specialized workers are employed according to rigid job demarcation. In 1990s, the situation changed, with the emergence of new mass markets, such as for the personal computer. ‘The new type of mass production system is based on the intensive use of global networks’. This has put heavy competitive pressure on the differentiated production system in Japan, by force of low prices. In contrast, Anglo-American capitalism is especially suited in these new circumstances. Accordingly, Noguchi offers an explanation of the Japanese economy in terms of the changing nature of global markets and the varying ability of different national production systems to respond to these changes.

In Chapter 10, ‘From bureaucratic capitalism to transnational capitalism: an intermediate theory’, Nobuharu Yokokawa develops an analysis of the development of twentieth-century capitalism from a Marxist perspective. He attempts to construct an ‘intermediate theory’, between abstract theory and concrete analysis. Precedents for this kind of analysis include the works of Rudolf Hilferding and Vladimir Illych Lenin, both of whom are seen as applying Marx’s ‘law of value’ to specific phases of capitalist development: ‘They devel-

oped intermediate-level theories between general theory and concrete historical analysis, examining the specific mechanism of capital accumulation at a particular stage of development of the capitalist world system'. Following this lead, Yokokawa places the evolution of the international monetary system at the centre of his analysis. He analyses the modern global transition from the 'bureaucratic' capitalism of the 1950s and 1960s to the rise of 'transnational' capitalism in the 1990s. He argues that: 'The multilayered nature of transnational enterprises requires global, regional, national and local coordination'.

In Chapter 11, 'The evolutionary spiral of capitalism: globalization and neo-liberalism', Makoto Itoh follows the evolution of capitalist economy in three stages. First: 'The historical evolution of capitalism from mercantilism to Pax-Britannica liberalism, up to the 1870s, clearly showed a trend towards a more and more freely competitive market order'. Second, however, 'for about a century from the late nineteenth century, the capitalist world system took a spiral course and reversed the trend'. Third, from the 1980s, with the wide-ranging impact of the information revolution, 'capitalism reversed gear and began to remove its restrictions on competitive markets'. In two centuries of capitalist history, the system has moved from the freeing of markets, to state regulation, and back to free markets again. However, Itoh argues that capitalist economy retains its essential character. The basic forms of the market economy, 'commodity, money and capital' have remained throughout its long and complex spiral development, although their functions can change. Despite the recent phase of globalization and market liberalization, Itoh argues that the diversity of capitalist economies will remain, and they will not all converge towards a single type of free market economy. Itoh then discusses the future prognosis of capitalism and discusses policies that are appropriate for the current epoch.

NOTE

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