Eugene N. Shelton
Editor

Capitalism in Business, Politics and Society

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CAPITALISM IN BUSINESS, POLITICS AND SOCIETY

EUGENE N. SHELTON
EDITOR

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PREFACE

The iconic economist-philosopher Adam Smith lauded capitalism as a system for distributing opportunity and prosperity widely, and for freeing populations from the oppression they suffered under the European aristocracy of his time. This book presents current research in the study of capitalism and its relation to business, politics and society. Topics discussed herein include experimental capitalism in the former USSR; industrial design in capitalism through development experiences of newly industrializing countries; dysmorphic capitalism and the aberrant development of creative intelligence; capital accumulation and equilibrium interest rates in stochastic production economies with the concern of social status; and surplus allocation and development under global capitalism.

Chapter 1 - In all the post-Soviet states, the transition in the early 1990s from a planned to a market economy proceeded with enormous pomp. It was accompanied by noisy propaganda depicting the huge promise of the market and private property. Meanwhile, the planned economy and socially-owned property were given very low marks, as the main cause of our misfortunes and suffering. While requiring great expenditures of labour, materials and organisational effort, we were told, planning yielded meagre results, while the market possessed such an ideal mechanism of self-regulation that at minimal expense it permitted spectacular outcomes. The situation justified the use of shock therapy (free price formation and the rapid privatisation of property) to introduce free market entrepreneurship, since we would soon find ourselves in paradise, achieving the heights of prosperity of the developed countries.

Many of us knew, however, that the source of this developed status lay not so much in private property as in a different culture and civilisation, and that the problem could not be solved simply by substituting one form of property for another. The reason for the different levels of development of the countries of North and South America lay not in the existence of the market and private property in one case and not the other, but in the position which the US and Canada occupied within the world economic system compared to the countries of Latin America. The reason why many of us at that time reacted with caution to the urgings of the IMF and the World Bank that we adopt a neoclassical model of the market was not because we were retrograde Marxists, but quite different. For decades we had studied and taught the history and theory of capitalism not only according to Marx and Lenin, but also according to Smith, Ricardo, Mill, the Austrian school, Weber, Keynes, Samuelson and many other Western economists. Their works had been translated into Russian and were well known to Soviet scholars. From them it was clear that the market and capitalism were the very complex outcome of prolonged historical development. To retrace this path in a few days, as we were urged at that time to do, was impossible. It required no great wisdom to grasp that in a country without traditions of private entrepreneurship, there was no way that skilled, efficient property-owners would appear in the blink of an eyelid and quickly raise our economy to the level of more developed countries.

This was especially evident since from the heights of the Marxist vision of capitalism it was clear that the system was sliding into something like a rerun of the Great Depression. It was no secret that speculation in securities had taken on vast proportions. True, no-one at that time knew precisely when or how this would end. But such expert observers of capitalism as John Kenneth Galbraith (1961) and Hyman Minsky (1986) spoke of “financial instability hypotheses” very remote from the alluring pictures we were being presented with. Moreover, the Reaganomics and Thatcherism which were then in vogue, and which promised to remove all bounds to the expansion of capital and of its manoeuvrings, seemed to us to contain the seeds of future problems in each country and internationally. In the circumstances, any unprejudiced individual should have been wary of the journey we were about to take into uncharted territory.

Sober reflection on the situation, however, was not in fashion at the time. Speculative profits were seen as a mark of healthy success, and capitalism was presented to us as the way to escape from the hell of shortages into the heaven of abundance. To this end, a system of total brainwashing was applied. With the help of propaganda on a massive scale, it was now possible to convince people that black was white, and the reverse. This was done, and large numbers of people came to believe that once we had surrendered our right to property and our accumulated savings to individuals who had appeared as if from nowhere, we would start to live better.

Twenty years have passed since those days, and our grasp of reality has improved no end. The lessons we have learned have been bitter, but instructive, and deserve to be paid wide attention. It is on the basis of these experiences that the present arguments are set forward. Never before in history has there been anything along the lines of what has happened to us. In the first place, capitalism has never before been established on the basis of preconceived plans. In other societies, it arose through evolution or revolution, but always in natural fashion. In our case, it was constructed in line with the projections of international organisations themselves created in accordance with the postulates of neoclassical orthodoxy (the Washington consensus). Secondly, and unlike the case in the countries of classical capitalism, we now possess not only a twenty-year experience of the market and capitalism, but also the experience over many decades of a planned economy operating on socialist principles.

Due account must also be taken of the fact that in most post-Soviet states the regimes that came to power were authoritarian, and remote from democracy. The “orange revolutions” in Ukraine, Georgia and Kirghizia were the result of popular dissatisfaction with the market reforms. We have not received the prosperity and democracy we sought. Instead, we have received what we did not seek – intensified material inequality, and increased poverty, crime and corruption. This is far from what the people of the post-Soviet states were counting on when they set out on the road of developing the market and democracy. People see that the enrichment of some has occurred on the basis of the impoverishment of others, and this arouses discontent.

In these developments there is a great deal that needs to be examined and reconsidered, especially in light of the impressive successes of China, which rejected the Washington Consensus and found a model of development that corresponded to its needs. The Chinese successes, and the failure of our market-capitalist experiment, testify to the need for us to rid ourselves of numerous stereotypes that were imposed on us in the past and beneath which we still labour.

This is easy enough to say, but much harder to achieve in practice. In Soviet times we were subject to a range of Marxist dogmas which prevented us from realistically assessing the situation in our country and in the world. Now, however, we find our Western colleagues captive to dogmas of their own. They too have preconceived notions of what socialism and the planned economy represented.

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Chapter 2 - Industrial design is the offspring brought about by the marriage of art and the industry; this profession not only brings huge profits for corporations, but also is the intermediary of modernization experiences, promoting living standards of the vast majority of the population. However, the realization of this historical process in Taiwan was developed by foreign capital and local state through their dynamic intertwining under the post-war new international division of labor.

After the Second World War, various countries commonly applied Keynesianism, using high wages and high consumption to promote post-war economic recovery, counter inflation, and batter price hikes. As a result, wage differences among individual countries gradually became the factor that influences the international competitiveness of products. Labor-intensive industries that had become profitless in developed countries largely relocated to developing countries. Under the cold war structure between eastern and western camps, based on the strategic thinking of international geopolitics, Taiwan was incorporated into the system of global division of labor since the 1960s, accumulating huge amounts of foreign exchange through export-oriented economic policies, creating the world-renowned economic miracle.

In the stage of economic growth, Taiwan was actually the offshore assembly plant for American and Japanese multinational corporations, the so-called “international processing base”. Industrial design was tamed and used by the “developmental state”, entrusted with the great responsibility of promoting exports, creating foreign exchange, and eliminating the stigma of counterfeiting that stuck to MIT (Made in Taiwan) products in the international market. Above all, Taiwan withdrew from the United Nations in 1971 and cut diplomatic ties with several countries, gradually disappearing from the international political stage, and MIT products instead created Taiwan's political identity in the economic realm.

In the mid-1980s, the "Plaza Accord" signed by international economic powers brought huge impacts to international trade, the exchange rate of the Taiwan Dollar gradually appreciated following the appreciation of the Japanese Yen and the Deutsch Mark. After the "Washington consensus" was addressed in 1989, advanced capitalist countries further raised the slogan of free trade, forcing newly industrializing countries (NICs) to adopt measures, e.g. lowering tariff and import liberalization to balance their trade deficits. Nation states retreated and protectionist policies were abandoned; as a result unscrupulous global capital cooperated hand-in-hand around the globe. And while local industries were battling with transnational corporations, industrial design moved deeply into the war of market competition and created competitive advantages in the close combat between local and imported products, saving production lines that were almost brought to a halt in local businesses, resolving the crisis of industrial development. The expressing of the structural function of industrial design not only mediates the gap between production and market in capitalism, but also reflects the historical process of the dynamic tugging between state and capital in developing countries.

Chapter 3 - Who is the white collar criminal? During the last few years this question has been an increasingly popular topic in the field of white collar crime. But very few have asked who the white collar criminal was in the past. Our aim is to investigate the demographic character of the white collar criminal during the first industrial revolution and the implementation of capitalism in Sweden (1865-1912). Data comes from Statistics Sweden's historical statistics record regarding a section of the law that concerns offenses in bankruptcy. The hypothesis put forward is that the impact of industrialism and capitalism changes the socio-demographic profile regarding offenders of bankruptcy. The results, however, indicate that the profile did not change, which implies that the impact of capitalism and industrialism during the first period in Sweden did not have any impact on the characteristics of the offenders. This is in line with recent research showing that there is no correlation between the number of bankruptcy offenses and industrialization during this period. Furthermore, the results show that there are great similarities in the socio-demographic profile during this period with the same profile today. This result clearly contradicts the common understanding among many researchers in the field that modern white collar crime has its roots in capitalism and industrialization. Rather, the result shows that the socio-demographic profile is stable and related to other factors. In the conclusion, we discuss the results from the point of view of general understandings of theories such as Wheeler's "fear of falling", Gottfredson and Hirschi's self-control theory, and Hirschi's theory of social bonds.

Chapter 4 - The "spirit of Capitalism", as characterized by Max Weber, was initially associated, in Protestantism, with the belief in life after death. Even after the weakening, as of the second half of the 19th century, of such belief, the "spirit of Capitalism" has been able to function as a defense against the reality of death, because it fulfills a displacement from an existential temporality to another temporality ruled by incessant work, parsimony and accumulation of wealth. This defense is not suitable for the soldier, however, it is he who comes closest to the reality of death. Since states need soldiers, they use other forms of denial of death, mainly those states with war programs. In World War I there was a revitalization of the simple belief in life after death. When that belief was shaken by a close encounter with death, the soldier developed mainly symptoms of conversion disorder (formerly hysteria). In

World War II the Nazis applied a technique based on the "obsessive-compulsive disorder" by displacing the fear of death, in the soldier and in the population, to the evil of contagion. The contagion factor was attributed mainly to the Jewish people. It would suffice to isolate or eliminate them in a ritual purification of the race (Aryan). Nowadays, especially in the USA, one tries to conceal the drama of death by placing it as a secondary subproduct of the excitement of the fight of good against evil. Before they are informed, when and if they are, of the reality of natural or accidental death, children have already learned to dilute death in the excitement of the fight. The excitement of the fight for justice, vengeance, freeing someone, dissipates the drama of death. The cinema has been the main diffusion source of this formula. Videogames are the latest generation. Normally these fictions decrease with age. Soldiers, however, can sustain them to defend themselves from the reality of war, applying them to this reality by performing what Roger Caillois called "corruption of games", that is, making the game transpose its own space and invade reality. However, the terrible reality of death can destroy the game and lead soldiers to develop what is nowadays the most common psychopathology, as of the Vietnam War, the so called "post-traumatic stress disorder".

Chapter 5 - This chapter analyzes the dynamics of U.S. political action committees (PACs) in the oil and gas industry. The authors find that PACs were used strategically in order to try and influence legislators to open up the Arctic National Wildlife Refuge (ANWR) to hydrocarbon exploration. Drawing from a revised political economy theory, the authors contend that PACs are thus employed in order to facilitate an 'expropriation of the common'. Further, in examining the financing of PACs the authors find that labor constitutes the major donor group. The authors thus conclude that PACs represent means through which to capture the regulatory process as well as to simultaneously exert subtle forms of employee control. Moreover, the chapter makes a theoretical contribution by arguing that such forms of employee control have become more prevalent due to the advent of immaterial labor and the attendant crisis of accounting that immaterial labor induces.

Chapter 6 - The iconic economist-philosopher Adam Smith lauded capitalism as a system for distributing opportunity and prosperity widely, and for freeing populations from the oppression they suffered under the European aristocracy of his time. In spite of its early promise and later achievements, capitalism has been transforming in undesirable ways in recent decades. Prominent scholars in various disciplines have lamented the ways in which overextensions of neoclassical economic theory and neoliberal ideology have been transmuting capitalism into a utopian ideology in which egocentric economic freedom trumps all other considerations. The consequence is a system in which the short-term, trivial wants of a few consistently override the desperate needs of the many as well as the long-term sustainability of the environment. These trends have implications for the development of creative intelligence. If the new, mutated form of capitalism reaches its logical endpoint, the aspiration growth and talent development of a privileged few gifted young people will be warped, leaving them acutely narcissistic, hyper-materialistic, and ethically vacuous. In contrast, the aspiration growth and talent development of gifted but deprived young people will be stunted or crushed.

Chapter 7 - This paper studies capital accumulation and equilibrium interest rates in stochastic production economies with the concern of social status. Given a specific utility function and production function, explicit solutions for capital accumulation and equilibrium interest rates have been derived. With the aid of steady-state distributions for capital stock, the effects of fiscal policies, social-status concern, and stochastic shocks on capital accumulation and equilibrium interest rates have been investigated. A significant finding of this paper is the demonstration of multiple stationary distributions for capital stocks and interest rates with the concern of social status.

Chapter 8 - Mainstream thinking in economics currently tends to describe the problem of economic development as one of differential economic growth across space; a differential which is ascribed to seizing or missing opportunities to solicit foreign investment, to attract subcontracting orders, to upgrade activities in value chains and to grow by exporting. This approach to development overlooks the mounting case-by-case evidence on the lope-sided distribution along value chains. The evidence raises questions concerning the international distribution of the 'gains from trade' and suggests that, if international growth differentials are driven by international distribution mechanisms rather than the other way round, then the development issue demands greater attention to global distribution mechanisms.

Economic development involves fixed capital accumulation. The capacity to undertake fixed investment in underdeveloped countries that import capital goods depends on these countries' terms of trade, as much as on their efforts to save and export. Institutionalist economists, aware of the importance of the terms of trade for accumulation, have been careful to qualify their own recommendations for strategic trade and industrial policies in that such policies might be self-defeating at the global level, since implementation of export-based upgrading policies among many underdeveloped countries may cause a general deterioration of the terms of trade .

Hence a framework apposite for studying the global distribution of investible resources is necessary to understand the sustenance of differences in per capita incomes between countries. Such a framework should preferably take the global social product as given, and focus on attempts of firms and governments to extract the maximum surplus out of the social product, on the struggle between social groups and nations to appropriate the generated surplus, and on how the surplus is used.

This essay is an endeavour to understand and assess the developmental consequences of global economic integration by focussing on the generation, transfer and utilization of the global surplus. It tries to address the following questions: (1) How does globalization affect surplus generation? (2) Where does the global surplus accumulate? (3) How is the global surplus absorbed? (4) What prospects does this pattern of absorption hold for the capital accumulation needs of poor countries? The essay continues as follows: the second section presents a brief description of the surplus concept, and questions whether the tendency for the share of the surplus in GDP to rise has abated under globalizing capitalism. The third section discusses at an abstract level how the surplus is generated and allocated in internationally organized production. In the fourth section empirical clues on the last question are investigated, which seem to indicate an increasing flow of surplus from periphery to core. The fifth section takes up the problem of surplus absorption and juxtaposes the rising consumption of the surplus in the core with the fixed capital formation in the periphery. Section six concludes.

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Chapter 1

EXPERIMENTAL CAPITALISM IN THE FORMER USSR: BITTER LESSONS

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1. INTRODUCTION

In all the post-Soviet states, the transition in the early 1990s from a planned to a market economy proceeded with enormous pomp. It was accompanied by noisy propaganda depicting the huge promise of the market and private property. Meanwhile, the planned economy and socially-owned property were given very low marks, as the main cause of our misfortunes and suffering. While requiring great expenditures of labour, materials and organisational effort, we were told, planning yielded meagre results, while the market possessed such an ideal mechanism of self-regulation that at minimal expense it permitted spectacular outcomes. The situation justified the use of shock therapy (free price formation and the rapid privatisation of property) to introduce free market entrepreneurship, since we would soon find ourselves in paradise, achieving the heights of prosperity of the developed countries.

Many of us knew, however, that the source of this developed status lay not so much in private property as in a different culture and civilisation, and that the problem could not be solved simply by substituting one form of property for another. The reason for the different levels of development of the countries of North and South America lay not in the existence of the market and private property in one case and not the other, but in the position which the US and Canada occupied within the world economic system compared to the countries of Latin America. The reason why many of us at that time reacted with caution to the urgings of the IMF and the World Bank that we adopt a neoclassical model of the market was not because we were retrograde Marxists, but quite different. For decades we had studied and taught the history and theory of capitalism not only according to Marx and Lenin, but also according to Smith, Ricardo, Mill, the Austrian school, Weber, Keynes, Samuelson and many other Western economists. Their works had been translated into Russian and were well known to Soviet scholars. From them it was clear that the market and capitalism were the very complex outcome of prolonged historical development. To retrace this path in a few days, as we were urged at that time to do, was impossible. It required no great wisdom to grasp that in a country without traditions of private entrepreneurship, there was no way that skilled, efficient property-owners would appear in the blink of an eyelid and quickly raise our economy to the level of more developed countries.

This was especially evident since from the heights of the Marxist vision of capitalism it was clear that the system was sliding into something like a rerun of the Great Depression. It was no secret that speculation in securities had taken on vast proportions. True, no-one at that time knew precisely when or how this would end. But such expert observers of capitalism as John Kenneth Galbraith (1961) and Hyman Minsky (1986) spoke of “financial instability hypotheses” very remote from the alluring pictures we were being presented with. Moreover, the Reaganomics and Thatcherism which were then in vogue, and which promised to remove all bounds to the expansion of capital and of its manoeuvrings, seemed to us to contain the seeds of future problems in each country and internationally. In the circumstances, any unprejudiced individual should have been wary of the journey we were about to take into uncharted territory.

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Due account must also be taken of the fact that in most post-Soviet states the regimes that came to power were authoritarian, and remote from democracy. The “orange revolutions” in Ukraine, Georgia and Kirghizia were the result of popular dissatisfaction with the market reforms. We have not received the prosperity and democracy we sought. Instead, we have received what we did not seek – intensified material inequality, and increased poverty, crime and corruption. This is far from what the people of the post-Soviet states were counting on when they set out on the road of developing the market and democracy. People see that the enrichment of some has occurred on the basis of the impoverishment of others, and this arouses discontent.

In these developments there is a great deal that needs to be examined and reconsidered, especially in light of the impressive successes of China, which rejected the Washington Consensus and found a model of development that corresponded to its needs. The Chinese successes, and the failure of our market-capitalist experiment, testify to the need for us to rid ourselves of numerous stereotypes that were imposed on us in the past and beneath which we still labour.

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2. The Russian Reforms: Property Distribution and Economic Collapse

In earlier times in the Soviet Union, the number of people who even considered the idea of rejecting collective property and of replacing it with private ownership was minuscule. Democracy was different; we dreamt of it constantly. Within the ruling party small opposition groups demanding democracy appeared at one point or another, but they had no success. During the Brezhnev years the dissident movement, calling for democratisation of the country, arose outside the Communist Party. None of the dissidents, however, demanded the restoration of capitalism or rejected collective property ownership, and still less did they call for property to be privatised and handed over to mysterious unknown figures. The demand was for observance of the Soviet Constitution, in which rights and freedoms were spelt out, but whose provisions were not put into effect. Andrey Sakharov spoke of a convergence of the two systems, by which he understood the combining of Western democracy with socialist planning. No-one at that time imagined that through the decrees and verbal commands of one person sitting in the Kremlin the gigantic assets created through the collective labour of a series of earlier generations would be transferred to individuals as private property. Even to conceive of such savagery was impossible, but this was what was in store for us. As for democracy, Gorbachev's perestroika promised a decisive step in this direction, and at first this was supported by the majority of the population. Perestroika was conducted under the slogan, "More socialism, more democracy," and there was no suggestion that socialism might be rejected.

Unfortunately, the reforms in the post-Soviet states were carried out in diametrically opposite fashion. All the efforts of the reformers were switched over to seizing public property, and the affirmations of democracy were reduced to near-meaningless formalities. Only in the Gorbachev period did we see real elections with a choice of alternatives; since then, elections have been so much a formality that the outcome is known in advance. Real power now lies in the hands of a party that represents the interests of oligarchic capital, and which does not shrink from calling itself the "party of power", since it is not about to relinquish power to any of the parties that exist to provide an imitation of democracy. Such was our old Byzantine tradition: whoever attained power fought with tooth and claw to hang onto it, with no intention of yielding it to anyone.

Unfortunately, that tradition continues to this day. In place of democracy we received market reforms whose purpose lay in the distribution of property. The market, as noted earlier, was depicted as a horn of plenty from which benefits would flow in a broad stream, allowing us to live happily with minimal effort. Of crises, unemployment, high prices for vitally important services, and other realities of capitalism there was not even a hint. Meanwhile, generations of people had been born and raised in the Soviet period; unfamiliar with real capitalism and its burdens, they nevertheless encountered a multitude of everyday discomforts, and under the impact of these came to accept the rosy-coloured depictions of the far-off capitalist world. The main arguments advanced for switching from a planned to a market economy were based on the examples of developed capitalist countries which had achieved higher levels of economic output and prosperity than the USSR and other socialist countries. Meanwhile, there was no effort to raise the countervailing question: if the reason for the difference was that some countries had the market and others a plan, why were the impressive successes in some countries of the market-capitalist world not to be observed in others?

By that time the mass media, and above all the television channels, had passed into the hands of people who were intent on seizing public property, and who used tales of an easy and agreeable life under capitalism to beat down any sobering talk of the difficulty of carrying out the proposed changes. The heroes of the day became various shady figures, in particular fawning journalists, who for generous rewards extolled the market and capitalism as the model for an ideal society. In advertising spots, numerous stars of stage and screen set out to convince television viewers that capitalism was a paradise in which life was relaxed and pleasant. It was enough for people to hand over their savings to one of a multitude of newly-arisen companies (later, they all turned out to be financial pyramid schemes), and their money would increase to the point where they could easily acquire a house in Paris or a villa in Hawaii. Amid the general mood of intoxication with the splendid future, no-one wanted to hear the bitter truth that replacing one social and economic system with another was an exceedingly difficult task, resulting in losses as well as gains, and which could not proceed smoothly or to the uniform advantage of all. To express such thoughts when faced with expectations of the radiant future was evidence of conservative blindness.

Contributing in no small measure to this mood was the collapse late in 1991 of the USSR, which had earlier seemed indestructible. This was an unexpected blow which stunned citizens and threw them off their accustomed balance. It was not only ordinary citizens who were shocked and confused, but also the Communist Party that had ruled the party for seventy years, and which had shown a complete inability to take effective measures to lead the country out of crisis and carry through democratisation. Nor was any other political force adequate to these tasks. Amid the general confusion, self-interested people were always on the look-out for opportunities. The result was that at this critical moment of our history power fell into the hands not of people who wanted democracy, but of those whose goal was to seize control of wealth. These people were members of the Communist nomenklatura who had been quick to abandon the sinking ship, and representatives of criminal business, who emerged from the shadows to become the main reserve strength of the new authorities. The demagogy of these people about the beneficent effects of transferring collective property to private hands was accepted by the masses as life-saving wisdom. This blocked any possibility of calmly evaluating the situation, and of having qualified experts map out and think through the decisions that were taken.

In these circumstances, the Russian government of Boris Yeltsin thought it advisable to appeal to the US White House for help. In effect this was a voluntary capitulation by Carthage to Rome, in the illusory hope of political mercy and financial assistance. Instead, Washington urged on us a neoclassical economic model, showing not the slightest interest in whether this might conflict with the particular nature of our civilisation. In accepting this model, we also accepted the authority of such international organisations as the IMF and the World Bank, behind which the guiding hand of the US administration is always to be detected.

In none of the countries of the former USSR was the appropriateness of the neo-liberal model to the conditions of their development the subject of sufficiently free and serious discussion, either in the legislative organs or in scholarly circles. The question here is not of formal and bureaucratic decision-making, but of a failure to weigh up the factors for and against. As noted earlier, the reforms were implemented amid inflated expectations of a rapid (measured in hundreds of days) onset of unprecedented happiness. The main decisions on transforming the economy (the liberalising of prices and foreign trade, and the privatising of state assets) were taken in the seclusion of the cabinet-room, out of sight of the population and the scholarly community, by people whose competence was doubtful but whose pursuit of their own self-interest was fully apparent. The fact that the people who took these decisions became conspicuously wealthy speaks volumes about the goals they were pursuing.

There is no disputing that the theoretical basis corresponding to these goals – neoclassical orthodoxy – was adopted along with the model. Our traditional submissiveness in obeying whatever comes from above prevailed once again. We did not engage in a polemic even though Soviet economic thought, which rested on the classical tradition, had a considerable arsenal at its disposal that might have been used to resist the destructive effects of the neoclassical doctrine. We also accepted the neoliberal ideology without opposition, like aborigines of colonised territories accepting the Christian faith.

From the beginning of 1992, abrupt “shock therapy” measures were applied in order to transform the planned economy into a market-based one. Prices were immediately freed from state control. This was followed by the opening of the borders for the import and export of goods (liberalisation of foreign economic activity). The same period saw the initiation of the most important change, the privatising of state property. This was a real shock – with the shortage of goods on the market at that time, prices began growing not by the day, but by the hour. Inflation spiralled steeply upward, reaching 1500 per cent per month in the first months of liberalisation. True, its tempi later declined, but throughout all the years until the present crisis it remained in double figures. In an instant, the inflation wiped out the savings the population had accumulated over many years, and the growth of wages fell significantly behind the rise in prices.

Amid this chaos the privatisation of state property – a process deservedly likened to an avalanche – was begun. Its sole legal basis lay in decrees issued one after another by the president. Even these decrees were implemented in whatever fashion the people responsible for fulfilling them chose. Arbitrary seizure of enterprises in collusion with local administrations, shoot-outs between rivals in the predation, and the murder of competitors became everyday events. In wave after wave, massive privatisations rolled across the vastness of Russia, accompanied by the wholesale criminalisation of society. There is no room here to detail this corruption, which dwarfed anything seen in the construction of the Panama Canal. In 2004 the Accounting Chamber of the Russian Federation published the results of an official investigation it had carried out; the document abounds in facts and figures testifying to criminality on an unprecedented scale.

From this wealth of material just one fact, casting light on what occurred at that time, will be cited here. Soon after the beginning of privatisation it was discovered that the flow of revenues into the budget had declined to such an extent that the state could no longer meet its obligations, even though considerable numbers of enterprises with large assets remained in its hands. For the next round of predation on state property, an ingenious device was therefore dreamt up: so-called "mortgage auctions" would be held. With shares in enterprises still in state hands acting as security, the state would be provided with credits from commercial banks selected by the ruling elite. The racket consisted in the fact that the banks issued credits using the same state funds that had been placed with them. Since the state could not pay back these credits (something which had been foreseen all along), the enterprises became the property of the creditors. In the Accounting Chamber report mentioned earlier, it is noted that "the transactions in which credits were provided to the Russian Federation on the basis of security consisting of shares in state enterprises can be regarded as a sham, since the banks in practice were 'crediting' the state using the state's own money. The Russian Ministry of Finance had earlier placed in the accounts of the banks participating in the consortium funds practically equal to the credits; then, this money was transferred to the Government of the Russian Federation as credits, with the security consisting of shares in the most attractive enterprises. The result was that the banks which had 'credited' the state were able directly or through affiliated entities to become owners of the parcels of shares in state enterprises that had been lodged with them as security" (Stepashin, 2004, p. 62).

There were innumerable cases of this kind, and out of them, the Russian market economy took shape. The result was the creation in Russia of entrepreneurs of a type profoundly different from those in the West. The Russian analogue of the Western entrepreneur emerged not as a result of competition and natural selection, but from the forcible appropriation of other people's property, and there ore knew nothing of any other method of struggling for his or her place in life. Honest competition is inconceivable to such people, and they are incapable of it. If they encounter competitors, Russian entrepreneurs do not try to surpass them in performance, but to remove them from the scene with the help of hired killers or applying other criminal means. So it was that a huge wave of murders, in which property-owners killed other property-owners, began along with privatisation. Property became concentrated in the hands of the winners in this slaughter.

The consequences of forcible privatisation and monopolisation of the market will be examined later, but here it should be noted that the gory hue of privatisation began glowing in our skies from the very first. It was only after two years of the changes, however, that society began to understand their ominous significance. At that point, privatisation began to meet with serious resistance from the then democratically-elected parliament, the Supreme Soviet of the Russian Federation, which refused to meekly put its stamp on the relevant decrees of the president. Acclaimed by Western leaders as the democratic leader of Russia, President Boris Yeltsin then ordered a tank division to surround the building of the Supreme Soviet, and on that clear, sunny day, October 4, 1993, in view of the whole world, to open fire on it. I stood in the crowd observing what was happening, and with my own eyes saw the tanks shell the White House (so called because of the colour of its stone facing) in which the deputies of the Supreme Soviet were assembled. From the resulting fire and soot, the White House soon turned black. It was a glaring example of the falsehood of the widespread notion that anticommunism is identical to democracy. Of the people who had gathered to support the Supreme Soviet, large numbers were killed and wounded; to this day, the number of victims is not precisely known. The surviving leaders of the legislative branch of government were arrested before the eyes of the entire public. The picture was shown by all the television companies of the world, which did not prevent a crucial decision from being made: by presidential decree, the criminal privatisation received the green light. At the same time the Constitutional Court, which had characterised the president's actions as unconstitutional, was dissolved. Democratic processes of decision-making were thrown overboard.

Unfortunately, neither this vandalism nor the essence and consequences of privatisation have received the necessary attention in scholarly literature either in Russia or the world at large. Even now that the misfortunes of our economy have become apparent, there is no serious analysis of the theoretical origins of the economic models which we accepted. Now as in the past, a major weakness of our economic science is the conformism of scholars, who for the most part have preferred to accommodate themselves to the existing system. Because of this, objective analysis and evaluation of our situation is still failing to influence broad public opinion.

It is not surprising that an economy which arose in such a manner and which functions according to principles of complete arbitrariness cannot succeed. The Soviet economy, whatever assessment one might now make of it, developed at high rates throughout its period in operation. Here, however, we shall not be diverted to examining this question, instead referring the reader to a work (Ofer, 1987) which unusually for the West, provides an honest account of these matters. Here we shall take advantage of a unique opportunity to compare the results of twenty years of development on the market road with the record of the previous twenty years of planned development. To this end, we shall examine above all the data in Table 1; these detail the development of the Soviet economy over the twenty years up to the beginning of market reforms on the neoclassical model.

According to these figures, during the twenty years prior to the reforms the national income of the USSR rose by 130 per cent; industrial production by 150 per cent; agricultural output by 120 per cent; investments by 130 per cent, and so forth.

Table 1. Main indicators of the economic growth of the USSR, 1970-1989

Indicators	Units	Years				
		1970	1975	1980	1985	1989
Produced National Income	Billion rubles	289,90	368,30	462,20	578,50	673,70
As a percentage of figure for 1970	% %	100,00	127,00	159,00	202,00	232,00
Industrial Production	Billion rubles	374,30	511,20	679,00	811,00	928,00
As a percentage of figure for 1970	% %	100,00	136,00	181,00	216,00	248,00
Agricultural Production	Billion rubles	108,40	112,80	187,80	208,60	225,10
As a percentage of figure for 1970	% %	100,00	104,00	173,00	193,00	207,00
Capital Investments	Billion rubles	80,60	112,90	150,90	179,50	228,50
As a percentage of figure for 1970	% %	100,00	140,00	187,00	222,00	283,00
Basic assets brought into operation	Billion rubles	76,40	105,60	148,90	172,60	197,40
As a percentage of figure for 1970	% %	100,00	138,00	195,00	226,00	258,00
Volume of retail trade	Billion rubles	159,40	215,60	277,50	324,20	404,50
As a percentage of figure for 1970	% %	100,00	135,00	174,00	203,00	251,00

Table compiled on the basis of data from Narodnoe Khozyaystvo SSSR. Statistical annuals for the years concerned.

Table 2. Major types of industrial and agricultural production 1970-1990 (natural indicators)

No.	Types of production	Units of measurement	1970	1975	1980	1985	1990	1990 x 1970
1	Electrical energy	Billion kilowatt-hours	741	1038	1294	1544	1726	2,3
2	Oil (including gas condensate)	Million tonnes	353,0	490,8	862,8	851,3	816,2	2,3
3	Gas	Billion cubic metres	197,9	289,2	435,0	643,0	815,0	4,1
4	Coal	Million tonnes	624	701	716	726	703	1,1
5	Steel	Million tonnes	115,8	141,3	148	155	154	1,3
6	Metal-cutting machine tools	Thousands	202	231	257	218	157	0,8
7	Metal forging and pressing machines	Thousands	41,3	50,5	57,2	52,7	42,2	1,0
8	Including automatic and semi-automatic machines	Units	579	736	814	1084	1057	1,8
9	Excavators	Thousands	30,8	39,0	42,0	42,6	37,7	1,2
10	Bulldozers	Thousands	33,5	51,1	45,5	41,3	37,1	1,1
11	Tractors	Thousands	459	550	555	585	495	1,1
12	Trucks	Thousands	524	696	787	823	774	1,5
13	Trolleybuses	Units	2238	1900	2015	2467	2393	1,0
14	Mineral fertilisers	Million tonnes	13,1	22,0	248	33,2	31,7	2,4
15	Cement	Million tonnes	186,8	140,1	176	178,4	218	1,2
16	Grain	Million tonnes	12,3	15,0	15,1	17,1	20,1	1,6
17	Meat	Million tonnes	83,0	90,8	90,9	98,6	108,5	1,3
18	Milk	Million tonnes	95,2	122,0	125,0	130,7	137,2	1,4
19	Textiles	Millions of square metres	8,8	10,0	10,7	12,0	12,7	1,4
20	Footwear	Million pairs	679	698	743	788	843	1,2

Compiled from sources:

Narodnoe khozyaystvo SSSR za 60 let. Moscow, Statistika, 1977.

Narodnoe khozyaystvo SSSR za 70 let. Moscow, Finansy i statistika, 1987.

Narodnoe khozyaystvo SSSR v 1990 g. Moscow, Finansy i statistika, 1991.

However, quantifying economic growth in terms of money has the potential to distort the real picture if price levels change, and as a result, the figures for Soviet growth have at times been regarded by some Western experts as exaggerated. To obtain a truer picture of the relationship between the physical volume of production and value-based measurements, natural indicators will be cited for twenty major types of industrial and agricultural production.

As can be seen from Table 2, peak Soviet growth was attained in the mid-1980s; by 1990 output of many types of production had begun to decline, testifying to the beginning of a crisis in the Soviet economy. Nevertheless, *the twenty-year period preceding the Russian reform is marked by the growth of output in almost all categories.* Growth rates are noticeably lower when measured by natural indicators than by those of value. As noted earlier, this difference may result from the distorting effect of price rises on value-based indices. Nevertheless, it seems to me that the doubts concerning the accuracy of the growth figures cited lack sufficient foundation. Account should be taken of the fact that in almost all cases Table 2 shows the trends for traditional types of production, which usually grow more slowly than newer types. The table does not, for example, include data for the production of aluminium and aircraft; non-ferrous metallurgy and aircraft production were quickly developing sectors in the USSR. Nor are figures available for the various types of military technology. If we are to regard value-based figures for Soviet growth as exaggerated, then a correction should also be made for the absence of data on many types of production which the Soviet leadership concealed on the basis of state secrecy.

These imprecisions (secrecy on the one hand and exaggerations of value on the other) probably more or less balance one another, from which the conclusion follows that the data presented in Table 1 are more than likely close to reality. Doubts on this score should, moreover, be dispelled by the fact that if growth rates had not been this high the Soviet Union could not have attained levels close to those of the developed countries in such indicators as death rates, education, and also life expectancy. That is not to speak of the fact that without such growth it would have been impossible to achieve military and strategic parity with such a superpower as the US, and to reach space first. If the CIA, which studied developments in the USSR intently, had believed Soviet growth was stagnating, then the Soviet Union would not have aroused such special concern on the part of the US, and we would have lost the Cold War much sooner.

The fact that economic growth rates in the USSR were comparatively high does not, however, mean that this growth was smooth and regular. Over time, growth rates began to decline, and concealed behind the quantitative growth were shortcomings of a qualitative nature. The most important of these shortcomings was the increasing technical-economic lag of the USSR behind the developed countries. But whatever the case, an increase of more than 100 per cent in the main indices of economic development during these years cannot be interpreted as necessarily leading to collapse.

These data will now be compared with those characterising the present state of the Russian economy after twenty years of market reforms, which supposedly have brought about a shift to a higher level of development.

These data should not be seen as indicators of normal economic growth. They are the results of an experiment conducted in Russia (and, in approximately the same fashion, in the other post-Soviet states) in establishing the market and capitalism in line with the postulates of neoclassical orthodoxy. As a result of the switch to market development of the economy, the tables show, the market not only failed to grow, but shrank in 1998 to 55.7 per cent of the initial figure in terms of GDP; to 43.2 per cent in the area of industrial production; to 53.9 per cent in agricultural production; and to 25.9 per cent in investments. Following the default of 1998 GDP started growing, and by 2007-2009 had reached the level of twenty years earlier.

Table 3. Main indices of Russian economic development, 1989-2009 (1989=100)

Years	Indices					
		Gross Domestic Product	Industrial Production	Agricultural Production	Investments in basic capital assets	Volume of retail trade
	1990	91,0	98,8	96,4	100,1	112,4
	1991	92,2	90,0	92,1	84,6	107,1
	1994	62,8	51,1	70,1	34,1	109,3
	1995	60,2	48,7	64,5	30,6	102,5
	1996	58,0	45,0	61,2	25,1	102,8
	1997	55,8	45,4	62,1	23,8	107,8
	1998	55,7	43,2	53,9	20,9	104,4
	1999	59,3	47,0	56,1	25,9	98,3
	2000	65,2	51,1	60,4	28,5	107,1
	2001	68,5	52,6	64,5	28,5	118,9
	2002	71,7	54,2	65,5	29,3	130,0
	2003	76,9	59,0	66,5	33,8	141,4
	2004	82,4	66,9	68,6	38,4	160,2
	2005	87,7	66,9	70,0	42,6	180,7
	2006	94,2	71,1	72,5	48,4	205,8
	2007	101,8	75,6	74,9	58,6	238,9
	2008	107,5	77,2	83,0	63,9	270,9
	2009	99,0	68,9	84,0	53,0	255,2

Source: A. Frenkel' and L. Roshchina, "God neopredelennosti". Voprosy Statistiki, 2009, No. 3, p. 51.

To be truthful, there is little reason to be pleased with the results of the shift to the market. While Gross Domestic Product in 2009 was roughly at its earlier figure, industrial production, agricultural output and investment remained below their levels of decades before. Depression had been replaced by growth, but contrary to the dogmas of neoclassical orthodoxy, the upturn had stemmed mainly from the flood of wealth that resulted from the surging prices of the oil and gas which Russia was selling on world markets. The price of a barrel of oil, for instance, rose from a barter price of $22 in the early days of the reforms to $85-95 in 2005-2006. It was only thanks to this that GDP in 2008-2009 reached the levels of twenty years before.

These outcomes were, of course, the direct opposite of what had been expected. If Karl Popper (Popper 1966, 2002) had been alive, he might have said that the market reforms in the

Russian economy, as in other post-Soviet countries, provided a unique experiment putting the scientific validity of the whole neoclassical edifice to the test. The strikingly negative results of this test give the lie to the claim of the neoclassical school that its major tenets are universally valid. Meanwhile, the persistent attempts by Russian liberals and Western specialists on Russia to explain away the country's problems on a wide variety of bases – the legacy of Communism, the authoritarianism of Putin, the supposed inferiority of Russians, on any basis, in fact, except the failures of the neoclassical school itself – is, to use Popper's term, pure "immunisation".[1] (1)

3. Seven Grievous Consequences of the Market Experiment

The general figures on the economic development of Russia cited above serve to illustrate limited, though important, aspects of the tragedy brought about by the market reforms in the post-Soviet states. Hidden behind these data are more far-reaching effects, also of a negative character.

A. The Degradation of the Economy in Scientific and Technical Terms

Arguably the most grievous outcome of the market reforms has been the decline in the scientific and technical level of the economies of the post-Soviet states, a decline which has set these countries on the road to de-industrialisation. If we do not limit ourselves to the general indices of value presented in Table 3, which are subject to the distorting effects of inflation, but instead turn to material indices which characterise the situation in various sectors of manufacturing industry, we receive a more objective picture of the economic dynamic. To this end, we shall compare the trends of various types of production, as expressed in this more concrete form.

The figures in Table 4 reveal a catastrophic situation. The problem is not just that the Russian economy throughout its twenty years on the path of market development has been marking time at a level below its starting-point. The problem is that such negative changes have taken place in the structure of the economy that it has veered from the path of gradual improvement onto that of accelerated degradation. This is shown by the collapse in output of the most important types of machines and equipment. Production of diesel motors and diesel generators has fallen by a factor of 10.5; that of metal-cutting lathes by a factor of 15.5; and that of automatic and semi-automatic metal-working and machine-building lines by a factor of 139, which is equivalent to shutting down production of this type of equipment. Production of weaving looms fell from 18,341 units in 1990 to 43 in 2008, that is, by a factor of 426.5. This signifies the collapse not only of the machine-building industry, but also of the sectors which it supplied with essential equipment. Output of many types of product, including cotton, woollen and silk textiles, has fallen to a fraction of earlier levels.

[1] As employed by Popper, the term "immunization signifies the lack of a conscientious adjustment of theory to make it less susceptible to criticism.

Table 4. Production of Various Types of Machines and Equipment in Russia

	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008
Diesel motors and diesel generators, thousands	23,2	4,1	4,8	4,3	4,3	3,5	2,3	2,0	1,9	2,5	2,2
Turbines, million kW	12,5	5,1	2,1	1,8	3,9	4,0	5,0	5,0	4,7	5,6	8,0
Wheeled tractors, thousands	92,6	10,8	6,9	6,3	3,1	3,4	3,4	4,5	5,5	7,7	11,2
Caterpillar tractors, thousands	147	143	121	10,4	12,4	7,9	6,0	4,7	5,0	4,1	5,4
Metal-cutting machine tools, thousands	74,2	18,0	8,9	8,3	6,5	5,7	5,4	4,9	5,1	5,1	4,8
Automatic and semi-automatic machine-building and metal-working lines, units	556	57	11	5	2	1	2	1	5	4	4
Excavators, thousands	23,1	5,2	3,4	3,6	3,2	2,9	3,5	3,6	4,0	6,3	5,5
Bulldozers, thousands	14,1	2,4	3,0	2,7	1,7	1,8	1,8	1,8	2,2	3,3	3,1
Weaving looms, units	18341	1890	95	187	315	161	188	95	173	89	43
Trolleybuses, units	2308	340	498	657	493	376	369	812	530	651	778
Trucks, thousands	665	142	184	173	173	193	200	205	245	285	256

Source: Rossiyskiy statisticheskiy ezhegodnik, 2009. Statisticheskiy sbornik. Moscow, Federal'naya sluzhba gosudarstvennoy statistiki (Rosstat), pp. 401-403.

As a result of this, Russia's dependence on imports of machines and equipment, of foodstuffs and of light consumer manufactures has grown to the point where it far exceeds what is consistent with ensuring the country's security. If the present dependence on imports persists, any serious international falling-out will render our situation extremely vulnerable.

A further example will confirm what has been said about our technical and economic degradation. Next to my home in Moscow during the Soviet years was a huge machine-building combine with highly developed infrastructure. It included laboratories for testing and experimental work, design and construction bureaus, a scientific research institute and numerous other subsections. Its staff included specialist engineers and highly qualified scientific experts, and it was rightly considered the standard-bearer for Soviet machine-building. After the combine was privatised, incompetent people sold the unique equipment for scrap. The qualified experts were sacked, and the areas where production had been carried on were sold or rented out. Now the site is occupied by shops, cafés and a concert hall. And how many changes of this type there have been throughout our giant country! This is what is hidden behind the indices of the manifold reduction of output of the most important types of machinery and equipment.

At the same time, the equipment installed during the Soviet period in industry and other sectors has become hopelessly out of date, and the rate at which equipment is being replaced is far below that at which it is becoming obsolescent. A study of this question reveals that

51.5 per cent of the equipment in Russian industry has been in service for more than twenty years (Kornev, 2009, p. 147). Ten years ago the share of technically advanced equipment in the total value of equipment was still 7.1 per cent; by the end of 2009 this had fallen to 4.3 per cent (Borisov and Pochukaeva, 2009, p. 42).

B. Raw Materials Orientation of the Economy

The collapse of manufacturing industry brought about an inevitable reorientation of the economy toward the raw materials sectors, instead of an acceleration of scientific-technical progress and modernisation. The reason was that the prices for energy sources (oil and gas) and metal ores during the reform years increased many times over, allowing higher earnings of foreign exchange to compensate, at least in part, for the losses suffered due to the collapse of the economy.

No-one in Russia thinks of the one-sided raw materials character of the economy as positive. In the addresses by Presidents Putin and Medvedev to the Federal Assembly over the past ten years this fact has invariably been described as a negative consequence of the reforms, and calls have been made for setting the economy back on the path of innovation and modernisation. Numerous consultations, conferences and discussions have been held, involving top state leaders, with a great deal said about accelerating scientific and technical progress and modernising the economy. The effect, however, has been negligible; the situation has not improved. The greater the time since the beginning of our market experiment, the greater the volume of data that accumulates testifying to its failure rather than its success. Our technical and economic lag behind the advanced countries is becoming even greater than before.

Unfortunately, this bitter truth is going unrecognised not only by business but also by the authorities, who are supposed to feel the primary responsibility for the country’s future. Our traditional inclination toward change of an abrupt rather than gradual nature is making its effects felt. When the vice of rigid centralisation in planning began to tell on the Soviet economy, the leadership invariably stuck with its dogma to the effect that the plan was always better than the market, never breaking with this fixation in favour of a relative market freedom and expanded independence for the local links in the economic chain. The result was as discussed earlier: economic growth rates declined, and our technical backwardness emerged in the most visible fashion. When it became clear that continuing in this way was impossible, and that changes were needed in favour of the market, we spurned a gradualist approach, preferring our habitual revolutionary strategy. This time, it went by the name of “shock therapy”. Privatisation was carried out at one stroke, but efficient property-owners failed to appear.

The real proof of the ineptitude of the Russian entrepreneurial class is the state of their best-loved economic sectors, on which their prosperity is based. Descriptions of the Russian economy often speak of its one-sided development, with a bias in favour of the raw materials sectors, so the impression might arise that these sectors have undergone rapid development during the reform period. Nothing of the sort! The talk of one-sidedness is valid only in the sense that to a large degree, we now live at the expense of the extractive sectors. But here too, development has failed to take place. The material and technical base of these sectors has deteriorated dramatically, and the talents of the private owners have sufficed only for the levels of output to reach those attained under the Communists. No more than that! The following table lists the key figures.

Table 5. Production of energy and energy sources in the Russian Federation, 1990-2008

Types of production	Units.	1990	1995	2000	2005	2006	2007	2008
Coal	Million tonnes	257	177	172	223	234	242	246
Oil (including gas condensate)	Million tonnes	516	307	324	470	481	491	488
Natural gas	млрд.куб.м Billion cubic metres	641	595	584	641	656	653	664
Electricity	Billion KW-hours	1082,2	860,0	877,8	953,1	995,8	1015,2	1040,4

Source: Rossiyskiy statisticheskiy ezhegodnik 2009, pp. 388-389, 404.

As can be seen, during a little less than twenty years on the reform road the same picture has emerged as was seen in Table 3. After a sharp decline in the production of energy resources during the 1990s, growth resumed in the following decade. Only in the case of gas, however, was the level of output in 1990 again achieved. It is impossible to imagine anything like this occurring under Soviet planning. For all the shortcomings of that system, we would have seen significant growth over twenty years.

Once again, the point is that the equipment being used during these years was badly obsolete and worn-out; its indispensable renewal was not taking place. The new owners showed too little concern for the technical modernisation of the extractive sectors, or for job safety in the mines and on the drilling sites. As these words were being written, the radio and television were reporting a methane explosion in the Raspadskaya mine in Kemerovo Province. Sixty people were killed, with forty more unaccounted for and probably also dead. In all, the television program Postscriptum reported on 29 May 2010, there had been thirty-six mine accidents in Russia over the preceding two years, with 450 deaths. A year earlier, an accident at the Sayano-Shushenskaya hydropower station took the lives of more than seventy people. Accidents of this type, costing the lives of large numbers of people in diverse places, have one and the same underlying cause: a mindless pursuit of profits, together with a reluctance to spend money on safety equipment or on observing safety rules. As a rule, the commissions appointed to investigate the causes of disasters do not find anyone responsible, being unwilling to haul wealthy and influential transgressors out into the daylight.

C. Capital Flight

Together with the liberalisation of foreign economic activity, the export orientation of the raw materials sectors has opened the doors wide for another negative phenomenon: the flow of Russian capital out of the country.

The monopoly of foreign trade that existed during the Soviet period, when only specially-created state companies and not the suppliers of goods and services themselves had the right to operate on the foreign market, had no justification in economic science. It was a manifestation on the one hand of the uncompetitiveness of the Soviet economy, and on the other, of the mistrust felt by the country's political leaders for enterprise chiefs, whose readiness to conduct business honestly with foreigners was regarded with skepticism. After the collapse of the Soviet system, this set of rules could not endure. The decisions to expand the freedom of action of entrepreneurs, and to abolish the monopoly of foreign trade, were fully justified.

As in all other cases, however, what was needed here was not an abrupt shock but a gradual transition, as our people accumulated experience, to the new conditions under which business with foreign firms was to be conducted. It is not hard to see why this course needed to be followed, if the interests of the country were to be put first. But nothing of the kind was done; priority was given to private profit, and best suited for this was an absence of control over the conduct of foreign economic dealings, termed liberalisation. This was defended on the basis that it would open the way for foreign investments in the Russian economy. On no basis whatever, it was asserted that once the barriers had been removed foreign capital would flood into Russia, pouring into the technically advanced sectors and modernising the economy. There was no way anything like this could happen, and nor did it.

Table 6. Relationship between foreign investments in Russia and Russian investments abroad (million dollars)

	1995	2000	2004	2005	2006	2007	2008
Foreign investments in Russia	2983	10958	40509	53651	55109	120941	103769
Russian investments abroad	226	15154	3373	31128	51978	74630	114284
Russian investments abroad as a percentage of foreign investments in Russia	7,6	130,6	83,4	76,8	94,3	61,7	110,1

Compiled from data in: Rossiyskiy statisticheskiy ezhegodnik 2009, pp. 261, 264.

As shown by this table, the amount of capital that has entered Russia is only a little more than the quantity that has departed. More will be said about this later, but here it will be noted that foreign capital has avoided, like the plague, the sectors that would permit the technical modernisation of the economy, and has sought out only those areas of investment where quick profits are available. That foreign capital is not taking part in modernising the Russian economy is not so surprising. Far more worthy of attention is the fact that Russian capital is not doing this either, something that has definite links to the illusory hopes that were sown at the outset of the reforms. As subsequent events have shown, removing the barriers to the movement of capital was required not so much for attracting foreign investment, as for allowing Russian capital to flee across the borders and to be accumulated abroad.

In the course of the liberalising of foreign economic activity, the balance of payments of the Russian Federation came to include items relating to credits and advances provided to foreign partners, and also to advances that had not been paid back. In addition, Russian firms received the right to establish subsidiaries in offshore zones of other countries, to which any sums could be freely transferred. This was no longer a case of Russian companies transferring funds to foreign banks in order to pay for imported goods; no-one was interested in the relation between the sums transferred and the quantities of goods purchased. Many other illegal methods were devised for channelling Russian capital abroad. Each year from the beginning of the reforms, the sums that were not returned were of the order of $12-15 billion. By 2008, the total volume of Russian capital secreted abroad was in the region of $1.3 trillion, comparable in value to Russia's entire basic productive stock (Navoi, 2009, p. 31).

The above-cited data on the massive flight of capital from Russia beg the question of what social and psychological motives drive the behaviour of the Russian property-owning class. Why do they act in this fashion? More than likely, they are fully conscious of being an alien growth on a society to which they have brought nothing except the plundering of popular assets. Weighing upon them is the possibility of being charged with having privatised their property illegally. All in all, it is clear that the Russian possessing class see their future as lying not with their own country, but with others where their right to the wealth they have obtained is recognised. That means the countries of the West. In their own country, the Russian oligarchs only conduct business; most of the time, they and their families live in the West, where they keep their capital. Their wives give birth to their children there, most often in the US, so as to strengthen their claim to citizenship. The prominent businessman Mikhail Khodorkovsky, now in jail for his illicit dealings – a rare case in Russian practice – has admitted openly in a letter that the oligarchs view Russia as no more than "a hunting-ground and a place to collect trophies", not as a country to which they tie their future.

Needless to say, such a property-owning class has not been able to evoke trust in the market and capitalism from a population traditionally hostile to bourgeois values. Showing a complete disregard for the development and modernisation of the national economy, this class has also squandered the faint hopes which arose during the propaganda campaign for market reforms. Nevertheless, the authorities try as they may to present the population with a positive image of Russian oligarchic capitalism, creating the appearance of prosperity in the country. Overall priority is given to insuring the property-owning class against untoward developments. To this end, the gold and foreign currency reserves of the Central Bank were built up during the years when the influx of foreign currency was high; a sort of safety cushion was created, in the shape of a stabilisation fund. By the beginning of 2008 it contained $455.7 billion dollars. In the same year, according to the journal Forbes (no. 5, 2010, p. 108), the government hived off an $11 billion chunk of this hoard to be used for refinancing the foreign debt of Russian companies.

In reality, this "cushion" does more harm than good. As an addition to exported capital it has little useful function. Like other exported capital it is kept on the accounts of foreign banks, and plays no role in the technical or economic modernisation of Russia. While the need for modernisation is preached from every pulpit, the Russian firms that are entreated to carry it out ignore the summonses. Indeed, there is nothing along these lines that they can do. They continue fulfilling the function for which they were set up – multiplying the personal fortunes of their owners, who have given themselves over to parasitism and waste, building expensive offices and villas in diverse parts of the world, investing in sports clubs in other countries, buying the world's most expensive yachts, aircraft and cars, diverting themselves in prestige resorts, and so forth.

Making use of the inflow of foreign currency of the early years of the century, the state reduced its foreign debt from $139.3 billion in 2001 to $40.9 billion at the start of 2009 (Rossiyskiy statisticheskiy… 2009, p. 582).□ Private companies, by contrast, increased their indebtedness to foreign creditors to a total of $498 billion at the beginning of October 2008 (Navoi, 2009, p. 31). Since private borrowings are of a short-term character, for about three years, the risk that these debts will not be paid back on time means that the possibility of keeping the country's stabilisation fund in line with the scale of the borrowings is placed under threat.

D. The Rise of Mass Unemployment

The flight of capital abroad has extremely severe consequences for the Russian economy, which is choking for lack of investment. The twenty-year stagnation of the Russian economy has caused a dramatic narrowing of the country's productive potential.

As well as reflecting the lack of capital, increasingly exported abroad, this has resulted from the hyperinflation set off by the shock transition to free price formation. People lost their savings overnight, and the real wages of the bulk of the population plummeted, bringing about a contraction of aggregate demand. As Keynes would have noted, such a situation can be expected to have two negative outcomes: an increase in unemployment, and an undermining of the sources of economic growth. So it was in Russia. Once the new owners had acquired substantial state assets at nominal prices, they began firing large numbers of workers, considered unnecessary from the point of view of increasing profits, from the privatised enterprises. This step, natural from the capitalist point of view, led to the previously unknown mass unemployment of a significant sector of the able-bodied population. The following table gives some idea – though by no means a complete one – of the scope of this phenomenon.

Table 7. Numbers of the economically active population employed and unemployed (thousands of people)

	1992	1995	1998	1999	2000	2005	2008
1. Numbers of the economically active population	74946	70861	67339	72175	72332	73811	75892
Numbers employed in the economy	71068	64055	58437	63082	65273	68603	70603
2. Unemployed	3877	6684	8902	9054	7059	5208	5289
3. Unemployed, registered with state instrumentalities	578	2327	1929	1263	1037	1830	1522
Of these, numbers receiving benefits	371	2026	1756	1090	909	1570	1253
4. Recognised level of unemployment (%)	5,3	9,4	13,2	12,6	9,9	7,0	7,0

Source: Rossiyskiy statisticheskiy ezhegodnik 2003, p. 129.
Rossiyskiy statisticheskiy ezhegodnik 2009, p. 129.

This table suffers from incomplete data on the unemployed, since it does not include a rather significant number of effectively jobless people in small towns and rural localities. In addition, many people have also lost their jobs since the collective and state farms were turned into privately-owned enterprises. A certain number of these people have headed off to other places in search of work, but most have remained where they were, and carrying on with their traditional way of life in their own homes, are not about to move elsewhere. At the same time, there is no prospect of new jobs appearing, so these people do not see any point in registering as unemployed. Consequently, there are good grounds for supposing that the real level of unemployment is at least twice that shown by the figures in the official table.

For all the importance of making a quantitative assessment of the problem, it seems to us that the most important requirement for understanding this question lies elsewhere. Unemployment in the post-Soviet states cannot be equated with its analogue in the capitalist countries. There, it has become an inseparable part of the way of life, and people have grown used to regarding it as a natural phenomenon. Here, not only the present generation, but even their parents and grandparents have never before experienced unemployment. This peculiarity of post-Soviet life has not been understood in the West. Everything that happened under the Soviet system is assessed negatively, just as in Soviet times we reacted to capitalism. But if we have overcome our prejudices and recognised the value of many features of the market and of private enterprise, the same cannot yet be said of our Western colleagues. They regard even the virtues of socialism through the prism of its shortcomings. There were of course plenty of the latter, but if we take a scholarly viewpoint, they cannot be regarded as the totality of the Soviet experience.

Here, it is instructive to consider the book by the Hungarian economist Janos Kornai *The Socialist System*. Though popular in the West, this work is far from taking an objective approach. Kornai uses the shortcomings of socialism to obscure its achievements, to the point of coming up with an overall negative picture. Hence, full employment of the able-bodied population (the absence of unemployment) under socialism is depicted for the most part as an evil. According to Kornai, full employment is the reverse side of the "shortage of labour power". Socialism is unique, he writes, "as the only system in which full employment and chronic labour shortage persist so long" (Kornai, 1992, p. 219).

Kornai recognises the value of full employment and of the absence of joblessness: "Permanent certainly is a fundamental achievement of the classical system, in terms of several ultimate moral values. It has vast significance, and not simply in relation to the direct financial advantage in steady earnings. It plays additionally a prominent part in inducing a sense of final security, strengthening the workers' resolve and firmness toward their employers, and helping to bring about equal rights for women" (ibid, p, 210). Nevertheless, he studiously avoids the question of how all this might be achieved. His study of the question of full employment is diluted with discussion of secondary issues, and is reduced to examination of the efforts of bureaucrats to distribute labour power. This is a significant matter, but not of primary importance. Most crucial, however, is something that is not even mentioned in the book: the fact that in a planned economy investment can be linked directly to employment. What Keynes urged in his 1936 book had long since been accomplished in the Soviet Union, on a different basis and in greater measure.

With their prejudice concerning socialism, Western economists have unfortunately failed to perceive or evaluate this link, and Kornai follows their less-than-creditable example. In his chapter on investment he specifies numerous priorities, but ensuring full employment is not even mentioned. Meanwhile, there cannot be a hundred priorities. There must be one or at most two; the eleven priorities that Kornai distinguishes are simply the major areas of investment. The fundamental task which the distribution of investment was required to carry out in the USSR was always one and the same: ensuring employment and earnings to the whole able-bodied population. Everything else which Kornai discusses (apart from defensive capability, which is a separate question) was regarded in the practice of planning as productive within the context of the fundamental purpose of the economy – ensuring the employment of the population and on this basis, the improvement of their material and cultural level.

To confirm this, here is a typical example. In the Soviet Union at one point, the question had to be decided of where to build a new aircraft plant. There were five contending cities, which included Tashkent. Studies suggested that it would be most advantageous to build the factory in Kharkov or Sverdlovsk, where suitable land was available with established urban infrastructure. Nothing of the kind existed in Tashkent, and providing communications, housing, hospitals and polyclinics, schools and care centres for the workers' children, and a technical training centre for the plant would more than double the cost of construction. Basing their claims on planning calculations and projections, the authorities in the other cities argued that the factory should be built on their territory. The discussions within the economic bodies (Kornai describes such normal debates as "wrangles") extended to the highest organ of power, the Politburo, which had to make the final decision. After listening to all the pros and cons to the point of exhaustion, the then head of the Uzbek Republic, Rashidov, posed the question in this manner: "What advantage are we talking about?" If it was the advantage of the state, then the factory should be built in Kharkov or Sverdlovsk. But if the advantage of the people was more important, then it should be built in Uzbekistan. The Fergana region of his republic, Rashidov continued, had a high population density and birthrate; if jobs were not created in timely fashion there would be unemployment, something incompatible with the Soviet system. Rashidov was a writer, not an authority on the political economy of socialism, while Brezhnev and other members of the Politburo knew even less about it. But they were familiar with Soviet tradition and practice, and the threat of unemployment settled the question in favour of building the factory in Tashkent.

It is clear that the question could have been decided in this way only where the question of efficiency was approached less from the economic (obtaining of profits) point of view than from the social one, that of guaranteeing jobs and wages. The fact that this example was not unique can be seen from the fate of numerous single-enterprise towns in Russia. These are the places in which planned investments in the construction of industrial enterprises and institutions of a socio-cultural nature (polyclinics, hospitals, maternity homes, kindergartens, sports clubs, stadiums, etc.) were made exclusively in order to provide people with work and incomes. Following privatisation, however, the new owners turned everything upside down. They shut down many of these factories, along with the social institutions which the enterprises had earlier financed. The result was that people lost not only their wages, but also their access to medical facilities. When a woman in such a town is about to give birth to a child, for example, she often has to travel to some remote place. The shift to the market has created numerous such problems in small centres where the conditions of life in earlier times were quite reasonable.

These unwelcome developments are not going unopposed. Protests again the changes long ago took on a mass character. Most famous have been the events in the modest town of

Pikalevo in Leningrad Province, evidently because Prime Minister Vladimir Putin played an active role in dealing with the problems that arose there. The clay-processing and cement-making enterprises in this town were privatised by Oleg Deripasko, a member of the Yeltsin "family"[2] who became one of the most powerful Russian oligarchs, with a fortune of many billions. To increase his profits Deripasko re-equipped one enterprise while shutting the others down altogether, laying off large numbers of workers. To the same end he stopped financing the local hospital and polyclinic, putting their continued existence in question. For months he did not pay his workers, running up a wage debt of 41 million rubles. The workers began going on strike and calling meetings where they demanded that the privatised enterprises be re-nationalised. No-one paid them any attention until they decided on a desperate step: they blocked the rail line and highway that pass through the town. After that, the strike resounded throughout the country. Putin came, accompanied by a multitude of high-ranking Moscow bureaucrats. Deripasko was summoned, and together with a dressing-down from the government, received financial assistance of $150 million (*Argumenty i Fakty,* no. 24, 2009; *Novaya Gazeta,* 8 June 2009; Maksimov, 2010). Under a hail of criticism from Putin the oligarch paid his workers, promised other concessions, and to some degree relaxed the pressure. How long this will be the case remains to be seen.

It should be noted that the strikers recalled very well the Soviet practice under which the right to wages was sacred, and no-one dared violate it. Everyone was guaranteed a job, and a delay in the payment of wages of more than three days was considered a crime, for which the guilty parties were subject to punishment. Now we have a conflict between economic expediency and social needs. It is easy enough to condemn this situation, but probably, the best thing for us would be to discuss it in unprejudiced fashion with Western colleagues. This is something of which we in Russia have a great need.

E. The Intensifying of Social Inequality

Another burdensome consequence of the market reforms has been a sharp increase in social inequality and differences in property ownership. Here too the contrast with the Soviet period is striking. Social differences, of course, existed then as well. The highest-paid categories of workers then were miners and steelworkers, whose wages reached levels of 600 to 700 rubles a month, compared to an average of 180 rubles – that is, a ratio of three or four to one. The privileges of the bureaucracy consisted not so much in wages (the differences here were not great) as in unpaid services of higher quality. The bureaucrats were treated in better hospitals, spent their vacations in better sanatoriums, had the use of personal cars at state expense, and enjoyed greater access to goods that were in short supply. But what is all that now, compared to the Byzantine luxury of today's oligarchs?

The privatisation of state property fundamentally altered the situation. The tastiest morsels of popular wealth were appropriated at a discount by the people who were in power and by those near to them. The well-known researcher of the Russian economy Stanislav Menshikov writes:

[2] This is the name acquired by the large clan of business entrepreneurs and politicians grouped around the first president of Russia, Boris Yeltsin.

> "At the end of 1997, privately owned fixed assets were worth an estimated 7.321 trillion rubles. Yet the state had received only 34.8 billion rubles from privatizing this property, or less than .05 percent of its value. Even after adjusting for the subsequent revaluation of assets due to inflation, the government's earnings equaled no more than 2 percent of the property's value. Thus, private capital acquired formerly state-owned assets as property, or obtained control over them, virtually free of charge" (Menshikov, 2007, p.42).[3]

The real source of the great fortunes of the Russian oligarchs was, and remains, not their entrepreneurial talents or creative energies (of which they have not even a trace), but their position and connections at the moment of privatisation, combined with their gift for latching onto the property of others. The best indication here is provided by the initial increase to $24.5 billion, and now the decline to $10.7 billion, in the fortune of the above-mentioned Oleg Deripasko. As a member of the Yeltsin family in both the direct and figurative senses (he is married to the daughter of Yumashev, who in turn is married to Yeltsin's daughter Tatyana), he privatised incalculable wealth for nominal sums in diverse sectors of the economy. Connections he possessed, but not managerial talents. As a result, he lost 60 per cent of his fortune in short order. Other members of the "Yeltsin family" were Roman Abramovich and Boris Berezovsky, who once held top spots in the "golden hundred" of Russian billionaires (capable only of squandering what fell within their grasp, they were later forced out by other, more successful oligarchs). The richest woman in Russia is Yelena Baturina, whose has a fortune of $2.9 billion thanks to the fact that she is the wife of Moscow Mayor Yury Luzhkov. The all-powerful mayor, who "democratically" attained his post more than eighteen years ago, is the poorest of poor functionaries, owning little more than the shirt on his back. But such are the ways of Russian capital that as soon as the penurious husband quits his mayoral armchair (this must happen at some point), we can expect to see his wife begin to suffer from the attacks of emboldened competitors, and her riches will start melting away before our gaze.

Most of the other wealthy Russians accumulated their hoards through connections of various types, through underhand deals, and through machinations within the structures of power. Not only among the hundred richest people in Russia, but also among the second and third hundreds, it would be difficult to find even a single honest individual who acquired his or her fortune other than by criminal means. Honesty is an unknown concept in Russian business. While Western capitalists are not always models of probity, they are nevertheless the products of lengthy historical development and selection. By contrast, Russian capitalists have acquired fabulous riches at lightning speed through mafia rackets and other means unknown to their Western counterparts. It is because of this that the Russian mafia is so sinister a force on the Russian and world scenes.

[3] Some researchers were misguided by this underestimation of the state property. Thus, Robert Skidelsky – the author of an excellent biography of J. Keynes – writes: "In due voucher auctions of the early 1990s, the whole of Soviet industry was valued at $5 billion – the price of one of the United States' larger companies. That valuation was much too low, but it shows the enormity of the gap between the two countries" (Skidelsky, 1995, p. 105). It seems that it never occurred to R. Skidelsky that a country with industry worth the assets of even the largest US company was hardly able to pose such a threat for the West, as the Soviet Union did. Thus, the evaluation he refers to, shows only the 'enormity' of a windfall benefits granted by Yeltsin's regime to the nascent oligarchs at the expense of the whole society.

The concentration of wealth in the hands of a narrow circle of people has been characteristic not just of the initial period of development of Russian business, but of subsequent years as well. Throughout the two decades since the market reforms began, the gap between rich and poor in current incomes, and hence also in their property holdings, has continued to grow. Aiding this has been our tax system, resolutely defended by representatives of the oligarchy in the Duma and in Vladimir Putin's government. Income tax in Russia is the lowest in the world at 13 per cent for everyone, from modestly-paid workers to mighty oligarchs with multimillion-dollar incomes, and the authorities explain this as the result of a peculiar necessity. If it were not so, the argument runs, entrepreneurs would conceal their incomes, and the flow of revenues to the state budget would be less. Entrepreneurs hide their profits as commercial secrets, while suffering no retribution. Any attempt to monitor their activities is perceived by them as a breach of property rights.

The result has been massive inequities in the distribution of incomes and in the property holdings of citizens. Table 8, below, shows this with particular clarity.

Table 8. Distribution of money incomes by 20-percent cohorts of the population

	1992	1998	2000	2003	2005	2006	2007	2008
Money incomes – percentage	100	100	100	100	100	100	100	100
In 20-percent cohorts of the population:								
First (with lowest incomes)	6.0	6.0	6.0	5.5	5.4	5.3	5.1	5.1
Second	11.6	10.4	10.4	10.3	10.1	9.9	9.7	9.7
Third	17.6	14.8	14.8	15.3	15.1	14.9	14.8	14.8
Fourth	26.5	21.2	21.2	22.7	22.7	22.6	22.5	22.5
Fifth (with highest incomes)	38.3	47.6	47.6	46.2	46.7	47.3	47.9	47.9
Including the 10% of the population with the highest incomes	-	-	-	29.7	30.1	30.6	31.1	31.1
Gini coefficient	0.289	0.399	0.399	0.403	0.409	0.416	0.423	0.423
Assets coefficient (multiples)	8.0	13.8	13.8	14.5	15.2	16.0	16.8	16.9
Decile coefficient (multiples)	-	-	-	6.7	7.0	7.2	7.5	7.5

Sotsial'noe polozhenie and level 'zhizni Rossii naseleniya 2,001th Statisticheskiy Proceedings, p. 130.
Sotsial'noe polozhenie and level 'zhizni Rossii naseleniya the 2009th Statisticheskiy Proceedings, p. 134.

Using the data in this table, it is possible to detect a tendency for the gap in incomes between various strata of the Russian population to increase, even if this is not expressed precisely. Hence, at the beginning of the reforms in 1992 the Gini coefficient stood at a figure of 0.289 (earlier data put it at 0.260 – see *Rossiyskiy statisticheskiy…,* 1999, p. 155), which can be taken as the level of the pre-reform period. By 1995 it had risen to 0.387, and by 2000 to 0.399. By 2008, the table shows, the Gini coefficient had reached 0.423. The increase in the decile coefficient from 6.7 in 2003 to 7.5 in 2008 reflects the same tendency.

Nevertheless, these data do not reveal the whole extent of the polar contrasts in property ownership. For an accurate picture, it is necessary to use a more detailed breakdown of the population than that employed in the above table, where the grouping of each fifth is too great to be homogeneous. This is particularly true of the fifth cohort, which includes the most prosperous sector of the population. Within this sector is a very narrow stratum which has succeeded in concentrating Russia's maj□ assets in its hands. The reality of the distribution of wealth in our country is best characterised by the position of this stratum, and not by that of the whole 28.4 million people in the top fifth. The extreme concentration of wealth in present-day Russia is a notable feature of the country, as can be seen from the following table:

Table 9. Nationality of the world's 100 richest billionaires, and coefficient of oligarchy in 2007

Country	Number of billionaires (individuals)	Average age (years)	Total wealth (billions of US dollars)	Share in the total wealth of the selection (%)	Wealth of billionaires as a share of GDP of country (%)*
Russia	14	45.5	167.8	11.7	17.0
US	38	66.4	567.6	39.7	4.3
Canada	2	57.5	29.9	2.1	2.4
Egypt	1	52.0	10.0	0.7	9.3
France	5	73.3	81.2	5.7	3.6
Germany	9	67.4	106.9	7.5	3.7
Greece	1	60.0	11.0	0.8	4.5
Hong Kong	3	78.5	55.0	3.8	29.0
India	8	53.7	122.9	8.6	13.6
Italy	3	73.7	33.3	2.3	1.8
Kuwait	1	63.0	11.5	0.8	14.2
Mexico	1	67.0	49.0	3.4	5.8
Saudi Arabia	4	62.5	43.2	3.0	13.9
Spain	3	66.0	40.3	2.8	3.3
Sweden	4	75.8	71.4	5.0	18.5
Switzerland	1	41.0	8.8	0.6	2.3
UAE	1	53.0	8.0	0.6	6.2
Great Britain	1	55.0	11.0	0.8	0.5
Total	100	-	1428.8	100	-

Source: E.V. Balatskiy. Oligarkhichnost' rossiyskoy ekonomiki v usloviyakh globalizatsii.
Kapital strany (Zhurnal ob investitsionnykh vozmozhnostyakh Rossii), Internet-resurs, http://www.kapital-rus.ru/articles/article/962/, accessed 23 May 2010.

It turns out that as a result of three hundred years of the development of capitalism in the US thirty-eight extremely wealthy families have emerged, with 4.3 per cent of Gross Domestic Product concentrated in their hands. In Russia, with a population less than half that of the US, in the course of twenty years 17 per cent of the country's GDP has finished up in the hands of twenty-four people. In India, where capitalism has existed for well over a hundred years, and where the population is more than eight times greater than that of Russia, only eight families fall into the wealthiest group. Great Britain, the originator of capitalist development, has only one such person.

To judge from these data, the "golden hundred" richest people of Russia, whom the journal *Forbes* considers the champions of Russian business, control about a third of gross product. If we were to go further and to calculate the total assets of the thousand wealthiest business entrepreneurs and bureaucrats in Russia, including the sums that are hidden or put in the names of figurehead owners, the result would probably come to no less than three quarters of the national wealth and income. What remains for the rest of the population? Nothing like this situation exists in any civilised country. The capitalist experiment in Russia has resulted in capital becoming concentrated on a scale and with a rapidity unprecedented in history. Economic science is left to try to explain why this has happened.

How could such a thing have occurred, considering the data in Table 3? While the main economic indicators were plummeting, at the same time the rich were becoming richer and the poor poorer. A single answer forces itself upon us: the reforms were implemented on the initiative of a handful of people who were acting in their own interests, and who to this end, set the market mechanism in motion by unrestrainedly concentrating wealth in their own hands. Such a redistribution of wealth to the advantage of a few people could not occur except to the detriment of others. Along with their right to property, these "others" have also lost their sources of support, and their standard of living has fallen precipitately.

F. From Population Growth to Population Die-Back

As a result of what has been described here, the previous growth of the population and increase in its level of prosperity have been replaced by impoverishment and population decrease. This outcome must be viewed as the next grievous consequence of the market experiment. Once again the facts and figures will be allowed to speak, relating what has occurred more eloquently than words could ever do.

Table 10. Coefficient of mortality in the USSR-Russia and various developed countries, 1970-2008

	1970	1980	1990	2000	2005	2008
USSR-Russia	8.2	10.3	10.3	14.7	16.1	14.6
US	9.4	8.7	8.8	8.7	14.0	-
FRG	9.4	8.7	8.8	8.7	10.8	10.3
Great Britain	11.8	11.8	11.5	10.9	12.0	9.4
France	10.7	10.2	9.0	9.1	12.7	8.5
Japan	6.9	6.2	6.4	7.4	8.4	8.6

Source: Narodnoe khozyaystvo SSSR 1922-1982gg., Moscow, pp. 28-29; Narodnoe khozyaystvo SSSR b 1975 g., Moscow, pp. 42-43; Norodnoe khozyaystvo SSSR za 70 let, pp. 406-407, 710; Narodnoe khozyaystvo SSSR v 1990g., p. 665; Rossiyskiy statisticheskiy ezhegodnik, Moscow, 2001, p. 104; Rossiyskiy statisticheskiy ezhegodnik, Moscow, 2009, p. 737.

As can be seen from Table 10, during the twenty years preceding the reforms (1970-1990), the death rate of the Soviet population was comparable to the figures for the developed countries cited, with the exception of Japan. If we take into account the USSR's lag of around 50 per cent in GDP per capita compared to the developed countries – and of about 25 per cent in consumer spending compared to the US – these results testify to the virtues of the social system that existed here. It is true that as time passed changes in the age structure of the population (an increase in the proportion of people in the older age categories), together with negative phenomena during the 1980s in the economy and social sphere, caused the death rate in the USSR to increase somewhat. Nevertheless, it remained broadly similar to death rates in the developed countries.

Why was it that with a lower per capita GDP, the USSR succeeded in matching more developed countries in the death rate and life expectancy of its population? The reason is clearly that the Soviet Union was a socially-oriented society. The USSR was a pioneer in introducing free medical care for the whole population, irrespective of people's material and social positions. The Soviet Union established a system of sanatoriums and prophylactic medicine accessible to all layers of society, something which did a good deal to improve people's health. It is not surprising that the high death rates of earlier times fell dramatically, with the result seen in Table 10. Now, the main elements of the system of free medical care have been done away with, on the principle of implementing market relations in every sphere of life. Quality medicine is now on a fee-for-service basis, while the free health care is too low-grade to hold back the increase in the death rate.

The free provision to the population of medical care, education and other important services was an important reason why the Soviet Union, like other socialist countries (with the exception of the GDR) rated higher in terms of the Human Development Index (HDI) than of GDP per capita. Here it should be noted that the HDI index does not take into account such benefits, unique to the socialist countries, as guaranteed employment and free housing (rents in the USSR were so low that they could be considered symbolic).

Table 11. Country rankings for Human Development Index and per capita GDP, and the difference between these rankings in 1987 and in 2007

	HDI ranking (A)	Per capita GDP ranking (B)	B-A	HDI ranking (A)	Per capita GDP ranking (B)	B-A
	1987			2007		
Czech Republic (1)	25	29	4	36	37	1
Hungary	30	44	14	43	46	3
Russia (2)	26	30	4	71	55	-16
GDR	21	16	-5			
Bulgaria	27	32	5	61	69	8
Yugoslavia	31	41	10			
Poland	33	48	15	41	53	12
Albania	47	70	23	70	93	23
Romania	41	47	6	63	64	1
USA	19	2	-17	13	9	-4
Great Britain	10	18	8	21	20	-1
FRG	12	11	-1	22	24	2

1. In 1987, Czechoslovakia. 2. In 1987, USSR.

Calculated from: Human Development Report 1990, New York, Oxford, 1990, p.119; Human Development Report 2009, Basingstoke, New York, 2009, pp.171–173.

In GDP per capita, the USSR in 1987 held thirtieth place in the world, and in terms of HDI, twenty-sixth place – that is, four places higher. The same pattern can be seen in the cases of other socialist countries, and it provides a reliable indicator of their social character. Now, as a result of the market experiments, this characteristic of Russia's economy has been lost. Russian GDP per capita has plunged to fifty-fifth, and its human development index still further, to seventy-first place in the world. This reflects the substantial worsening in living standards, and the rise in the death rate seen in the preceding table.

As a result of the dramatic decline in living standards, the growth of unemployment and crime, and the increased death rate, the previously steady rise in Russia's population has been replaced by absolute decline. This is shown in Table 12.

The figures in this table are rounded and only approximate, but they nevertheless deserve very serious attention. They show that it is the increased death rate that is the cause of the decline in the Russian population. Even the compensating factor represented by the influx of refugees from other republics of the former USSR has been unable to counteract the tendency for the population to diminish. Due to the vastness of Russia’s territory, the country’s population density is characteristically low, and with the outflow of people from regions such as the North and the Far East, this population loss is fraught with the danger that these territories will be lost. That is not to speak of the weakening of the country’s overall potential. It should also be remembered that a significant sector of the population, numbering in the millions, is merely counted as being Russian; these are people who live and work abroad, expanding the potential of some other country rather than their own.

Table 12. Population of the Russian Federation and its decline in the years 1989-2009

Years	Population in millions	Increase (+) or Decrease (-) in thousands	Years	Population in millions	Increase (+) or Decrease (-) in thousands
1989	147,0	-	2000	145,6	-1100
1990	148,0	+1000	2001	146,3	-300
1991	148,3	+300	2002	145,2	-1100
1992	148,7	+400	2003	145,0	-200
1993	148,7	-	2004	144,2	-800
1994	148,4	-300	2005	143,5	-700
1995	148,3	-100	2006	142,8	-700
1996	148,3	-	2007	142,2	-600
1997	147,5	-800	2008	142,0	-200
1998	147,1	-400	2009	141,9	-100
1999	146,7	-400			

Sources: Rossiyskiy statisticheskiy ezhegodnik: Statisticheskiy sbornik. Moscow, Goskomstat Rossii, 2001, p. 82; Rossiyskiy statisticheskiy ezhegodnik 1999, p. 51; Rossiyskiy statisticheskiy ezhegodnik 2003, p. 75; Rossiyskiy statisticheskiy ezhegodnik 2009, p. 77.

G. The Increase in Crime

A further lamentable result of the market experiment is the growth of crime, which has penetrated all areas of life and in many ways, imparted a criminal character to society. Some idea of this is provided by the following table:

In 2008, 262 cases of banditry were reported, along with 25 hired killings and 698 kidnappings. In the area of the economy, 307,600 crimes were reported, including 55,900 on a large or very large scale.

Here as in other cases we are forced to contend with inadequate information, since for various reasons many breaches of the law are not officially reported. Nevertheless, it can be seen that the overall number of crimes of various types has almost doubled during the years of the experiment. Robberies have almost quintupled, while crimes related to illegal drug dealing have increased by a factor of 48. Terrorism, banditry and hired killings, meanwhile, used to be unknown in our country.

Table 13. Number of reported crimes, by categories (in thousands)

Year	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007	2007 x 1990
Total reported crimes	1839.5	2755.7	2952.4	2968.3	2526.3	2756.4	2893.8	3554.7	3855.4	3582.5	1.95
Including:											
Robbery	83.3	140.6	132.4	148.8	167.3	198.0	251.4	344.4	357.3	295.1	4.74
Robbery with violence	16.5	37.7	39.4	44.8	47.1	48.7	55.4	63.7	59.8	45.3	2.74
Theft	913.1	1367.9	1310.1	1273.2	926.8	1150.8	1276.9	1573.0	1677.0	1567.0	1.71
Terrorism (single instances)	…	1	135	327	360	561	265	203	112	48	48.0
Crimes connected with the illegal trade in narcotics	16.3	79.9	243.6	241.6	189.6	181.7	150.1	175.2	212.0	231.2	14.20

Source: Rossiyskiy statisticheskiy ezhegodnik 2009, p. 297.

The orgy of crime, of which the table gives an inadequate picture, is a direct consequence of the unique manner in which the Russian mentality perceives what Western parlance terms "market freedom". In a country where neither developed traditions of private entrepreneurship nor the legislative basis for it had ever existed, the transition in a single bound to market mechanisms and the rapid privatisation of state property were perceived by the population as the abolition of legal and ethical restraints on human conduct. This is how freedom was understood, and it could not have been different. At the time when market mechanisms were introduced, three generations of people had grown up in the Soviet Union who knew nothing of private property, and had been raised in the belief that collective property as the basis for social well-being was sacred and inviolable. Then, suddenly, the people who only the day before had been instilling this truth in others began seizing property wherever they could get their hands on it. Critics of state paternalism, meanwhile, impressed the message on us that from now on, everyone was obliged to look out for themselves. In this situation, enterprise directors and functionaries in the organs of official power – that is, people who had access to state assets – implemented privatisation to their own advantage. Outside this relatively narrow circle of people, however, there remained the great majority, who owing to their age or position in society could not privatise anything. They were still required to look out for their own interests. But how?

The unprecedentedly rapid concentrating of property in the hands of a few, as examined earlier, greatly narrowed the field of entrepreneurial activity for most Russians. This forced them to seek other sources of income, and other ways of providing for themselves. Even before this, legality had not been overly respected; now, significant numbers of young people were drawn into various forms of organised crime. Entrepreneurial activity in Russia remains impossible without what criminal jargon terms a "roof" – that is, protection provided by organised crime. Relying on laws and state instrumentalities is impossible.

In many cases, the organs of law enforcement are themselves in league with organised crime, and in return for bribes, help them carry out their activity. Functionaries who are in collusion with the criminal world are said to be "reversed", meaning that their mode of activity is the reverse of their official status. Some larger property owners who are able to pay big bribes can work things so that the state organs and officials act as their “roof”. But for smaller businesses the protectors, with whom the entrepreneurs are obliged to share their profits, are usually independent criminal groups and lower-level state bodies. It is not an exaggeration to say that Russian business cannot get by without criminals. In this milieu contract killings of competitors, and of anyone who might prevent the seizure of new property, are commonplace. Of the people who rushed heedlessly to privatise state property in the early 1990s, more than a few died on the orders of their class brothers in the internecine warfare, and did not get to enjoy the fruits of their unscrupulous activity. But those who survived finished up as oligarchs, and now adorn the list of the few hundred richest people in Russia. They are not embarrassed by their criminal backgrounds, which do not hinder them in the least.

H. The Generalised Nature of Corruption

The accepted formulae that society does not owe anything to anyone, and that everyone must now look out for themselves (that is, the principles of the market and capitalism) also lie behind another outcome of the market experiment – generalised corruption. It should be said that bribery is rooted to a significant degree in our traditions, which consider informal ties more important that formal ones. In Soviet times, however, bribery existed on the periphery of our lives, and the top echelons were unaffected by it. Noting the contradictory role played by the organs of coercion (the KGB and the Interior Ministry), Andrey Sakharov (1988, p.21) argued that while violating the law and human rights these bodies simultaneously waged a fight against corruption, and so contributed to the health of society. Sakharov was not a mere observer of the activity of these bodies, but their victim, and had no reason to whitewash them. The truth, however, was more precious to him than satisfying feelings of personal hostility.

By contrast, corruption in our present-day society has infected the top echelons more than anyone else, and the crucial breeding-ground for this plague remains at this level. No longer is corruption a reflection of our traditions and mentality; now, it reflects the way in which the market reforms were carried out. To expedite the seizure of public property the initiators of the reforms deliberately, and from the very first, unleashed the mechanism of corruption. In the foreword to a book by one of his collaborators, Yegor Gaydar openly stated:

> “If the road to the market had not, so to speak, been smeared with honey, drenched with dollars for the nomenklatura, then the nomenklatura would scarcely have proceeded along it willingly, and it is unlikely that the country could have traversed this road peacefully and without bloodshed.” (Gaidar, 1994, p. 7)

The truth is that no-one raised a hand at first to seize public property, which until then had been viewed as the inviolable basis for the general welfare. The interest of the nomenklatura in owning wealth had therefore to be stimulated, which was duly accomplished.

The road to privatisation was thus soaked in advance with the dollars of bribes to ensure that the nomenklatura, which had been standing guard over public property, would agree to its being divided up – on the condition that the members of the nomenklatura would receive their own, outsized portions. This was done before the eyes of the entire population. In the process, both the people who were already in positions of power and those who had recently attained office presented others with an example of permissiveness in acquiring goods by any and all means. No sooner had the topmost layers of society freed themselves from observing the norms of law and morality – with the seizing of the property of others becoming standard practice – than many more people decided that they, too, were free of these constraints. Corruption and secret deals to divide up public assets engulfed our vast country. Everyone feverishly appropriated whatever they could.

Despite the clandestine nature of most of the corrupt deals, a good many came to light and became notorious among the general public (Glinkina, 2006) In the summer of 1997 a scandal erupted over a proposed deal involving the sale of state shares in the telephone company Svyazinvest. It emerged that the then minister in charge of state property, Alfred Koch, had had dealings with one of the would-be purchasers, Oneksim-Bank, and had received from it the sum of $100,000 via the Swiss company Servina. The scandal had scarcely been hushed up when in November it burst forth in a new form. A certain foreign publishing house had paid a number of high-placed Russian bureaucrats, including First Deputy Prime Minister Anatoly Chubais and the same Alfred Koch, an uncommonly large honorarium of $450,000, ostensibly for a book on privatisation which they undertook to write. In terms of intellect none of the proposed authors was capable of writing more than trivialities on the topic, and nor did they. But the posts they occupied gave them access to valuable information about Russian firms, including Svyazinvest, and their property; it was for furnishing this information that the bureaucrats had been paid the designated sum. Despite being widely reported in the mass media, these scandals were successfully smoothed over. None of the guilty suffered any punishment, since they were the president's men, and were allowed to do whatever they liked.

The upshot was that a situation became established, and silently accepted, in which corruption had officially to be condemned, while in practice being recognised as a normal mode of interaction in the relations between business and the state authorities under market conditions. Appeals for legalising the bribery of officials, as a normal way for both sides to conduct their dealings, even acquired a certain currency in the literature. It is not surprising that with the market perceived in this fashion, Russia has become one of the most corrupt countries on earth. According to the index of corruption published in November 2009 by the global organisation Transparency International, the Russian Federation held the 146th-worst place among 180 countries. The experts of Transparency International calculated that "the annual market in corrupt transactions in the country has reached the sum of $300 billion." In the previous year alone the average size of an everyday bribe had risen from 8000 rubles to 27,000 (Rosbizneskonsalting, 2009).

It is true that from time to time official spokespeople, including leading state figures, burst into loud condemnations of corruption, but corruption nevertheless flourishes under their protection. While small fish are caught occasionally in the net of the justice system, it is understandable that this can change nothing, and is merely used to provide the appearance of a struggle against corruption. When corrupt dealings surface that involve people close to the centres of power, the law enforcement agencies are quick to hush them up.

The business magazine *Forbes,* for example, gives the following account of how a celebrated corruption case involving former high-placed Kremlin official Pavel Borodin, and investigated by former General Prosecutor of the Russian Federation Yury Skuratov, eventually finished up. “In the late 1990s,” the magazine writes, “Skuratov began an investigation into abuses permitted during the reconstruction of the Great Kremlin Palace and the Accounting Chamber, for which the budget had allotted $492 million. The general contractor was the Swiss company Mercata, whose vice-president was Andrey Siletsky, a son-in-law of then presidential chief of staff Pavel Borodin. From each tranche of the payments, Mercata sent commissions to a company registered on the Isle of Man. From there part of the money, after passing through several accounts, finished up in companies owned by Pavel Borodin and his daughter Yekaterina Siletskaya – the ‘beneficiaries’ of the scheme, and the people of whom Skuratov now speaks. Borodin was arrested in the US in 2001; in all, the request for his extradition from the US to Switzerland states, he and his daughter received $30 million. In Geneva, Borodin was charged with having tried to launder money through Swiss companies. Using information supplied by Skuratov, the Swiss were able to trace the subsequent route taken by the money and to show that the final recipients were Borodin and members of his family.

In court, however, the case collapsed. A key element was lacking – official confirmation from the Russian side that the money received by Borodin was of criminal origin. He escaped eventually with a fine of 300,000 Swiss francs” (*Forbes,* no. 5 (74), May 2010, p. 106).

More than likely, the reason the case received publicity was because the US and Switzerland became involved, in accordance with their national legislation; otherwise, we might never have heard a thing. The case collapsed because Borodin was a close friend and trusted associate of then President Vladimir Putin, and in present-day Russia such things are more important than morality or the law. No Soviet leader, including Stalin, would have intervened on behalf of such a person. This was not because Soviet leaders obeyed the laws – they broke them as they wished – but because there was a certain morality in society which leaders had to take into account. Now, the passion for enrichment to which the market has given rise in Russia has so altered morality and the law that leading state figures openly shield their protégés from any kind of charge.

To pick someone else’s pocket, whether of a private individual or the state, is no longer thought reprehensible. The practice of “raiding”, in which gallant lads turn up in your office and try to throw you out and seize your property on the basis of a judicial decision purchased by their boss, has become commonplace. To buy such a decision is not hard; the difficulty lies in finding, within the structures of officialdom, an all-powerful protector ready to support the arbitrary seizure.

A bill has now been introduced into the State Duma to legalise payments of a million rubles (about $30,000) to “buy out” young men from army service, with the burden being transferred to the children of less well-off parents. On the internet, current prices are published for the bribes that need to be paid to officials for the taking of some decision or other, and also advertisements for lobbying organisations which for a set fee are prepared to ensure that a necessary resolution is passed by the Duma or adopted by the government. Positions as deputies in the Duma are bought and sold as run-of-the-mill commodities; these posts are attractive because they provide their owner with immunity from being called to account for illicit actions. Become a deputy, and then you can do as you wish. Anyone with large amounts of money can buy a deputy’s mandate, now reputed to cost from three to five million dollars, and in this way can guarantee a safe path into his or her pockets for the multi-million-dollar proceeds of illegal operations. In such a parliament, it is better to belong to the ruling party, and to put your stamp on decisions that suit the authorities; otherwise, you will find yourself out the door, and will lose your parliamentary immunity.

The most outrageously criminal acts of corruption take place, of course, behind closed doors, and never become widely known. But enough evidence of them is available for conclusions to be drawn about the criminalised nature of society. Here is what an authoritative study of the question has to say:

> "Participating in the distribution and redistribution of the national budget, of the state budget in modern Russia, provides significantly greater economic gains to the people who perform managerial functions than any managerial activity properly considered. With the average level of profitability in the real sector of the economy at 5 per cent, the norm for profits on particular rent-orientated operations has reached several hundred per cent. In such circumstances, the logic of market behaviour impels participants in economic activity to take their capital out of the real economy and increasingly, to direct their money and energy toward influencing the distributive processes. They have an incentive to put their resources into establishing special relationships with state officials who are responsible for taking decisions that are crucial for business. According to various estimates, commercial organisations devote from 30 to 50 per cent of their income to maintaining special relationships with corrupt state officials, who often exercise their functions as representatives of organised criminal groups" (Glinkina, 2006).

In my view, the evidence noted above provides sufficient basis for concluding that the neoclassical economic model we have embraced does not accord with the interests and goals of our society. Using this model, we have not succeeded in creating a civilised market economy. Still more distressing is the fact that we have made little progress along the road of democracy. We not yet found a model of society that matches our specific character and interests.

4. REDUCING DEMOCRACY TO FORMALISM

As explained earlier, none of the dissidents of the Soviet era demanded the restoration of capitalism, or the rejection of collective property and its privatisation. Nonetheless, the reforms took precisely this course. All the energies of the reformers were switched over to seizing public property, while democracy, as already noted, was reduced to a formality of little significance. Various parties now participate in elections, but the outcome of these elections is predetermined. This speaks volumes about what such democracy is worth.

Particularly important for the reducing of democracy to mere formalism in the post-Soviet states has been the polarisation of society, in social and property terms, that has been brought about by the market reforms. These transformations raised some people to the summit of economic and political might, while lowering others to the point where they retained only one right: to go to the polls from time to time and to vote "as required". The reforms created favourable conditions for this. So long as the struggle for power and wealth continued, democratic rhetoric was in fashion. But once the goal of seizing property had been achieved, democratic institutions became not just unnecessary, but also dangerous. Using democratic forms of rule – supposing these to be real, and not just adornments – the lower and middle strata of the population are able potentially to achieve their goals, including at the expense of the topmost layers. The latter have no interest in allowing this to happen, and hence democratic institutions and rules in our countries are robbed of real content.

Among the main obstacles to the development of democracy in the post-Soviet states is the deteriorating welfare of the population as a result of the reforms. The experience of the countries where democracy exists in developed form shows this clearly. The lesson here is that democracy cannot be transferred through the imitation of someone else's experience, much less installed on demand from outside. It can grow only out of a society's own requirements, as was the case in the countries which first set out on the road of democratic development – Britain, France and the US. An important feature of these countries was the fact that democracy developed and became established there along with growth in the material well-being of the population. L. Thurow observes at one point, "The idea that maximizing personal consumption is central to individual welfare is less than two hundred years old. Without this belief the incentive structure of capitalism has no meaning and economic growth has no purpose" (Thurow, 1996, p.11). The two hundred years of rising popular well-being noted by Thurow are also the time when democracy became securely implanted in the countries which acted as the pioneers of world democratic progress.

On the basis of the experience of the advanced countries, we can regard as historically confirmed the thesis that democratisation of society (the state) and growth in the material well-being of the population are two aspects of a single process, with each providing the preconditions for the other. It is impossible to imagine a situation in which a state is democratic, while the population has remained impoverished throughout an extended historical period. Beggars cannot become free, and free people cannot remain in destitution. Only growth in material well-being is perceived by the population as confirming the advantages of the democratic way of life. If this well-being is absent, and if people remain in continual need, there is a major risk that they will reject such "democracy" and turn to some other set of values. The impoverishment of the German population after the First World War and in the years of the Great Depression was in no small measure responsible for the collapse of Weimar democracy and for the coming to power of the Nazis in Germany in the early 1930s.

Great thinkers in Russia as well have always been deeply concerned with the question of the relationship between bread and freedom. But before taking this up, we shall pose the question: who is capable of acting as the bearer of democratic progress and of the growth of popular well-being? Our answer to this question is different from the one usually encountered in the West. Thus, Thurow in this connection asks as follows, "If government is not to be a socialistic owner of the means of production or a provider of social welfare benefits, what is to be?", and replies: "Capitalism's theoretical answer is that there is almost no need for government or any other form of communal activities. Capitalistic markets can efficiently provide all of the goods and services that humans want or need except those few items known as pure public goods" (Thurow, 1996, p. 271).

This view of the role of the state in the economy was urged on us in the context of the implementing of market reforms. The state, we were told, should stand aside from the economy and from the resolving of social problems, and with the guards (the trade unions) soundly asleep, should allow the wolves (business) to act in the sheep-fold as they chose, subject only to their own self-regulation. Neoclassical orthodoxy, in the person of its foremost representatives, shares and supports such a view.

For neoclassical thinkers, a negative attitude to the intervention of the state in the economy flows directly from their view of the state solely as an evil, threatening the freedom of the individual. “Freedom,” writes Milton Friedman, “is a rare and delicate plant. Our minds tell us, and history confirms, that the great threat to freedom is the concentration of power. Government is necessary to preserve our freedom, it is an instrument through which we can exercise our freedom; yet by concentrating power in political hands, it is also a threat to freedom. Even though the men who wield this power initially be of good will and even though they be not corrupted by the power they exercise, the power will both attract and form men of a different stamp” (Friedman, 1982, p. 2).

These words should cause bewilderment in at least two respects. The threat to freedom is associated exclusively with the arbitrary power (susceptibility to corruption) of state functionaries, while the vices of business are excluded from consideration as something eternally absent. Our experience, however, tells us differently: business is more liable than the state to violate the rights and freedoms of the individual. Freedom is interpreted by Friedman simplistically, as something which proceeds from our power of reasoning (“our minds tell us”). In reality, freedom is exceedingly complex; if it were possible to choose freedom at the prompting of our reason, then we would never have witnessed the ferment of passions, accompanied by bloody wars, revolutions and other upheavals, which over the centuries have surrounded this choice. However we understand freedom, it was not simply attained through the urgings of reason. It had to be conquered by the forces of progress through difficult struggles, including struggles for consistent increases in popular welfare.

In this connection, it is interesting that the Russian writer Fedor Dostoevsky in his novel *The Brothers Karamazov* explores the ambiguities of this question in the monologue of the Grand Inquisitor with Christ. Widely known in world literature, this legend of the Grand Inquisitor has been the subject of many different interpretations, but here we shall examine it from the angle of the question we are particularly interested in, that of bread and freedom. The writer describes events supposed to have taken place in the Spanish city of Seville in the sixteenth century, when the fires of the Inquisition were everywhere consuming heretics. Suddenly, Christ appears before a crowd of people gathered in front of the city cathedral. Christ aims to save the people through his divine power, but directly behind him there appears an emaciated ninety-year-old man in the form of the Grand Inquisitor, embodying earthly authority. The heavens are subject to the power of Christ, but earthly affairs are beneath the sway of the Grand Inquisitor, who orders the guards to take Christ and lock him in the dark dungeon of the Holy Court. At night the Grand Inquisitor goes down there and with all the strength of the evil that is within him, pours forth his reproaches on Christ. The essence of his rebukes is that Christ promised people that, through faith in his teaching, they would receive freedom; but that this freedom was not granted, since Christ had placed it on a higher level than humankind’s daily bread. Man does not live by bread alone, Christ told people, and called upon them to put “fire from the heavens” above all else. “You did not teach,” the Inquisitor rebukes Christ, “that such a thing is within the powers of only a few, while people in their great multitudes are weak, and faced with hunger, will forget your precept and will tell us, ‘It is better that you enslave us, but feed us.’” The position of the Grand Inquisitor is that the high moral demands of Christianity, as set forward in the teachings of Christ, are not within the powers of humankind, and that when according to the logic of things people are faced with the choice of bread or freedom, they will prefer to have bread and to sacrifice freedom. Bearing the burden of freedom is beyond the powers of someone who is preoccupied with getting a piece of bread. Freedom is not a divine gift handed down from heaven, but a heavy burden of everyday life; bearing it is within the strength only of people who are free from cares about a piece of bread.

Whatever our views on the mystery of the artistic image, the dilemma of bread or freedom is perfectly real and earthly. Impoverished people cannot bear the burden of freedom, and surrender it in exchange for bread. In the name of freedom we carried out the greatest revolution in the history of the world; then, we sacrificed the freedom we had conquered in the hope of receiving bread from those in power. We finished up under the sway of Stalinist despotism.

For people who are consumed with worries about a piece of bread, freedom is an impermissible luxury. Meanwhile, the Western critique of our present situation usually points to our lack of democratic freedoms, while not troubling with the question of why this should be so. This critique fails to touch on the issue of how democratic freedoms are linked to the level of popular well-being. It is only when a certain level of prosperity has been reached that the values of freedom and democracy come to the fore. This is how it happened in our case. After many years, having attained a certain level of well-being and cultural development, we recognised the need for broader freedoms, and began to yearn for democracy. This shift found its expression in Gorbachev's perestroika, which proceeded under the slogan: "More socialism – more democracy."

The increase in the well-being of the population, however, was not achieved thanks to private business as the ideas of Friedman and Thurow suppose, but thanks to the role which the state played in the economy and in social life during that period. When private business entered our lives the level of well-being of most of the Russian population declined markedly, and simultaneously, we took our distance from democracy. People who barely make ends meet tend not to have the time or the opportunity to take part in public affairs, and most importantly, they are dependent on whatever pittances they receive from their masters. Our experimental capitalism has once again placed ordinary citizens in the humiliating position of having to beg for crumbs from the table of their bosses. Once again the problem of bread – that is, of satisfying people's primary needs – has grown acute, and the need for freedom has been shifted to the background.

Ordinary working people have gained nothing, and lost a great deal, from the fact that so many of them no longer work in state enterprises but in private firms. The state functionaries of Soviet times were under the control of society and implemented laws which guaranteed workers certain rights. Workers could be sacked only in exceptional cases. Most fundamentally, and as explained earlier, plans for the development and reconstruction of enterprises took into account the need to ensure employment and wages for everyone. The trade unions did not organise strikes, but they did keep a vigilant eye on employment and on the observing of the social rights of workers. Nothing of this remains. Now the employer is king, and does what he or she wants without restriction. Using the freedom of entrepreneurship as cover, employers readily evade all controls, and in practice, can violate the rights of workers at will. The activity of trade unions has been reduced to collecting dues, while serving the interests of the bosses. The workplace trade union committees are made up of enterprise owners rather than of rank and file union members, and do more to defend the former than the latter. Earlier, we never had independent trade unions that would stand up for rank and file workers regardless of the authorities, and this is even more true of the situation today.

The only period when real democracy (with, of course, many limitations) has existed in Russia was during Gorbachev's perestroika, when glasnost and freedom of speech opened the way for meaningful elections, with a choice of candidates, to the legislative organs of the state. Glasnost has now been revoked, and the elections have lost all elements of choice. Using the official media, the authorities tell the population only what they consider necessary, with everything else kept under wraps. In formal terms the elections feature alternative candidates, but as has been explained, the results of the voting are always more or less known in advance. Victory invariably goes to the "party of power". Authoritarian regimes have no reason to object to "democracy" of this type, and often will do their best to practice it, seeing in it a means of legitimising their rule. In this respect, the present regime in Russia differs little from that in Soviet times. Just as there was no possibility of replacing the Communist Party in the Soviet era, so today there is no possibility of replacing the United Russia party, set up by state bureaucrats and wielding power, or its leaders Vladimir Putin and Dmitry Medvedev. By analogy with the Communist Party of the Soviet Union, United Russia proudly describes itself as the "party of power", without noticing (or more precisely, not wanting to notice) that this is incompatible with the democracy to which, at least verbally, it swears allegiance. Accordingly all "elections", to both federal and local organs, cannot have any outcome except victory for the "party of power"; the function of the polling is to ensure that this party remains "legitimately" in office.

In its supposed multiparty character, the present political order in the post-Soviet states was cast in the same mould as the system that existed in the European socialist countries, where the rule of the communist parties was embellished by the parallel existence of other parties whose significance, however, was negligible. In these countries too, elections took place, but they were incapable of changing anything. The other parties did not present any real opposition to the communists. There is not, of course, any point in the existence of an opposition which has no chance of coming to power and of showing in practice what it is worth. Formal criticism of the existing authorities means little if it is not backed up by a readiness to accept responsibility and to enact something different from what is there already.

The political forces that are now in power in Russia, like those of the past, aim to make themselves impossible to remove from office. But if the elections are organised so as to ensure that the opposition has no chance of ever coming to power, what is the point of having an opposition? Only to create the appearance of something that does not exist. In the post-Soviet states we now find the situation in which elections are held, but in such a way as to ensure that power stays with the same political forces, and in some cases with the same clans of people devoted to the ruler, just as with the clan that surrounded Stalin. In many cases the movement has not been forward in the direction of democracy, but backward toward the uncontrolled power of feudal-familial clans and the transfer by inheritance of supreme authority, something that was excluded under the Soviet system. The advantages of the post-Soviet order are not as incontestable as representatives of the new authorities make out. Sociological research in 1998 found that 70 per cent of respondents preferred the Soviet regime to the current one (Rose, 1998, pp. 40-41).

The Soviet regime, of course, was not democratic. Nevertheless, there were certain foundations on which it rested, and which were observed. In particular, the principle of collegiate leadership of the country was observed more or less consistently during the post-Stalin period. The taking of the most important decisions followed discussions in various forums – the Politburo, which with its 15-20 members made up the supreme leadership of the

Communist Party; plenums of the party’s Central Committee, b□ isting -70600 people; and finally, party congresses with two to three thousand delegates. Implementing the decisions that were adopted was obligatory for local organs, which were controlled by the central authority as a matter of general necessity. This system should not, of course, be idealised; it contained a good deal that was purely formal, or downright vicious. But unless state organs impose a certain order they cannot function effectively, let alone make democracy possible.

Not surprisingly, little of this order now remains. Sadly, it was not replaced by democracy but by a continued authoritarianism, different from the Soviet variety but not better. In 1979 the Politburo took the decision to send Soviet forces into Afghanistan following a series of discussions, in the course of which many people objected to the proposal; only after these discussions was the decision taken, with proponents of the intervention still having difficulty swinging things in their favour. By contrast, the decision to begin military action in Chechnya in 1994 took the form of a personal command from Boris Yeltsin, without any previous discussion. The shock decision to make the shift from a planned to a market economy was taken behind the back of the people, by a narrow group of people who made up Yeltsin’s immediate circle. It was also in this narrow circle that the most important decisions were made on the transfer, to individuals from within this group, of tasty morsels of public property. Such methods of operating can hardly be called democratic.

5. The Need to Reconsider Neoclassical Orthodoxy

The roots of the model of society that has been imposed in all the post-Soviet states are to be found in the neoclassical theoretical concepts that hold sway in the world at large. These concepts are claimed to be universal, as embodying the values of Western civilisation; consequently, it is maintained, neoliberal ideas, constructs and recommendations are applicable everywhere. But while paying tribute to the contribution made by Western social thought to the treasure-house of world culture, we need also to recognise the values of other civilisations, in which the particular character of each is reflected. The fact that civilisations are different does not exclude the possibility of their interacting, including through borrowing values from one another. Experience shows, however, that what is excluded is the possibility of directly substituting the values of one civilisation for those of another.

Meanwhile, it is precisely such an attempt that was involved in the implementing of market reforms in the states of the former Soviet Union. When Soviet socialism was in profound crisis, and was faced with the need to modernise its economic and political system, the new ruling class decided to carry this through according to the model of Western civilisation, without regard for the specific nature of Soviet reality. In sum, and as was shown earlier, we did not receive either a civilised market or an authentic democracy.

After the twenty-year experiment with the neoclassical model that has been imposed on us, it is now clear that the values of one civilisation cannot be directly transplanted into the soil of another. Even if we were to agree that the postulates of neoclassical orthodoxy match the realities of the countries at the centre of world capitalism – which is untrue, as is shown by the present crisis and by the fundamental criticism of these postulates by various theoretical schools (Veblen, 1946, J. Robinson, 1972, 1974, Eichner, 1983, Minsky, 1986, Lavoie, 1992) – it would still be hard to agree that they also correspond to the conditions inhabited by four-fifths of the population of other countries. If the orthodox positions were correct, then the peripheral countries would long since have raised themselves to the level of the developed ones, and there would be no sense in categorising countries in this way. The claim that the axioms of orthodoxy are universally true is disproved by the fact that countries in which market relations have applied for equal lengths of time do not show equal results, as was noted earlier in relation to North and South America.

The scope of the differences between countries in the capitalist world makes rubbish of the explanation which followers of neoclassical orthodoxy, trying to justify their recommendation that we pursue the Anglo-Saxon model of the market, provided for our situation in the early 1990s. If all economic woes are to be explained by a lack of market relations, how are we to understand the collapse of the Russian economy under the conditions of the market and capitalism? What is responsible for the present economic and financial crisis, if not market relations? And why has the crisis had least effect on China? Evidently, because the Chinese economic model was devised in accordance with the specific traits of Chinese civilisation, in which the market is controlled by the state, and the speculative component of the market does not enjoy such freedom as in the West.

The peoples living outside the boundaries of Western Europe and North America are so diverse, and their economies are developing under such strong impacts of local cultures, established traditions, and distinct mentalities, that it is absurd to expect that their economic life can be understood using rules that fail to take local peculiarities into account. These rules (economic laws) cannot have identical effects everywhere, on the basis that we are all people and need to find food, clothing and shelter, to satisfy our wants and to pursue our own interests. This is all true, but it does not mean that the means we have for achieving our interests, that is, the concepts of good and evil that are associated with the appropriation of goods, are everywhere identical. Concealed behind the argument that the axioms of orthodoxy are universal is the ambition of the civilisation of the West to do away with other civilisations. American neoconservatives speak of this quite openly (Kristol 1995, Kagan 2003). But even when its adherents are not so explicit, the orthodox position assumes the need for everyone to adopt the values of Western, and above all, American civilisation.

Our rejection of such an approach, along with our recognition of the right of every people simply to be itself, and hence to choose its own model of development, is a response to two fundamental flaws of classical capitalism. In the first place, this response accepts the position of Keynes that excessive material inequality and unemployment is dangerous for society, including capitalist society. Secondly, it accords with Marx's position that the equilibrium of a capitalist economy will inevitably break down, and that the burden of the crises will be shifted onto the shoulders of the poorer layers of the population. We shall begin by examining the first of these propositions, before moving on to the second.

Keynes maintained that in pursuing *laissez faire*, capitalism balances on a knife-edge, and finds itself in a state of constant instability. In his *General Theory* he explains his position unambiguously:

> "For my own part I believe that there is social and psychological justification for significant inequalities of income and wealth, but not such large disparities as exist to-day. There are valuable human activities which require the motive of money-making and the environment of private wealth-ownership for their full fruition. Moreover, dangerous human

> proclivities can be canalised into comparatively harmless channels by the existence of opportunities for money-making and private wealth" (Keynes, 1936, p.374).

As can be seen, Keynes considers certain differences in people's material positions to be natural and indispensable for progress, "but not such large disparities as exist today." He saw a threat to capitalism in the intensification of material inequality, urging that it be reduced so as to relieve social tensions. Discussing the theory of *laissez faire,* he argues that the

> "…ideal distribution of the production resources can be brought about through individuals acting independently by the method of trial and error in such a way that those individuals who move in the right direction will destroy those who move in the wrong direction. It is a method of bringing the most successful profit-makers to the top by a ruthless struggle for survival, which selects the most efficient by the bankruptcy of the less efficient. The object of life being to crop the leaves off the branches up to the greatest possible height, the likeliest way of achieving this end is to leave the giraffes with the longest necks to starve out those whose necks are shorter" (Keynes, 1926, pp. 28-29).

Such is capitalism by definition. Longer-necked giraffes are to eat the most succulent leaves, while those with shorter necks are to be trampled upon. The works of Popper (1966, 2002), Mises (1963, 1981, 1985a, 1985), Hayek (1978, 1994, 1980, 1983), Friedman (1982) and of numerous other modern liberal theoreticians in essence defend Keynes's picturesque conception of capitalism, but now as the most free and just of societies. These works affirm that unless all giraffes have equal access to the leaves required for their nourishment however long their necks, it will be impossible to secure the basic values of Western civilisation – that is, market freedom and the profitability of private enterprise, which are identified with efficiency and justice.

The Great Depression of 1929-1933 showed the bankruptcy of these ideas. In his work The General Theory of Employment,Interest and Money, Keynes for the first time in non-Marxist literature revealed the inner mechanisms of laissez faire that had led to such developments. The review of the main positions of neoclassical orthodoxy that was begun in this work heralded the Keynesian revolution in economic theory, whose full triumph would be seen in the first two decades after the Second World War. The widespread application during that time of Keynes's proposals for regulation permitted the "golden age" of economic growth in the capitalist countries.

Keynes's ideas strongly influenced the economic development of Western nations in the second half of the twentieth century. The anti-crisis measures he suggested stimulated economic growth. From the viewpoint of neoclassical theory, however, his ideas posed a certain threat. Even though Keynes was hostile to Marxism, some of his ideas, in particular his recognition of the inherent instability of capitalism and of its inability to rely on self-regulation to provide sustained growth, played into the hands of Marxist critics of capitalism. Keynesianism immediately began to grow stronger and to be widely accepted, so that instead of reasoning with it, neoclassicists (Samuelson, 1947, 1955) decided to "perfect" it by ins□ rtnng it into the folds of neoclassical theory. Samuelson wrote: "In recent years 90 per cent of American conomist have stopped being 'Keynesian economists' er 'anti-Keynesian economists'. Instead they have orked towar a synthesis of whatever is valuable in older economics and in modern theories of income determination. The result might be called neoclassical economics and is accepted in its broad outlines by all but about 5 per cent of extremely left wing and right wing writers" (Samuelson, 1955, p. 212).

Such a "percentage" approach to defining who is right or wrong is hardly justified. Instead of full employment being ensured through the regulation of aggregate demand, the centre of gravity of Keynesian theory was shifted to the methods of monetary and fiscal policy. The result was a strange metamorphosis, in which the rejection of the theory of economic equilibrium began to be understood as its confirmation.

With Keynesianism now reduced to a mere addition to existing doctrine, talk of a revolution in economic theory became null and void. Nevertheless, certain followers of Keynes such as Joan Robinson (1971) and Nicholas Kaldor, (1980), disagreed with this adaptation of Keynesian theory to neoclassical concepts. Robinson described the outcome of this transfiguration as a "bastard Keynesianism" and defended her own understanding, now referred to as post-Keynesianism, which she thought was a more precise definition of its scientific content.

A more profound study of the Keynesian heritage, meanwhile, demonstrates its lack of homogeneity. In one area of his views Keynes remained faithful to classical concepts (he described them as preclassical), while in another he fell under the influence of neoclassical thinking. He left no doubt as to his fidelity to the former tradition, writing that he had an affinity for "the pre-capitalist doctrine that everything is produced by labour, aided by what used to be called art and is now called technique, by natural resources which are free or cost a rent according to their scarcity or abundance, and by the results of past labour, embodied in assets, which also command a price according to their scarcity or abundance. It is preferable to regard labour, including, of course, the personal services of the entrepreneur and his assistants, as the sole factor of production, operating in a given environment of technique, natural resources, capital equipment and effective demand" (Keynes, 1936, pp. 213-214). Here it is important to note Keynes's assertion that everything is produced by labour; he views labour as "the sole factor of production", while technology and natural resources are regarded as essential preconditions of production. This accords with the well-known assertion of William Petty and Adam Smith that "labour is the father of wealth, and the land its mother."

Meanwhile, on a series of other question Keynes holds to views that differ from those of the classical school, and which are better described as neoclassical. Here, Lavoie quotes the following remark of Kaldor: "We could even conclude that the real author of the so-called 'neo-classical syntheses' was not Paul Samuelson, it was Keynes himself" (Lavoie, 1992, p. 3). In macroeconomics, Keynes resolutely parted from the neoclassical postulates, giving them a different rendering, and emerged as an innovator in economic theory. But where Keynes addresses microeconomic questions, and in particular value and price theory, he loses the critical sting in his attitude to the classical concepts, and as has been shown, prefers to adhere to the marginalist approach. Liberating himself from neoclassical postulates in one area, Keynes remains subject to their power, failing to notice the conflict between his own innovative views and conservatism.

The contradictory nature of Keynesian theory – its revolutionary character in one part and its conservatism in another – caused it to be reconsidered by the right wing of his followers, as represented by Hicks, Harrod, Samuelson, Modigliani and others. These latter had at least partial grounds for incorporating Keynes into neoclassical theory, a procedure which received the name of *neoclassical synthesis*.

For the purpose of giving the earlier orthodoxy greater respectability and a scholarly veneer, the "neoclassical synthesis" on the one hand included in its make-up theories of Keynes that matched its components, and on the other carried out a total mathematisation of its postulates, so lending this theory the semblance of an exact science. This required the use of numerous artificial limitations and concessions; in the process, economic analysis came to be replaced by mathematical virtuality.

This excessive mathematisation meant a transition to an unrealistic depiction of the economy. For neoclassical theory, however, there was a certain point to this. When cloaked in mathematics, the theory of market self-regulation took on the appearance of a mathematically proven theorem. In Keynesian literature it is shown that a self-regulating market in the Walras sense, ensuring equilibrium of the market in all its areas, does not exist in reality (Eatwell and Milgate, 1983, Eatwell, 1998). Nevertheless, this idea has such ideological value for mainstream economics that the latter cannot reject it. By hook or by crook, and despite being disproved by Keynesianism, the notion that a capitalist economy tends toward equilibrium and effective self-regulation thus took on the status of an axiom in neoclassical theory. Samuelson explains this idea as follows:

> "Everybody receives money for what he sells and uses this money to buy what he wishes. If more is wanted of any one good, say shoes, a flood of new orders will be given for it. This will cause its price to rise and more to be produced. Similarly, if more is available of a good like tea than people want, its price will be marked down as a result of competition. At the lower price people will drink more tea, and the producer will no longer produce so much. Thus equilibrium of supply and demand will be restored.
>
> "What is true of the market for consumer goods is also true of the market for factors of production such as labor, land, and capital inputs" (cited from Cooper, 2008, p. 4-5).

If Samuelson were correct, then today there would be no crisis. But in the works of the above-mentioned Minsky, Eatwell and Milgate, and of numerous other post-Keynesians, it is shown that capital markets behave differently. A distinctive confirmation of their theory of financial speculation is provided by the well-known practitioner in this field George Soros, who describes his experience in numerous books (see, for example, Soros, 2003). In these works it is shown that thanks to the dominance of financial speculators, the capital markets function differently from the "normal" commodity markets of Paul Samuelson. While the consumers of material goods buy less of them when the price goes up, speculators do the opposite. Their strategy is based on buying assets whose prices are rising, in order to resell them at a profit later on. A flagrant example of the destabilising role of speculative capital is provided by the modern oil market. In the lead-up to the crisis rising oil prices brought reduced demand from consumers, but their exit from the market was more than made up by an increase in speculative purchases. Thanks to the latter the price of oil reached fantastic heights.

As a result of the expansion of speculative capital so-called "financial bubbles" appear on the capital markets – that is, the prices of financial assets cease to bear any relation to the value of real assets. A clear example of such a process is the spread of derivative financial documents. In the US the market for derivatives took on enormous dimensions in association with the growth in the market for property-backed credits. The obligation of debtors to pay off loans was used as security for the issuing of new debt certificates. These in turn could be used as security for new credits. Everything seemed to be in order, so long as property prices rose steadily. But when the inflated prices on this market started falling late in 2007, and huge numbers of debtors turned out to be insolvent, the security underpinning the credits that had been issued rapidly became devalued, causing the devaluation of the whole chain of derivative financial documents. The fall in the value of the assets of banks and other financial institutions sent the entire financial system into crisis, and provoked a decline in the American and world economy.

All this had happened in the time of Keynes as well, though in lesser degree than now. Both Keynes and still more, his followers thus began insisting that such a market was dangerous for capitalism. Keynes himself wrote:

> "Specu ators may do no harm as bubbles on a steady stream of enterprise. But t]e position is serious when enterprise becomes the bubble on a whirlpool speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done" (Keynes, 1936, p.159).

These words might have been written about the present crisis. Keynes was intent on counterposing the economy of real results to the casino economy. To this end, he urged state regulation of investments, aggregate demand and employment. The core of the Keynesian conception is the theory of effective demand. Aggregate demand and aggregate supply were viewed by Keynes as an inseparable unity, and this accounts for his priority focus on the question of employment and wages. It is precisely because the marginal propensity to consume is higher for wages than for other incomes that full employment stimulates demand and hence supply to the maximum extent. This idea and this logic were revised in the neoclassical synthesis. The Keynesian theory of demand began to be interpreted without reference to employment and wages, and was inscribed into neoclassical theory despite being deeply discordant with it. A manipulation of demand sharply different srom Keynes's idea was termed Keynesian.

Such an alteration of Keynes's heritage drew serious objections from many economists, especially those who over many years had worked in close cooperation with him and who believed themselves to be loyal custodians of that heritage. Among these people were Joan Robinson and Nicholas Kaldor. Robinson dubbed this alteration 'bastard Keynesianism' (Robinson, 1971, p. 90). Of still greater significance was the fact that the camp of the opponents of neoclassical theory had in their possession the legacy of Michal Kalecki. The latter was a figure at least the equal of Keynes, and in the view of Robinson and many others, even superior to him (Robinson, 1977, 1979; Osiatinski, 1988). The next major confirmation of the positions of this camp came with the publication of the work by Piero Sraffa *Production of Commodities by Means of Commodities* (Sraffa, 1960), which provided new inspiration to the classical tradition of political economy, and strongly reinforced the positions of the British Cambridge versus the American Cambridge in their discussions of the theory of capital during the 1970s.

It is in this period that the well-known historian of economic thought J.E. King locates the rise of post-Keynesianism as an independent trend in economics and an alternative to the neoclassical synthesis. "The 1970s," he writes, "were crucial for the post-Keynesians. These were the years in which they came to define themselves as a distinct school of thought with its own research programme or paradigm, and to marshal their forces for a head-on clash with orthodox theory" (King, 2002, p. 8).

During the 1970s the ranks of the post-Keynesians were swelled by a number of talented new economists who reacted more acutely than supporters of the neoclassical synthesis to negative developments in capitalism. To the comforting theories of the mainstream about a trend toward equilibrium and prosperity, the post-Keynesians counterposed their alarming arguments to the effect that capitalism was increasingly sinking in the quagmire of a new Great Depression. One of the prophets of impending evil was Hyman Minsky, who in a 1986 book provided an alternative analysis of capitalist financial markets, and predicted the inevitable onset of the crisis we are now witnessing.

During the very years when orthodoxy turned Keynesianism on its head, extolling Reaganomics and Thatcherism as adequate for achieving stabilisation in the epoch of global capitalism, Minsky pointed to the destabilising consequences of this approach. "The view that instability is the result of the internal processes of a capitalist economy," he wrote, "stands in sharp contrast to neoclassical theory, whether Keynesian or monetarist, which holds that instability is due to events that are outside the working of the economy. The neoclassical synthesis and the Keynes theories are different because the focus of the neoclassical synthesis is on how a decentralized market economy achieves coherence and coordination in production and distribution, whereas the focus of the Keynes theory is upon the capital development of an economy. The neoclassical synthesis emphasizes equilibrium and equilibrating tendencies, whereas Keynes's theory revolves around bankers and businessmen making deals on Wall Street. The neoclassical synthesis ignores the capitalist nature of the economy, a fact that the Keynes theory is always aware of" (Minsky, 1986, p. 114).

Minsky here identifies the main flaw of the neoclassical synthesis, which is that it "ignores the capitalist nature of the economy," □ hile authentic Keynesianismproceeds from precisely this nature. Minsky lays bare the preconceived approach of orthodoxy, which has mainstream economics concentrating all its focus on an equilibrium which is called upon to confirm the orthodox belief in the stability of capitalism. At the same time, orthodoxy fails to devote sufficient attention to the speculation in the area of finance and banking that is the precise cause of the instability of the capitalist economy.

Elsewhere, Minsky stresses still more firmly that from the theory of Keynes, the neoclassical standard included in its arsenal only those earlier-mentioned elements which could be interpreted as confirming its preconceived position that capitalism was so perfect that it could not have innate flaws. In this connection Minsky writes:

> "Whereas Keynes in The General Theory proposed that economists look at the economy in quite a different way from the way they had, only those parts of The General Theory that could be readily integrated into the old way of looking at things survive in today's standard theory. What was lost was a view of an economy always in transit because it accumulates in response to disequilibrating forces that are internal to the economy. As a result of the way accumulation takes place in a capitalist economy, Keynes's 1935 theory showed that success in operating the economy can only be transitory; instability is an inherent and inescapable flaw of capitalism.
>
> "The view that survived is that a number of special things went wrong, which led the economy into the Great Depression. In this view, apt policy can assure that cannot happen again. The standard theory of the 1950s and 1960s seemed to assert that if policy were apt, then full employment at stable prices could be attained and sustained. The existence of

internally disruptive forces was ignored; the neoclassical synthesis became the economics of capitalism without capitalists, capital assets, and financial markets. As a result, very little of Keynes has survived today in standard economics" (Minsky, 1986, pp. 133-134).

Here, resting on Keynes's analysis, we find the central idea of Minsky's book: the innate instability of capitalism, which in time will lead the system to a new Great Deporession. This forecast has now been brilliantly confirmed, but previously there were few who accepted it. Economic science was orchestrated by proponents of neoclassical orthodoxy under the direction of Nobel prizewinners, authors of popular economics textbooks, and other authorities recognised by the mainstream. These people argued that the main problems which capitalism had encountered in earlier times had already been overcome, and that before it lay a direct, sunny road to an even better future. Hence in 2003 Robert Lucas, winner of the 1995 Nobel Prize for economics, gave the presidential address at the annual meeting of the American Economic Association. "After explaining that macroeconomics began as a response to the Great Depression, he declared that it was time for the field to move on: the 'central problem of depression-prevention', he declared, □ ad ']eh□ solved, for gll practical purposes'" (Krugman 2009, p. 8).

Robed in complex theoretical constructs, and underpinned by an abundance of mathematical formulae, these ideas of a cloudless future for capitalism interpreted the economic situation, it then seemed, in thoroughly convincing fashion. These analyses were balm for the souls of the people who had come to believe that capitalism had attained perfection. Nobel Prizes were thus showered generously on the heads of those whose ideas and elaborations best matched the ideology of capitalist irreproachability (King, 2002, p. 243). We now see the greatest number of Nobel laureates among economists in the US, where the crisis broke out, and none at all among those in China, whose economy has proven most resilient in resisting the shocks.

The Nobel committee has shown the same approach in relation to members of the post-Keynesian and all other schools that have subjected capitalism to critical analysis, and which on this basis warned of the approach of the present crisis. Such unorthodox economists as John Kenneth Galbraith, Michal Kalecki, Piero Sraffa, Joan Robinson, Nicholas Kaldor and Geoffrey Harcourt concede nothing to the Nobel laureates, and outstrip many of them, in their contributions and in the recognition they enjoy among their colleagues. But their critical analyses, and forecasts of inevitable calamities, have rendered them unworthy according to the people on the ideological Olympus of capitalism that is the Nobel committee on economics.

In this respect, capitalism has come to bear an uncanny resemblance to communism. We too had experts who, while standing firmly on the soil of communism, analysed its flaws critically in order to eliminate them. These people irritated the authorities, and did not enjoy their favour. The awards, favours and elevated titles were reserved for those who wholeheartedly praised Soviet socialism. The upshot is that we are now harvesting the fruits of the dismal lag of the Soviet Union in the area of economic science.

There is, however, something beyond the preconceptions and prejudices innate to people in all social systems, and that is the reality of historical and economic development. This provides a filter for our ideas, and over time makes it easier to separate truth from error. The present financial and economic crisis is an example of such reality. While the mainstream was still euphoric about the future of capitalism, the post-Keynesians saw the approaching outlines of a new Great Depression. In light of this, the above-mentioned King wrote as follows:

> "The fate of Post Keynesianism will depend very heavily on the future development of the world capitalist economy. If the business cycle has indeed been abolished (this time), so that stable, non-inflationary growth continues indefinitely under something approximating to the present neoclassical (or pseudo-monetarist) policy consensus, then there is unlikely to be a significant market for Post Keynesian ideas. Things would be very different in the event of a new Great Depression, to think one last time in terms of extreme possibilities. If 'it' happened again, to quote Hyman Minsky (1982), the appeal of both a radical interventionist programme and the analysis from which it was derived would be very greatly enhanced" (King, 2002, p. 257).

As everyone can now see, "it" has indeed happened again. Nevertheless, it is uncertain whether the fate of post-Keynesianism in the West will be different – whether it will become a recognised alternative to neoclassical orthodoxy, or whether it will remain the preserve of individual prophets on the sidelines of economic thought. Where the post-Soviet states are concerned, in my view there is no set of theoretical ideas in contemporary world economic thought that is better suited to them than post-Keynesianism, once it is enriched with the corresponding positions of Marxism and with the positive experience of the planned economy.

6. THE POST-KEYNESIAN ALTERNATIVE FOR THE FORMER SOVIET STATES

Neoclassical orthodoxy – that is, today's mainstream economic thinking – proceeds from the position that capitalism is so good and perfect that an alternative to it does not and cannot exist. Post-Keynesianism takes a different standpoint. Unlike Marxism it is not so revolutionary a theory as to call for a complete rejection of capitalism. At the same time, it does not consider capitalism so perfect that there is nothing in it that needs to be changed. To the contrary, Post- Keynesianism maintains that capitalism has definite flaws, and requires changes of such scope as to allow alternative ways of running the economy to be fully effective.

To the prejudices of the mainstream, post-Keynesianism counterposes an approach based on an objective analysis of the real situation. Its economic and philosophical approach – the methodology of *critical realism* – has been developed accordingly (Bhaskar 1978, 1989, Lowson 1997, Dow, 1999, Brown, Fleetwood and Roberts, 2002, Dzarasov, 2009), though space does not allow this to be examined here. It will be noted merely that with the help of this methodology post-Keynesianism is able to answer a broad range of questions, providing an alternative both to market fundamentalism, and to bureaucratic centralism within a planned economy. This is the source of its attraction for us.

Now that we have experienced the charms of the neoclassical economic model, we are faced with the need to find a new one. What has been set forward here is testimony for the view that effective growth and social accord within society are not to be achieved through spontaneous but through regulated development. Achieving such harmony is the essence of post-Keynesian economic theory.

If we regard neoclassical theory as being incapable of solving our development problems, the question arises of what alternative economic theory might provide the necessary answers. The Stalinist-Brezhnevite version of Marxist economic theory that we followed until recently no longer suits the purpose. In the first place, this is because it was distorted beyond recognition to become the ideology of the Soviet bureaucracy, to a great degree losing its critical spirit and scientific content. Secondly, this is because our present-day society is dramatically different not only from what witonce c□ lled “socialism”, but also from Western capitalist society. An analysis that is based on the capitalism-socialism dichotomy in the spirit of the official Soviet dogmatic approach is thus unproductive.

In other words, both neoclassical theory and official Soviet Marxism (not to be confused with western Marxism) are useless for analysing the current situation in the post-Soviet states. Naturally, and as was stated earlier, no economic theory can be completely neutral in terms of ideology. The problem is how the ideological and scientific components are correlated, and which is subordinate to which. Does ideology determine the analysis and conclusions? Or, are the analysis and conclusions the result of an independent analysis subject to the logic of the issue under study? Only in the latter case is economic theory scientific. In our view this is perfectly relevant to Post-Keynesian economics, which has withstood attempts to absorb it into neoclassical theory, instead upholding its independent approach and methods of study.

Of all Western trends of economic thought, it is Post-Keynesianism that best accords with our conditions, for the reason that to a greater degree than the others it has maintained its connection with the classical tradition, from which the Soviet (Russian) economic thinking that reflected our specific reality also proceeded. Moreover, the intellectual trend that has arisen in recent decades on this basis, and that is termed post-Keynesianism, represents the furthest and most profound development of the link between Keynesianism and the classical tradition, something that for us has great value. Because of its character as an alternative to neoclassical orthodoxy, along with the traditional institutionalism of Veblen it provides the most adequate reflection of modern capitalist reality.

Keynes himself laid the basis for this in his General Theory, where he revived and applied the tradition of classical political economy in order to examine economic phenomena as interactions between socially heterogeneous agents of the market, acting in the conditions of an uncertain future. The most striking manifestation of this approach was the fact that Keynes gave a prominent place to the question of employment, as a central social problem of the capitalist society of his time.

Emerging as a reaction to the neoclassical review of Keynesian theory, post-Keynesianism thus failed to keep itself within the framework of the Keynesian heritage. To his followers, remaining loyal to his tradition meant keeping the flames alight rather than preserving the sacred ashes.

Against the will of Keynes himself, the route out of classical orthodoxy thus brought him logically to a rapprochement with the detested Marxism, a development that found its expression when Michal Kalecki was recognised as the most consistent theorist of Keynesian ideas (Robinson, 1977, Bhaduri, 1986). Moreover, many followers of Keynes came to observe that Kalecki made the same discoveries earlier than Keynes and independently of him, and that he applied this approach more consistently. According to Joan Robinson and a number of other outstanding post-Keynesians, the contribution to economic theory made by this Polish economist was no less than that of Keynes himself. Kalecki is sometimes regarded as a Keynesian, but Keynes by the same token can be called a Kaleckian.

Citing Amit Bhaduri, Anthony Laramie and Douglas Mair state: "Taking his clues from Marx, Kalecki not only independently discovered most of the central propositions of the Keynesian theory, but he also set it out with striking clarity to point to a set of problems which conventional Keynesianism had preferred to avoid. Conventional Keynesians remained content with the idea that capitalism could be managed by the State. And, they propagated a view of State-managed capitalism based on co-operation rather than conflict among the contending economic classes. In Kalecki's writings there was no such wishful thinking. He recognized that a view of co-operative capitalism was bound to run into serious problems in the longer run, as economic conflict among the classes begins to surface. He forewarned us about it in his theory of political business cycles" (Bhaduri, 1986, p. ix). Commenting on this, Laramie and Mair (2006, p. 637) note that the lost radicalism of Keynesian economics can be revived with the help of the common macroeconomic tradition of Marx, Kalecki, and Keynes.

Continuing the work performed by Marx, Tugan-Baranovski and Luxemburg, Kalecki developed an original theory of economic dynamics in which, three years before the publication of the General Theory, he laid down some basic ideas now attributed to Keynes. But because the work was published in Polish, it never attracted the attention of connoisseurs of scholarly innovation. With time, however, Kalecki's outstanding contribution to economic theory came to be widely recognised, so that along with Keynes he is now regarded as one of the founders of the trend under study here. But Kalecki's approach, unlike the heritage of Keynes, is devoid of the contradiction noted above. Robinson explains her reorientation toward his views on the basis that "Kalecki was free from the remnants of old-fashioned theory [that is, of neoclassical notions –S.Dz.] which Keynes had failed to throw off." As a result, Kalecki was "able to weave the analysis of imperfect competition and of effective demand together and it was this that opened up the way for what goes under the name of post-Keynesian theory. In both micro and macroeconomic problems the solutions given by Kalecki are a more logical alternative to neo-classical approaches, being linked to classical tradition" (Robinson, 1977, pp.14-15).

Why did Keynes and Kalecki, working independently and proceeding from different worldviews – neoclassical in the case of the former, and Marxist in that of the latter – come up with very similar ideas? This is not a rare event in academic practice, when researchers unaware of one another's work arrive at similar conclusions. It can be explained on the basis that both authors have freed themselves from the dogmas of their respective theories. In this case, the ideological positions of Keynes and Kalecki were quite distinct. Keynes was concerned with saving capitalism, claiming that it needed to be transformed in order to acquire greater equilibrium, while Kalecki proposed transforming capitalism along the lines of socialism. With all their differences of outlook, both sought to substantiate their positions through objective scientific analysis of real economic processes, which unfailingly led them to similar conclusions.

Both Keynes and Kalecki in effect followed the traditions of classical political economy, contrasting their approach to the neoclassical tradition. In Kalecki's case this relationship was buttressed by his Marxist roots, while in that of Keynes it can be traced along the lines of development of his logic. Ample evidence of this is provided by the incompatibility of Keynes's macroeconomic theory with the marginalist approach.

Even though Keynes and Kalecki are both regarded as founders of the trend under discussion, this trend has by now been considerably enriched and developed by a multitude of their followers, whose creative work has also developed along the lines of the classic tradition. Among these followers one should mention Piero Sraffa and Joan Robinson. Because of the link that connects classical theory with Keynes, Kalecki and their followers, some economists (Eichner, 1983, p. 3; Lavoie, 1992, p. 2) suggest that the trend in question be termed post-classicism rather than post-Keynesianism.

This name would seem to better reflect the content of post-Keynesianism and other related trends of economic thought. Meanwhile post-Keynesianism as such, through following the route of classical theory, has had highly fruitful results. Numerous economists in many countries who have specialised in this field have shown themselves able to make outstanding contributions to modern economic theory, and have done so. They include N. Kaldor, G. Harcourt, J. Kregel, M. Sawyer, P. Reynolds, J. Eatwell and D. Mair (Great Britain); F. Lee, S. Weintraub, A. Eichner, P. Davidson, H. Minski and J. Nell (United States); P. Garegniani and L. Pasinetti (Italy); A. Bhaduri and M. Desai (India); H. Kurtz (Austria); K. Laski, B. Brus, T. Kowalik and J. Osiatinski, (Poland); M. Lavoie (Canada); and M. Morishima (Japan). Alfred Eichner also mentions Roy Harrod, John von Neumann and Wassily Leontiev.

The list does not include Russian economists, and this should be understood as the result of our many years of isolation from the rest of the world. But for this sad situation we should hardly be turning a blind eye to the development of such a promising trend. What we have to do now is to try to bridge the gap. This is still more necessary for the reason that only the post-Keynesian current of economic thought can achieve what the neoclassicals have failed to achieve, namely, to find a way out of the impasse into which so-called market reforms have driven us.

In the theoretical arsenal of post-Keynesianism, the heritage of Michal Kalecki has a special significance. On the one hand this is because he is free of the inconsistency which marks the work of Keynes, and on the other, because his writings contain original solutions to the problems not only of Western capitalism, but also of the Third World and of the planned economies of socialist countries.

The originality and breadth of vision of the solutions provided by Kalecki makes him not only the equal of Keynes, but in some ways even his superior. One sign of the positive influence exerted by Kalecki on Keynesianism is the fact that because of his impact, Keynesianism has been transformed from a theory reflecting the limited Western experience into a more universal doctrine which also reflects the experience of planning in socialist countries and the peculiarities of the economic development of Third World countries (Sawyer, 1985, Osiatinski, 1988, Laski, 1998). Also notable in this influence is the strengthening of ties with the classical tradition. Kalecki’s interpretation of employment, prices, profits, investments and of the degree of monopoly represent an alternative to orthodoxy and have clear classical roots. Another significant step in this direction was made by Sraffa, who with the help of an original approach solved problems in the interpretation of price and value with which the classics had grappled unsuccessfully (Sraffa, 1960).

The scope of the various economic systems and the link to the classical tradition serve to ally Kaleckianism with the economic model which is described here as more appropriate for the post-Soviet states. Kalecki’s approach is characterised in the first place by a recognition of the limited role played by the market and of the necessity for economic planning; secondly, by its argument in favour of prioritising popular consumption in the planning of economic growth; thirdly, by the methods it proposes for optimising the volumes of output and investments; fourthly, by the connection it draws between both of these and the task of ensuring employment, reducing joblessness to a minimum or doing away with it altogether; and fifthly, by the basis it provides for optimal rates of economic growth, while taking into account various bottlenecks in the economy.

The works of Marx, Keynes, Kalecki and Sraffa acted as the building material with which Robinson (1949, 1964, 1979), Kaldor (1980), Lange (1943, 1959, 1963) and Harcourt (1972, 1998, 2006) set about laying the foundations for a theoretical edifice that would represent an alternative to the orthodox one. Meanwhile, the orthodoxy was becoming increasingly unsatisfactory. Increasing numbers of economists therefore sensed the need to develop various aspects of an alternative concept. Eichner (1985, 1991), Kregel (1973, Minski (1986), Sawyer (1985, 1989), Lavoie (1992) and a series of others erected the framework for the t eoretical constwuct that now remains ed ee completed. “Post-Keynesian theory,” Joan Robinson wrote, “h□ s plenty o□ □ problems to work on. We now have a general framework of long and short-period analysis which enables us to bring the insight of Marx, Keynes and Kalecki into a coherent form and to apply them to the contemporary scene, but there is still a long way to go” (Robinson, 1979, p. 216).

What is most valuable here is the fact that Robinson points to the sources from which an alternative concept needs to be constructed. The task itself, however, is understood in highly simplis□ ic fashion if ia general framework of long and short-period analysis” is conside□ ed sufficient preparation for it. To us, this task appears even more complex than the one which Samuelson and Hicks carried out for their purposes. The latter interpreted Keynes in the spirit of neoclassical theory and obtained a “neoclassical synthesis”. The non-orthodox economists, as we understand it, performed an analogous operation with Marx, Keynes, Kalecki and Sraffa, and obtained a “postclassical synthesis” which they termed post-Keynesianism. M. Lavoie writes in this connection: “In my view, the post-classical programme groups together a vast number of non-orthodox economic theories. Marxists, radicals, institutionalists, structuralists, evolutionarists, socioeconomists, French circuit and regulation schools, neo-Ricardians and post-Keynesians (with or without hyphen) all belong to the post-classical research programme. Although they may have substantially different opinions on various topics, such as the theory of value or the relevance of long-period analysis, I believe they hold the same metaphysical beliefs prior to the elements constituting the hard core of their respective theories” (Lavoie, 1992, pp. 5-6).

Hamyda and Harcourt (Hamyda and Harcourt, 1988) also interpret post-Keynesianism in the spirit of the post-classical tradition, including here not only the theories of Sraffa, but also those of Marx.

The combining beneath a single heading of such currents of thought, distinct from one another despite their closeness, has both advantages and drawbacks. On the one hand it makes it possible to grasp the diversity of social and economic life, and to make post-classical theory more adequate to the real world. On the other, it makes it extremely difficult to create a logically consistent and coherent system of theoretical concepts concerning this world, not to speak of the difficulties that flow from the reluctance of ambitious theoreticians to submit to any sort of methodological discipline. Nevertheless, I would like to note some fundamental principles of the analysis of economic phenomena that seem to me to be common to everyone.

The first fundamental difference has to do with the understanding of the subject matter of economic theory. The starting point is the category represented by the scarcity of natural resources, from which stems the significance of economic activities as means for the efficient use of these limited resources. It is precisely this necessity that is proclaimed as the subject matter of this discipline, which is reduced to a technical description of possible versions of resource distribution and of methods for its optimisation. At the same time, the *a priori* assumption is that a private owner will always act in the most efficient manner possible.

Post-Keynesians, in turn, acknowledge the subject matter of political economy as it was set down in the classic works of authors such as Smith, Ricardo and Marx. As their objective they see the study of what are primarily human economic relations. Moreover, post-Keynesians acknowledge the class nature of the social structure of society, and the necessity of explaining relationships between social groups (layers). To the neoclassical claim that economic analysis is a "technological" function, they counterpose the social character of the production and distribution of the collective product.

"One of the most important aspects of classical economics for Post-Keynesian thought is the organising concept of the surplus – its creation, extraction, distribution and use. It is the core of their system and of its counterpart. The concept dovetails logically with a view of economic processes as evolving, progressing economic systems, a dynamic view of the nature of our discipline as opposed to the more static allocative one which characterised neoclassical economics until the emergence of the neoclassical theory of growth in the 1950s. Linked with the concept is the notion of society as made up of broad classes, sometimes people, sometimes income classes, sometimes overlapping. The different classes perform different functions. They are treated for the purpose of analysis as homogenous, so that there is no need to start from the isolated individual economic agent of modern economic analysis" (Harcourt, 2006, p. 45).

Unlike neoclassical economists, who portray consumers as socially homogeneous "Robinson Crusoes", post-Keynesians divide them according to the level of their incomes and their individual norms of consumption. The post-Keynesian analysis of investment is thus carried out on the assumption that workers do not save and capitalists do not consume, which makes possible a more precise view of their dependence on their role in the system of social reproduction.

The second difference has to do with the understanding of equilibrium. As stated earlier, neoclassical theory rests on the assumption that a capitalist economy if left to its own devices is constantly in a state of balance, due to the inherent capacity of economic processes for self-regulation. Post-Keynesians proceed from the opposite: if left to its own devices, a capitalist economy tends to drift into imbalance, aggravating its contradictions and enhancing its instability.

The different approaches are preconditioned by differing assessments of the ability of the individual to foresee and grasp the future. The neoclassicals put forward a hypothesis of the "rational economic individual", whose main peculiarity is his or her ability to calculate the trajectory of probabilities of the development of events. These rational expectations form the basis for the maximisation by market operators of their profits. Since no external forces prevent individuals from making rational decisions, all their expectations come true and the economy regains its balance, or a state in which there is no impetus for change in the economic system.

Post-Keynesian theory rejects this conception of economic phenomena, proceeding from Keynes’s premise that human capabilities are limited and that the future is fundamentally unclear. In the introduction to *A Guide to Post-Keynesian Economics,* Joan Robinson stresses that when Keynes worked on his *General Theory,* his chief deviation from the neoclassical school was his treatment of the problem of effective demand. “After the book was published,” Robinson write, “he drew the line differently. He saw that the main distinction was that he recognised, and they ignored, the obvious fact that expectations of the future are necessarily uncertain. It is from this point that post-Keynesian theory takes off. The recognition of uncertainty undermines the traditional concept of equilibrium” (Robinson, 1979, p. 145).

Economic decisions, post-Keynesians argue, have to be made each time between the irretrievable past and an indefinite future; therefore, their implications cannot be known exactly. This approach preconditions the post-Keynesian treatment of various economic categories, from money and investment to inflation and depression. Neoclassicals act differently. Proceeding from their hypothesis of the omniscient individual, they extrapolate the past into the future. In this future, however, there are always new factors at work, whose aggregate impact cannot be taken into account in advance. As a result, life overwhelms them with surprises such as the Great Depression, stagflation or the collapse of market reforms in the post-Soviet states.

The third fundamental difference has to do with the focus of economic analysis. The focal point of neoclassical theory is the sphere of circulation. The chief process in which it is interested is commodity exchange in the market. Supply (production) is understood as a phenomenon subject to the process of exchange. It is precisely for this reason, as was stressed above, that the central point of neoclassical reasoning is the problem of resource scarcity. Post-Keynesians take us back to the classical tradition, according to which the real sector of the economy is the main element determining economic life. This has enormous scientific importance. Shifting the role of production to the fore allows us to show the problem of scarcity in a different light, contrasting to it the question of reproduction. “In post-Keynesian models,” writ□ Marc Lavoie, “where outplt is not disaggregated, the emphasis on production appears through the assumption that in general neither capital goods nor labour are fully employed. In this sense, resources are not scarce. The major problem is not how to allocate them but how to increase production or the rate of growth. The principle of scarcity is put aside, as it is generally possible to increase the rate of utilisation of capacity, and as there are reserves of labour. The principle of scarcity is replaced by the principle of effective demand” (Lavoie, 1992, p.14).

Here the alternative nature of the two concepts becomes clearly evident. If economic theory is defined as a discipline studying the rational (optimal) use of limited resources (scarcity), it is logical that the key area of economics should be the one where commodities, services and financial assets are circulated according to the mechanism of supply and demand. The key role in this mechanism is performed by prices, which control the behaviour of buyers and sellers. According to this logic, society has only limited possibilities for influencing economic growth through resorting to such categories of the sector as the money supply, interest rates and exchange rates. Following the recommendations of international organisations, the present-day Russian leadership attempts to regulate the growth of the economy in precisely this way, with the results that one would expect. We sit on our hands and go nowhere. We continue to lag behind others, and the national economy is collapsing.

The post-Keynesian conception follows a different logic. From the definition of economic theory which the post-Keynesians provide (or rather, from the definition which they borrow from the classical tradition and rephrase), it follows that the main sphere of the economy is production. If this is true, resources should be viewed as being produced by humans rather than provided by nature, and it is through the agency of human beings that scarcity turns into abundance. But what should be done in order to maintain steady growth rates? It requires that effective demand be maintained at a level corresponding to the full use of available resources, with subsequent annual growth in the quantity of resources taken into account. Proceeding from the assumption that this cannot happen of itself, post-Keynesians set out on the basis of their conceptions to suggest policies that have an active impact on economic growth through securing full employment, the growth of investments and the acceleration of technological progress.

The fourth difference lies in the negation of the neoclassical principle of social Darwinism (the struggle for survival) as the basis of social life, and in the vindication of the post-Keynesian principle of securing at least social justice, if not social equality.

With the help of Keynesian propositions, we sought earlier to show the incompatibility of laissez faire with social justice, which has always been regarded as the antithesis of the material (and hence in practice legal) inequality of human beings. According to the logic of neoclassical orthodoxy, justice is implicit in the mechanism of market competition, whose outcomes supposedly represent the epitome of justice. According to this theory, the fact that some possess capital and live in luxury, while others cannot find work and live in penury, is normal and just. This, we are told, is simply how the world is. In relation to this identification of human society with the animal world, we earlier noted Keynes's ironic story of the giraffe, which he used to mock the neoclassical theory of distribution, according to which some must receive more and others less. This theory, without the slightest irony, considers it an injustice whenever anyone encroaches on this law of nature.

Keynes nevertheless committed such a trespass when he denounced such injustices of capitalist society as unemployment and the unequal distribution of goods. "The outstanding faults of the economic society in which we live," Keynes wrote in chapter twenty-four of the *General Theory,* "are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes" (Keynes, 1936, p. 372). This way of posing the question is fundamentally different from the neoclassical approach.

Keynesianism, of course, does not place in question the right to obtain profit as an essential precondition of capitalist entrepreneurship. But it places the right to obtain profit in the context of a more important task – ensuring employment and the just distribution of the national income. Keynes was preoccupied with the question of how to strengthen the social foundations of society, mitigating class tensions and forging compromises between various social strata.

Why was Keynes more concerned than others with this aspect of society? It is hardly possible to answer this precisely. It can, however, be suggested with a high degree of confidence that his thoughts were steered in this direction not only by the spectacle of mass unemployment in Britain in the 1920s and 1930s, but also by his unfavourable impression of the Russian revolution, which, as he was well aware, was provoked by the miserable condition of the lower orders of Russian society. During those years Moscow was a Mecca not only for the left, but also for a significant section of the liberal intelligentsia. Sidney and Beatrice Webb, George Bernard Shaw, H.G. Wells and many others made visits here, and had numerous meetings and conversations with various representatives of Soviet society, including Stalin. Through studying Soviet society, they sought an answer to the question of whether Soviet socialism, with its economic planning and social and cultural progress, represented a new civilisation toward which the world was advancing. In the course of three visits to the USSR, Keynes also studied the fruits of the Russian revolution, and on the whole came to answer this question in the negative (Skidelsky, 1992, p. 488).

Does this mean, however, that Keynes also took a negative view of such aspects of Soviet life as the planned economy, the absence of unemployment, or the existence of social welfare provisions for citizens? It seems not. In any case, his remarks on the Soviet five-year plan can scarcely be regarded as a “flirtation with communism”. Keynes was quite disinclined to flirtation, but he had a serious professional interest in what was being done in the USSR. This is shown by the following fact. “In 1934, Keynes sent a guarded message to the Russian journal *Za Industrializatsiyu* to mark the ‘success’ of the first five-year plan. ‘It is, however, certainly true,’ Keynes wrote, ‘that the growth of industrial production is much facilitated in a state which starts from a very low level and is prepared to make great sacrifices to increase industrial production without making a close calculation as to whether it is strictly speaking profitable and advantageous for the existing generations of workers” (Skidelsky, 1992, p. 489). The heightened interest which Keynes showed in the problems thrown up by the Russian revolution could not fail to sharpen the attention he devoted to the social problems whose continued existence threatened the survival of capitalism.

The welfare state that arose in the West during the second half of the twentieth century was the result on the one hand of the impact of socialism on capitalism, and on the other, represented a capitalist response to attempts to arouse workers against capitalism through invoking the socialist example. Socialism, after all, had shown the world something that previously had not existed: social welfare for *all* the country’s citizens, something that constituted a visible reproach to the ruling classes of the capitalist countries. These welfare provisions bore unmistakable witness to the fact that socialism was not simply a repellent totalitarianism but also an enticing example that posed a dangerous threat to capitalism. It was only after this that the ruling classes of the West were confronted with the need to counteract socialism through their own superior example, as well as in every other way. Keynes’s prescriptions were the answer to this need. Thanks to them, the developed countries made a decisive break in both theory and practice with the neoclassical concept of social Darwinism, and accepted the Keynesian idea of social partnership.

CONCLUSION

With the help of the above facts and ideas, I have sought to show that the attempt at a direct transplanting of the Anglo-Saxon model of the market into the soil of our civilisation has not justified itself. Market freedom was declared in Russia while the country lacked not only traditions of private entrepreneurship, but also the elementary bases for legally regulating its activity. We do not have labour and tax legislation analogous to that in civilised countries. But even if this legislation existed, we would still be faced with developing the traditions of obeying the law that are required for civilised market relations.

In my view, the most important conclusion that flows out of our experiment is that when the values of one civilisation are transferred mechanically onto alien soil, these values lose their former content and are transformed into their opposite. Unregulated by the state, freedom turns into unlimited arbitrariness, and a focus on profits into shameless exploitation and the oppression of one person by another. The neoclassical experiment imposed on us has not made our society better than that of Soviet times, and in some respects has made it even worse. More of us have become poor, unemployment has emerged, and crime rates and death rates have increased, while legality and culture have fallen by the wayside.

The Western concept that property also entails responsibility is profoundly alien to our consciousness. For mafiosi property owners who emerged from the criminal underworld (there was no other milieu of private enterprise), rules and laws do not exist, and such people conduct their business according to their own whims. Such a person is worse than the Soviet bureaucrat who, while never a democrat, was not in league with criminals. The Soviet functionary was under the strict control of the party and the state, and danced to the music of a higher authority. As the experience of our market development has shown, this subordination could be far preferable for society than the kind of “freedom” under which mafiosi do as they choose. In the first case the economy operated, even if poorly, for the sake of everyone; in the second case, to the advantage of some and to the detriment of others. Despite having acquired the former state enterprises for nominal sums, the new owners do their utmost to evade any responsibility to the population. It is not just that they studiously dodge paying taxes; in addition to this, the new property-owners are accustomed to picking the pockets of the state at every opportunity. Aided by the corruption that has infiltrated every pore of society, they have reduced the rule of law to a minimum. As indicated earlier, firms have appeared which, acting legally or semi-legally, advise entrepreneurs for definite sums on how to evade the laws, dodge taxes, obtain the court decisions they need, and so forth. Raiding – that is, the practice of violently seizing the property of others – has become common practice.

An economy such as this cannot function normally. Under the conditions which apply in Russia, laws can be enforced only if there is strict, honest monitoring of entrepreneurial activity. Even without laws being enforced, reported crime has reached colossal levels. The prisons are bursting, and funds to maintain them are inadequate. A new form of punishment, house arrest, has had to be dreamt up.

If the laws were fully enforced, and one hundred per cent of crimes were punished, more than half of the country’s population would have to be jailed. The impossibility of this shows the need to choose a different economic model, under which market freedom is kept within reasonable bounds, and control over economic activity is exercised in such a way as to maximise the impulse to serve society and to minimise the opportunity to break the law. We should not shut our eyes to the fact that in the planned economy the level of economic crime was far lower, or ignore the reason for this. The definite nature of the plan, and the obligation to meet it, were considered a more just way of conducting economic activity than the uncertainty and arbitrariness of the market. It has been difficult to change this perception of reality on the part of our population, and this is something that must be taken into account.

The Chinese experience provides yet another confirmation of this truth. The high rates of growth in China, and the country’s resistance to the negative effects of the world financial and economic crisis, demonstrate with considerable certainty that national planning is perfectly compatible with the market. Moreover, it is an effective means for reducing the fundamental uncertainty introduced by the market, and in the process, for allowing crises in the economy to be anticipated and avoided. If there had been a regulated market in the major capitalist countries, there would not have been massive speculation in securities, and the present crisis would not have occurred. Only the avarice of a narrow layer of unrestrained speculators, together with ideological prejudices, prevent this conclusion from being accepted in the West.

Here in Russia we have experience of market failures, while our experience of planning has been successful by comparison. Adopting the approach indicated above is thus absolutely vital.

It is necessary to be still more explicit: the private ownership imposed on us through privatisation has not been accepted by the population. Not only the robbers, but also the property-owners who established their fortunes honestly – insofar as this is possible in Russia in current circumstances – are an unpopular category of people in our society. They live in houses that are like fortresses under siege, surrounded not only by high fences, but by numerous armed guards. Not only are they themselves under constant threat of assassination, but the members of their families, including children, live under vigilant round-the-clock protection to stop them being kidnapped and held to ransom.

For all the faults of capitalism, Western capital has not sunk to such depths of savagery. Nor did pre-revolutionary Russian capital, which showed a far greater kinship with European civilisation than does its present-day heir. Whatever the case, Russian capital suffered a tragic fate. We cannot tell what the fate of today’s private capital will be; we can only point to the logic of the chain of events which in Russia has brought about a more acutely negative reaction to the advent of capitalism than anywhere else in Europe. If we recall the map of Europe in the late nineteenth and early twentieth centuries, we find there a developed revolutionary movement threatening to divert the development of capitalism in the direction of socialism. At that time Russians were only learning from the European socialist movement how to make a revolution in their country.

Before long, however, the pupils outstripped their teachers. In Russia an anticapitalist revolution took place, bringing the Bolsheviks to power, while Europe preferred to remain capitalist. In my view, the revolution in Russia resulted from our population reacting to capitalism in more negative fashion than was the case in Europe. Both then and now, capitalism suited only a small, wealthy section of the population; in the rest, it aroused discontent and a wish to replace it with something better. Russians know that some people are more capable than others, work more skillfully and are entitled to have more. But they do not believe it is possible to acquire a fortune of many billions through honest work. This conviction is expressed in the proverb, “You don’t get stone palaces with honest labour.” For good or ill, we have to recognise that our psychology is egalitarian rather than elitist. We understand justice as equality in terms of property and social position, and for us this is most important of all. For this reason, the dream in Soviet times was of freedom and democracy, and there were no demands for a return to the market and private property.

Time does not flow backward, and there can be no returning to the past. If we are to move forward, the choice of a model of development is of crucial significance. We need a model without the flaws of either Soviet socialism or present-day capitalism, and which combines the virtues of both plan and market while avoiding their shortcomings. The best guide to formulating such a model is post-Keynesian economic theory. Here, an attempt has been made to show the need to understand and employ this thinking, basing the argument on Russia's bitter twenty-year experience.

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Chapter 2

REFLECTIONS ON THE STRUCTURAL FUNCTION OF INDUSTRIAL DESIGN IN CAPITALISM THROUGH DEVELOPMENT EXPERIENCES OF NICS

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ABSTRACT

Industrial design is the offspring brought about by the marriage of art and the industry; this profession not only brings huge profits for corporations, but also is the intermediary of modernization experiences, promoting living standards of the vast majority of the population. However, the realization of this historical process in Taiwan was developed by foreign capital and local state through their dynamic intertwining under the post-war new international division of labor.

After the Second World War, various countries commonly applied Keynesianism, using high wages and high consumption to promote post-war economic recovery, counter inflation, and batter price hikes. As a result, wage differences among individual countries gradually became the factor that influences the international competitiveness of products. Labor-intensive industries that had become profitless in developed countries largely relocated to developing countries. Under the cold war structure between eastern and western camps, based on the strategic thinking of international geopolitics, Taiwan was incorporated into the system of global division of labor since the 1960s, accumulating huge amounts of foreign exchange through export-oriented economic policies, creating the world-renowned economic miracle.

In the stage of economic growth, Taiwan was actually the offshore assembly plant for American and Japanese multinational corporations, the so-called "international processing base". Industrial design was tamed and used by the "developmental state", entrusted with the great responsibility of promoting exports, creating foreign exchange,

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and eliminating the stigma of counterfeiting that stuck to MIT (Made in Taiwan) products in the international market. Above all, Taiwan withdrew from the United Nations in 1971 and cut diplomatic ties with several countries, gradually disappearing from the international political stage, and MIT products instead created Taiwan's political identity in the economic realm.

In the mid-1980s, the "Plaza Accord" signed by international economic powers brought huge impacts to international trade, the exchange rate of the Taiwan Dollar gradually appreciated following the appreciation of the Japanese Yen and the Deutsch Mark. After the "Washington consensus" was addressed in 1989, advanced capitalist countries further raised the slogan of free trade, forcing newly industrializing countries (NICs) to adopt measures, e.g. lowering tariff and import liberalization to balance their trade deficits. Nation states retreated and protectionist policies were abandoned; as a result unscrupulous global capital cooperated hand-in-hand around the globe. And while local industries were battling with transnational corporations, industrial design moved deeply into the war of market competition and created competitive advantages in the close combat between local and imported products, saving production lines that were almost brought to a halt in local businesses, resolving the crisis of industrial development. The expressing of the structural function of industrial design not only mediates the gap between production and market in capitalism, but also reflects the historical process of the dynamic tugging between state and capital in developing countries.

I. Introduction: Design and Capitalism

When International Design Centre Berlin was established in 1970, during its opening ceremony, German design critic Wolfgang Fritz Haug described design as follows: "in a capitalist environment the function of design can be compared to that of the Red Cross in times of wars. It tends some wounds, but not the worst, inflicted by capitalism. Its function is cosmetic, and thus prolongs the life of capitalism by making it occasionally somewhat more attractive and by boosting morale, just as the Red Cross prolongs the war." (pp. 136-137, Appendices of the book)

During the Renaissance, design (disegno) actually meant drawing, which was the foundation of all visual arts that referred to the initial stages such as inventing and conceptualizing before coloring and carving. Design was considered as a part of creative activities and did not become a stand-alone profession. It was not until the Industrial Revolution during the eighteenth and nineteenth centuries that professionally-trained designers appeared in Europe and America who were employed or contracted by manufacturers; design started to be distinguished from arts and crafts. The power that pushed this professional division of labor came from the mode of production that transferred from feudalism to capitalism, followed by the progress of the industry, engineering, technology, mass production, and mass communication.

The Industrial Revolution brought in the mode of mass production that replaced manpower with machine; products manufactured along with this new mode of production brought forth aesthetic questions as to how to coordinate humans with products. Art started to go out from the ivory tower, which fell into the mortal world and became a philistine who peddles along the street, up for sale, or a gifted superstar who is powerful, influential and popular. At all events, design has made art and life closely connected, has dissolved the anxiety over the alienation between art and the society, and has also expelled the traditional role of craftsmen; this is the emergence of designers in history. “When automobiles, railway cars, airships, steamships or other objects of an industrial nature stimulate you in the same way that you are stimulated when you look at the Parthenon, at the windows of Chartres, at the Moses of Michelangelo, or at the frescoes of Giotto, you will have every right to speak to them as works of art” (Woodham, 1997:67) Therefore, design becomes the real art of the twentieth century.

However, the role of design in the development of capitalism is conceived in severe market competitions where corporations fight for profits, born in fierce tests. Corporations need to keep on producing better new products, eliminating opponents who are still manufacturing old products; in the mean time, they also need to increase the types of exports, win market shares, and obtain surplus value through similar products. The most famous case is the launch of General Motors’ new model of automobile Chevrolet in 1926, which for the first time surpassed the sales of Ford’s Model T, challenging its market monopoly that lasted for a decade, which forced Ford to launch its Model A in the following year and thereafter established its design department in 1928.

After the Wall Street Crash of 1929 started the prologue of the great economic crisis, the American Technocratic Party declared that scientists and engineers had replaced discredited commercial and financial departments and were entrusted with great expectations for the prosperity of the nation. At that time, the fist generation of American industrial design professionals e.g. Walter Darwin Teague, Raymond Loewy, and Henry Dreyfuss emerged under the predicament of such capitalist reality.

Moreover, the design profession further stepped outside the operational scope of restyling product appearances; by combining production technologies including Frederick Winslow Taylor’s scientific management and Henry Ford’s production lines (later on called Fordism), and the mastering of the preferences of markets and consumers, products became exceptionally delicate. All sorts of measures to reduce product life cycle (PLC), such as “planned obsolescence”, have been creating new styles year by year in order to meet the changeful demands of the mass market, making existing products appear to be obsolete.

When the “invisible hand” behind the capitalist market failed, design professionals took the stage to save the situation of depression; after World War II, they presented their images as brave and fearless, poised to rebuild the post-war debris. Well-known multinational corporations, e.g. Philips, Braun, and Olivitti all established their design departments one after another, conquering global markets with the help of their excellent product design. Design departments were recognized as the professional department that could make concrete contribution; “in-house designers” who belonged to the corporation replaced pre-WWII independent designers who pledged to shape the style of the era, which accelerated the schedule for corporations to launch new products.

Since 1945 designing has become a profession in its own right; design was seen to have two separate but related functions: it could be used strategically by a corporation to help plan its manufacturing and shape its marketing; and it had a more obvious role in making individual products attractive to consumers (Dormer, 1993: 9). As such, design could be understood as the means that created “added value” of products. Just when design permeates ter d□ hiy lives extensively and deeply, the “aesthetic illusion” of products, however, also masks our understanding of the real world.

Haug for one questions the relationship between the mode of commodity production of advanced capitalism and the structure of human needs, based on the keynote of late Marxism's critique to the capitalist society, extending Theodor W. Adorno and Max Hokheimer's theories of the culture industry and the Frankfurt school's Critical Theory. Haug questions the necessity of design, claiming design can only raise "exchange value" in the market and has no contribution to the real "use value". This kind of manipulation among life, culture and demand renders design the messenger for the ruling class to infiltrate into ideologies and the accomplice of the monopoly of economic interests.

Since industrial design is most commonly associated with the introduction of mechanization and the period of the Industrial Revolution (Heskett, 1987: 114), the Modern Design Movement in Europe is there to adjust the conflicts between arts and the Industrial Revolution, and design specialization in the United States is there to close the gap between market and manufacturing; as such, how was industrial design formatted within the process of industrialization in Taiwan? What is the meaning and function of industrial design in developing countries? This paper aims to examine the development process of industrial design and the transformation of economic structures in newly industrializing countries (NICs) from the transition of a capitalist mode of production, using the case of Taiwan. The emergence of industrial design in Taiwan not only reflects the technology learning trajectory of local industries from the improvements of manufacture procedure to product design, but can also be the probe for exploring all areas of related theories about the development processes of NICs.

II. UNDER THE COLD WAR BETWEEN THE EAST AND THE WEST, THE FORMATION OF THE IDEOLOGY OF DEVELOPMENT, AND THE INCORPORATION INTO THE SYSTEM OF THE NEW INTERNATIONAL DIVISION OF LABOR

After the Second World War, Taiwan became the refuge for frustrated politicians from the defeated Chinese Nationalist Party (the Kuomingtang of China, KMT). The KMT profoundly came to understand that, the only way to reinforce the KMT's foundation of power in Taiwan was to ensure the island's economic growth and prosperity. Therefore it dedicated to forging the war-torn Taiwan as the showcase for the image of the wealthy and prosperous "Principles of the People", thereby to announce such prosperity to Chinese people around the world and gain their support for the preparation to challenge the Chinese Communist Party's force in mainland China in the future.

In particular, after the eruption of the Korean War in 1950, under the Cold War situation between the East and the West, considering geopolitical factors, the US authorities supported Taiwan's industrialization; using subsidies from US-aid to rebuild Taiwan's economy, thereby to reinforce the blockade of communism to prevent it from "communizing" the West Pacific defense front of the globe. This international strategy, directed by the US to combat the ideological penetration of communism through the pursuit of economic development, ran through many developing countries that desired economic growth.

On the other hand, technology advancement in post-war developed countries resulted in a substantial increase in social productivity and the rise of multinational corporations, as well as the prevalence of Keynesianism – high wages, high consumption, counter inflation and price hikes. Wage differences among each country gradually became the factor that influenced international competitiveness for products. A great number of traditional labor-intensive industries that were no longer profitable in developed countries relocated to developing countries; multinational corporations were dedicated to developing high-technology new industries and technology-intensive industries with higher profit margins. In the mean time they also adjusted their international logistics of production, relocating manufacturing and processing sectors to developing countries with lower wage levels. Therefore, between developed and developing countries, the new international division of labor that corresponds to capital- and technology-intensive and labor-intensive industries was gradually formed, and Taiwan's labor market thus became the resources for international monopoly capital, started from cheap textile products in the mid-1960s, gradually integrated into the army of international division of labor.

The Role of Industrial Design in the 1960s: Facilitating Exports, Expanding Foreign Trade

During that time, the department in charge of US-aid – the Council for United States Aid (CUSA) –combined financial subsidies from the International Co-operation Administration (ICA) of the US, establishing the China Productivity Center (CPC) and the Taiwan Handicraft Promotion Center (THPC) in 1955 and 1957 respectively. Industrial design was transplanted and channeled into Taiwan amidst the chill atmosphere of the Cold War and was treated as an edge tool for "the revitalization of national industries", to thereby increase exports and promote economic development.

Under the screening of anti-communism, designers in post-war Taiwan were given the ideology to comply with developmentalist and technological patriotism. Taiwanese artist Shui-Long Yen once wrote on *Formosa Industrial Art* in 1952 about his investigation of Taiwan's traditional craft industries at that time, including bamboo weaving, papermaking, metalworking, dyeing, embroidery and so on, and he praised them for possessing the beauty of unique national culture compared with mechanical production. Yen even advocated the establishment of the "Center for Taiwan Crafts" exporting "handicrafts that Taiwan can proudly show the world", in order to "strive for the preservation of national culture and using traditional handicrafts to fight for shares in global markets". Therefore, although the Taiwan Arts and Crafts Movement was derived from the turmoil of the era resulted from mechanical production, it however was subordinate to the logic of a capitalist market.

In the light of the prospects for exporting oriental handicrafts, the ICA signed contracts with Russel Wright Associates, an American design company, in June 1955 and commissioned which to explore the conditions of craft industries in several Asian countries, including Taiwan. In December in the same year, Russel Wright visited Taiwan for the first time, and he had a good impression. Consequently, Taiwan authorities decided to establish the THPC. Russel Wright Associates established its consultation team in Taiwan in March 1957, and later on sent its design director and exports of marketing/weaving/bamboo-weaving to assist the development of Taiwan's crafts industries.

On the other hand, in order to assist the exportation of domestic industrial products, the CPC established the department for trade promotion as well as changing its name to the “China Productivity and Trade Center” (CPTC). And then in 1961, to operate in coordination with US-aid, the CPTC invited A. B. Girardy to Taiwan to promote the concepts of industrial design. The organization later on invited a Japanese designer named Shinji Koike to visit Taiwan, then accepted his suggestion to invite Michitaka Yoshi Tsuyoshi to give lectures in “Industrial Design Summer Training Courses” during 1963 to 1966. These design experiences, coming from European and American countries and absorbed and digested by Japanese designers, became the shortcut to the Modern Design Movement for industrial design in Taiwan. The industrial design training courses developed the first batch of industrial professionals and lecturers, laying the foundation for the burgeoning of industrial design in Taiwan.

However, just when industrial design became the prisoner of economic-oriented developmentalist policies whose aims were merely set on contributing techniques in order to raise unit prices of products, industrial design was also entrusted with missions of the era, based on the needs in different stages of the “developmental state”; its professional characters were therefore run through by the state, losing its autonomy due to instrumentalization.

Laboring contents that were relocated from core nations, e.g. US and Japan to Taiwan were mostly trivial and repetitive assembly works, which were categorized as labor-intensive industries that had not yet adopted automation machinery production, e.g. textiles and electronics; this explains why textiles and electronics were the two main industries in Taiwan in the 1970s. The extent to which for manufacturing the most profitable combination of labor and capital is no longer to be found in the industrially advanced countries is frequently explained with reference to a supposed crisis of Fordist production at the “center” (Allen, Brahamand Lewis, 1992). Industrial design that mainly focuses on the differentiation of products in consumer markets had limited professional space to develop at that time; therefore, when it came to the 1970s, Taiwan was nicknamed the “kingdom of counterfeiting”.

III. Economic Effects and Political Meaning of Industrial Design in NICs

The Role of Industrial Design from the 1970s to the Early 1980s: Turning Pirates into Captains – Eliminating the Stigma of Counterfeiting

Due to the saturation of Taiwan’s domestic market, plus the protection of infant industries impeded healthy competition among companies, on top of trade deficit year by year (Taniura, 1992: 25), in addition to the suspension of US-aid in 1965 that previously became foreign loan in the 1960s, the government thus changed its policy to export-oriented industrialization, supporting exports through the adjustment of policies and acts to win foreign exchange reserves; moreover, the setting up of export processing zones continuously attracted US and Japan capital, just in time to fill up the absence of US-aid. Dominant factors that influenced Taiwan’s economic development therefore were transferred to export trade, which coincidently fit the above-mentioned restructuring of post-war capitalism. In 1965, ahead of other developing countries, Taiwan established an export processing zone preserved solely for foreign capital, which put Taiwan in the lead among its cohorts to transfer to export-oriented industrialization (Sumiya, Liu, and Tu, 1995: 115-116).

Cheap labor costs plus timely policies that directed international capital into the island together contributed to Taiwan's economic prosperity since the 1960s. With the continuously expanding scale of exportation, the food industry and the textiles industry and then the electronics and machinery industries took the leading roles one after another, which also contributed to the development of other sectors (Duan, 1992: 275; Taniura, 1992: 30-31). Between 1963 and 1972, average growth rates of Taiwan exceeded 10%, which made Taiwan the Asian economic miracle and was called the "Four Asian Tigers" together with Hong Kong, South Korea, and Singapore, and also established the role model of development in the non-communist world. Export-oriented economy made Taiwan obtain a set of nicknames including the "shoe-making kingdom", the "umbrella kingdom", and the "bicycle kingdom".

At the same time, following the pullout of Taiwan from the United Nations in 1971 and the break-off of diplomatic relations with the US and other countries, the "Republic of China" (ROC) gradually disappeared from the world. Just when Taiwan gradually retreated from the international political arena, it however caught the world's eyes through economic activities. Under this paradoxical political economic situation, commodities labeled "Made in Taiwan" (MIT) including toys, umbrellas, shoes, hats, and bicycles replaced the ROC and became the main sources for the world to get to know Taiwan.

During the process of economic growth, Taiwan built up manufacturing industries with excellent skills. However, being accustomed to get orders of original equipment manufacturing (OEM), Taiwanese companies suffered from the lack of marketing channels of their own, despite having excellent production skills and OEM capacity, and they were also ignorant of laws and regulations of international trade concerning copy rights, trade marks, and intellectual properties. Secondly, small and medium sized enterprises played the pivotal role within Taiwan's industrial structure, which seldom undertook research of production technology and the improvement of manufacturing flows, and most of all they lacked the capital and capability to launch flexible production and subcontract, or shift manufacturing procedures. As such, due to the disorder of manufacturing and marketing departments, aside from adhering to OEM, an alternative way was to counterfeit trademarks and branded commodities.

Just when Taiwanese companies adopted this strategy of expedience to enter the international market under export-oriented policies, Taiwan was recognized by the world in names of "fake empire", "piracy kingdom", "counterfeit paradise" and so on. Internationally well-known magazines such as *Newsweek*, *Fortune* and *Life* published special reports on piracy in Taiwan one after another.

Since the mid 1970s, the US made and amended a series of laws and regulations sought to strike bilateral trade balances with other countries, including Taiwan, through the announcement of intellectual property rights. "Chinese and US protecting the intelligence proprietary meeting" was held annually after 1984, and the US can take "Article 301" as a reprisal measure when necessary. The Sino-US Trade Conference had also changed the attitude of Taiwan toward private intellectual properties, which promoted the Taiwanese government to amend or formulate relevant laws, such as the Trademark Act and Industrial Design Act, to implement the protection of patents.

Actuarially, in the early 1970s, relevant administrators had been crying out to eliminate the problem of counterfeiting. Authorities in Taiwan had been encouraging manufacturers to create their own brands to solve this intractable problem. As early as 1970, the official of the Ministry of Economic Affairs (MOEA) of Taiwan called on industries in Taiwan to create and use brands of their own as possible. However, its purpose was to arouse people's self-confidence and self-respect, expecting that own brands could win national dignity. All the efforts seemed to be at the level of moral persuasion only, and were irrelevant to the elimination of counterfeiting. If the government takes an active role to counter counterfeiting, supporting manufacturers to innovate and urging them to develop own brands became a necessary policy.

In 1979, the institution that assisted companies to expand foreign trade named the "China External Trade Development Council" (CETRA, later on renamed as the Taiwan External Trade Development Council, TAITRA) established the "department of product design", undertaking all sorts of businesses to promote design, such as holding the "joint exhibition of design departments of all colleges", which displayed graduate projects from all the design departments in Taiwan and provided the industry with opportunities to observe and recruit design talents. This activity has now been the biggest exhibition in the world that displays art works by talented students. Besides, the Council was also dedicated to promoting the design of products and packaging of exported goods, awarding "excellent design logos" (as shown in Figure 1), and held the first competition and exhibition of "Excellent Design of Exported Goods and Packaging" in 1981.

Source: Chan and Zheng (1996: 120).

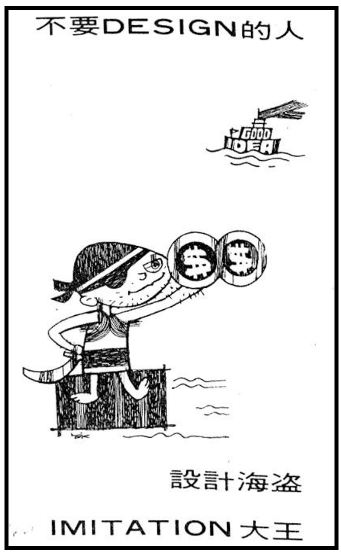
Figure 1. An example of excellent logo design.

In the official publication of the CETRA *Product Design and Packaging*, the Minister of Economic Affairs and also the Chairman of the CETRA at that time, Mr. Kuang-shih Chang, once said so:

> That kind of low-level assembly products in the past can no longer fulfill the demands of customers. At present, excellent goods with high value-added, on the contrary, are the main subjects people are eager to purchase. Our country has always relied on exports to maintain economic development, therefore in order to face this change of the concept of consumption, the direction of our industrial development and the target our economic development aim for must be adjusted to accommodate present demands… The most basic resolution is to start from promoting and applying industrial design. So from now on, aspects as to raising product qualities and manufacturing high value-added goods rely on the industry's support and

encouragement for and the discovery and use of excellent industrial design manpower within the nation. (1980).

The movement of "Good Design" conducted by the CETRA is also the competitiveness of MIT (Made in Taiwan) products enforced by industrial design on top of the realization of export-oriented policies, in addition to being the outcome of the advocating of moral discipline in modern design by the UK, Germany, Japan, and the US. Therefore, "Good Design" can be viewed as the measure for gaining the recognition of higher product reputation in the global market, under commerce-first ideologies. As such, the government attracted companies to invest in research and design through policy incentives, design policies were therefore subordinate to the principle of export-oriented trade. On the other hand, educational circles that are dedicated to designer training and design promotion, holding academic passion as preachers, also found their professional position to cut into the reality among the wave of anti-counterfeiting (as shown in Figure 2).



Source: Industrial Design Magazine (1971:2).

Figure 2. Industrial design helps the country to disconnect with the stigma of the kingdom of piracy.

To help products obtain added-value through design is indeed key for NICs to break through the position of cheap OEM assembly within the international division of labor. And also, design could remove the stigma of the kingdom of counterfeiting that stuck to Taiwan, which helps improve the image of the nation to thereby relaunch in the international political arena where it used to be isolated. Compared with the "stick" that seizes and eliminates counterfeiting, "good design" apparently is the "carrot" the government adopts that indirectly contributed to the emphasis on design of companies, which pushed forward industrial upgrading within the country.

In the 1990s, in order to announce to the international society that MIT products had reached world class, i.e. high quality, exquisite, valuable, the competition of "Good Design" expanded its scale to become the competition of "Taiwan Excellent Award"; the awarding body became the country, compared as previously the government only subsidized the operation of the activity. Aside from using the logo of “It’s Very Well Made in Taiwan” on their products (as shown in Figure 3), companies awarded the prize could get a higher percentage of financing (80%) when they applied to the Bureau of Foreign Trade for the loan for creating brands of their own; necessary costs they spent for promoting the image of their brands in the global market could also deduct a higher portion of taxes. The government encouraged companies to advance from own designing and manufacturing (ODM) to the stage of own branding and manufacturing (OBM).

Figure 3. The logo of excellent MIT products.

The Role of Industrial Design in the Mid-1980s: Facing the Wave of Economic Liberalization – Global Competition, Industrial Upgrading, and Own Branding

Industries in Taiwan were integrated into the system of the international division of labor through export-oriented economy, connecting with overseas markets, and gradually disconnected with the intervention of local policies and instead synchronized with the fluctuations brought by the transitory international situation. In the 1980s, the pressure of “free trade” conceived by international economic powers hit many NICs who excelled in economic development, and exchange rate adjustment became one of the main measures to balance trade deficits. In the mid-1980s, the “Plaza Accord” signed by international economic powers brought huge impacts to international trade.

Following the appreciation of the Deutsch Mark and the Japanese Yen, the exchange rate of the Taiwan Dollar against the US Dollar kept on appreciating dramatically (as shown in Table 1). The “factor of production” that was no longer cheap lacked attractiveness to foreign joint ventures or buyers’ placing orders. In 1984 Kuo-hwa Yu became the Premier of Taiwan, who then raised the suggestion of “economic liberalization”, which set the official economic policies for the 1980s.

Nation states retreated and protectionist policies were abandoned. As a result, unscrupulous global capital cooperated hand-in-hand around the globe. And while local industries were battling with transnational corporations, industrial design moved deeply into the war of market competition and created competitive advantages in the close combat between local and imported products, saving production lines that were almost brought to a halt in local businesses, resolving the crisis of industrial development.

Table 1. Exchange rates of Taiwan Dollar against US Dollar from 1980 to 1990

Exchange Rate (NTU/USD)	
Year	Rate (Unite: TWD)
1980	36.00
1981	36.84
1982	39.11
1983	40.06
1984	39.60
1985	39.85
1986	37.82
1987	31.77
1988	28.59
1989	26.40
1990	26.89

Source: Central Bank of Taiwan.

Severely restricting the imports of foreign goods and setting high tariff barriers have always been the tools for governments to protect local "infant industries", like electrical home appliance industry, and to maintain their competitive advantage. However, the execution of protective policies also involved the government's political consideration to the characteristics of these industries. For instance, television as a modernized daily appliance did not start their title-page to enter the history of Taiwan's electrical appliances for leisure purposes, but rather for the purposes of social education and political propaganda.

During early post-war periods, since the resource of electricity was still considered to be rare, people's livelihood ranked at the bottom under the combat system. Therefore electrical appliances were often regarded as luxury, conspicuous goods; in addition, the government further checked thoroughly the number of electrical appliances through the Taiwan Power Company, calling upon the public to save electricity. In particular, those far and wide telecommunication products are often of military purposes and tools for social control, which have great potential to overturn the image of the world. In the light of the "228 Incident", audio broadcasting was the mass medium for the battle of the government versus the public. The government therefore dared not underestimate the companies that manufactured relating products and those who used this technology, in a great fear that someday it might grow out of control.

The first television station in Taiwan – Taiwan Television Enterprise, Ltd. – was established by the Taiwanese government in 1962 in coordination with the National Day; at the same time the television assembly plant was also established, importing parts of 5,000 black-and-white televisions from Toshiba, Hitachi, and NEC, assembling the first batch of televisions in Taiwan. Potential commercial interests came from the broadcasting of television stations' attracting private electrical appliance companies to invest in the manufacturing of televisions. The industry often participated in political activities in person or through political declaration to maintain good relationships with the government, whereby to exchange their legitimacy for product manufacturing and market promotion.

The automobile industry is another example. On the National Day in 1956, Yulon launched its first locally manufactured jeep vehicle, realizing the aspiration of Ching-Ling Yen, the founder of Yulon: "using generators to save the nation" (Yulon, n.d., para. 1).

Private enterprises were incorporated into the state according to the military combat system, and large electrical appliance companies, e.g. Tatung and Yulon were members of pre-maneuvers, epitomizing the close relationship of conspiracy between capital and the state. Companies upheld the slogan of industrial patriotism, yet in fact their devotion to the nation wrapped their political dedication inside, for the purpose to exchange for the government's protective policies; covered by the protection of promoting national industries, they obtained excess profits.

In addition, policies such as "Tax Refund for Export" (since 1955) and "Export Percentage Cap" (from 1973) encouraged exports and prevented over-competition within local markets. Because customs and product taxes could be refunded for imported materials and components, companies' export costs were reduced. According to the (revised) "Statute for the Encouragement of Investment" in 1974, many export factories enjoyed duty free preferences; some Taiwanese electrical manufacturers made excellent export records. Under the government's protective policies and the constrain of domestic consumption, electrical appliance companies were able to enjoy thirty some years of their "golden age" in the name of "national industry" – in 1949, the first batch of Tatung's locally-manufactured electrical fans were sold for the equivalent of 37.5 grams of gold each, making profits in both local and international markets.

Under the pressure from both international powers and local consumers, the government adapted to the wave of liberalization after 1986, listing import restrictions, and adopted the measure to lower customs on imported electrical home appliances year by year to reduce the impacts to local manufacturers.

Taiwan electrical home appliance manufacturers apparently suffered from the blow of trade liberalization; the market share of imported electrical home appliances grew substantially. After Japanese and Korean electrical home appliances massively flooded in, local businesses suffered from great losses, whose production lines were almost reduced by half.

The above-mentioned events made the electrical home appliance industry in Taiwan go from prosperity to decline, getting stuck in the stagnation of production one by one. Facing this crucial moment, companies became active in developing new products, and industrial design was adopted by the electrical home appliance industry in the hope that it could bring a glean of hope of survival.

Under the deregulation of imported electrical appliances, all kinds of stylish electrical home appliances from around the world entered Taiwan, overwhelming Taiwan's electrical appliance market. Among them, the item of American refrigerators reached an incredibly high 60% of total domestic share in merely two years after it was imported. In addition to tariff reductions that enabled American refrigerators to reduce product prices, this fact also posed contrary to the trend that Taiwan's consumer goods markets always followed Japanese consumer goods.

Despite becoming independent from the rule of Japanese colonization, Japanese lifestyle still stood as the reference and example of "modernization" that post-war Taiwanese people yearned for. In the mid-1950s, the Taiwanese government started to push the island-wide extensive electricity popularization – rural electrification; through the realization of household electrification, electrical home appliances became hot-selling products in domestic markets. Since then, Taiwan also stepped on the material experience of modernization of the post-war three "Imperial Regalia of Japan" – black-and-white television, refrigerator, and washing machine. Through technological cooperation with Japanese companies, the electrical home appliance industry in Taiwan became the channel that “mediated” modernization.

American refrigerators that often exceeded super large volumes of 500 liters and above were very different from Japanese ones that Taiwanese consumers were more familiar with. Kitchens in American families were mostly spacious, and a 500 liter refrigerator would not occupy too much space of it and was just right for storing the bulk of food bought from shopping centers during the weekend.

In addition, despite having several brands, the styles of imported American refrigerators all looked the same, which obviously reflected the very particular “American life” living fashion.

Although American refrigerators were against all Taiwanese consumers’ living styles and real needs, imported American refrigerators started a wave of hot sales, seriously threatening “Japanese style” or “sim-Japan” refrigerators that had long occupied Taiwan’s markets, bringing production lines in factories nearly to a halt. Just when manufacturers were about to give up the refrigerator market in Taiwan, industrial design became the last bet of companies to gamble with.

At that time consumers generally had felt the shortcomings of American refrigerators: noisy, sweating, rust easily, and lacking planning of interior arrangements. Therefore Japanese refrigerators that were more delicate were catching up. As such, the counterattack of the local electrical appliance industry was not hopeless. However, how to realize the so-called “refined large refrigerator” that overcomes the shortcomings of American refrigerators on top of matching their large storage capacity through design?

One Taiwan home appliance company, Sampo Co. “adopted” design concepts from a Japanese handle-less refrigerator; the door was opened from one side, so in the top view both sides of the refrigerator door were arc-shaped. The design department made the whole door arc-shaped, which not only modified the visual effects once the volume of the refrigerator was increased to 500 liters, but also highlighted the well-rounded image of large capacity. Besides, Sampo also was the first one to adopt the material of mirror printing plate that had just been developed in Japan. Mirror plates can be printed on multiple layers with multiple colors; compared with traditional coating, its surface is bright and shinning, has versatile colors and patterns, with no problems of rusting, and largely enhanced the aesthetic requirements of sophistication. Last but not least, the ultra slim design made the plates thinner, the whole appearance of the refrigerator looked smaller, yet it still kept the character of large capacity. In addition to appearance, as for the interior, designers allocated easy access storage spaces according to local users’ special diet habits, such as dumplings for hot pot, Chinese medicine for food treatment, and cut fruit tray, etc, which further contrasted the big and clumsy American refrigerator. While the refrigerator market in Taiwan was retreating, designers were dedicated to tailoring a delicate “Taiwanese refrigerator” that suited the needs of Taiwanese consumers.

Combining the large storage capacity of American refrigerators, the delicacy of Japanese ones, and domestic needs, this Taiwanese refrigerator (as shown in Figure 4) was launched in 1989 and was popular in the market; in just three months, the sales were surging and made this the best selling product. Within half a year, other consumer appliance companies requested to do ODM cooperative production one after another; in the years 1990 and 1991, average orders were more than 20,000 units per year. As such, the market share of Sampo arc-shaped refrigerator or that of other brand names grew substantially in the market, seriously defeating the sales of American refrigerators.

For a long time, the electrical home appliance industry in Taiwan occupied the lion's share of domestic markets under the tariff barriers set by the government; however, facing the change of policy direction towards import liberalization, the market share was declining substantially, companies suffered from serious impacts and were almost brought to suspension and shutting down. In the predicament where different kinds of American refrigerators flooded the market with a market share as high as 36%, local refrigerators however brought about a complete turnabout, and an achievement like this cannot be denied as a "legend". Most importantly, industrial design went deep into the war of market competition, creating competitive advantages in the battle against American refrigerators, saving production lines that were almost brought to a halt, which is the historical meaning of the launch of the arc-shaped refrigerator in Taiwan.

Source: Lee, 1996.

Figure 4. Sampo arc-shaped regregerator.

IV. CONCLUSION: IN THE TUG-OF-WAR BETWEEN CAPITALISM AND DEVELOPMENTAL STATE, INDUSTRIAL DESIGN IN NICS THAT IS OUT OF LOCAL CONTEXT

This paper situates the history of Taiwan's economic development within the context of capitalist globalization, clarifying the roles of (the industrial policies of) the government, (global logistics of) foreign capital, and (the development of corporations and small and median enterprises of) local capital. Industrial design was involved in the mutual interaction among the three, playing its structural function, and mediating the conflicts from within.

Since the 1960s, within the forming process of the "new international division of labor", the progress of productivity allowed the labor process to be divided into several distinct processing procedures that could be relocated out from core nations, and the expansion of the labor force integrated peripheral nations, especially developing countries, into production bases of the world. This process was derived from the system of Fordist capitalist accumulation; the common characteristic in the experience of several countries – including Malaysia, South Korea, Singapore, and Taiwan – is very rapid growth during the crisis of Fordism and transition to post-Fordism, as core nations relocated assembly lines to these newly industrializing regions, forming flexible spatial production networks (Peet, 1991: 162), which also contributed to Taiwan's economic development.

To examine from within the island, in the early post-war stage, the KMT adopted planned economy, suppressing private capital. From the 1960s on, the government brought in foreign capital and supported a number of private capital, accelerating Taiwan's economic structure to transfer from rural to industrial economy, obtaining the impetus for economic growth, and industrial design was the means for promoting exports. In the mean time, through active promotion and propaganda by corporate units, industrial design gradually became known to the industry. When it came to the 1970s, the secondary industry (manufacturing) had surpassed the primary industry (agriculture), establishing the building blocks of Taiwan's industrialization. In particular, under protective policies, selected industries such as automobile and electronic home appliances conspired with the government, obtaining their monopoly status, thus the early form of local enterprise groups were looming. In the 1980s, under the impact of the "free trade" wave conspired by international powers, protective policies were loosened, and nation states started to retreat. Facing fierce market competition, in order to handle the challenge of internationalization, enterprises raised added-values of their products by intensive capital and technology and the emphasis on research and design, which further enabled enterprises to integrate with global supply networks.

Overall, industrial design in Taiwan was started by the "developmental state" (Castells, 2000: 195), and the concept of industrial design was brought in and received by corporate organizations surrounding the government. The academic circle that was responsible for the reproduction of ideology, on the other hand, filtered parts of thoughts that were too radical, and then rebranded it according to development-oriented needs. Corporate organizations and the academic circle worked together with different angles, promoted this set of modern alchemy to the industry, fulfilling the developmental mission entrusted by the state.

During the transplanting and constructing process of industrial design, Taiwanese designers embraced modernism passionately; at the same time the umbilical cord bearing historical memories of Japanese colonization and the KMT's defeated experiences in mainland China was also cut off. Fighters for modern design who abandoned the history reached ideological consensus with KMT bureaucrats who worked extremely hard after WWII; socialist thinking that embraces the public in the Modern Design Movement, however, was silenced under the chilling political atmosphere of the "White Terror". Industrial designers in post-war Taiwan on the one hand followed the spirit of Bauhaus, posed themselves as the preachers of the Modern Design Movement; on the other hand, however in practice they learned from design celebrities such as Raymond Loewy and Luigi Colani, as well as enterprises including Panasonic from Japan, Braun from Germany, and IBM from the US, using them to persuade the industry. Also, blossoming design activities in varied countries were used as examples to convince the government to actively invest in guiding and counseling the development of design, industrial design thus became the frontier that promoted modernization plans.

Through the process of promoting and practicing design, enterprises and the government learned and accepted a brand new value: the process in which humans start to pursuit identity and re-mold the environment. Through learning from and imitating product images of Western modernization, the prelude of Taiwan's modernization was delivered, and industrial design thus became the agent of cultural interchange between advanced capitalist nations and the Third World, or even the spokesperson for Western culture. This desire to pursue modernization swam towards modernized nations through industrial design; then products became the showcase of national culture for beautifying national image and the symbol for achieving modernization.

Since design is penetrated by the power of capital, it gradually disconnects with the society, "whatever other aims and local concrete effects it may have – ends up ushering into being the universal, systematic planification of capitalism" (Hays, 1998: 3). Therefore, when the design circle shouted out load slogans such as "anti-counterfeiting", "promoting industrial upgrading", "enhancing competitiveness of companies", it was based on the economic rationale of corporate competition, which not only forfeited its leading role as the avant-garde, but also was caught in the crisis of meaningless ideology and self doubts and could only passively chase after the reality of the industry.

Entering the twenty-first century, after industries in Taiwan were mostly upgraded to ODM, in the headline news of *Business Next* in its May 2003 issue, designers were praised as "people who help bringing in 1000 billion orders", which coincides with that to Raymnn Loewy by *Times*: "designer Raymond Loewy – he streamlines the sales curve."

However, design was developed upon the base of OEM, therefore the practice of the whole profession was restricted by the premise of manufacturing. Basically, industrial design in Taiwan actually contributed to new manufacturing procedures, rather than new products. Having said this, it would be clearer if we examine with the US as the reference point: Keynesianism that focuses on expanding consumption was prevalent in the post-war US, and industrial design as a sophisticated sales strategy had become common practice, i.e. "design for sales" (Sparke, 1983: 29); within the re-structuring process of the global economy of the new international division of labor, the most important mission of Taiwan's industrial design was to increase production, which was "design for manufacture". Taiwanese enterprises that mainly carried out manufacturing must at the same time fulfill the premise of feasible production and face the pressure of prompt goods-delivery. As a consequence the time-schedule for product development and design was squeezed to its limit. The design flow pretty much emphasizes computer aided industrial design (CAID), which enables the result of design to be quickly connected to the manufacturing sector.

Export-oriented production pushed forward industrialization, which could be regarded as the epitome of Taiwan's whole economic development. Industrial design in Taiwan followed the requests made by international buyers who placed orders, delivering "Americanized" and "Japanized" product styles; therefore, □ e ign became the operation of "simulacra" ahead of the practice of manufacturing that aimed to obtain orders. Companies all tried to sell their creative ideas to buyers in trade fairs; in production the design component comprises an increasing component of the value of goods, and the "design ocess" □ □ progressively more central to value-added (Lash and Urry, 1994: 15). Although this export-oriented industrial framework had gone from OEM to today's ODM in terms of technical level, it was still restricted under the control of foreign enterprises/brands, and kept on being molded by new international political economic situations.

Based on above-mentioned historical factors, the starting point of Taiwan's industrial design was destined to be disconnected with the needs of local markets from the very beginning. Professor Hsia, the director of Graduate Institute of Building and Plan of Taiwan University, said bluntly:

> "'Made in Taiwan' has never been an opportunity to design in accordance with their own images… the so-called Made in Taiwan means the products should look like being made in Japan or the U.S., instead of Taiwan." (Wang, 1997: 20-24).

Professor Wan-wen Chu, a prestigious economist in Taiwan, also points out that:

> The progress of productivity of Taiwan's industries mainly comes from learning how to quickly and cheaply imitate products from advanced countries, fulfilling the needs of markets in advanced countries, rather than learning how to manufacture [and design products that suit local needs] for Taiwanese consumers. (Chu, 1999: 6).

Based on the principle of "comparative advantage", Taiwanese companies would dedicate themselves to manufacturing selected products that process global competitiveness; however, many products supplying foreign markets with excellent quality and reasonable prices were not found in local markets. When production and consumption in a place were disconnected, its products could not reflect local characteristics in full, and therefore could not assemble the power of identity. Until the 1990s, when products labeled "Made in Taiwan" were stigmatized internationally, product image and national identity were finally connected, which ignited the movement that aimed at rectifying the "MIT" label.

Under the thinking of pursuing economic development, people always hold plenty of imagination towards industrial design, hoping it will bring in more commercial interests. Industrial design is built on such expectations to respond to a set of tasks at different levels, including company survival, industrial development, and national identity, and its purpose is to discharge the crisis of capitalist development. This "alchemy" that comes "out of nothing", situated around the post-war period in relation to how Taiwan was transferred from war-torn debris into an important NIC, underlines the characteristics of industrial design during the process of Taiwan's economic development; at the same time, this also clearly shows the structural function of industrial design that works as the safety valve of capitalism.

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Chapter 3

WHO WAS THE WHITE COLLAR CRIMINAL? WHITE COLLAR CRIMINALS IN SWEDEN, 1865-1912

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ABSTRACT

Who was the white collar criminal? During the last few years this question has been an increasingly popular topic in the field of white collar crime. But very few have asked who the white collar criminal was in the past. Our aim is to investigate the demographic character of the white collar criminal during the first industrial revolution and the implementation of capitalism in Sweden (1865-1912). Data comes from Statistics Sweden's historical statistics record regarding a section of the law that concerns offenses in bankruptcy. The hypothesis put forward is that the impact of industrialism and capitalism changes the socio-demographic profile regarding offenders of bankruptcy. The results, however, indicate that the profile did not change, which implies that the impact of capitalism and industrialism during the first period in Sweden did not have any impact on the characteristics of the offenders. This is in line with recent research showing that there is no correlation between the number of bankruptcy offenses and industrialization during this period. Furthermore, the results show that there are great similarities in the socio-demographic profile during this period with the same profile today. This result clearly contradicts the common understanding among many researchers in the field that modern white collar crime has its roots in capitalism and industrialization. Rather, the result shows that the socio-demographic profile is stable and related to other factors. In the conclusion, we discuss the results from the point of view of general understandings of theories such as Wheeler's "fear of falling", Gottfredson and Hirschi's self-control theory, and Hirschi's theory of social bonds.

INTRODUCTION

The question "Who was the white collar criminal?", put forward by, among others, the British criminologist Hazel Croall (1989) is a very basic question. Over the last few years this question has been an increasingly popular topic in the field of white collar crime (e.g., Braithwaite 1985; Shover 1998; Piquero and Benson 2004; Zahra, Priem and Rasheed 2005; Shover and Hoechstetler 2006; Weisburd et al 1991; Weisburd et al 2001; Benson 2002; Benson and Simpson 2009; Alalehto and Larsson 2008), and has also been related to incitements stemming from capitalism as an economic and social system. It is important to shed light on the demographics characteristics of white collar criminals compared to the demographics of street criminals (e.g., Lewis 2002), or on demographic comparisons between white collar criminals for different types of offenses (e.g., Wheeler et al 1988), or different types of contexts (Alalehto and Larsson 2008). But very few have asked who the white collar criminal was in the past—whether the offender in the past shows similarities or differences in demography to white collar criminals of today.

Our aim is to investigate the demographic character of the white collar criminal during the first period of capitalism—during the process of modernization and industrialization. Previous research (e.g., Robb 1992; 2006; Coleman 1987; 1992; 1998) indicates that the increase in white collar criminality and its modern form has its roots in the process of transition from an agricultural society to an industrial one. It is a consequence of the proliferation of alienated "big business" norms via an overwhelming "culture of competition", characterized by reified and impersonalized debtor-creditor relationships, structured around self-centered competition that forces individuals to strive to be "someone" (i.e., to come in possession of something valuable), where "winners" were rewarded and "losers" were stigmatized.

In this article, the capitalist mode of production is characterized by industrialization, market-oriented production, proletarianization, urbanization, the extension of lordship, and free entrepreneurship. The connection of the transition process to the socio-demographic profile broadly follows the materialistic link that Marx (1859/2007) outlines in his theory of historical materialism—that the conditions of material circumstances constitute the mentality of the historical phase of the mode of production. Thus, a change in the market structure introduces a change in social behavior because it impacts the moral standards of the society's social fabric, in business as well as in other fields of human agency.

Sweden, which is the case in the present investigation, went through a transition from an economy dominated by agriculture to one dominated by capitalist relationships during the period in question (1865-1912). Throughout this period, the number of people employed in industry increased by about 207 percent, the number of firms increased by about 313 percent, and the proportion of the population living in cities increased from about 12 percent in 1865 to about 26 percent in 1912[1]. However, the number of people found guilty of bankruptcy offenses such as white collar crime did not increase over the same period, as shown in Figure 1.

In an earlier paper (Alalehto and Larsson 2009), we discussed the low correlation between industrialization and bankruptcy offenses and thereby challenged the validity of the previous statements of well-known scholars such as Robb and Coleman. To summarize our discussion, we argued that, at least as it pertains to Sweden, the low correlation indicates a delay between the economic and institutional orders to develop a collective capitalistic mind (individualism, selfishness, materialistic values, etc.). Instead, during the transition period the

1 Our own calculations based on Edvinsson (2005) and on Statistic Sweden historical records.

Swedish population probably still held values and norms that were related to agrarian society (ibid.). However, as we will show at the end of this article, the institutional delay between economic order and the cultural order to develop a capitalistic mind at the end of the nineteenth century was converging, at the time of the Second World War, with a tripling in the number of bankruptcy-related offenses.

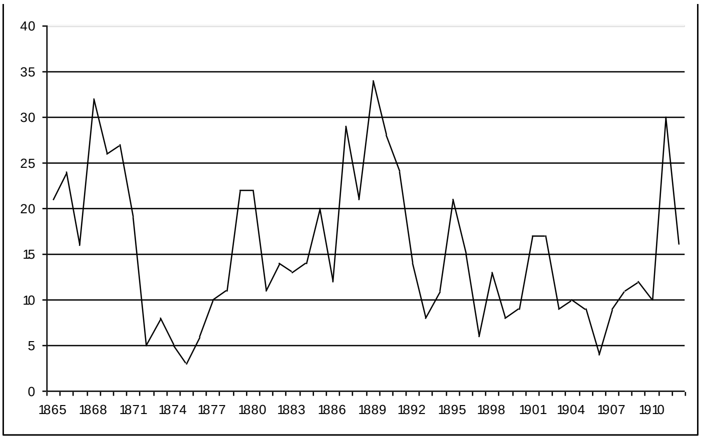

Figure 1. Statistics of persons found guilty of bankruptcy offenses.

However, our challenging of previous research does not challenge the topic we are putting forward in this paper. Even if there was hardly any rise in white collar criminality at the beginning of the capitalistic transition in Sweden, this does not mean that the demographic characteristics of white collar criminals at that time is of no interest to the demographic agenda today—either as a form of variation in criminality (Gottfredson and Hirschi 1994) or as a form of variation between individuals (Sutherland 1983).

WHO WAS THE WHITE COLLAR CRIMINAL?

The previous research field generated a few, but very important, quantative studies on this topic, such as the American studies by Wheeler et al (1988), Benson and Moore (1992), Weisburd et al (1991; 1995), the follow-up study by Weisburd and Waring (2001), and the longitudinal investigation by Lewis (2002). For Sweden, we have two quantitative studies similar to those undertaken by the Americans, by Ring (2003) and Alalehto and Larsson (2008). Beyond these quantitative studies, there are many ethnographic case studies that show some demographic characteristics of the white collar criminal, depending on the character of the data that has been collected during the twentieth century (e.g., Kinberg and Reimer 1942; Spencer 1965; Croall 1989; Shover 1998; Alalehto 2000; Farrell and Healy 2000; Benson 2002; Walters and Geyer 2004; Holtfreter 2005).

In general terms, the studies referred to above show that the typical white collar criminal is a man with a mean age of 40 years. He does not belong to an ethnic minority group, and is likely to be married and living in a stable relationships with his family before, during and after conviction. His prior convictions vary significantly depending on what offenses he is charged for (e.g., antitrust violators normally do not have prior convictions, whereas every other credit fraudster usually does). The typical white collar criminal has a regular income (either because of ownership or employment in typical middle-class occupations), and low unemployment rates compared to street criminals. His level of education varies from being better educated than the general public to having a mainstream education degree (depending on what kind of white collar crime he has committed). Like most of the public, he has in general not had any significant adaptability problems or learning difficulties during schooling. His degree of religiosity is significantly lower than that of the general public. Furthermore, the white collar criminal, to a significantly higher degree than street criminals, owns his own residence. His financial standing varies, depending on what kind of offenses he has committed. Here again, antitrust violators typically have steady and substantial financial assets compared to bank embezzlers, who have much lower financial assets (although bank embezzlers have three times the amount of financial assets than street criminals).

WHO WAS THE WHITE COLLAR CRIMINAL?

This rough picture shows what we know to date about the demography of the white collar criminal, which of course is important for further studies in this area. But does this description also hold for white collar criminals in the past? From historical studies we actually do not know much about the white collar criminals active during the very beginning of the capitalistic period at the end of nineteenth century. What we do know is that the phenomena of white collar criminality was, at least from the British perspective, an increasingly common issue from the end of eighteenth century through the nineteenth century and onward. The fraud activities observed in the workplace and in the business world raised an intense debate, as well as warnings and societal reaction to the fraudulent climate in British industries (Taylor 2005; Locker and Godfrey 2006). But even though this was the case in Britain, few studies have shed light on this period of white collar crime. However, the few studies that actually do exist are limited in terms of data collection because they concentrate on single cases that were in the news at the time. Moreover, the focus was on describing the nature of the case and the reaction in the courtroom, but not the character of the criminal in question (except sweeping statements such as “high status”, “integrity and “high honor”); there were certainly no substantial comments on the demographic status of these individuals (Robb 1992; Johnstone 1999; Taylor 2005; Colley 2005; Wilson 2006). Even if these studies would have provided more substantial information on the white collar criminal’s demography, it would be difficult to generalize the results in any significant way (Alalehto and Larsson 2009). So the question remains: are white collar criminals of the past, from the point of view of their demographic characteristics, similar to white collar criminals today or another type of offender altogether? In our discussion, we interpret our results in the light of modern theories in the field of white collar crime research.

DATA AND OPERATIONALIZATION

We used Statistics Sweden’s historical statistical records on convicted offenders. The data has been reported systematically from 1830 to today. Our working data contain information from 1865 to 1912. The reason for this restriction is twofold. The first reason is technical, as the data collected between 1830 and 1865 is roughly summarized and unsystematically declared, which makes it hard if not impossible to compare the data from one year to another. The data between 1865 and 1912, on the other hand, has been rather systematically presented. In 1912 Statistics Sweden reformed the data in such a way that an accurate comparison between the variables we use before and after 1912, especially regarding the demographic variables, is impossible.

The second reason to start with 1865 is that the previous year, 1864, is to a large degree a demarcation point regarding the implementation of laws that began to transform Sweden from an agricultural, conservative European country into a liberal market economy. It was in 1864 that restrictions on business activities were first abolished, giving all Swedish citizens the legal right to own a business. This was implemented by the Decree of Economic Freedom [näringsfrihetsförordningen], which was accepted by the Swedish Parliament in 1864 (Magnusson 1996). The 1865-1912 period was also characterized by economic growth, industrialization, population growth and other such characteristics that reflected the fact that Sweden was being transformed from an agricultural society to a modern industrial nation. It was also during this period that the Swedish economy became more dependent on the international business cycle than on the domestic harvest (Magnusson 1996). The Swedish labor movement and employment confederation were also established during this period; the agreement between collectives of employees and collectives of employers came in 1906, which became the first step towards the famous Swedish labor market model (Nyström 2000; Swenson 2002). These were all clear indications that a new society was developing during the period under investigation. With this historical background in mind, it is quite logical to stop the investigation before the First World War; economic growth was at its peak and more internationally concentrated than ever, and workers' real wages had increased significantly, even by international standards (Schön 2000). From 1914 onward, the economic fundamentals changed completely as a consequence of the war. As elsewhere in the world, the internationalization of the Swedish economy decreased and the economy became unstable when the international gold standard was suspended to fund the war (James 2001; Schön 2000). From the perspective of economic modernization, the period after 1914 is characterized more by regression than by progress. As such, the relationship between white collar crime and economic development was most likely different before and after 1914.

The data used represent the entire population of reported and convicted offenders in Sweden. The dependent variable is *Offenses in bankruptcy* (Sverige Rikes Lag chapt. 23 1-6 § 1864). For practical reasons we have been forced to accept the categorization of the criminals in the way that the court has chosen, which implies that we have adopted our point of departure to the nature of the offenses handed down by the penal law system (we are thus forced to exclude civil decisions and administrative actions). Given this, we cannot apply the point of departure established by Sutherland (1983), where the act of white collar crime should be specified with regard to the powerful high-status offenders in the society. In any case, our choice of one specific section of the law (offenses in bankruptcy) implies that we nearly meet the character of Sutherland's definition.[2] According to Gratzer (2001) this particular section of the law had an explicit sense of justice in the juridical system in Swedish penal law as early as 1743, where the correspondence section of the law explicitly distinguished between fraudulent acts in general and bankruptcy by omission. Moreover, the section of the law used here is the one from 1864 that is most closely related to the modern concept of white collar crime used today and for which data are available over the entire period under investigation—compared to other related sections of the law governing white collar crime, such as fraud in general, or embezzlement in general, etc.

Our dependent variable *Offenses in bankruptcy* is explicitly divided into three categories: fraudulent, dishonest and careless. Of these three categories we have focused on fraudulent and dishonest since these categories confer an obvious intent to commit a crime, as opposed to simply being careless. These two categories contain five necessary conditions that, together, declare that a bankrupted debtor has committed a fraudulent act if he/she has made a false claim to take over a property using false name, or embezzled money provided by the creditor for his/her own purposes.

There are two sets of independent variables. The first set identifies the individual characteristics of the offenders. Age is indicated via seven different categories: 15-20, 21-30, 41-50, 51-60, 61-70 and 70+. A gender variable distinguishes whether the offender is male or female. Occupation distinguishes between trader, industrialist, military serviceman, tradesman, farmer, householder, cottager, beadsman, worker, and unknown. While this variable is naturally problematic for making comparisons with modern occupational categorizations due to the significant changes in the labor market, we argue that categories can be found that are similar to the modern occupational categories that the literature has identified as conferring a high risk of white collar crime. Marital status distinguishes between married, unmarried, widowhood, and unknown. There is no way of identifying cohabitants that were not married. We assume, however, that this kind of family constellation was so uncommon during the period under investigation that this problem is negligible. Two variables measure education. The first one is education, which distinguishes between the ability to read and write, the ability to read but not write, an inability to read or write, and unknown. The second variable measuring education is knowledge of Christianity, which distinguishes between well-off, adequate, little, none, and unknown. Financial assets distinguishes between well-off, moderate, weak, none, and unknown. Urbanity distinguishes between living in a town or city and living in a rural area. The last variable measures whether the offender had a prior conviction or not.

RESULTS

Table 1 shows the distribution of demographic data for convicted white collar criminal offenders, with all the years being merged. What we see is a rather homogenous white collar criminal. The distribution of gender is 671 males (91%) and 68 females (9%), which reflects a

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[2] That is, " … a crime committed by a person of respectability and high social status in the course of his ccupat□ □ n." (Sutherland 1983, p. 7). However, itl has to be noted that Sutherland (1941e does mention bankruptcy as a typical form of white collar crime.

gender mix that is substantially more male-dominated than today's population of white collar criminals. Moreover, if we compare the figures with the general public at the time, the figures show a distribution frequency of age that was distinguished from the general public's mean age. The mean age of white collar criminals was in the interval 31-40 years, but if measured by median half are between 31-40 years of age, and half are between 41-50 years of age—this suggests that the real specific mean age is around 40-41 years. This is dissimilar to the general public, which had a mean age spanning from 27 years in 1865 to 30 years in 1912 (SCB 2007), which means that white collar criminals were rather old compared to the general public.

Table 1. Demographic data on convicted white collar offenders (bankruptcy offence (Sveriges Rikes Lag chapt.23 1– 6§1864)), 1865-1912, in percent

Sex		Poor	24,1
Male	90,8	Unknown	5,3
Female	9,2	Prior conviction	4,3
total/n	100/739	total/n	100/717
Age			
15-20	0,8	Occupation	
21-30	16	Trader	23,9
31-40	27,9	Industrialist	3,7
41-50	26,8	Military men	1,5
51-60	18,2	Tradesman	9,7
61-70	8,9	Farmer	35,8
71-80	1,3	Householder	3
total/n	100/594	Cottager	3,7
		Beadsman	4,5
Urbanization		Worker	9
Stockholm	6,2	Unknown occupation	5,2
Gothenburg	7,5	total/n	100/134
Malmo	12,6		
Rural county	73,7		
total/n	100/435		
		Marital status	
Religious knowledge		Married	66,7
Illegal birth	3,8	Unmarried	23,7
Well-off Christianity	15,6	Widowhood	6,5
Adequate Christianity	56,1	Unknown	3
Weak Christianity	11	total/n	100/691
Non Christianity	0,7		
Unknown	12,8	Education	
total/n	100/711	Read and write belong the general	8,6
		Read and write	71,5
Financial assets		Read but not write	11,3
Well-off fortunes	5,6	Either read or write	0,9
Moderate	26,4	Unknown	7,7
Little	34,3	total/n	100/688

Regarding the distribution of civil standing white collar criminals has been married nearly three times as often as been unmarried. In fact, being married was even more common among the sample of white collar criminals than among the general public (49.35%) (Historisk Statistik för Sverige 1. Befolkning 1720-1950). The distribution of education level is quite similar with the average level of the general public—over the time period, the general public had an average reading ability of about 90-95%, compared to an average reading ability of about 90% among white collar criminals. Literacy among the general public grew from an average of 50-55% in 1865 to about 95% in 1910, which can be compared to the white collar criminal sample, which had an average literacy rate of about 80%. This can in turn be compared to convicted street criminals, who had an average literacy level of about 40% in 1865 to about 95% in 1910 (Johansson 1977, p 64). The mean for knowledge in Christianity (which is used as an indication of the offenders' moral status) was "adequate", which indicates a level that was pretty much in line with that of the general population, which actually had nearly no knowledge or a deficient knowledge of Christianity over the period. The process of secularization started in Sweden around 1855, and at the time almost 75% of the general population had a "well-off" or "adequate" knowledge of Christianity due to their participation in religious activities, but this level of knowledge declined drastically—to 20%—by 1890, which probably means that the population's knowledge of Christianity drooped to a "weak" or "none" level (Bäckström et al 2004, p 26). As such, a mean level of "adequate Christianity" among white collar criminals was in fact fairly high for this period, and about equal to the level of knowledge of Christianity among street criminals from 1865 to 1878 (Kriström 1975). The mean for financial assets among white collar criminals was "little" (246 cases, compared to 189 cases of "moderate" and 173 cases of "poor"). The population of street criminals in Sweden during the period 1865-1878 had financial assets between "poor" and "little" (Kriström 1975, p 138). The demographic structure for urbanity among white collar criminals was "rural living", with only 24.7% of the convicted living in towns or cities; this was only slightly higher than the mean for the general public, of which 19.2% lived in towns or cities (Historisk Statistik för Sverige 1. Befolkning 1720-1950). With regard to prior convictions, the entire sample had only 31 cases (4.2%).

Table 2. The distribution of mean values in ten-year spans; in percent

	1865-1874	1875-1884	1885-1894	1895-1904	1905-1912	1865-1912
Male	91,4	85,7	89,6	92,8	90,1	90.8
31-40	30,7	21	27,4	31.4	29	27.9
41-50	21.9	28.0	29.1	29.7	23	26.8
Rural county*	73,3	76,1				73.7
Adequate Christianity	67,7	42,1	51,2	56,0	67,6	56.1
Little	36,7	41,2	32,1	36,0	32,7	34.3
Married	68,8	76,5	65,6	50,4	72,3	66.7
Read and write	62,3	65,5	67,9	75,8	92,1	71.5

* Data was only available to 1882. The deviation for the span 1875-1884 was computed for the period 1875-1882.

The mean for punishment was “hard labor penal”, which nearly in all cases included the punishment of “loss of civil rights”. Our statistical records do not show any figures regarding the distribution of owning residences, but we can see from the limited numbers of occupations that at least nearly 40% of the white collar criminals owned their residences (i.e., farmers and cottagers); furthermore, it is plausible that the standard of the residence was far better than those owned by convicted criminals.

The conclusion that can be drawn from Table 1 is that the white collar criminal offender has, to some extent, the same characteristics during the transition from an agricultural society to today’s industrial society. But what about changes in the character of the white collar criminal during this period? Table 2 shows the mean values of the most common characteristics shown in Table 1, in ten-year spans. There is much variation over time, which is most probably caused by the small n. More importantly, however, it is hard to find any substantial trends for any of the variables with the exception of the ability to read and write, which increases during the period under investigation. But this result is more an indication of the increasing ability to read and write among the entire population (Johansson 1977). Thus, it seems that the characteristics of the white collar offender are not only the same when comparing the entire period with that of today, but also that white collar offenders had about the same characteristics in 1865 as they did in 1912. Thus, the transition from agricultural to industrial society and the implementation of the liberal market economy does not seem to have had any impact on the characteristics of the white collar criminal.

CONCLUSION

The aim of this paper was to investigate whether the white collar criminal of today has the same demographic characteristics as those in the first fifty years of the industrialization process, and whether the socio-demographic profile of society changed during that transition. The context to this question was the claim that white collar criminality is, to a significant degree, the result of big business and a culture of competition, both of which emerged along with industrialization (e.g., Robb 1992; 2006; Coleman 1987; 1992; 1998).

From our descriptive data we can see that in many ways the white collar criminal of the past had the same characteristics as the white collar criminal of today. He was typically a man who was married and his education level was quite high (almost regular), as it is for white collar criminals today. His moral character (adequate Christianity) was also pretty much consistent with that of the general public, both then and today (in a relative sense). The fact that he was generally living in rural areas compared to living in urban areas today was a structural circumstance influenced by the incipient process of industrialization and the degree of urbanization that took place as a result. There are four demographic variables that truly distinguish the white collar criminal of the past from those of today: the rather large distribution of men as offenders, the rather high mean age, financial assets, and prior convictions. In many ways, the criminal’s low financial assets is a circumstance that certainly distinguishes him from these criminals today. We can speculate but not give any empirical reasons as to why this is the case, and to some extent this is also true for his low rate of prior convictions (4.3%). It is obvious that the majority of the bankruptcy offenders in the past were not career criminals, but rather one-time criminals—which is similar to white collar criminals today, who typically are offenders who react on temporary crises and do not combine their criminality with other types of offenses and who show a slight frequency of recidivism (Weisburd et al 1991; Lewis 2002). To some extent, we believe that the low prior conviction rate is correlated to a rather well-off level of financial assets before the time of insolvency, which decreased his financial assets and motivated him to commit the bankruptcy offense.

If we deduct the three last years from our sample, we generate a total of 28 prior convictions, which give us a recidivism rate of 4.9% for the period. If we compare our recidivism frequency to Weisburd et al's (1995) discussion that iapsitioment today has a fairly small impact on the convicted offender at the time when the offender received his penalty (the recidivism rate is 29.4% in their sample), our figures show something very different. Compare also the recidivist figures from Wheeler et al (1988) of 34.2 %; Weisburd et al (1991) of 35.4%; Forst and Rhodes (Benson 2002) of 31.3% and Ring (2003) of about 25-30%. Recidivism frequency is obviously different between white collar criminals in the past and those of today.

But of course we cannot exclude the possibility that the low recidivism rate was linked to the specific type of offense. Recent results in the white collar crime field show that there are distinctions in prior convictions based on what kind of white collar crime was committed. Offenders of high-level crimes such as conspiracy, securities violations, and so on have a very low prior convictions rate, compared to those who commit low-level crimes such as embezzlement, tax fraud or credit fraud (Langton and Piquero 2007). On the one hand, bankruptcy offenses are crimes that have the character of high-level crimes such as fraudulent statements (the creditor cheats the debtor by show a fake account in order to hold up the prospect of the debtor). On the other hand, they also have the character of low-level crimes such as embezzlement (the creditor convinces the debtor to trust his money to him, but then cheats him) (Rydin 1888). All told, we aruge that bankruptcy offenses can best be described as mid-level offenses, which Langton and Piquero (2007:11) suggest should mean a higher number of prior convictions among the offenders.

However, these four aberrant independent variables have to be given a theoretically constructed interpretation in order to paint the whole picture of why white collar criminals of the past committed bankruptcy offenses.

We believe that Stanton Wheeler's concept (1988; 1992) of "fear of falling" is a good point of departure for providing a valid interpretation of motivation of the white collar criminals of the past. Wheeler argues that one of the main things that causes an individual to commit a white collar crime is a difficult business situation in which the company he is running suffers from low margins. This situation presents a threat for two reasons. First, if he is forced to liquidate his company he cannot be certain of an outcome that allows him to maintain his family's standard of living. Second, if he liquidates the business he will have effectively failed as a businessman and will suffer a loss of reputation among his business colleagues. In short, he runs the risk of becoming unemployed and earning a much lower income for himself and his family, and of becoming stigmatized as a "loser" among his former colleagues. If the businessman senses both of these factors he will feel the "fear of falling". This increases his motivation for committing a white collar crime.

Now let us examine our demographic statistics and interpret it from the point of view of Wheeler's concept. The majority were married, which probably meant that they were responsible for the family income—an income which was "moderate" at best, "poor" at worst, but “little” in the mean. What we do not know is whether the convicted white collar criminal had had “well-off fortune” or at least a “moderate” level of financial assets when he started the company. He probably suddenly confronted a difficult business situation that led to low margins for his company; he first tried to address this using his own financial assets, which did not improve the situation, and then borrowed the money under false claims from a creditor. This also did not improve the situation, as he was ultimately caught and convicted for a bankruptcy offense, as a man with “little” financial assets. This interpretation makes sense of the fraudulent act. It also makes sense from another point of view: if we look at the figures for prior convictions, they are indeed very low compared to today. If the former Swedish white collar criminal was motivated by a “fear of falling”, he was rather conformist (married, occupational status, adequate Christianity, literate, and a high mean age of 40). He desperately tried to fix his situation, failed, and was convicted. But he learned his lesson, and did not get into further trouble with the law after his release from prison. With the low rate of recidivism in mind, one could easily come to the conclusion that the white collar criminal of the past was not a career criminal, but rather a one-time offender who tried to solve a difficult situation that threatened his standard of living and social status (Weisburd et al 1991).

The very same scenario can be examined from many theoretical perspectives, although we do not □ elieve they □ nt a consistent picture. For example, Gottfredson and Hirschi’s (1994) theory of the absence of self-control can, to some extent, explain the similarities between white collar criminals of the past and those of today. The variables of gender, low financial assets and living in rural areas (common at that time for the population) are equal to those of street criminals, both at the time and today. But the theory cannot really explain the variation in variables such as the high mean age, marital status, occupational status, level of education, and literacy, all of which were more or less equal to those of law-abiding individuals. The theory of the absence of self-control argues that the individual cannot control his impulse to take advantage of an opportunity that emerges; he cannot calculate and then take a strategic decision that will be better in the long run. This does not mean that the offender is unintelligent, but rather that he simply suffers from the absence of self-control. A man with this quality cannot really manage a company over the longer term. Our statistics, however, do not suggest a man with an absence of self-control. The former white collar criminal had levels of education and Christianity that suggested he had the endurance needed to realize certain cultural goals through work and self-discipline. But the real problematic statistic for Gottfredson and Hirschi’s theory is the low rate of recidivism in the sample. A man with this kind of propensity would simply not stop committing crimes just because he was convicted—he would continue commit crimes and become a career criminal. In fact, the low rate of recidivism in our dataset also undermines Sutherland’s opinion (1983, p 227) that white collar criminals should have a high rate of recidivism because their actions were undertaken rationally and without losing their social status among business colleagues, even if they were convicted. In one way or another, Swedish white collar criminals of the past must have blamed themselves instead of other for having been convicted.

Travis Hirschi’s (1969) theory of social bonds seems to better suit the statistics provided in the sample. The bond of commitment, involvement (his occupation) and moral belief are truly supported in the dataset. The statistics on attachment are lacking mostly because of the absence of substantial information about this quality in the records. However, if we look back to the argument on the “fear of falling” this can also be interpreted as supportive of the theory of social bonding. However, a problem that disqualifies Hirschi’s theory is that the statistics describe a man who should not be a criminal at all. The statistics show a man staked in conformity that should act as an obstacle to criminal behavior and restrict his freedom to act against the social order, for two reasons. First, because of his social investments in commitments (marital status, education, occupational status as a farmer or trader); second, because of his moral beliefs in Christianity, which should mean that he believed that the existing social order was a legitimate one. We believe that this contradiction presents a fundamental problem for Hirschi's theory of social bonding. The theory describes four factors of importance behind criminal activity, but it lacks a social mechanism that explains how these factors interact with a structure that motivates the potential offender to commit his crime, irrespective of his stakes in the social order. We think that Stanton Wheeler's concept of "fear of falling" describes this motivational structure fairly well, as it makes sense that the white collar criminal's motivational structure in the context of coping with a difficult business situation points towards a criminal act—despite the fact that he is tied up in the social order.

The other topic under investigation is the correlation between white collar criminality and the transition from agricultural society to industrial society. Sweden went through this transition at the beginning of the 1880s, experiencing an increase in trade, profit and bankruptcy. This can also be seen as related to a "fear of falling" by the fact that some entrepreneurs, who belonged to a decreasingly agrarian economy, did not make the move to industrial sector. They lost their fortunes pretty quickly. But does this mean that these traders could not adapt themselves fast enough to the "culture of competition" and "big business"? We do not think so; in fact, the question of the relationship between the "culture of competition" and "big business" in the Swedish context does not seem to have been a factor at all during the period under study. We suspect that the labor relationship in the burgeoning capitalist market was still mainly characterized, in small enterprises, by close personal relationships between the owner and workers, as well as between the owner and creditors. Even if the production of goods was industrialized, the relationship was still agrarian in structure; as such, the character of reification and selfishness had not yet gripped the Swedish business world by the end of nineteenth century, at least not at the local level (which our dataset mainly represents).

This conclusion is, in fact, not random or a coincidence. The Swedish economic historian Karl Gratzer (2001:251-255) has conducted similar analyses as us (Alalehto and Larsson 2009) on the correlation between bankruptcy and bankruptcy offenses for the period 1916-2000, giving us the opportunity to compare our figures to developments after 1912, as summarized by Gratzer. The mean for bankruptcy in general was 2,618 cases in five-year spans over the 1916-1945 period (with a peak of 5,000 cases in 1920 and a low of 600 cases in 1944). At the same time, the bankruptcy offenses occurred in no more than 4% of all the bankruptcies that took place (pretty much the same rate that our figures demonstrate). However, from after the Second World War to 2000, bankruptcy offenses increased dramatically, from 4% to a mean of 11-12%, with a peak of about 23% between 1965 and 1968. At the same time, bankruptcies in general also increased: from 600 to 700 cases in 1946 to a peak of over 20,000 cases in 1996. This dramatic change in bankruptcy had a significant impact on the pattern of bankruptcy offenses. Gratzer analyzed the data by using OLS regression and found a significant R square of .528, which indicates that over the 1916-1998 period, the variation in bankruptcy offense could be explained by the 53% variation in bankruptcy in general. From this statistical viewpoint, we can at least tentatively conclude, that the big business climate, accompanied by a general self-centered and competitive mentality, took its place in Sweden after the Second World War, but not at the time when the transition from agrarian economy to industrial and capitalistic market structure actually took place.

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Chapter 4

WORK AND WAR IN THE EVOLUTION OF CAPITALISM

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ABSTRACT

The "spirit of Capitalism", as characterized by Max Weber, was initially associated, in Protestantism, with the belief in life after death. Even after the weakening, as of the second half of the 19th century, of such belief, the "spirit of Capitalism" has been able to function as a defense against the reality of death, because it fulfills a displacement from an existential temporality to another temporality ruled by incessant work, parsimony and accumulation of wealth. This defense is not suitable for the soldier, however, it is he who comes closest to the reality of death. Since states need soldiers, they use other forms of denial of death, mainly those states with war programs. In World War I there was a revitalization of the simple belief in life after death. When that belief was shaken by a close encounter with death, the soldier developed mainly symptoms of conversion disorder (formerly hysteria) (Campos Vieira, 2009). In World War II the Nazis applied a technique based on the "obsessive-compulsive disorder" by displacing the fear of death, in the soldier and in the population, to the evil of contagion. The contagion factor was attributed mainly to the Jewish people. It would suffice to isolate or eliminate them in a ritual purification of the race (Aryan). Nowadays, especially in the USA, one tries to conceal the drama of death by placing it as a secondary subproduct of the excitement of the fight of good against evil. Before they are informed, when and if they are, of the reality of natural or accidental death, children have already learned to dilute death in the excitement of the fight. The excitement of the fight for justice, vengeance, freeing someone, dissipates the drama of death. The cinema has been the main diffusion source of this formula. Videogames are the latest generation. Normally these fictions decrease with age. Soldiers, however, can sustain them to defend themselves from the reality of war, applying them to this reality by performing what Roger Caillois called "corruption of games", that is, making the game transpose its own space and invade reality. However, the terrible reality of death can destroy the game and lead soldiers to develop what is

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nowadays the most common psychopathology, as of the Vietnam War, the so called "post-traumatic stress disorder".

Keywords: "Spirit" of Capitalism; World War I; Nazi Germany; Vietnam War; conversion disorder; hysteria; obsessive–compulsive personality disorder; Post-traumatic stress disorder (PTSD); obsessive-compulsive disorder (OCD); risk behaviors

INTRODUCTION

In this article I attempt to articulate contemporary history with psychopathology. The relevant factor is the denial of the reality of death that prolongs the enormous denial constituted by Christianity for many centuries, and which has weakened since the second half of the 19th century. In a previous article (Campos Vieira, 2009), I tried to show that "conversion disorder" (formerly called hysteria) was caused by the proximity of the reality of death to a person who previously strongly denied this reality. At the same time, I tried to insert this mental disorder into the historical evolution of the Christian religion. I think that I have presented sufficient evidence for these hypotheses. In the same article, I also formulated the hypothesis that the "spirit of capitalism" of Protestant Ethics, as characterized by Max Weber, continues to function in the contemporary world, despite the crisis of faith, as a defense against death. Now, in this article, I present two new hypotheses, one about Nazism having used"obsessive-compulsive disorder " mechanisms to reduce anxiety about death among the soldiers and the population, and another hypothesis, according to which already during World War II, but especially after it, death began to be concealed behind the excitement of fighting; this formula was disseminated to children mainly by the American film industry, and it can predispose future soldiers to what is called "post-traumatic stress disorder". These last three hypotheses attempt to articulate known facts into coherent formulations, which already renders them plausible. Although they still lack sufficient evidence to prove them,I think that it can be foundwith a variable degree of difficulty.

1. "SPIRIT OF CAPITALISM"

I attempted to show (Campos Vieira, 2009) that "conversion disorder", the psychiatric symptom that belonged to traditional hysterical neurosis, currently no longer used by the American Psychiatric Association, appeared shortly after a person who strongly denied the reality of death encountered this reality, usually through the death or serious illness of somebody close to them, or when the life of the personhimself was endangered, as in the case of soldiers in war and of sexual abuse. In cases in which the person was not directly involved, often the symptom mimics part of the manifestations of the disease ofthe person close to them, or else recalls death itself, when the limbs no longer move (paralysis), we do not speak (aphonia), we do not see (blindness), all of them pseudo-illnesses without any anatomophysiological underpinning. The pre-condition denial of the existence of death is essential and, since religion is a collective denial of death, conversion disorder occurred much more frequently when religion was dominant, and even more frequently when, beginning in the second half of the 19th century, in the Western World, the belief in eternal life entered a crisis, and atheism grew rapidly, exposing people to the reality of death.

In order to support my thesis, I took the cases of hysteria in all of Freud's works, where neither he nor his disciples noticed that in practically all one finds the background of death or serious illness among people close to the patients. Besides clinical cases of other psychoanalysts, I also based my thesis on the great frequency of conversion disorder in soldiers during World War I and on historical epidemics of so-called hysterical possession, such as St. Vitus dance, the convulsions of the Ursuline Sisters of Loudun, both events preceded by attacks of the Black Death or, in the USA, in Salem, when the colonists were massacred by the Indians.

During the 20th century, as religious feelings weakened because of growing atheism and the relativization of dogmas due to the close contact among many religions and mutual tolerance, conversion disorder became more rare. In the words of E.Trillat: "Hysteria died, of course. It took its enigmas with it to the grave" (Trillat, 1986, p.274)

But the decline of hysteria is not due only to these factors. According to my hypothesis, the explanation is more complex, because, in the words of the DSM-IV-TR (American Psychiatric Association-APA, 2000) epidemiological investigations show that: "Higher rates of conversion symptoms are reported in developing regions, with the incidence generally declining with increasing development" (p. 478). Certainly the development to which DSM-IV-TR refers is socioeconomic, and one cannot say that underdeveloped countries are more religious than developed ones, as the USA is highly religious. The type of religion, indeed, shows significant differences. In the History of the West, the capitalist development has the "spirit of capitalism" as its mainspring, which came from Protestantism, as brilliantly shown by Max Weber. The "spirit of capitalism" preaches unceasing work — having the intolerance to idleness as its background — as well as parsimony, financial success and the accumulation of wealth.

Benjamin Franklin's motto, *time is money,* no longer appears to refer to religion, but the "spirit of capitalism" whence it cameguaranteed for those who led life according to its rules, that they had been chosen by God for the eternal life – to others, eternal death. My hypothesis is that the conducts inherent to the spirit of capitalism constitute a more sophisticated defense than the simple faith in the life after death of Catholicism, insofar as it associates this belief with a *displacement* of existential temporality - where relations of love and a taste for life are destined to loss, if not through the vicissitudes of life,quite certainly through death – to *anothertemporality*framed within the goals of incessant work, parsimony and the accumulation of wealth. As Max Weber writes, in the spirit of capitalism, "*wasting time* is the□ efore the first and most serious of all sins"(Weber, 2002, p.106)

The simple Catholic belief in life after death, when shaken by proximity with death, resulted in conversion disorders.The spirit of capitalism was able to survive the weakening of this belief and function independently from it as a defense against the reality of death.

Traditionally, women were not involved in the world of work and money, and were much more prone to conversion disorders. As they entered professional life the conversions diminished.

When the conducts of the "spirit of capitalism" are exaggerated and disconnected from religion, as often happens nowadays, they are partof the"obsessive–compulsive personality disorder"of modern psychiatry.*Just as conversive disorder occurs more in the* *underdeveloped countries, "obsessive–compulsive personality disorder" occurs more in developed countries (*Millon, Davis, Millon, Escovar, Meagher, 2000).

In "obsessive–compulsive personality disorder", incessant work and parsimony are commonly associated with excessive attention to details in detriment of the essential, the vision of proximity in detriment of the perspective of life. During the second half of life, it is common for an individual with this disorder to manifest depression, because he has not enjoyed life the way others seem to do (Beck, Freeman, Davis, 2004). This is the price paid for moving away from existential temporality.

The accumulation of wealth inherent to the "spirit of capitalism" persisted in our times relatively independent of religion, and Max Weber sees in it today a kind of sports competition: "Where capitalism is at its most unbridled, in the United States, the pursuit of wealth, divested of its metaphysical significance, today tends to be associated with purely elemental passions, which at times virtually turn it into a sporting contest"(Weber, 2002, p. 121). Close to the idea of sports competition, Thorstein Veblen (Veblen, 2010) sees in the accumulation of wealth the purpose of conspicuous superiority according to the principle of pecuniary emulation.Conspicuous wealth is a fact, but it is not the essential aspect, since many millionaires prefer not to show what they have. I myself think that if a millionaire, knowing that his wealth would provide an easy life even for his great-grandchildren, decided to stop accumulating simply to spend, or at least to begin spending more than he earns, he would be introducing time in his life: accumulating presumes an afterwards, and, if accumulating does not establish an end, the afterwards is always put off. (The difficulty of getting rid of objects which are accumulated over time, is one of the characteristics of the *"obsessive–compulsive personality"*.)

In the Donald Duck stories, the fortune Uncle Scrooge has accumulated and preserves remains intact over time, since the sequence of generations from grandfather to grandchildren does not appear to be replaced by the relationship from uncles to nephews; Uncle Scrooge's strongbox outside town recalls an Egyptian pyramid that held the pharaoh for all eternity . The triangle was replaced by the square.

2. SOLDIERS IN WORLD WAR I

But the state not only needs individuals dedicated to work and production, it also needs soldiers. The spirit of capitalism is not adequate for soldiers who have to approach the reality of death. The *Reiterlied*, cavalry song, of Schiller (n.d.) reveals death hidden in the activity of the ordinary man and magnifies the soldier who faces it:

> Who looks on death with unblenchingbrow,
> The soldier alone is the free man now
> ……………………………………………………
> The bondman grubs in the earth so brown
> Still weening to lift a treasure;
> He digs and shovels fill life is past
> And digs but a trench for his grave at last

But the soldiers of this period of the Wars of Liberation, at least up to World War I, did not face death without protection, not given by the spirit of capitalism, but by the simple Christian belief in eternal life, which was reinvigorated, as George L. Mosse showed in the book *Fallen soldiers — Reshaping the Memory of the World Wars* (Mosse,1990):"From Germany to Poland postcards showed Christ or an angel touching a dead soldier" (p.75) "However , the most important function of this popular piety during and after the war was to help overcome the fear of death and dying. The expectation of an eternal and meaningful life — the continuation of a patriotic mission — not only seemed to transcend death itself, but also inspired life before death." (p.78)

The simple belief in life after death, associated with the great proximity to death experienced by soldiers in the 1914-1918 War brought back the symptomatology of the hysterical type: "It is useless to ask what would have happened if the 1914-1918 War had not occurred (...) the hysterical phenomena that had practically disappeared returned with a significant frequency" (Trillat,1986, p. 241-242). After 1914 one goes back to talking about hysteria. Ferenczi, a disciple of Freud, in 1918, writes: " a real museum of hysterical symptoms" (Ferenczi, 1974)

3. NAZI GERMANY

World War II, especially in Germany, valued new means to deny the reality of death. Protection through religion, revitalized by World War I, was rather discredited, even because Germany lost the war. Hitler prized two new ways to dissipate the anxiety of death present in those times in Europe, as a result of the unusual violence of World War I. (Because of this anxiety, there was no strong resistance to German invasions, especially by France, because theypreferred being dominated to the repetition of killing.). *Firstly*, to dissolve the anxiety of death, Hitler used the *feeling of union* among individuals, appealing to nationalism and especially to the ideology of pure race – in this case the Aryan race – that was supposed to have a natural right to dominate other peoples based on an evolutionist conception. Evolutionist thinking in itself already rejected religion. The "blood union" in therace relieved the anxiety of death. Let us see how.

Some authors, for instance Durkheim and Claude Barrois, showed that proximity to death in a traumatic situation, as it can happen in war, but also in accidents in civilian life, is experienced in a feeling of extreme loneliness. "The brutal disarticulation of ties to the human and non-human environments, sometimes emphasized by a fissure in the first envelope which is the own body (body surface, sensory organs, locomotor system), a privileged mediator of all social ties, will, in the same movement, transform an individual *in the world* into an individual *outside the world*. Psychic trauma is a true demonstration by absurdity of the genesis of an individual from the *socius*" (Barrois,1998, p.169-170) and "an *individual* without a group to oppose or on which to support himself, a *subject* without an object, nor a second, nor third person to sustain their discourse, he is reduced to an interiority invaded by the anxiety of void" (ibid, p. 170). Corollary: unity with others keeps away the anxiety of death. Especially in Nazism, where unity is strong, through blood.

We will examine this point at length, using some knowledge of psychology. It was shown by Spitz (1965), Bowlby (1990), Vieira , Castro (2010), that during the first six months of life, a baby does not yet distinguish between the family nucleus on the one side and strangers on the other; this usually occurs shortly after the beginning of the second semester; it then begins to react anxiously when faced with strangers who try to approach it, and seeks protection from the family. According to Bowlby, this family-stranger division serves the *instinct of survival.* Later, during adolescence, driven by the need for autonomy, young people loosen the family ties and usually create groups of their peers. As the adolescents become older, destiny is projected into a perspective ending in death (Alleon, Morvan, 1990). Youths commonly react to this reality of life by underestimating it through risk behaviors, driving automotive vehicles, practicing radical sports and constituting cohesive groups, believing that in this way they are strengthening themselves against death. Faithfulness to the group is less a function of the fear of retaliation by its members, than lack of protection.

Recently, I was able to observe aging people promoting meetings among friends from their adolescence, not so much to feel young again, but to bring back the feeling of union with their group. Once again united to face death.

Hysteria also showed a defense against the reality of death in the tendency to constitute epidemics that were a caricature of unions.

As I said, Hitler used two methods to reduce the anxiety of death among the soldiers and the population. One was the feeling of union, the other the way he used racism. This way is characteristic of the “obsessive-compulsive disorder” (OCD), according to the designation of modern psychiatry, or obsessive neurosis. (The similarity between the designation of this disorder and obsessive-compulsive personality disorder exists mainly to preserve a tradition, since the clinical descriptions are very different.) One example of this disorder can be found by the reader in the aviation magnate, Howard Hughes. At the same time he was very obsessive about contagion, he was a fearless pilot, and did not retreat from situations of great risk. One was a condition for the other. The anxiety of death is absorbed by the obsession of contagion, which induces a strong uneasiness, but does not refer to death or does so only very diffusely; and this uneasiness is in turn annulled by rituals (compulsions), thus “liberating” the individual to experience situations of danger without feeling fear. In some individuals with OCD obsessions do not occur, only compulsive rituals; they do not even feel the uneasiness resulting from obsessions. The psychoanalyst Serge Leclaire was the first to verify that the obsession about contagion covered up anxiety of death: “the obsessive structure may be conceived as a double refusal of the ultimate possibility of one’s own death.” (Leclaire, 1971, p.138). More recently, C. Brunot (2005): “Obsession reveals an aspiration that every human being knows, of not aging, of remaining an eternal child, of embodying through words and thinking this immutable body which would be this ideal body liberated from death” (4th cover)

About the immunization and strengthening resulting from the elimination of the contaminating agent, I cite Paul Ricoeur (Ricoeur, 1960), referring to rituals of primitive peoples: “ If you want to avoid a difficult or fatal childbirth, protect yourself against a calamity (storm, eclipse, earthquake), avoid the failure of an extraordinary or dangerous action (travel, overtaking obstacles, hunting or fishing), observe the practices of eliminating or conjuring dirt” (p.37), and “*the prevention of dirt takes care of all fears and all pains* “ (p.38; italics mine).

In her classic *Purity and Danger* the English anthropologist Mary Douglas (2008) criticizes analyses — including the one by Paul Ricoeur of the previous citation — that saw in primitive religions the presence of fear associated with dirt. Opposing them, she writes: “But anthropologists who have ventured further into these primitive cultures find little trace of fear. Evans-Pritchard's study of witchcraft was made among the people who struck him as the most happy and carefree of the Sudan, the Azande.(....) Audrey Richards, witnessing the girls' initiation rites of the Bemba, noted the casual, relaxed attitude of the performers. And so the tales goes on."(p.2). Although the author did not realize it, she describes the so to say "happy" OCD of the person who does not even suffer the uneasiness resulting from obsession, and only reserves some time for his rituals, gaining tranquility in exchange.

Currently the most common mental disorder among soldiers is "post-traumatic stress disorder" (PTSD) or traumatic neurosis, as it used to be called, which we will return to further on; right now, we are interested in knowing that in this the presence of the reality of death *is not hidden*. It may be associated with other disorders, such as depression, phobias, asthenia, but not with OCD: "(...) Obsessive psychoneurotic complications of war neuroses are rare. Obsessive neurosis (or obsessive-compulsive disorder) *is basically different from traumatic neurosis, and we cannot really see how the two neurosis could penetrate each other*" (Crocq, 1999, p.129, my italics). This information also shows us how OCD, protected from contagion by obsessions and rituals, moves away from the awareness of death.

In his expansionist policy, Hitler used the OCD mechanism which we saw to diminish the anxiety of death generated by the *prospect* of war and by war itself, in soldiers as in the population. The contagion factor was attributed to minority groups and, as is known, mainly to the Jews. The Jews were characterized in *Mein Kampf* as parasites of the Aryan race, bloodsuckers, dirt and destroyers of their purity when they induced Jewesses to reproduce with Germans.

The Germans were prepared to go to war without fear; united by blood, with the anxiety of death absorbed into the Jews identified with contagion, which it sufficed to isolate or eliminate. According to my hypothesis, Hitler did not have two problems, war and the Jews: isolation and extermination of the Jews were part of the war strategy. Racism against the Jews was already there before Hitler used it strategically.

I think that such irrationality, that the Germans believed that they were a higher race and that the Jews conspired against the world, cannot be explained by feelings of grandiosity, but rather by the anxiety of death announced and brought by war.

4. SOLDIERS FROM WORLD WAR II UNTIL THE PRESENT

As in World War II the resource of the denial of death through religion had become weaker, there was a decline in conversion disorder, as Louis Crocq (1999) wrote:"Clinically, one of the great revelations of World War II was that hysterical conversions became more rare" (p. 46).

Psychosomatic disorders were more frequent in World War II instead of hysteria. Already more cases of post-traumatic stress disorder (PTSD) (or traumatic neurosis) began to appear, although the data are not precise; possiblyit occurred more frequently in milder forms, confounded with states of great fatigue, than later, during the war in Vietnam.

Post-traumatic stress disorder (PTSD) is caused when a subject experiences the reality of death directly, or it happens to someone close to him, or he witnesses it, for instance, in accidents. The symptoms consist of very painfully reliving the experience through intrusive memories, nightmares, flashbacks, easy evocation in daily life, through signs that recall it even remotely, and through a withdrawal in social relationsand in intimate relations, that may persist lifelong.

The trauma may have been so terrible that practically any person develops the symptoms. More frequently, for the same type of trauma, some develop the disorders, others do not. Research has shown that states of dissociation, experienced at the time of trauma, i.e., feelings of unreality about what is happening, and of depersonalization, where the subject feels a stranger to himself, predispose to the development of PTSD (Marmar, 1997).

We will look at a condition that may be at the inception of these feelings of dissociation. For this, we will begin by examining the *risk behaviors* which have occurred increasingly often in the last 3 decades in radical sports and in driving vehicles, and then we will return to the soldiers.

One of the explanations that have been given for risk behaviors is based on biology, where an imbalance in the catecholaminergic system (Zuckerman 1984), and more particularly in the dopaminergic system (Zuckerman, 1995), induces the subjects to *sensation seeking* in order to get rid of feelings of boredom and monotony. The problem of this kind of explanation is that it assumes that the biological factor, neurochemical in this case, is the first link in a cause and effect sequence. It may only be the substrate of feelings and sensations that could not exist without matter and not the cause of them, or a psychological cause may provoke a biochemical alteration, which in turn will provoke a psychological state; in this case the primary cause is psychological, not biochemical, as in the known example of a loss; it can provoke a change in neurotransmitters, mainly serotonin, which in turn induces a depressive state. Moreover, in the case of risk behaviors, the biological explanation is not determined with regard to the fact that these behaviors occur a lot more at the end ofadolescenceand the beginning of adult age, while in psychology we have satisfactory explanations for this, as we will see later.

Another explanation that has been given is to consider risk behaviors as ordalic behavior (Le Breton, 2007; Charles-Nicolas, Valler, 1982). Ordalic was a ritual practiced during the Middle Ages, in cases when judging a person, it was not possible to decide whether he was innocent or guilty, and the judgment was left to God, placing the "defendant" in a very dangerous situation. If he were not injured, he was innocent, otherwise, guilty. About ordalic conduct, Le Breton (2007) writes: "Society implicitly made a negative judgment of a young person. He does not recognize himself or only barely in what he perceives. As to people who are affectively important to him, they also do not assure him of the value of his existence. Since society is disqualified, he questions another instance, metaphysical but powerful: if he succeeds in escaping death after having been in contact with it for an instant, another answer is given to him, this time about his personal value.(…) "When the other modes of symbolization have failed, escaping death, passing in the test, offer the ultimate proof that his existence is assured" (p. 109-110).

This type of interpretation is not precise. Besides the indetermination of concepts, we do not know how the young person's life loses meaning and how to distinguish him, at this point, from other young people. In ordalic conduct one usually includes drug addicts, young people who risk their own lives and those of others, in the manner in which they drive on highways, and even delinquents. Are these cases likewise explained by a metaphysical questioning, which appears noble? Moreover, if the "higher instance" has already acknowledged the value of the youth who risked his life, why would he have to repeat the experience again and again?

My hypothesis is different. Risk behaviors are more common at the end of adolescence and beginning of adulthood (Peretti-Watel, 2010). As adolescence advances, destiny is projected into a perspective ending in death(Alleon, Morvan, 1990). Youths often *hesitate* about wanting to know this reality. The symptoms of conversion disorder, currently discrete, which, as we have seen, suppose a denial of death, are precisely much more frequent in this phase of life (Lebovici, Vincent, 1985).

The favorite movies of young people today are the *Twilight Saga*. Bella, the adolescent character, hesitates between belief in immortality, represented by the Vampire, and the acceptance of human finitude represented by the Werewolf, a mixture of man and wolf. The wolf that devours the grandmother in the story of *Little RedRiding Hood* has its source in the Greek god Chronos who devours his children; Chronos represents time which ultimately "devours" all of us.In the tale *The Wolfand the seven little kids* the only kid that was not devoured by the wolf hid inside the grandfather clock, which leads one to time. Little Red Riding Hood and her grandmother are the same person at two points in life, menarche and menopause. Menstrual blood is a marker of time in life, denied by the vampire who sucks the (menstrual) blood, like a baby sucks milk, inverting death and birth.

As for risk behaviors, some people propose that the youth who practices them ignores, or at least underestimates the risk, but "the information [from campaigns about risk] paradoxically incites certain individuals to seek out risks (..) the higher the risks, the greater the benefits" (Michel, 2001, p.12). According to the latter view it is the perception of risk that makes this behavior exciting.

I think that the risk is and is not denied. How can this be? Because it applies child's play or games to reality. Playing or games are, by nature, separated from reality, but what happens in risk behaviors is that they invade reality, what Roger Caillois (2001) called, in his book*Man, Play and Games,*"corruption of games". Adventure fiction is applied to reality: sea, jungle, snow, speed, flight, cops and robbers, while circumscribed to the space of play and games, were simulations that did not present danger. Now, they invade real life, but it is not like a game, in real life there is danger, but since the risk behavior came from the game, it disqualifies danger. *It exists but is not taken seriously, because games are not a serious activity.* This mockery of risk is a young person's defense against the reality of death which has revealed itself to him as destiny.Excitement in risk behavior is due to this disqualification of danger, like the bullfighter fooling the bull.

Currently, many soldiers go to war with a game to be applied to reality *and so diminish the fear of death*. It is a game that comes from childhood, and already in those days it obscured the reality of death. Nowadays, before children are informed of the existence of death, natural or by accident, they become acquainted with death as a byproduct of the fight of Good against Evil. The excitement of the fight for justice, vengeance, freeing someone, dissipates the drama of death. The fight shifts death to a less important secondary plane. Movies and TV play the main role in this. They introduced the super hero doll figures. Videogames are the latest generation. Cartoons in which death appears were preceded by others of the Tom and Jerry type, where it simply does not exist. No matter what happens, the characters are not harmed. In the centuries when religion dominated, at the age when, for a child, reality became more objective, and no longer was mixed with animism, the child could then have a more realistic notion of the existence of death. Catechism informed it about death at the same time, however, as about the Resurrection of Christ and life after death. Today this information is not given, it is left to the media.

This eclipse of death behind the excitement of fighting is, in my opinion, the current formula, with greater or less success, to reduce the anxiety of death, which is of interest to modern states because, by this way, they find it easier to get soldiers who are prepared and willing to fight.

The first time I noticed this concealment of death by fighting was reading Freud when, in 1920, he introduced his new theory of instincts in *Beyond the PleasurePrinciple.* During the 1914-1918 War, with the appearance, as we saw, of many conversion disorder symptoms in the soldiers, and already of war neurosis, psychoanalysis received the greatest criticism ever: it was *obvious* that the soldiers' pathology had something to do with a current problem – the war that brought themassive presence of death – and was not infantile, and even less sexual, as psychoanalysis thought. In that article, Freud recognized the exception represented by war neurosis (and traumatic neurosis in peacetime), *but to explain it* he introduced the concept of "death instinct" inherent to all organic life, turned originally to the person itself (the concept of primary masochism), who, in a second moment projects it outward in the form ofaggression, giving rise to sadism. Death was thus transformed by Freud into death instinct, which in turn was transformed into aggression.

Many soldiers go to war with an infantilized view of death which they have assimilated from movies and games, in a movement of corruption of games as defined by R. Caillois. Once they are there, an *inversion* occurs: it is the reality of death that imposes itself terribly, invading the game and destroying it. The dissociative feelings of unreality and depersonalization experienced at the time of trauma, which predispose to later constituting the post-traumatic stress disorder, appear to come from the abrupt passage of game to reality, by imposition of the latter.In the constituted post-traumatic stress disorder it is common for the soldier to feel and behave like a child, seeking to reconstitute a previous world and get rid of the new reality that brought the existence of death with it, but, despite this defense by the subject, the new reality persists, dissociated, returning in invasive memories. From L. Crocq (1999) I extracted: "The blocking of the function of love and relationship, giving rise to major libidinal regressions [this is a particular notion of psychoanalysis, but that does not compromise the following meaning, which is generally valid], is universally observed in war neuroses. The French psychiatrists in World War I, referring to the works by Dupré and Chalin at the beginning of the century talked about 'mental puerilism' or 'mental infantilism'.(…) In severe cases, the patient renounces his status as an adult and behaves explicitly like a child"(p. 142). L. Crocq reports one of Charpentier's cases: "The vocabulary [of the patient] is childish ('papa, mama') and the tone is puerile. He likes to play with children and birds (he cried when a small bird he had been given died)"(ibid, p.143).

A symptom of children with PTSD is that they replay the traumas experienced when playing. In this way they try to render the ludic world compatible with the traumatic reality that invalidated it, assimilating it. Many children with PTSD have the feeling of a foreshortened future, that they will not reach adulthood. This is the opposite of what happens with a young person who practices risk behaviors, and thus prolongs childhood and extends his life time, applying the game to reality, or of the young soldier who goes to war with an infantilized view of death.

The main contestants for the 2010 Oscar were *Avatar* and *The Hurt Locker*,which won the Oscar. It is a replica of *Avatar*, since the main characters in both movies – the earthling who becomes an alien and the bomb disposal expert in the war in Iraq – have the characteristic of ignoring fear. Avatar is almost a regression to cartoons (the bluish figures with tails look similar to those in cartoons, where, since any damage is reversible, death is suppressed (the father of the alien woman in Avatar dies and remains alive). In the Hurt Locker, the character that performs bomb disposal is an artificial creation based on Zuckerman's concept of "sensation seeking": it is said in the movie that he is an adrenalin addict. The character who is his counterpoint, the soldier who fears death, is more interesting. He receives psychotherapy. I was stupefied to see him in the therapist's room playing war video games right at the very time of military action. The therapist tells him to set aside the obsessions of fear of dying, and that "this [the war] doesn't have to be a bad time in your life, *war could be fun".*The therapist's prescription is to continue playing the game at any cost, to keep away the reality of death.

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Chapter 5

POLITICAL ACTION COMMITTEES AND THE EXPROPRIATION OF THE COMMON

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ABSTRACT

This chapter analyzes the dynamics of U.S. political action committees (PACs) in the oil and gas industry. We find that PACs were used strategically in order to try and influence legislators to open up the Arctic National Wildlife Refuge (ANWR) to hydrocarbon exploration. Drawing from a revised political economy theory, we contend that PACs are thus employed in order to facilitate an 'expropriation of the common'. Further, in examining the financing of PACs we find that labor constitutes the major donor group. We thus conclude that PACs represent means through which to capture the regulatory process as well as to simultaneously exert subtle forms of employee control. Moreover, the chapter makes a theoretical contribution by arguing that such forms of employee control have become more prevalent due to the advent of immaterial labor and the attendant crisis of accounting that immaterial labor induces.

Keywords: crisis of control; exploitation; immaterial labor; political action committees; political economy theory; regulatory capture

1. INTRODUCTION

This chapter concerns itself with the mechanics of U.S. political action committees (PACs). These are separate legal entities which are set up by corporations in order to channel funds to federal legislators (Mack, 1997; Ryan et al., 1987). As such, PACs have previously

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been the subject of research which has pointed out how special interest groups manage to shape legislation in their own form (see, e.g., Cho et al., 2008; Luke and Krauss, 2004; Roberts and Bobek, 2004; Thornburg and Roberts, 2008). However, in this chapter, the dynamics of PACs are explored in greater theoretical detail, notably with regard to how such analyses can be situated within the context of political economy theory (PET), rather than conducting a detailed empirical examination of corporate political strategies or the rationality behind corporate resource allocation to federal legislators.

Previous literature looking at PACs in the context of PET tends to view the latter in a broad fashion. That is to say, previous PAC studies tend to support the view that the regulatory process is captured and controlled by powerful private interests. However, we also seek to move beyond this previous research in two substantive ways. Firstly, we seek to subject the notion of structural inequality to more scrutiny than has hitherto been the case. We do so by situating our analysis of PAC contributions to legislators within a radically revised version of PET. Drawing from the Italian Autonomia school, the chapter considers how structural inequality operates within the context of capitalist post-modernization – a context where production has become decentralized and where the immaterial has come to dominate the industrial as the hegemonic labor form (Hardt and Negri, 2005). These changes in the nature of modern day work practices have created a number of nuances within the capital-labor relation that arguably alter our very understanding of what is exploitation. Exploitation can now be thought of as ‘expropriation of the common’ (Hardt and Negri, 2005) rather than simply surplus value formed through hours worked. We suggest that PACs and the uses to which they are put need to be understood within this context.

Furthermore, the advent of immaterial labor has itself created a crisis in accounting that extends beyond anything that conventional PET has dared to contemplate. Immaterial labor is so diffuse that it has become immeasurable in the modern day capitalist system, rendering value something that is beyond measure. As such, this crisis in measurement simultaneously exacerbates management’s crisis of control. This is endemic to capitalist post-modernization, but we argue that when expropriations of the common are enacted through PACs, this further serves to isolate labor from capital and so management’s crisis of control is once more exacerbated. Consequently, capital has to resort to further attempts at controlling immaterial labor, albeit without the historically effective disciplinary mechanisms of accounting. We argue in this chapter that PACs, although ostensibly vehicles through which the expropriation of the common can take place, also offer a means through which to control labor. Previous studies looking at PACs have focused on their downstream contributions to politicians. Examination of their upstream financing in this chapter reveals that they are largely financed by labor. The chapter therefore explores this phenomenon of labor financing the terms of its own expropriation in order to consider what implications arise for the capital-labor relation.

The chapter proceeds as follows. The next section introduces PACs and considers the PET interpretations that have been offered by the literature in that regard. In that section we also introduce the theoretical framework and outline the importance of terms such as the ‘social factory’, ‘immaterial labor’ and ‘exploitation.’ Of central importance are the arguments that set the scene for consideration of the role of PACs as employee control mechanisms. The subsequent section takes a look at the Arctic National Wildlife Refuge as an example of the common which has been subject to attempts at expropriation and present some analyses of donations to PACs from various parties, particularly employees. Section 4 summarizes the results, seeks to situate them closely within the theoretical context as outlined earlier, and concludes by discussing some potential implications.

2. BACKGROUND

2.1. Political Action Committees and Political Economy Theory

A corporate PAC is a separate legal entity established by a corporate "parent" (or sponsor) and financed by "donors", without whose support the PAC would not be viable (Eismeier and Pollock, 1988). The sole purpose of a PAC is to collect campaign funds and disburse them to federal candidates (Mack, 1997; Ryan et al., 1987; Shipper and Jennings, 1984). PAC contributions help corporations gain access to legislators and regulators to discuss their positions on proposed legislation in an attempt to influence policy outcomes (Hillman and Hitt, 1999; Mack, 1997). Since their allowed existence through FECA, the number of corporate PACs has sharply increased from 89 in 1974 to 1,327 in 1981 and shown progressive growth to reach over 2,000 making contributions in 2006. More recently, during the 2008 election cycle, corporate PACs donated over \$286 million to congressional candidates (Center for Responsive Politics, 2010).[2] There is little doubt that PACs have been an efficient means to influence legislators, which explains their explosive growth since their existence. For example, Luke and Krauss (2004) found a positive relationship between the amount of campaign contributions received by United States Congress (hereafter, "Congress") members and the likelihood of them voting pro-tobacco on tobacco-related bills.

Previous studies in the literature looking at PACs have convincingly shown how PACs are employed in order to capture the accounting regulatory process in the U.S. Such studies invariably support the case for a political economy view of the regulatory process, highlighting where regulations have been shaped by powerful interests in their own form. For example, Roberts et al. (2003) reported significant results on the rationale and effectiveness of PAC contributions from the U.S. public accounting profession during auditor liability reform. Roberts and Bobek (2004) likewise found that large corporations exercised considerable political power during the state's formulation of new tax accounting laws in 1997. As such, Roberts and Bobek (2004) "question the applicability of a strict pluralist model in...policy research" (p.565), highlighting how regulatory processes tend to be shaped in accordance with the structural inequalities in society. Thornburg and Roberts (2008) look at the PAC contributions of large accounting firms during the policy formulation period of the Sarbanes-Oxley Act of 2002, finding that the profession generally directed funds towards more conservative legislators. Thornburg and Roberts' (2008) study again implies that the regulatory process is not a neutral one but is in fact biased towards powerful private interests. Finally, Cho et al. (2008) show how a sample of firms in the chemical and petroleum industries similarly directed their PAC funds towards legislators deemed influential in a

[2] It is important to note the limitation on the dollar amount of campaign contributions according to FEC regulations. Groups and individuals may donate up to \$5,000 to a single PAC per calendar year. In turn, PACs may contribute up to \$5,000 to any candidate or his/her authorized committee per election (Center for Responsive Politics, 2010; Mack, 1997).

controversial piece of legislation that was passed in the U.S. immediately after the Bhopal disaster of 1984. The results of Cho et al. (2008) suggest that these industries sought to use their PACs in order to subvert legislation that sought to constrain environmental pollution.

2.2. Beyond Regulatory Capture

Previous literature on PACs has therefore looked at how regulation has been the target of capture strategies by both corporations and industry associations. We argue that the above political economy arguments, while importantly drawing attention towards how structural inequalities come to manifest themselves in the regulatory process, would benefit from amplification. More specifically, political economy needs to be rewritten in order to reflect the modern nature of work and social organization. In the post-modernized economy, there might be much more going on when regulation is captured through PACs than conventional political economy interpretations would suggest. In order to illustrate what extra-regulatory tendencies are produced by regulatory capture, we draw from the Italian *Autonomia* school of thought.

Autonomists take as their unit of analysis not the factory, but the ‘social factory’ (Cleaver, 2000). The social factory designates a more diffuse and multifarious definition of labor, emphasizing the productive work undertaken both inside the workplace by waged labor but also outside of the workplace in terms of domestic labor, the unemployed, the unwaged, students, leisure time, etc. The contribution to the production of value that is made by domestic work is perhaps the more straightforward form of ‘work outside the workplace’ to grasp. Such work includes the auxiliary support that is necessary to allow wage earners to earn wages as well as the moral and intellectual shaping of future workers, i.e. the physical production of labor. It was such domestic work that was the subject of early *Autonomia* analyses in the1960s, but since then the realm of the social factory has been expanded to include all activities which contribute to and draw from what Marx called the General Intellect, “that heritage of cooperative production marked in language, common feeling and enjoyment, and in science and technique, to invent evermore sophisticated forms of interdependence” (Harney, 2007, p.146). This extends our understanding of what constitutes work exponentially to include, not just thinking about how to structure tomorrow’s meeting whilst taking a shower, but also the emotional and psychological investments that are made by the masses of people who are now daily contributing to internet sites such as MySpace and Facebook. Put differently, labor does not just produce material goods but all facets of social life: economic, cultural and political. Hardt and Negri (2005) refer to labor in this sense as “biopolitical production”.

The progressive expansion of the social factory has been mirrored simultaneously by changes in the organization of the factory. In the late twentieth century, the Fordist production model gave way to a more decentralized means of organization whereby production planning became more directly responsive to the needs of markets (see, e.g., Boltanski and Chiapello, 2006; Hardt, 1999; Hardt and Negri, 2005; Negri and Hardt, 1999; Virno, 2000). Moreover, it has been recognized by many that these changes in the auto-industry are emblematic of a general transition to capitalist post-modernization (Hardt, 1999). One of the key changes associated with these shifts in the organization of production refers to the way in which communication and information have come to play a central role in the labor process.

Industrial labor has given way to 'immaterial labor', being labor which creates immaterial products such as knowledge, information, communications, relationships or an emotional response (Hardt and Negri, 2005). One subset of immaterial labor is affective labor, being labor that produces affects such as feelings of well-being, comfort or excitement. Some jobs solely aim to deliver this, although such affects are increasingly necessary elements of the way in which all jobs are done.

Essentially, the boundaries between the factory and the social factory have largely broken down. For example, necessary forms of cooperation and communication have to be developed among children in preparation for the workplace. There is also an increasingly blurred distinction between work time and leisure time. Being able to conduct particular types of relationship at work is not merely a question of professional development but entails a particular type of person. Immaterial labor is therefore not a product of the worker but an all consuming project of the self. More important than productivity is how to control subjectivity (Negri and Hardt, 1999). In spite of, in some cases, 'reasonable' working hours, work intensification suggests more exploitation than ever (Marazzi, 2007). Harney (2006) refers to this blurring of work/life boundaries as a "biobargain, where there is no end to what might be asked" (p.942).

2.3. Understanding Exploitation

When promoting post-modern intellectual frameworks there is often a danger that the object of critique loses focus. Yet revising political economy for the post-modernized economy need not involve a political retreat from the antagonisms inherent to late capitalism. Indeed, "the task of today is to renew the political economy of exploitation – for instance, that of anonymous 'knowledge workers' by their companies" (Žižek, 2009, p.54). However, within the context outlined above, exploitation takes on a new meaning that cannot be reduced to some quantitative measure of labor time or hours worked *á la* traditional political economy. Such metrics fail to capture anything but the most impoverished measure of value. Exploitation might, instead, be understood as 'expropriation of the common' (Hardt and Negri, 2005). In other words, capital does not merely create value by controlling labor towards that objective, but by tapping into the General Intellect and appropriating labor's self-activity. This is not an entirely new phenomenon. CLR James (as cited in Harney, 2006) noted that it was the slaves who ran the plantations and that only do the slave-owners expropriate in the last instance. So exploitation consists of the expropriation of the knowledge, ideas, processes that are built up over time and collectively by labor. This is starkly exemplified through innovations in intellectual property. In patenting OncoMouse, a genetically modified animal, DuPont lays boundaries around certain strains of genetic code. Yet the patent around these genetic codes can hardly be attributed solely to DuPont scientists in the last instance. What role attributed to those who developed the techniques through which these discoveries are made? Or those who developed the equipment used in the process? These developments are the result of common endeavors built up over time (see Hardt and Negri, 2005). Similarly, through PACs, corporations attempt to capture legislation so that certain elements of the common become opened up to private expropriation (for example, when exploration rights are sold off or when natural resource areas are opened up for private sale and/or exploitation). The converse is also true – PACs can be targeted towards keeping certain areas of the private excluded from the common. This is the case when the U.S. public accounting profession or corporations lobby against increased disclosure requirements (see, e.g., Thornburg and Roberts, 2008 and Cho et al., 2008).

Looking at expropriations of the common in the context of the social factory we see a number of reverberating tendencies. Although it is capital's intention to expropriate the common, this always creates a crisis for management because each expropriation of the common leads labor to look elsewhere in order to generate self-activity. Once the common becomes private, it becomes dead labor and closed off to living labor. Labor therefore loses interest which, in turn, creates a crisis of control for management who, of course, needs labor in order to carry out the terms of its own expropriation.

In other words, capital is constantly chasing labor, which is constantly running away from capital. This can be exemplified through recent developments in online shopping. The birth of eBay in 1995 was the result of labor that was autonomous from capital, a collection of self-organizing individuals looking to cut out the middleman. Developments since 1995 have seen eBay progressively increase selling fees, become listed as a Fortune 500 company and buy up a series of similar online collaborative endeavors such as Craigslist and Skype. The company, in seeking to cut out the middleman, has become the middleman. As a result, its community of online traders is now beginning to develop alternative autonomous spaces where they are unencumbered by selling fees and behavioral protocols (Jones, 2008). This example is indicative of a general tendency in capitalist post-modernization. The private is constantly trying to shackle and pin down the common yet as soon as it does so the common finds a way to break off the shackles of the private. All processes of expropriation thus tend to create a crisis of management control.

2.4. PACs as an Instrument of Employee Control

One of the key challenges for management is how to ensure that the interests of capital and labor are more closely aligned. "What modern management techniques are looking for is for the 'worker's soul to become part of the factory'. The worker's personality and subjectivity have to be made susceptible to organization and command" (Lazzarato, 1996). Our argument is that given the crisis of management that is generated by processes of expropriation and that is exacerbated through the attendant crisis in measurement, PACs represent an opportunity to keep employees more tightly harnessed to the goals of management. In other words, although the ostensible intention of PACs is to direct funds towards activities that create the conditions for the expropriation of the common, they are also means of infusing the expropriated common with the existing common, thereby softening the violence of the private. Previous works on PACs have focused solely on the projects to which they have been directed. This leads to a limited view of what functions PACs serve and what affects they have on the capital-labor relation. By focusing also on the financing of the PACs a more complete analysis of these factors becomes possible. One aspect of PAC research that is often overlooked is the process for contribution solicitation from donors. Previous research suggests that these donors come overwhelmingly from inside the organization. For instance, shareholder representation is minimized or sometimes absent in most PACs because they simply do not solicit shareholders for contributions (Eismeier and Pollock, 1988), mainly due to cost effectiveness issues (Handler and Mulkern, 1982). In contrast, PACs elect and solicit executive or administrative personnel with policymaking, managerial, professional or supervisory responsibilities and their families as often as it desires (Shipper and Jennings, 1984).

PACs can enhance political involvement within the organization and PAC activity is one way to sensitize employees to their civic responsibilities and make them aware that government is a significant external force affecting the organization (Handler and Mulkern, 1982). For each PAC, there are variations in terms of the level of management solicited, methods and frequency of solicitation, types of contribution and methods of contribution collection (Dominguez, 1982; Handler and Mulkern, 1982). Methods of solicitation include mailing and variations of personal contact such as informal discussion or home-rule method. Contributions can be classified as earmarked, contributor-recommended, split given, in-kind or restricted. Finally, single lump-sum payment and pledging are available methods of payment but the most commonly used is payroll deduction because of its numerous attractive features for PACs such as stabilization of the number of contributors and consistency of contribution inflows (Handler and Mulkern, 1982). However, PACs are allowed to make no more than two annual written solicitations for contributions from employees paid hourly, other than executive or administrative personnel and families (Dominguez, 1982; Mizruchi, 1992; Shipper and Jennings, 1984). This rule, called the “twice-yearly option”, is a compromising outcome of the 1976 amendments regarding the controversial issue of PAC solicitation access of the Sun Company’s hourly employees[3] (Handler and Mulkern, 1982). In addition, contributions from any individual donor to a PAC must remain strictly voluntary. Because of the inherent asymmetry of the employer-employee or superior-subordinate relationship, Congress and the U.S. Federal Election Commission (FEC) have implemented laws to protect employees from coercion and pressure potentially exhibited by PAC solicitation practices. Thus, in the absence of coercion (or at least in the presence of measures that mitigate against coercion), PACs offer the opportunity to analyze one way in which employees voluntarily make a psychological and emotional investment in the firms that they work for. We illustrate these issues through reference to the PAC activity surrounding the Arctic National Wildlife Refuge.

3. THE CASE

3.1. The Common: The Arctic National Wildlife Refuge

The Arctic National Wildlife Refuge in northern Alaska covers about 19.8 million acres (80,000 km^2) of the North Alaskan coast (Burger, 2001). It is managed by the U.S. Fish and Wildlife Service and part of the National Wildlife Refuge System (NWRS), which is considered the world's premier system of public lands and waters set aside to conserve

[3] The Sun Company’s PAC requested from the Federal Election Commission (FEC) an opinion about exactly whom it could solicit. The response from the FEC was “stockholders and all employees”. Unions expressed their discontent because they felt that management could now compete with them in raising political-action funds from hourly employees. In the 1976 amendments, a compromise resulted in allowing corporate PACs to solicit hourly paid workers no more than twice a year by letter addressed to their home, while a reciprocal right was extended to union PACs to solicit stockholders and management personnel twice a year as well.

Table 1 – Contributions received by PACs of U.S. oil and gas firms during the 2004 and 2006 election cycles

Company Name	Total contributions received	Contributions received from individuals other than political committees					Average number of contributors	Average dollar amount per contribution
		Total	Itemized		Unitemized			
Chevron	$ 1,013,138	$ 1,011,385	$ 665,466	65.8%	$ 345,919	34.2%	280	$ 594.17
Conoco	$ 1,044,941	$ 967,264	$ 523,349	54.1%	$ 443,915	45.9%	348	$ 375.97
Devon	$ 243,772	$ 241,497	$ 138,206	57.2%	$ 103,291	42.8%	84	$ 411.33
El Paso	$ 655,136	$ 644,233	$ 581,434	90.3%	$ 62,799	9.7%	136	$ 1,068.81
Exxon	$ 1,705,051	$ 1,697,116	$ 1,148,941	67.7%	$ 548,175	32.3%	575	$ 499.54
Halliburton	$ 496,389	$ 488,953	$ 328,427	67.2%	$ 160,526	32.8%	133	$ 617.34
Koch	$ 3,659,148	$ 3,516,481	$ 3,192,845	90.8%	$ 323,636	9.2%	535	$ 1,491.98
Marathon	$ 988,676	$ 982,287	$ 538,597	54.8%	$ 443,690	45.2%	513	$ 262.47
Occidental	$ 941,504	$ 935,408	$ 758,217	81.1%	$ 177,191	18.9%	333	$ 569.23
Valero	$ 4,030,816	$ 3,923,653	$ 2,439,918	62.2%	$1,483,736	37.8%	1131	$ 539.33
TOTAL	$ 14,778,571[#]	$ 14,408,278[#]	$ 10,315,400[*]	71.6%	$ 4,092,878[*]	28.4%	407	$ 643.02

Difference is not significant.
* Significant difference at the $p < .05$ level.

Table 2 – Contributions received by PACs of U.S. oil and gas firms during the 2004 and 2006 election cycles

Company Name	Total itemized contributions received from individuals/ persons other than political committees during the 2004 and 2006 election cycles	Proportion of itemized contributions received from '*corporate executives*' (total)		Average number of '*corporate executive*' contributors during the 2004 and 2006 election cycles (per year)	Average dollar amount per contribution from 'corporate executives' (per year)	Proportion of itemized contributions received from '*non-corporate executive employees*' (total)		Average number of '*non-corporate executive employees*' contributors during the 2004 and 2006 election cycles (per year)	Average dollar amount per contribution from '*non-corporate executive employees*' (per year)
Chevron	$ 665,466	$ 197,036	29.61%	35	$ 1,407.40	$ 468,431	70.39%	245	$ 477.99
Conoco	$ 523,349	$ 79,405	15.17%	21	$ 945.29	$ 443,944	84.83%	327	$ 339.41
Devon	$ 138,206	$ 48,508	35.10%	9	$ 1,347.44	$ 89,698	64.90%	75	$ 298.99
El Paso	$ 581,434	$ 286,950	49.35%	45	$ 1,594.17	$ 294,484	50.65%	91	$ 809.02
Exxon	$ 1,148,941	$ 258,571	22.51%	64	$ 1,010.04	$ 890,370	77.49%	512	$ 434.75
Halliburton	$ 328,427	$ 54,565	16.61%	11	$ 1,240.12	$ 273,861	83.39%	122	$ 561.19
Koch	$ 3,192,845	$ 530,465	16.61%	147	$ 902.15	$ 2,662,380	83.39%	389	$ 1,711.04
Marathon	$ 538,597	$ 145,127	26.95%	25	$ 1,451.27	$ 393,470	73.05%	488	$ 201.57
Occidental	$ 758,217	$ 290,963	38.37%	72	$ 1,010.29	$ 467,254	61.63%	262	$ 445.85
Valero	$ 2,439,918	$ 528,163	21.65%	81	$ 1,630.13	$ 1,911,754	78.35%	1050	$ 455.18
	$ 10,315,400	$ 2,419,754	23.46%	51	$ 1,253.83	$ 7,895,646	76.54%	356	$ 573.50

America's fish, wildlife and plants (U.S. Fish and Wildlife Service, 2009). The ANWR is the largest single protected wilderness area in the U.S. A unique feature of the refuge consists of its unbroken, complete continuum of arctic and sub-arctic landscapes and ecosystems within which large-scale ecological processes continue (U.S. Fish and Wildlife Service, 2009).

We view the ANWR as a product of the common. Although perceived and labeled as a wilderness area, it is *not* free of human control or manipulation. Since ecologists began to recognize the 'end of nature' (McKibben, 1996), the very notion of any area that is completely free from human intervention has lost all traction. Thus, even wildernesses must now be socially constructed, ring-fenced in order that something resembling the pristine can proceed. This is not to deny the value of such areas. On the contrary, it is merely to recognize that it is human intervention that has permitted such areas to persist. The abundance of flora and fauna, fish and wildlife that characterizes the ANWR would not be here today were it not for the coalition of environmental and conservation groups that lobbied to have it declared as a federal protected area by Frederick Andrew Seaton under President Eisenhower's administration in 1960. Since then, the ANWR has remained a common resource as much for the area's indigenous inhabitants as for all of humanity.

However, this area has been subject to intense lobbying by the petroleum industry that would like to see it opened up to oil exploration. Between 2005 and 2007, various bills have been proposed in the house and the senate that would allow drilling to take place. Nevertheless, pro-conservation Republicans and Democrats have managed to block these bills before they became law. As such, the ANRW remains protected to date (League of Conservation Voters, 2006) and the attempted expropriation of the common by the private has yet to take place. This is in spite of the significant attempts that have been made by the petroleum industry to influence politicians in key places.

In spite of its failure, public data indicate that the U.S. oil and gas industry attempted to exercise considerable influence on the passage of the ANWR Bill (Center for Responsive Politics, 2010). Further and most importantly, our own analysis shows that a large portion of PAC funds originate from individual donors, more specifically parent company employees.

4. DISCUSSION AND CONCLUSION

Even if ultimately unsuccessful in opening up the ANWR to oil exploration, PAC contributions from the oil and gas industry might be understood as having served to create the conditions for the expropriation of the common, rather than having successfully purchased such an expropriation outright. Nevertheless, the intention is the same and it is such intentions that generally prompt labor to flee from capital in search of new areas within which to construct common endeavors. As such, even creating the conditions for an expropriation of the common induces crises of management control. Whilst these crises might not be directly observable in a linear cause-effect type of relationship, we would argue that they are endemic to capitalist post-modernization in general. Because of these dynamics, we argue that the object of studies looking at the political economy of accounting should *not* be restricted to looking at the regulation itself. Rather, the crisis in measurement and control implies that measurement of value is an increasingly impoverished activity and that management must resort to other initiatives in order to control labor. As such, it may be too straightforward to characterize PACs as vehicles through which to capture the regulatory process, as previous works have implicitly done (Thornburg and Roberts, 2008; Cho et al., 2008; Roberts et al., 2003). Although perhaps initially motivated as means through which corporations can avoid legal constraints in terms of how much money can be funneled to politicians, PACs take on additional roles because of those constraints.

Our analysis shows that PACs are financed overwhelmingly by employees. More specifically, the funding of the sample companies' PACs came from a broad group of individuals, including executives, middle managers and even non-employees. The larger donations tend to come from executives, but a significant sum overall comes from employees below 'executive' level. On average, 23.4% of individual contributions came from the latter, with an average annual contribution of $1,254. Enticing senior executives to contribute to their organization's PAC is presumably not a difficult thing, given how sensitive their own personal wealth is to any legislative or regulatory changes which will affect the company. Getting lower or middle-level employees to contribute to PACs constitutes more of a challenge, yet also represents a significant opportunity to increase ideological alignment, whether conscious or not, between capital and labor. Indeed, the majority of financing came from below the 'executive' level. On average, 76.5% of individual contributions came from 'non-executives', with an average individual contribution of $574 per year. Further, on average 356 employees below "executive" level made PAC contributions per firm. In the case of Valero, the average number of employees who contributed exceeded 1,000 over the two election-year cycles. Thus, the PAC contributions must have come from widely dispersed parts and levels of the organization. We are not suggesting that contributors are primarily blue collar or shop floor workers. The average number of donators being 356 and the average donation amount being $574 suggests mostly middle managers. However, this does not mean that labor is not the donor. With the advent of immaterial labor the class composition has witnessed a sizeable shift from blue collar to white collar work and an expansion of the middle management level. Moreover, our categorization of 'executive' is a rather generous one and includes more than one layer of administration below board level, as the number of 'executives' according to our categorization even reached 147 in the case of Koch. Therefore, the 'non-executive' contributions come from much further down the chain.

Thus, we would suggest that even the larger donations from our 'non-executive' sample also constitute labor, even if at times middle managers may find themselves in a contradictory in-between position as regards to capital and the shop floor. Making a donation to a corporate PAC might well resolve this contradiction to some extent for the donor, softening any cognitive dissonance that is being experienced. The same goes for those who make smaller contributions. Even $100 contributions cannot be dismissed as trivial for a worker, whose attachment to organizational objectives is now made more concrete. Indeed, that the majority of these contributions come as a form of direct payroll deduction implies a constant investment in expanding the productive capacities of the organization. This investment, which is at least as much psychological-emotional as it is financial, also filters out into the social factory in a myriad of ways. For example, given that a good part of an organization's intellectual capital goes home after five o'clock (Marazzi, 2007), that intellectual capital then has a certain interest in following the news and political events with a view to supporting particular outcomes, outcomes which the intellectual capital's family members and social milieu might also be influenced to support in some subtle, imperceptible way. The effect is therefore not limited to the worker, but reverberates throughout the social factory in a way that is productive for capital. The same goes for those ex-employees and other interested parties who contribute to PACs. These individuals might not have a direct influence on the factory, but they similarly are creating fertile conditions in the social factory for subjectivity and productivity to flourish. Ultimately, this has the consequence of making connections between the common and the eventual expropriation of the common by the private. Therefore, even when PACs fail to achieve their objective of directly expropriating the common, they succeed in harnessing labor to capital, thereby softening the blow when the expropriation eventually takes place, probably influenced by some future PAC strategy.

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Chapter 6

DYSMORPHIC CAPITALISM AND THE ABERRANT DEVELOPMENT OF CREATIVE INTELLIGENCE

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ABSTRACT

The iconic economist-philosopher Adam Smith lauded capitalism as a system for distributing opportunity and prosperity widely, and for freeing populations from the oppression they suffered under the European aristocracy of his time. In spite of its early promise and later achievements, capitalism has been transforming in undesirable ways in recent decades. Prominent scholars in various disciplines have lamented the ways in which overextensions of neoclassical economic theory and neoliberal ideology have been transmuting capitalism into a utopian ideology in which egocentric economic freedom trumps all other considerations. The consequence is a system in which the short-term, trivial wants of a few consistently override the desperate needs of the many as well as the long-term sustainability of the environment. These trends have implications for the development of creative intelligence. If the new, mutated form of capitalism reaches its logical endpoint, the aspiration growth and talent development of a privileged few gifted young people will be warped, leaving them acutely narcissistic, hyper-materialistic, and ethically vacuous. In contrast, the aspiration growth and talent development of gifted but deprived young people will be stunted or crushed.

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INTRODUCTION

Discovering the nature and nuances of highly complex phenomena often requires contributions from multiple disciplines because no single discipline can encompass the intricacies of those phenomena comprehensively (Ambrose, 2005b, 2009a; Ambrose, Cohen, & Tannenbaum, 2003; Nicolescu, 2002; Page, 2007; Thagard, 2008). Capitalism is an enormously complex phenomenon, which has been oversimplified by neoclassical economic theory and neoliberal ideology. The analysis in this chapter takes an interdisciplinary approach weaving together insights from economics, philosophy, political science, sociology, history, anthropology, and high-ability fields (the interdisciplinary field of creative studies, and gifted studies). The chapter begins with the ideas of Adam Smith, the free-market icon often used to justify the hegemony of capitalism worldwide, and then employs analyses of globalized capitalism to assess its impact in the early 21st century. Globalized capitalism provides a macro-context within which creatively intelligent individuals develop their aspirations, refine their talents, and strive for self-fulfillment. The extent to which today's predominant versions of capitalism shape, warp, and suppress aspirations and talent are assessed.

Rarely has a single scholar been so revered for so long. Adam Smith was an 18th-century philosopher-economist whose influence has persisted over the centuries. One can argue that his impact has been magnified in recent decades to the point where some of his ideas currently dominate the world's socioeconomic systems. Constructs extracted from Smith's *Wealth of Nations* (Smith, 1776/1937) provide much of the justification for the freewheeling, laissez-faire globalized capitalist system that has prevailed in most nations throughout the late 20th and early 21st centuries. With some latter-day refinements, the system operates on assumptions that the economic freedom of self-loving individuals who innovate and diligently work within free markets largely unfettered by government regulation will maximize prosperity. The system works because the self-organizing nature of highly motivated, entrepreneurial interactions creates a highly efficient division of labor by sorting people into work roles according to talents. Essentially, this efficient self-organization operates through the machinations of Smith's metaphorical "invisible hand" of the marketplace.

DYNAMIC TENSIONS BETWEEN ECONOMIC FREEDOM AND GOVERNMENT INTERVENTION

As with most complex phenomena, capitalism can find expression in multiple variations. In general, it locates itself on one side of a continuum running from anarchic, individual freedom at one end, to tight, centralized government control at the other, Of course, capitalism is most compatible with the individual-freedom end of this continuum. That said, its various manifestations have extended from the extreme, anarchic end of the continuum all the way into the government-controlled region.

In the more than two centuries since Adam Smith conceived of his invisible hand, free-market principles have waxed and waned globally. For example, government regulation and intervention ascended in the time of Franklin Delano Roosevelt. Laissez-faire deregulation ascended in the early part of the 20th century and again in the final decades of the 20th century and into the 21st. Today's predominant version of globalized capitalism pushes energetically toward the anarchic, individual-freedom region of the continuum (Chang, 2007; Wolin, 2004). The current dominance of free-market principles is extremely powerful, reaching far and wide beyond the Western world, where it originated, to change socioeconomic systems fundamentally in many third-world nations.

Proponents of laissez-faire capitalism argue that promoting and protecting economic freedom in socioeconomic systems enriches populations of both developed and underdeveloped nations and creates better societies (see Friedman, 1962, 1975; Hayek, 1944, 1948; Lal, 2006; Lomasky, 2002; Nozick, 1974; Weede, 2006). They often tie together capitalism and political freedom, arguing that any other socioeconomic system is prone to slippage into totalitarianism.

Other scholars argue that too much economic freedom with too little government regulation can be counterproductive. For example, Posner (2009), a legal scholar, argued that the recent economic collapse came about for a number of reasons, not the least of which was insufficient regulation of freewheeling financial markets. Croley (2007), also a legal scholar, made similar arguments about the dangers of the deregulatory trend that has prevailed over the last few decades. He made the case that prudent government regulation can provide significant benefits to a nation's population. Black (2005) showed how insufficient regulation makes room for *control frauds* to cause severe damage within an economy, up to and including economic stagnation and collapse. Control frauds are profiteering deceptions employed by corporate chief executive officers. Still others lament the degree to which excessive deregulation and privatization have enabled damaging exploitation of workers (Applebaum, 2005); increased corruption and raiding of public assets (Stiglitz, 2003); and counter-intuitively created the extremely expensive, somewhat inefficient American health care system, which is encumbered by massive, private insurance bureaucracies (Reinhardt, 2007).

Furthermore, there are frequent critiques of neoclassical economics, the conceptual framework that underpins today's predominant versions of capitalism. Some argue that neoclassical economic theory relies too heavily on the rational-actor model, which creates an oversimplified abstraction of the human decision-maker as an extremely self-focused, perfectly rational individual making decisions based on perfect information sets. The limitations of the rational-actor model cause decision-makers to ignore important nuances of socioeconomic and cultural contexts (Beckert, 2002).

A number of leading economists have gone on the record opposing the actions of powerful, ideologically influenced institutions such as the World Bank and the International Monetary Fund because those institutions have done significant damage to socioeconomic systems throughout the world (see Chang, 2002, 2007; Stiglitz 2004, 2006). For example, Chang analyzed the effects of these neoliberal-dominated organizations on the development of third-world countries. He concluded that their imposition of extreme, laissez-faire market rules on those nations actually resulted in slower growth and development than what had occurred before the implementation of those rules. Also, the developed nations insisting on the implementation of extreme laissez-faire capitalism in the Third World did not follow these same laissez-faire rules themselves when they were developing nations. Harvey (2006), an anthropologist, agreed with these economists, arguing that the deregulation generated by the prominence of neoliberal ideology has generated environmental devastation, aggravated the troubling gap between rich and poor worldwide (also see Davis, 2006, a historian), and undermined democracy.

Walzer (2002) revealed some of the nuances behind arguments between those who promote state intervention and those who denigrate it. In an analysis of the dynamics of civil society he showed how interest groups always are in conflict and those with less power are in danger of being marginalized by those who control the policy apparatus. Consequently, he argued for strong state intervention to ensure that the interests of all are considered. Laissez-faire capitalism runs counter to this argument because it places more power in the hands of those who already are in positions of privilege. Chambers (2002) concurred, while adding that civil society becomes unhealthy when it is colonized by money, power, and commandeering of the media by powerful special interests. When laissez-faire economic policies take hold strongly the society's population tends to react, taking initiatives to protect ordinary citizens from the corrosive effects of the unfettered free market (Baum, 1996; Polyani, 1944/1957).

It is the erosion of democracy that is the most troubling effect of overzealous deregulation of national and international economic systems. While Adam Smith (1776/1937) originally conceived of capitalism as a system for freeing large numbers of people from the oppression of the European aristocracy of his day, late 20th- and early 21st-century versions of capitalism provide the already privileged and powerful with an ever-firmer hold on the levers of power. For example, various scholars have described ways in which corporations, their lobbyists, and governments are so intricately intertwined that the corporate elite exerts considerable control over political decision-making and undermines democracy in the United States and Britain (see Frank, 2008; Kuttner, 2007; Monbiot, 2000; Wedel, 2009). Johnson and Kwak (2010) argued that the situation has become so dire that a handful of megabanks now control the majority of America's gross national product and exert such powerful control over the socioeconomic system that they shift to the American taxpayer the major losses they incur through their deregulated risk taking.

Marglin (2008) and Orlie (2001) revealed other dimensions of the problem. According to Marglin, excessive emphases on the primacy of the market and the rational actor within that market have eroded the valuable sense of community that served as the social glue of cultures and nations. The absence of community becomes most evident in stressful times when people must pull together to solve serious problems. Along similar lines, Orlie analyzed ways in which political participation by the citizenry has been eroded and replaced by a consumer identity. In essence, aside from a politically active elite, the citizens of modern nations dominated by capitalist socioeconomic systems are coming to view themselves as consumers, not active agents in their own governance.

The eminent political theorist, Sheldon Wolin (1960/2004), effectively pulled together most of the pieces of this emerging picture with his portrayal of growing corporate dominance in the world's socioeconomic systems as *inverted totalitarianism*. According to Wolin, corporate commandeering of the decision-making apparatus in the United States has been dragging this promising democracy down toward a new form of totalitarian governance. Unlike the totalitarian governments of the 20th century (e.g., Hitler's Germany; Stalin's Soviet Union), the new, inverted totalitarian system is more subtle and diffused, but it is becoming totalitarian nonetheless.

TWENTY-FIRST-CENTURY GLOBALIZED CAPITALISM AS A UTOPIAN FRAMEWORK

The foregoing analyses of late 20th- and early 21st-century globalized capitalism revealed some alignment with the perspective of the iconic philosopher-economist Adam Smith. As mentioned earlier, Smith's metaphor of the invisible hand of the marketplace led many economists and policy makers to embrace laissez-faire capitalism. But metaphors can be overextended and inappropriately applied. For example, within and beyond the field of cognitive science, the metaphor of the human mind as computer has led to some innovative insights as well as some misinterpretations of cognitive processing (Fields, 2006). It seems possible that Smith's invisible-hand metaphor also has been misinterpreted, and has generated too much enthusiasm for self-loving individualism, materialism, and dismantling of government regulations in the world's socioeconomic systems.

Excessive enthusiasm for a particular theoretical perspective can calcify that idea framework, making it rigid and prone to interpretive error (see Ambrose, 2009a; Fields, 2006; Horst, 2007). In view of the previously mentioned criticisms of neoclassical economics, this might be occurring with that theory. In some cases, an investigative paradigm might contribute to, or actually become, a utopian ideology that dominates socioeconomic systems and tolerates little or no dissent. This might be occurring with the marriage of neoclassical economic theory and neoliberal ideology, and the strong influence of that marriage on late 20th- and early 21st-century globalized capitalism (Ambrose, 2008, 2009b).

When large-scale idea frameworks calcify they can turn into utopian visions that encourage excessive pursuit of some goals and ideals along with denigration and marginalization of others (Kumar, 1987). When large and influential segments of the population are captured by a utopian vision some significant benefits can emerge, alongside disastrous consequences.

Various historians, philosophers, and theologians have posited utopian visions of the ideal society throughout human history. A few of many utopian conceptions of society include the stratified, elite-run ideal republic proposed by the ancient Greek philosopher Plato (see Santas, 2006); the centralized, egalitarian island nation proposed by the 15th century philosopher and theologian, Thomas More (1516/1997); the retrospective, idyllic state-of-nature society envisioned by the 18th-century Romantic philosopher Rousseau (1755/1984); and the communist society proposed by Marx, which eventually would arise from the collapse of capitalism (Marx & Engels, 1848/1998).

Proponents and followers of utopian visions of the ideal society magnify their potential benefits and ignore their potential drawbacks. This ignorance of the possible, devastating consequences of firmly held belief in a utopian system likely emerges from a form of self-deception suffered en masse by the followers of that system. Mele (2001), a philosopher, outlined a number of variations of self-deception, two of which are most relevant here. Positive misinterpretation is a particularly ubiquitous form of self-deception, which causes individuals to engage in elaborate mental gymnastics for the purposes of magnifying their own virtues. Negative misinterpretation, another widespread form of self-deception, encourages individuals to discount evidence that reveals their own flaws in order to shield them from their own inadequacies or moral failings.

It would only be human nature for the creators and proponents of a utopian socioeconomic system to fall prey to these forms of self-deception while promoting ideas that reinforce the self-deception en masse throughout a population. If neoliberal ideology is a form of utopian thought applied to socioeconomic systems, the recent proliferation of think tanks devoted to the promotion of laissez-faire capitalism might be evidence of the self-deception undergirding this utopian framework (see Halper & Clarke, 2004). Additional evidence of utopian self-deception could be forthcoming if the neoliberal love affair with Adam Smith is found wanting.

A Closer Look at Adam Smith

While Adam Smith is revered as a champion of entrepreneurial individualism within a laissez-faire economic system, a number of high-profile scholars have delved deeper into his works to reveal much more nuance in Smith's thinking than is commonly portrayed. Instead of supporting only self-centered competition and individual gain, Smith actually argued for economic freedom blended with prudent regulation and moral guidance.

For example, Fleischacker (2004), a philosopher, analyzed Smith's *Wealth of Nations* (1776/1976) as well as some insights from Smith's other major work, the *Theory of Moral Sentiments* (Smith, 1759/1976). Fleischacker argued that Smith's writings have been misinterpreted because these works actually included emphases on ethics, generosity, empathy, and government intervention in the economy. In one example of many from this deeper interpretation of Smith's work, Fleischacker revealed how Smith abhorred inheritance of wealth, believing that if it wasn't abolished, or at least substantially taxed, it violated the principle that individuals should work for a living, which was an important basis for the free-market system. He saw inheritances as pernicious because they, "primarily serve to keep large estates intact over many generations, as indolent father hands his wealth down to indolent son" (cited in Fleischacker, 2004, p. 198).

Nobel laureate economist Amartya Sen (2010) also saw a much more balanced approach in Smith's thinking:

> Smith did not take the pure market mechanism to be a free standing performer of excellence. Nor did he take the profit motive to be all that is needed….human beings are not invariably guided only by self-gain…. A great many economists were, and some still are, evidently quite enchanted by something that has come to be called 'rational choice theory' in which rationality is identified with intelligently pursuing self-interest. Further, following that fashion in modern economics, a whole generation of rational choice political analysts and of experts in so-called 'law and economics' have been cheerfully practising the same narrow art. And they have been citing Adam Smith in alleged support of their cramped and simplistic theory of human rationality. (p. 53-54).

Other prominent scholars who have agreed with these critiques of jejune, neoliberal interpretations of Adam Smith's work include Rothschild (2001) and Brown and Jacobs (2008). For example, Brown and Jacobs illustrated how Smith balanced his enthusiasm for the free market with the idea that government regulation could prevent some of the excesses of self-interest run wild; excesses such as wasteful luxuries and corrupt business operations that would undermine competition. Profligacies such as these seem glaringly apparent in the wake of the recent, corruption-saturated, global economic meltdown.

In essence, unless all of these scholars are wrong, there seems to be at least some self-deception in neoliberal interpretations of Adam Smith's work. This suggests that neoliberal ideologues could be at least somewhat deceptively utopian, hiding or minimizing the damage their economic recommendations can do in socioeconomic systems. The development of creative intelligence occurs within, and is strongly shaped by, socioeconomic systems. If a utopian, neoliberal ideology is warping late 20th- and early 21st-century globalized capitalism, and making that system more damaging than it needs to be, it also could be doing damage to the manifestations of creative intelligence that should be primary driving forces for widespread prosperity and progress in a capitalist system.

WARPING AND STUNTING THE DEVELOPMENT OF CREATIVE INTELLIGENCE

The maximization of individual abilities in a socioeconomic system can be conceived of as the optimal development of creative intelligence (Ambrose, 2009a). The term "creative intelligence" implies any blend of high-level intelligence, creativity, and talent. Intelligence entails impressive information processing and decision-making capacities, which rely heavily on linear-sequential, logical, symbolic thought. Creativity entails the ability to think in novel ways and to generate novel products. Talent entails high proficiency with skills, which often are specific to a particular domain. For example, neurosurgery requires highly developed, fine-motor skills.

The development of creative intelligence depends on the discovery and growth of one's aspirations and talents. Aspirations are strong, long-term desires for accomplishment (Ambrose, 2003, 2005a; Gewirth, 1998). If an individual's motivation for aspiration development is enlivened, he or she will seek out opportunities to develop the talents that are necessary for pursuit of the goal highlighted by the aspirations. For example, if an individual discovers the aspiration to write influential works of literature, he or she will seek out opportunities to develop writing and copyediting skills while reading volumes of extant literature to become steeped in the preferred literary genres. The development of these talents will then feed back into the aspirations, strengthening them and creating even more desire for talent development. The result is a virtuous circle leading to the development of ever-stronger abilities and the likelihood that the individual will achieve self-fulfillment while contributing to the vibrancy of the market in a capitalist system.

Socioeconomic contextual conditions can influence the strength of aspiration growth and development. In today's capitalist economies, an individual born into privilege has access to the necessary resources for aspiration discovery and talent development. These resources include excellent educational opportunities and access to influential educational and career networks. Some individuals will avail themselves of these resources and become highly motivated and immensely talented over the course of time. Seduced by the comfort of privilege, some others can fall into complacency and let their potential die on the vine.

Those coming from disadvantaged socioeconomic conditions experience much different dynamics in their attempts to navigate within capitalist contexts. An impoverished individual with strong latent talents might never discover them because the serious lack of resources in a highly stratified economy can preclude the discovery of aspirations, which in turn precludes the development of talents. A few deprived individuals of strong potential might discover some productive aspirations and then fall into the virtuous cycle of aspiration growth and talent development; however, this is the rare exception and not the rule (Ambrose, 2003). Moreover, aside from the odd, very rare exception, the achievements of this individual will be stunted in comparison with peers of equal or even lesser ability who were born into privilege. This belies the Horatio Alger myths (see Wuthnow, 2006), which provide much of the tacit justification for highly stratified, capitalist socioeconomic systems.

In addition to these dynamics, today's neoliberal, capitalist socioeconomic system favors a particular blend of aspirations and dispositions. Based on the flawed rational-actor model, which portrays the individual primarily as a self-interested, atomistic entity who makes decisions based on perfect information while in search of materialistic gain, aspirations aligned with egocentric gain, without concern for others, will be favored while those aligned with generosity and altruism will be diminished or marginalized. Kasser, Cohn, Kanner, and Ryan (2007) studied goal and value systems (analogous to aspirations) in corporate environments and concluded that the emphases on self-interest, hierarchy, profit, growth, and competition tend to conflict with dispositions such as caring about others. Babiak, Neumann, and Hare (2010) discovered a higher prevalence of self-centered, predatory, and conscience-free behavioral traits in corporate populations than in community samples.

According to Zak (2008), markets work best when people engage in ethical, virtuous behavior because such behavior builds trust, which is the lubricant for efficient transactions in a market economy. In short, the overemphases on atomistic, self-centered individualism actually may be making the free market less effective than it would be if it followed Adam Smith's too-often-ignored advice about promoting the virtues of generosity, altruism, and concern for the common good, not just his advice about maintaining economic freedom.

CONCLUSION

In a highly complex, evolving, and threat-filled 21st century, globalized socioeconomic environment, humanity must maximize its aspiration development, talent development, and creative intelligence. We no longer can rely on a utopian, somewhat hollow vision of the individual as a self-centered, hyper-materialistic, rational actor. We would be wise to heed Adam Smith's advice about balancing economic freedom with altruism, ethics, and prudent regulation. The current and looming disasters of systemic corruption in the deregulated financial markets; the environmental devastation caused by equally deregulated, extractive industries (e.g., the coal and petroleum sectors); and the long-term specter of climate change (Archer, 2009) make it more urgent than ever that we rebalance the capitalist system, making it work more efficiently and effectively for all.

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Chapter 7

SOCIAL STATUS, THE SPIRIT OF CAPITALISM AND THE TERM STRUCTURE OF INTEREST RATES IN STOCHASTIC PRODUCTION ECONOMIES[1]

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ABSTRACT

This paper studies capital accumulation and equilibrium interest rates in stochastic production economies with the concern of social status. Given a specific utility function and production function, explicit solutions for capital accumulation and equilibrium interest rates have been derived. With the aid of steady-state distributions for capital stock, the effects of fiscal policies, social-status concern, and stochastic shocks on capital accumulation and equilibrium interest rates have been investigated. A significant finding of this paper is the demonstration of multiple stationary distributions for capital stocks and interest rates with the concern of social status.

Keywords: Stochastic growth; Social status; Fiscal policies; Interest rates

JEL Classification: E0, G1, H0, O0.

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1. INTRODUCTION

Capital accumulation, interest rates, fiscal policies, and asset pricing under uncertainty have been studied extensively since the 1960s, e.g., Phelps (1962), Levhari and Srinivisan (1969), Brock and Mirman (1972), Mirrlees (1965). Merton (1975) studied the asymptotic theory of growth under uncertainty, and Foldes (1978) explored optimal saving with risk in continuous time. As for the term structure of interest rates, Cox, Ingersoll, and Ross (1981, 1985) considered the equilibrium theory of the term structure of interest rates, and presented the general theory for interest rates in a production economy. Sunderason (1983) provided a plausible equilibrium model, in which the assumption of a constant interest rate is valid. Bhattacharya (1981), Constantinides (1980), and Stapleton and Subrahmanyam (1978) also studied these topics and presented the conditions for a constant interest rate. Constantinides (1980) showed that the term structure of interest rate evolves deterministically over time under the assumptions of perfect capital markets, homogeneous expectations, and the state independent utility. Sunderason (1984) also derived the conclusion of a constant interest rate under Constantinides (1980)'s assumptions on capital markets, expectations, and utility. For the effects of fiscal policies on capital accumulation, interest rates, and asset pricing in stochastic economies, Eaton (1981), Turnovsky (1993, 1995), Grinols and Turnovsky (1993, 1994), and Obstfeld (1994) introduced taxations and government expenditure into the stochastic continuous-time growth and asset-pricing models. Under a linear production technology and other specified assumptions on preferences and stochastic shocks, they have derived explicit solutions of growth rates of consumption, savings, and equilibrium returns on assets.

In all these neoclassical models of capital accumulation, interest rates and asset pricing models, wealth accumulation is often taken to be solely driven by one's desire to increase consumption rewards. The representative agent chooses his consumption path to maximize his discounted utility, which is defined only on consumption. This motive is important for wealth accumulation. It is, however, not the only motive. Because man is a social animal, he also accumulates wealth to gain prestige, social status, and power in the society; see Frank (1985), Cole, Mailath and Postlewaite (1992, 1995), Fershtman and Weiss (1993), Zou (1994, 1995), Bakshi and Chen (1996), and Fershtman, Murphy and Weiss (1996). In these wealth-is-status models, the representative agent accumulates wealth not only for consumption but also for wealth-induced status. Mathematically, in light of the new perspective, the utility function can be defined on both consumption, c, and wealth, w: $u(c_t,\ w_t)$. Another interpretation of these models is in line of the spirit of capitalism in the sense of Weber (1958): capitalists accumulate wealth for the sake of wealth[5].

With the wealth-is-status and the-spirit-of-capitalism models, many authors mentioned above have tried to explore diverse implications for growth, savings, interest rates, and asset pricing. Cole, Mailath, and Postlewaite (1992) have demonstrated how the presence of social-status concern leads to multiple equilibria in long-run growth. Zou (1994, 1995) has studied the spirit of capitalism and long-run growth and showed that a strong capitalistic spirit can lead to unbounded growth of consumption and capital even under the neoclassical assumption

[5]See Cole, Mailath, and Postlewaite (1992), Zou (1994); and Bakshi and Chen (1996) for details.

of production technology, Gong and Zou (2002) have studied fiscal policies, asset pricing, and capital accumulation in a stochastic model with the spirit of capitalism. Bakshi and Chen (1996) have explored empirically the relationship between the spirit of capitalism and stock market pricing and offered an attempt towards the resolution of the equity premium puzzle in Mehra and Prescott (1985). Smith (2001) has studied the effects of the spirit of capitalism on asset pricing and has shown that when investors care about status they will be more conservative in risk taking and more frugal in consumption spending. Furthermore, stock prices tend to be more volatile with the presence of the spirit of capitalism.

This paper explores capital accumulation and equilibrium interest rates in a stochastic model with the spirit of capitalism and with diminishing return to scale technology. Under a CES utility function defined on both consumption and wealth accumulation and a Cobb-Douglas production function, explicit solutions for capital accumulation and equilibrium interest rates have been derived. These multiple optimal paths and stationary distributions of capital stock and interest rates are quite significantly different from many existing neoclassical models. With the aid of the steady-state distributions for capital stock, the effects of fiscal policies on the long-run economy and the equilibrium interest rates have been investigated. In particular, the equilibrium interest rates are constant when the technology is linear and when the utility function is extended to include the wealth-is-status concern. Moreover, the equilibrium interest rates are a mean reserve process with these special assumptions.

This paper is organized as follows: in section 2, we set up a stochastic growth model in a production economy with the social-status concern. Allowing some special utility function and production function with selected parameters, explicit solutions for the optimal paths and stationary distributions of consumption, capital accumulation and interest rates have been derived in section 3. With the aid of the steady-state distribution of the endogenous variables, the effects of fiscal policies, production shocks, and the spirit of capitalism on the long-run economy have been examined in section 4. In section 5, we present the equilibrium interest rates under both a nonlinear technology and a linear technology and analyze the dynamic behavior of equilibrium interest rates and discuss the effects of fiscal policies and stochastic shocks on the interest rates. In section 6, we present some examples to show the existence of multiple stationary distributions of optimal capital accumulation and equilibrium interest rates. We conclude our paper in section 7.

2. THE MODEL

Following Eaton (1981) and Smith (2001), we assume that output y is given by

$$dy = f(k)dt + \varepsilon k dz, \tag{1}$$

where z is the standard Brown motion, ε is the stochastic shocks of production.

Equation (1) asserts that the accumulated flow of output over the period $(t,\ t+dt)$, given by the right-hand side of this equation, consists of two components. The deterministic component is described as the first term on the right-hand side, which is the firm's production technology and has been specified as a neoclassical production function, $f(k)$. The second part is the stochastic component, εkdz, which can be viewed as the shocks to the production and assumed to be temporally independent, normally distributed.

Suppose the government levy an income tax and a consumption tax. Then, the agent's budget constraint can be written as[6]

$$dk = ((1-\tau)f(k) - (1+\tau_c)c)dt + (1-\tau')\varepsilon kdz \tag{2}$$

where τ and τ' are the tax rates on the deterministic component of capital income and stochastic capital income, respectively, and τ_c is the consumption tax rate.

With the social status concern, the utility function can be written as $u(c,\ k)$. Suppose the marginal utilities of consumption and capital stock are positive, but diminishing, i.e.

$$u_1(c,\ k) > 0,\ u_2(c,\ k) > 0,\ u_{11}(c,\ k) < 0,\ u_{22}(c,\ k) < 0 \tag{3}$$

The representative agent is to choose his consumption level and capital accumulation path to maximize his expected discounted utility, namely,

$$\max E_0 \int_0^{\infty} u(c,\ k)e^{-\rho t}dt$$

subject to a given initial capital stock $k(0)$ and the budget constraint (2). Where $0 < \rho < 1$ is the discount rate.

Associated with the above optimization problem, the value function $J(k,t)$ is defined as

$$J(k,\ t) = \max E_t \int_t^{\infty} u(c,\ k)e^{-\rho t}dt$$

subject to the given initial capital stock $k(t)$ and the budget constraint (2). Define the current value function $X(k)$ as

$$X(k) = J(k,\ t)e^{\rho t} \tag{4}$$

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[6]Merton (1975) assumed that output is produced by a strictly concave production function, $Y = AF(K,L)$, where $K(t)$ denotes capital stock, $L(t)$ the labor force, and $A(t)$ is technology progress. Production is $Y = AF(K,L)$ and the labor force follows $dL = aLdt + \varepsilon Ldz$, where z is the standard Brown motion.Defining the capital-labor ratio $k = K/L$, from the Itô's Lemma, we can derive the capital accumulation equation similar to equation (2). Or we assume the technology progress follows $dA/A = adt + \varepsilon dz$ Defining the efficiency capital $k = K/(AL)$, we can also derive the capital accumulation similar to equation (2).

The recursive equation associated with the above optimization problem is

$$\max_c \{u(c,\ k) - \rho X(k) + X'(k)((1-\tau) f(k) - (1+\tau_c)c) + \frac{1}{2} X''(k)(1-\tau')^2 \varepsilon^2 k^2\} = 0$$

Therefore, we get the first-order condition

$$u_c(c,\ k) = (1+\tau_c) X'(k) \tag{5}$$

and the Bellman equation

$$u(c,\ k) - \rho X(k) + X'(k)((1-\tau) f(k) - (1+\tau_c)c) + (1-\tau')^2 \frac{1}{2} X''(k) \varepsilon^2 k^2 = 0 \tag{6}$$

Equation (5) states that the marginal utility of consumption equals the after-tax marginal utility of capital stock. Equation (6) determines the value function $X(k)$. In the next section, we will specify the utility function and the production function to present an explicit solution for the value function.

3. An Explicit Solution

3.1. The Explicit Solution under the Separable Utility Function

In order to derive an explicit solution, we specify the utility function as[7]

$$u(c,\ k) = \frac{c^{1-\sigma}}{1-\sigma} + \xi \frac{k^{1-\sigma}}{1-\sigma}, \tag{7}$$

where $\sigma > 0$ is the constant relative risk aversion, and it also represents the elasticity of intertemporal substitution. $\xi \geq 0$ measures the investor's concern with his social status or measures his spirit of capitalism. The larger the parameter ξ, the stronger the agent's spirit of capitalism or concern for social status.

The production function is specified as

$$f(k) = Ak^{\alpha} \tag{8}$$

where $A > 0$ and $0 < \alpha < 1$ are positive constants.

For the special utility function and production function in equations (7) and (8), we conjecture that the value function takes the following form

[7] In Appendix B, we present a similar analysis when the utility function is non-separable.

$$X(k) = a + \frac{b^{-\sigma} k^{1-\sigma}}{1-\sigma} \tag{9}$$

where a and b are constants, and they are to be determined.

Under the specified value function in equation (9), we rewrite the first-order condition (5) as

$$c^{-\sigma} = (1+\tau_c) X_k = (1+\tau_c) b^{-\sigma} k^{-\sigma}$$

namely,

$$c = (1+\tau_c)^{-\frac{1}{\sigma}} bk \tag{10}$$

Upon the relationship (10), the Bellman equation (6) is reduced to

$$\begin{aligned} &\frac{(1+\tau_c)^{1-\frac{1}{\sigma}} b^{1-\sigma} k^{1-\sigma}}{1-\sigma} + \xi \frac{k^{1-\sigma}}{1-\sigma} - \rho(a + \frac{b^{-\sigma} k^{1-\sigma}}{1-\sigma}) + b^{-\sigma} k^{-\sigma} ((1-\tau) A k^{\alpha} - (1+\tau_c)^{1-\frac{1}{\sigma}} bk) \\ &+ \frac{1}{2} X_{kk} \varepsilon^2 (1-\tau')^2 k^2 = 0 \end{aligned} \tag{11}$$

If $\alpha = 1$, from equation (11), we have $a = 0$ and b is determined by the following equation

$$0 = \sigma(1+\tau_c)^{1-\frac{1}{\sigma}} b + \xi b^{\sigma} - (\rho - (1-\tau) A (1-\sigma) + \frac{1}{2}(1-\sigma)\sigma(1-\tau')^2 \varepsilon^2)$$

In general, for the case of $\alpha \neq 1$, we cannot determine the constants a and b. Following Xie (1994), we specified the parameters as $a = \sigma$, then from equation (11), we have

$$a = \frac{(1-\tau)A}{\rho b^{\sigma}}$$

and b is determined by

$$0 = (1+\tau_c)^{1-\frac{1}{\sigma}} \sigma b + \xi b^{\sigma} - (\rho + \frac{1}{2}(1-\sigma)\sigma(1-\tau')^2 \varepsilon^2).$$

Summarizing the discussions above, we have

Proposition 1. Under the special utility function and production function in equations (7) and (8), if $\alpha = 1$, then the explicit solutions for the economy system are

$$\frac{c}{k}=(1+\tau_c)^{-\frac{1}{\sigma}}b \tag{12}$$

$$dk=((1-\tau)Ak-(1+\tau_c)^{1-\frac{1}{\sigma}}bk)dt+(1-\tau')\varepsilon kdz \tag{13}$$

and the TVC

$$\lim_{t\to\infty}E(X'(k)e^{-\rho t})=0 \tag{14}$$

where b is determined by

$$0=(1+\tau_c)^{1-\frac{1}{\sigma}}\sigma b+\xi b^{\sigma}-(\rho-(1-\tau)A(1-\sigma)+\frac{1}{2}(1-\sigma)\sigma(1-\tau')^2\varepsilon^2). \tag{15}$$

If $\alpha\neq 1$ and $\alpha=\sigma$, then the explicit solutions for the economy are

$$\frac{c}{k}=(1+\tau_c)^{-\frac{1}{\sigma}}b, \tag{12'}$$

$$dk=((1-\tau)Ak^{\alpha}-(1+\tau_c)^{1-\frac{1}{\sigma}}bk)dt+(1-\tau')\varepsilon kdz \tag{13'}$$

and the TVC (14) holds, whereas b is determined by

$$0=(1+\tau_c)^{1-\frac{1}{\sigma}}\sigma b+\xi b^{\sigma}-(\rho+\frac{1}{2}(1-\sigma)\sigma(1-\tau')^2\varepsilon^2). \tag{15'}$$

When $\alpha=1$, the capital stock follows the stochastic growth path (13), and we get the mean growth rate for the capital stock

$$E(\frac{dk}{k})=((1-\tau)A-(1+\tau_c)^{1-\frac{1}{\sigma}}b)dt$$

It is easy to show from equation (12') and the production function that the mean growth rates for consumption level, output, and capital stock are equal. Let us denote the common mean growth rate as ϕ, which is given by

$$\phi=(1-\tau)A-(1+\tau_c)^{1-\frac{1}{\sigma}}b\,.$$

From the expression above, it is clear that capital income taxation, consumption taxation, stochastic shocks, and various preference and production parameters jointly determine the growth rate of the economy. Please also note that when the parameters satisfy the condition

$\alpha = \sigma$, the deterministic income tax rate has no effects on the equilibrium consumption-capital stock ratio.

3.2. Steady-State Distributions for Endogenous Variables

Similar to the certainty model, we will examine the existence and the properties of the steady state economy. As in Merton (1975), we are seeking the conditions under which there is a unique stationary distribution for the capital stock k, which is time and initial condition independent.

From equation (13’), the capital stock follows the following stochastic process,

$$\begin{aligned} dk &= ((1-\tau)Ak^{\alpha} - (1+\tau_c)^{1-\frac{1}{\sigma}} bk)dt + (1-\tau')\varepsilon k dz \\ &\triangleq b(k)dt + (a(k))^{1/2} dz, \end{aligned} \tag{16}$$

where we denote $a(k) = (1-\tau')^2 \varepsilon^2 k^2$ and $b(k) = (1-\tau)Ak^{\alpha} - (1+\tau_c)^{1-\frac{1}{\sigma}} bk$.

Let $\pi_k(k)$ be the steady-state density function for the capital stock. As in Merton (1975), $\pi_k(k)$ exists and it can be shown to be

$$\pi_k(k) = \frac{m}{a(k)} \exp \int_0^k \frac{2b(x)}{a(x)} dx,$$

where m is a constant chosen so that $\int_0^{\infty} \pi_k(x)dx = 1$.

Substituting the expressions for $a(k)$ and $b(k)$, we have

$$\begin{aligned} \pi_k(k) &= \frac{m}{(1-\tau')^2 \varepsilon^2 k^2} \exp \int_0^k \frac{2((1-\tau)Ak^{\alpha} - (1+\tau_c)^{1-\frac{1}{\sigma}} bk)}{(1-\tau')^2 \varepsilon^2 k^2} dx \\ &= mk^{-2\frac{(1+\tau_c)^{1-\frac{1}{\sigma}} b + (1-\tau')^2 \varepsilon^2}{(1-\tau')^2 \varepsilon^2}} \exp(-\frac{2A(1-\tau)}{(1-\alpha)(1-\tau')^2 \varepsilon^2} k^{\alpha-1}) \end{aligned}$$

Defining variable $R = k^{\alpha-1}$, we have

$$\pi_R(R) = \pi_k(k) / |\frac{dR}{dk}| = \frac{m}{1-\alpha} R^{\gamma-1} \exp(-\beta R),$$

where $\gamma = 2\frac{(1+\tau_c)^{1-\frac{1}{\sigma}} b + (1-\tau')^2 \varepsilon^2}{(1-\alpha)(1-\tau')^2 \varepsilon^2} > 0$, $\beta = \frac{2A(1-\tau)}{(1-\alpha)(1-\tau')^2 \varepsilon^2} > 0$, and b is determined by equation (12’).

Therefore, we have

$$m = \frac{(1-\alpha)\beta^{\gamma}}{\Gamma(\gamma)},$$

where $\Gamma(.)$ is the gamma function[8].

Thus, the steady-state distribution for the capital stock is

$$\pi(k) = \begin{cases} 0, & k \le 0 \\ \frac{(1-\alpha)\beta^{\gamma}}{\Gamma(\gamma)} k^{-\frac{2((1+\tau_c)^{1-\frac{1}{\sigma}} b + (1-\tau')^2 \varepsilon^2)}{(1-\tau')^2 \varepsilon^2}} \exp(-\beta k^{-(1-\alpha)}), & k > 0 \end{cases} \tag{17}$$

and the moment-generating function

$$\Phi_k(\theta) = E\{k^{\theta}\} = \frac{\Gamma(\gamma - \theta/(1-\alpha))}{\Gamma(\gamma)} \beta^{\theta/(1-\alpha)} \tag{18}$$

The steady-state distribution for $R = k^{\alpha-1}$ is

$$\pi(R) = \begin{cases} 0, & R \le 0 \\ \frac{\beta^{\gamma}}{\Gamma(\gamma)} R^{\gamma-1} \exp(-\beta R), & R > 0 \end{cases} \tag{19}$$

and the moment-generating function

$$\Phi_R(\theta) = E\{R^{\theta}\} = \frac{\Gamma(\gamma+\theta)}{\Gamma(\gamma)} \beta^{-\theta} \tag{20}$$

The steady-state distribution for $y(= Ak^{\alpha})$ is

$$\pi(y) = \begin{cases} 0, & y \le 0 \\ \frac{\eta\beta^{\gamma}}{A\Gamma(\gamma)} (\frac{y}{A})^{-(\eta\gamma+1)} \exp(-\beta(\frac{y}{A})^{-\eta}), & y > 0 \end{cases} \tag{21}$$

and the moment-generating function

$$\Phi_y(\theta) = E\{y^{\theta}\} = \frac{A^{\theta}\Gamma(\gamma - \theta/\eta)}{\Gamma(\gamma)} \beta^{\theta/\eta} \tag{22}$$

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[8] The Gamma function $\Gamma(\alpha)$ is defined as $\Gamma(\alpha) = \int_0^{\infty} x^{\alpha-1} e^{-x} dx$.

With the aid of these steady-state distributions and moment-generating functions, we can derive quite a few long-run properties of our endogenous variables in the following section of comparative static analysis.

4. COMPARATIVE STATIC ANALYSIS

With the given steady-state distributions of the capital stock, output, and the interest rate, we can derive the long-run expected values of capital stock, consumption level, and output

$$E(k) = \int_0^\infty k\pi(k)dk = \frac{\Gamma[\gamma - 1/(1-\alpha)]}{\Gamma(\gamma)}\beta^{1/(1-\alpha)}, \tag{23a}$$

$$E(c) = (1+\tau_c)^{-\frac{1}{\sigma}} bE(k), \tag{23b}$$

$$E(y) = \frac{A\Gamma(\gamma - 1/\eta)}{\Gamma(\gamma)}\beta^{1/\eta}, \tag{23c}$$

where b , β , η , and γ are presented in section 3 above, and $\Gamma(.)$ is the Gamma function.

4.1. Effects of Uncertainty on Expected Capital, Output, and Consumption

As in Zou (1994), the modified golden rule for the long-run capital stock in a deterministic model with the spirit of capitalism can be derived as

$$(1-\tau)f'(k) = \rho - (1+\tau_c)\frac{u_k(c,\ k)}{u_c(c,\ k)}$$

With our special utility function and production function and with the parameter condition of $\alpha = \sigma$, we have

$$(1-\tau)A\alpha k^{\alpha-1} + (1+\tau_c)\xi\left(\frac{1-\tau}{1+\tau_c}Ak^{\alpha-1}\right)^{\sigma} = \rho$$

and the associated consumption level and output are

$$c^* = \frac{1-\tau}{1+\tau_c}A(k^*)^{\alpha}, \quad y^* = A(k^*)^{\alpha}$$

Comparing with the uncertainty case, we have

$$E(k) < k^*,\ \ E(c) < c^*,\ \ E(y) < y^*$$

Thus, the long-run expected capital stock, expected consumption level, and expected output are smaller than the deterministic steady-state ones, respectively. This is because that the output is a strictly concave function of the capital stock, and Jensen's inequality implies that an increase in capital risk must reduce the expected capital stock and expected output. The fall in the expected output results in a fall in the expected consumption.

4.2. Effects of the Spirit of Capitalism

In our special utility function, we know that the parameter ξ measures the representative agent's concern with his social status or his spirit of capitalism. Because we have specified the parameters as $\alpha = \sigma$, we have $\sigma \in [0,\ 1]$.

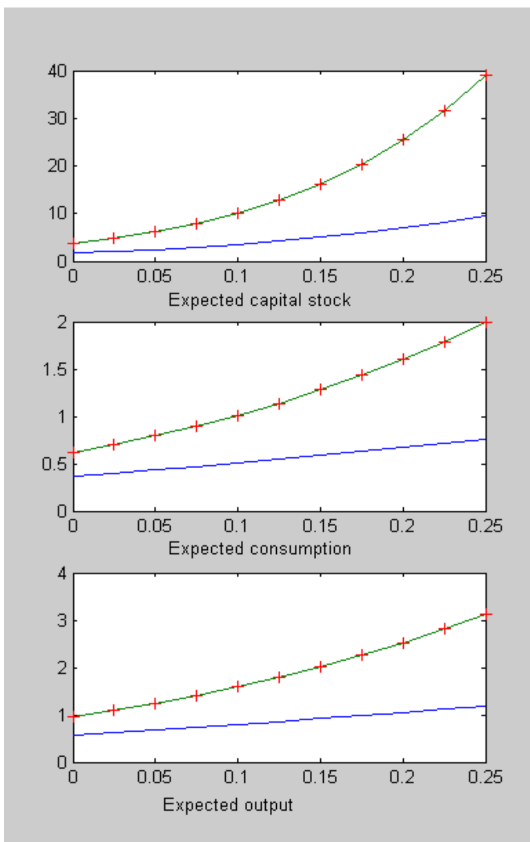

Figure 1. The effects of the spirit of capitalism on the long-run economy.

Figure 1 presents the effects of the spirit of capitalism on the economy under the cases of $\alpha = 1$ (the solid line) and $\alpha \neq 1$ and $\alpha = \sigma$ (the star line). It is easy to see that with a stronger spirit of capitalism, the long-run expected capital stock, consumption level, and output will be higher.

4.3. Effects of Production Shocks

Figure 2 shows that with increasing production shocks, the long-run expected capital stock, output, and consumption will be decreasing. Therefore, uncertainty in production reduces investment, output and consumption. This result is rather clear-cut because other related studies have indicated an ambiguous result of production shocks on investment and output, see Turnovsky (1993, 2000), Obstfeld (1994), and Gong and Zou (2002).

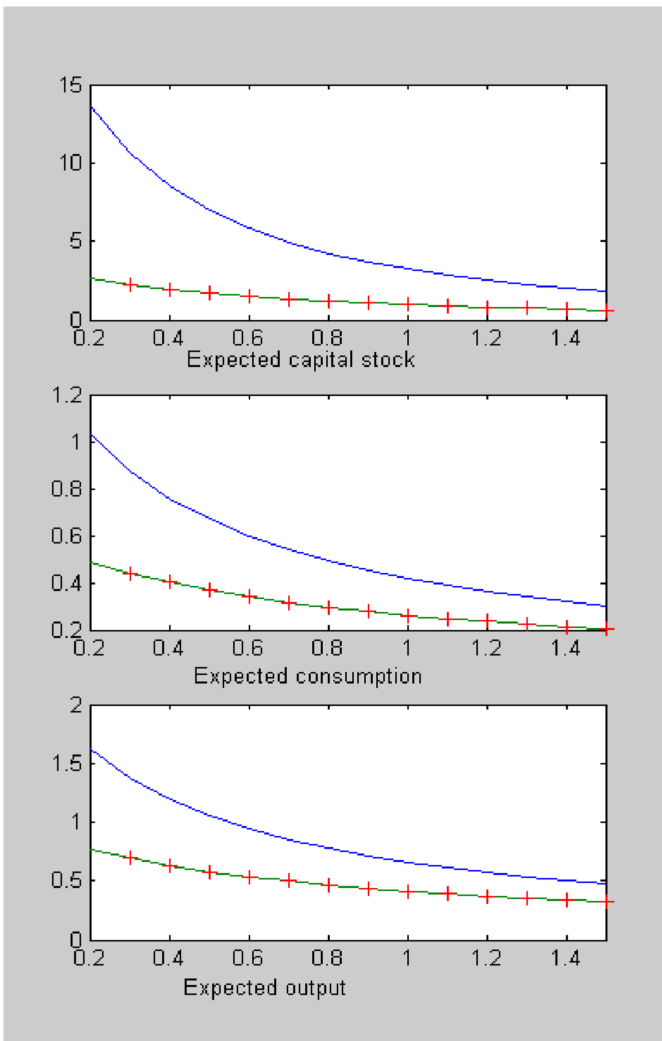

Figure 2. The effects of production shocks on the long-run economy.

4.4. Effects of Fiscal Policies

The solid line in figure 3 shows the effects of income tax rate on the long-run economy. From which, we find the with a rise in the deterministic income tax rate, the long-run capital stock, output, and consumption will be decreasing (solid lines in figure 3). The effects of stochastic income tax rate (starred lines in figure 3) on the economy are just opposite to the effects of deterministic income tax rate: A rising stochastic income tax rate raises expected capital stock, output and consumption.

As for the effects of consumption tax rate on the economy, from the circled line in figure 3, we find that with an increasing consumption tax rate, the long-run expected capital stock and output will be rising, whereas the long-run expected consumption will be decreasing. This is true because a rising consumption tax raises the cost of consumption, which leads to a reduction in consumption and an increase in investment, capital stock and output. Please note that this positive effect of a consumption tax rate on capital accumulation and output is a significant feature of stochastic growth model. In the traditional, deterministic literature such as Rebelo (1990), a consumption tax has no effect on the long-run capital accumulation.

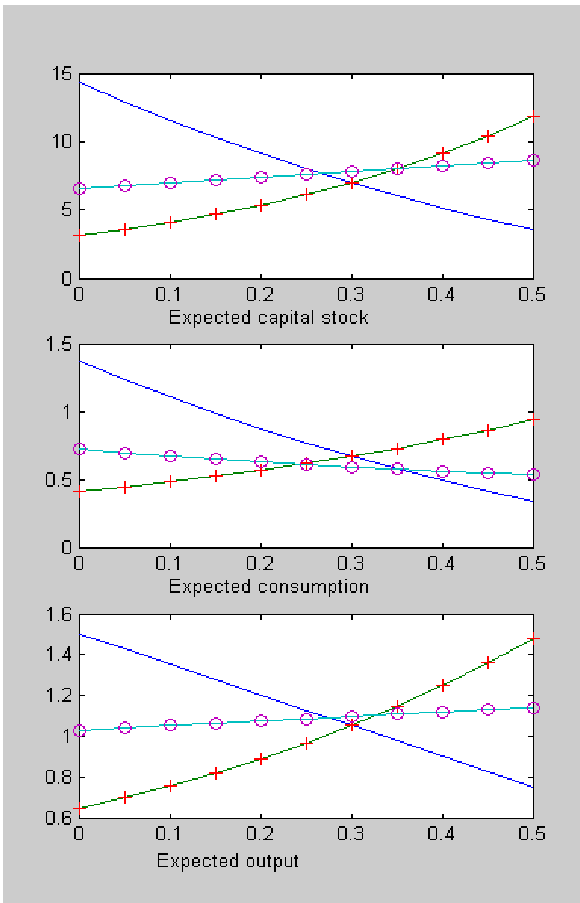

Figure 3. The effects of the deterministic income tax rate, the stochastic income tax rate, and the consumption tax rate on the long-run economy.

5. EQUILIBRIUM INTEREST RATES

From Cox, Ingersoll, and Ross (1985), we know that the equilibrium interest rates can be written as

$$r = \rho - \frac{L(X_k)}{X_k},$$

where $L(.)$ is the differential operator.

Thus we have[9]

Proposition 2. With the utility function and technology in equations (7) and (8), the equilibrium interest rate is given by

$$r = \rho + \sigma((1-\tau)Ak^{\alpha-1} - (1+\tau_c)^{1-\frac{1}{\sigma}}b) - \frac{1}{2}\varepsilon^2(1-\tau')^2\sigma(\sigma+1) \tag{24}$$

when $\alpha \neq 1$ and $\alpha = \sigma$, where b is determined by equation (15'). Furthermore, the equilibrium interest rate is given by

$$r = \rho + \sigma((1-\tau)A - (1+\tau_c)^{1-\frac{1}{\sigma}}b) - \frac{1}{2}\varepsilon^2(1-\tau')^2\sigma(\sigma+1) \tag{25}$$

when $\alpha = 1$, where b is determined by equation (15).

From proposition 2, the equilibrium interest rate is a constant when the technology is linear. Among many existing studies, Sundareson (1983, 1984) has also presented a constant interest rate for a constant absolute risk aversion utility function in an infinite horizon dynamic portfolio and consumption choice problem. Our model obtains the same result while allowing the utility function to be dependent on both consumption and wealth.

Comparative static analysis shows that, with a rise of technology shocks, the equilibrium interest rate will be decreasing; with a rise in the deterministic income tax rate, the equilibrium interest rate will be increasing; but the equilibrium interest rate will be decreasing

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[9] With the utility function and technology in equations (B1) and (8), the equilibrium interest rate is given by $r = \rho + (\sigma+\lambda)((1-\tau)Ak^{\alpha-1} - (1+\tau_c)^{1-\frac{1}{\sigma}}b) + \frac{1}{2}(1-\tau')^2\varepsilon^2(\sigma+\lambda)(-\sigma-\lambda-1)$ when $\alpha \neq 1$ and $\alpha = \sigma + \lambda$, where b is determined by $b = \dfrac{\rho\frac{1-\sigma}{1-\sigma-\lambda} + \frac{1}{2}(1-\sigma)(\sigma+\lambda)(1-\tau')^2\varepsilon^2}{(1+\tau_c)^{1-\frac{1}{\sigma}}\sigma}$. On the other hand, the equilibrium interest rate is given by $r = \rho + (\sigma+\lambda)((1-\tau)A - (1+\tau_c)^{1-\frac{1}{\sigma}}b) + \frac{1}{2}(1-\tau')^2\varepsilon^2(\sigma+\lambda)(-\sigma-\lambda-1)$ when $\alpha = 1$, where b is determined by $b = \dfrac{\rho\frac{1-\sigma}{1-\sigma-\lambda} - (1-\tau)A + \frac{1}{2}(1-\sigma)(\sigma+\lambda)(1-\tau')^2\varepsilon^2}{(1+\tau_c)^{1-\frac{1}{\sigma}}\sigma}$.

with a rise of the stochastic income tax rate. Also, we find that with the increase of the consumption tax rate, the equilibrium interest rate will be increasing; please see figure 4.

When $\alpha \neq 1$, the equilibrium interest rate is stochastic, not a constant anymore. Using the expression for the equilibrium interest rate, the dynamics for the capital stock can be rewritten as

$$\frac{dk}{k} = \frac{1}{\sigma}(r - \rho + \frac{1}{2}\varepsilon^2(1-\tau')^2\sigma(\sigma+1))dt + \varepsilon dz \tag{26}$$

Thus, the dynamics of the interest rate is

$$\begin{aligned} dr = {} & [\frac{1}{\sigma}(r - \rho + \frac{1}{2}\varepsilon^2(1-\tau')^2\sigma(\sigma+1)) + (1+\tau_c)^{1-\frac{1}{\sigma}}b] \\ & \times\{(r - \rho + \frac{1}{2}\varepsilon^2(1-\tau')^2\sigma(\sigma+\alpha-1))dt + (1-\tau')\varepsilon dz\} \end{aligned} \tag{27}$$

If $\varepsilon = 0$ and $\xi = 0$, we have

$$\frac{dk}{k} = \frac{1}{\sigma}(r-\rho)dt, \quad \frac{dr}{r} = \frac{1}{\sigma}(r-\rho)dt$$

These are dynamic accumulation paths for the capital stock and the interest rate without production shocks and the spirit of capitalism. It is obviously that the equilibrium interest rate will convergent to ρ.

Equations (26) and (27) can be used to study the behavior of the interest rate in this economy. For example, when the initial interest rate is very high, say it is larger than $\rho - \frac{1}{2}\varepsilon^2(1-\tau')^2\sigma(\sigma+1)$, then the capital stock will be growing. And from the expression for the interest rate, it will go down. If the initial interest rate is lower enough, say lower than $\rho - \frac{1}{2}\varepsilon^2(1-\tau')^2\sigma(\sigma+1)$, then the capital stock will be increasing, thus the interest rate will be go up. Thus, the equilibrium interest rate will fluctuate around a value depending on ρ, ε^2, and σ.

Similarly, we can find the stationary distribution for the interest rate. For simplicity, we define $\bar{r} = \alpha(1-\tau)Ak^{\alpha-1}$, the steady-state distribution and the moment-generating function for variable $\hat{r}$ can be found as

$$\pi(\bar{r}) = \begin{cases} 0, & \bar{r} \leq 0 \\ \frac{(\frac{\beta}{\alpha(1-\tau)A})^{\gamma}}{\Gamma(\gamma)}\bar{r}^{\gamma-1}\exp(-\frac{\beta}{\alpha(1-\tau)A}\bar{r}), & \bar{r} > 0 \end{cases} \tag{28}$$

$$\Phi_{\hat{r}}(\theta) = E\{\hat{r}^{\theta}\} = \frac{\Gamma(\gamma+\theta)}{\Gamma(\gamma)}\left(\frac{\beta}{\alpha(1-\tau)A}\right)^{-\theta} \tag{29}$$

Thus, we get the long-run behavior of the equilibrium interest rate

$$E(r) = \frac{\Gamma(\gamma+1)}{\Gamma(\gamma)}\left(\frac{\beta}{\alpha(1-\tau)A}\right)^{-1} + \rho - \sigma(1+\tau_c)^{1-\frac{1}{\sigma}}b - \frac{1}{2}\varepsilon^2(1-\tau')^2\sigma(\sigma+1), \tag{30}$$

where b is determined by equation (15).

From figure 4, we know that the long-run expected interest rate will be decreasing with a rise in technology shocks and the deterministic income tax rate (the star line in figure 4c). At the same time, the stochastic income tax rate, the consumption tax rate, and the spirit of capitalism all have positive effects on the long-run expected interest rate.

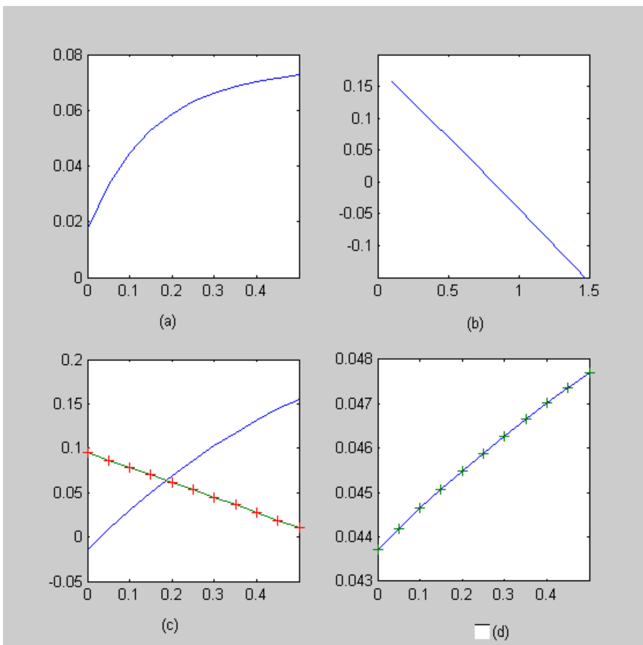

Figure 4. (a) Effects of the spirit of capitalism on the interest rate; (b) Effects of production shocks on the interest rate; (c) Effects of the deterministic income tax rate and the stochastic income tax rate on the interest rate; (d) Effects of the consumption tax rate on the interest rate.

6. Multiple Optimal Paths and Stationary Distributions

From equation (15'), we cannot determine the unique solution for variable b. In this section, we examine the existence of multiple solutions for the consumption-capital ratio for a few selected parameters. Because there exists a unique path for the capital accumulation associated with the consumption-capital ratio, there will exist a unique steady-state distribution associated with each path[10]. Below, we will present examples to show the existence of multiple optimal paths or stationary distributions and their associated long-run expected capital stocks, consumption levels, equilibrium interest rates, and output.

If we select the parameters as $A=0.5$, $\alpha=\sigma=0.6$, $\tau=0.3$, $\tau'=0.3$, $\xi=0.1$, $\rho=0.1$, $\tau_c=0$, and let ε^2 vary from 0.5, 1, and 1.1, and we get the following results

For the case of a linear technology，i.e.,$\alpha=1$, we have derived the mean growth rate of the economy and the equilibrium interest rate as follows

$$\phi=(1-\tau)A-(1+\tau_c)^{1-\frac{1}{\sigma}}b$$

$$r=\rho+\sigma((1-\tau)A-(1+\tau_c)^{1-\frac{1}{\sigma}}b)-\frac{1}{2}\varepsilon^2(1-\tau')^2\sigma(\sigma+1)$$

Table 1. Multiple optimal paths when $\alpha=\sigma=0.6$

	$\varepsilon^2=0.5$			$\varepsilon^2=1$			$\varepsilon^2=1.1$		
	path 1	path 2	path 3	path 1	path 2	path 3	path 1	path 2	path 3
c/k	0.0210	0.3519	0.1601	0.4217	0.2010	0.0430	0.2093	0.4355	0.0476
$E(k)$	150.1	0.8	4.4	0.4	2.0	25.8	1.7	0.4	20.1
$E(r)$	0.0559	0.0559	0.0559	0.0118	0.0118	0.0118	0.003	0.003	0.003
$E(c)$	3.1568	0.2732	0.6984	0.1810	0.3967	1.1067	0.3619	0.1688	0.9566
$E(y)$	4.5098	0.3902	0.9977	0.2585	0.5667	1.5811	0.5171	0.2411	1.3665

where b is determined by equation (15).

In this case, we select the parameters as: $\alpha=1$, $A=0.43$, $\sigma=0.6$, $\tau=0.3$, $\tau'=0.3$, $\rho=0.21$, and $\tau_c=0$. When $\xi=0$, we have a unique path or stationary distribution for consumption-capital ratio, the growth rate, and the equilibrium interest rate. When $\xi=0.025$, we have three stationary distributions for these variables. See Table 2 for details.

Table 2. Multiple optimal paths when $\alpha=1$

	$\xi=0$	$\xi=0.025$		
	path 1	path 1	path 2	path3
c/k	0.2473	0.2245	0.2578	0.2301
mean growth rate	0.0537	0.0765	0.0432	0.0709
interest rate	0.007	0.0207	0.0007	0.0174

[10] For the non-separable utility function in (B1) in Appendix B, we can determine the unique steady state.

Finally, we select the parameters as: $\alpha = 1$, $A = 0.46$, $\sigma = 0.6$, $\tau = 0.3$, $\tau' = 0.3$, $\rho = 0.25$, and $\tau_c = 0$. That is to say, we only change the values of A and the discount rate of ρ slightly. Again, we have multiple expected values or multiple stationary distributions in the economy. See details in Table 3:

Table 3. Multiple optimal paths when $\alpha = 1$

	$\xi = 0$	$\xi = 0.025$		
	path 1	path 1	path 2	path 3
c/k	0.3000	0.2744	0.3119	0.2806
mean growth rate	0.0220	0.0476	0.0101	0.0414
interest rate	0.0280	0.0434	0.0209	0.0397

This existence of multiple stationary distributions for asset accumulation and interest rates is significant different from the unique stationary distribution in Brock and Mirman (1972), Merton (1973), Lucas (1978), Brock (1982), Cox, Ingersoll and Ross (1985), and many other classical models on stochastic capital theory and the term structure of interest rates. In fact, multiple stationary distributions in asset markets and returns may provide a more realistic picture of the real world because it admits the rationality and plausibility of different expectations and heterogeneity, though our model is still in line with the representative agent framework.

CONCLUSION

This paper has studied capital accumulation and the equilibrium interest rates in stochastic production economies with the spirit of capitalism. Under the specified utility function, production function, and selected parameters, we have presented the explicit solutions for consumption and capital accumulation. With the aid of steady-state distributions for the capital stock, we presented the effects of fiscal policies, the spirit of capitalism, and stochastic shocks on the long-run economy.

We find that the long-run capital stock, output, and consumption level in the uncertainty case are less than those ones in the deterministic case; the long-run interest rate in the uncertainty case is larger than the deterministic case. These conclusions are different from the one presented by Merton (1975), similar to the one in Smith (1998).

As for the effects of the spirit of capitalism on the long-run economy, we find that with the increase of the spirit of capitalism, the long-run interest rate, consumption level, and output will be decreasing. The effect of the spirit of capitalism on the long-run capital stock will be negative when the production shocks are small; its effect will be positive when the production shocks are larger. These findings are different from the ones in Gong and Zou (2001, 2002), and Zou (1994, 1995).

The effects of the income tax rate on the long-run economy have also been investigated in this paper, and we have found the similar effects of a deterministic income tax and a stochastic income tax rate presented by Gong and Zou (2002), Turnovsky (1993, 2000). With the rise in the deterministic income tax rate, the long-run capital stock, output, and consumption level will be decreasing, but the interest rate will be increasing. The effects of the stochastic income tax rate on the long-run economy are just opposite to the effects of the deterministic income tax rate on the long-run economy. We have also shown that the consumption tax rate will affect the long-run expected capital stock, output, and consumption, which are different from the ones in the traditional, deterministic models.

The equilibrium interest rate has been shown under a linear technology and a nonlinear technology, respectively. When the production technology is linear, we can still obtain a constant interest rate for this stochastic model with the spirit of capitalism and social status. This result is similar to the one in Sunderason (1983), who presented the conclusion of constant interest rate under the assumption of CES utility function and a linear technology. Of course, his utility function is independent of the state variable of capital stock. But, with a nonlinear technology, we find that the interest rate follows the mean reserve process and fluctuates around a value depending on the parameters of ρ and σ.

Finally, the existence of multiple stochastic optimal paths or multiple stationary distributions for capital accumulation is presented in this paper. This is a main feature of a model with the spirit of capitalism or social-status concern. Associated with the multiple stationary distributions for capital accumulation, there exist multiple expected interest rates. This line of investigation enriches our understanding of the complexity of asset markets and the term structure of interest rates.

This paper considers an economy with one consumption good and production technology. A first extension of this paper is to follow Sunderason (1983) to study the equilibrium interest rate in an economy with many consumption goods and production technologies. Secondly, this paper has not considered monetary policy, and we should follow Grinols and Turnovsky (1998) and extend this model to a monetary one with the spirit of capitalism. Thirdly, we can extend this model to consider habit formation, catching up with the Joneses, and the non-expected utility.

APPENDIX A. THE STEADY-STATE DISTRIBUTION FOR A DIFFUSION PROCESS

We follow Merton (1975) and consider the steady-state distribution for a diffusion process. Let $X(t)$ be the solution to the Itô equation

$$dx = b(x)dt + (a(x))^{1/2} dz ,$$

where $a(.)$ and $b(.)$ are twice-differentiable function on $[0, \infty)$ and independent of t with $a(x) > 0$ and $a(0) = b(0) = 0$.

The steady-state distribution will always exist, and it can be expressed as

$$\pi(x) = \frac{m}{a(x)} \exp \int_0^x \frac{2b(y)}{a(y)} dy ,$$

where m is chosen such that $\int_0^\infty \pi(x)dx = 1$.

APPENDIX B. THE CASE OF NON-SEPARABLE UTILITY FUNCTION

If we specified the utility function as in Bakshi and Chen (1996), Gong and Zou (2002)

$$u(c,\ k) = \frac{c^{1-\sigma}k^{-\lambda}}{1-\sigma}, \tag{B1}$$

where σ is the constant absolute risk aversion, and it is assumed $\sigma > 0$, and $\lambda \geq 0$ when $\sigma \geq 1$, and $\lambda < 0$ otherwise; $|\lambda|$ measures the investor's concern with his social status or measures his spirit of capitalism. The larger the parameter $|\lambda|$, the stronger the agent's concern for social status.

For the specified utility function and production function, we conjecture that the value function takes the following form

$$X(k) = a + \frac{b^{-\sigma}k^{1-\sigma-\lambda}}{1-\sigma-\lambda},$$

where a and b are constant, and they are to be determined as follows.

From the first-order condition, we have

$$c = (1+\tau_c)^{-\frac{1}{\sigma}} bk$$

and the Bellman equation (6) is reduced to

$$\frac{(1+\tau_c)^{1-\frac{1}{\sigma}} b^{1-\sigma} k^{1-\sigma-\lambda}}{1-\sigma} - \rho(a + \frac{b^{-\sigma}k^{1-\sigma-\lambda}}{1-\sigma-\lambda}) + b^{-\sigma}k^{-\sigma-\lambda}((1-\tau)Ak^{\alpha} - (1+\tau_c)^{1-\frac{1}{\sigma}} bk)$$
$$+(1-\tau')^2 \frac{1}{2} X_{kk}\varepsilon^2 k^2 = 0.$$

If $\alpha = 1$, from the above equation, we have

$$a = 0,$$
$$b = \frac{\rho\frac{1-\sigma}{1-\sigma-\lambda} - (1-\tau)A + \frac{1}{2}(1-\sigma)(\sigma+\lambda)(1-\tau')^2\varepsilon^2}{(1+\tau_c)^{1-\frac{1}{\sigma}}\sigma}$$

In generally, for the case of $\alpha \neq 1$, we cannot determine the constants a and b. Following Xie (1994), we specified the parameters as $\alpha = \sigma + \lambda$, then, we have

$$a = \frac{(1-\tau)A}{\rho b^{\sigma}},$$

$$b = \frac{\rho \frac{1-\sigma}{1-\sigma-\lambda} + \frac{1}{2}(1-\sigma)(\sigma+\lambda)(1-\tau')^2 \varepsilon^2}{(1+\tau_c)^{1-\frac{1}{\sigma}} \sigma}.$$

The remaining discussions are similar to ones in the main text.

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Chapter 8

SURPLUS ALLOCATION AND DEVELOPMENT UNDER GLOBAL CAPITALISM[1]

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1. INTRODUCTION

Mainstream thinking in economics currently tends to describe the problem of economic development as one of differential economic growth across space; a differential which is ascribed to seizing or missing opportunities to solicit foreign investment, to attract subcontracting orders, to upgrade activities in value chains and to grow by exporting. This approach to development overlooks the mounting case-by-case evidence on the lope-sided distribution along value chains (Gereffi 1989: 525; Gereffi 1994: 102-3; Feenstra 1998: 36; Kaplan and Kaplinsky 1999: 1794; Chossudovsky 1998: 87-90; Figueroa 1996: 37, 39; Talbot 1997: 18[2]; Dikmen 2000: 215, 243). The evidence raises questions concerning the international distribution of the 'gains from trade' and suggests that, if international growth differentials are driven by international distribution mechanisms rather than the other way round, then the development issue demands greater attention to global distribution mechanisms.

Economic development involves fixed capital accumulation. The capacity to undertake fixed investment in underdeveloped countries that import capital goods depends on these countries' terms of trade, as much as on their efforts to save and export. Institutionalist economists, aware of the importance of the terms of trade for accumulation, have been careful to qualify their own recommendations for strategic trade and industrial policies in that such policies might be self-defeating at the global level, since implementation of export-based upgrading policies among many underdeveloped countries may cause a general deterioration of the terms of trade (UNCTAD 1996, Part Two Chapter III; UNCTAD 2002, Part Two Chapter IV; Mayer 2003).

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[1] I owe thanks to Dr. Ahmet Haşim Köse and to Mr. Tuncel Öncel for comments that helped to improve the paper.
[2] Page number on internet version.

Hence a framework apposite for studying the global distribution of investible resources is necessary to understand the sustenance of differences in per capita incomes between countries. Such a framework should preferably take the global social product as given, and focus on attempts of firms and governments to extract the maximum surplus out of the social product, on the struggle between social groups and nations to appropriate the generated surplus, and on how the surplus is used.

This essay is an endeavour to understand and assess the developmental consequences of global economic integration by focussing on the generation, transfer and utilization of the global surplus. It tries to address the following questions: (1) How does globalization affect surplus generation? (2) Where does the global surplus accumulate? (3) How is the global surplus absorbed? (4) What prospects does this pattern of absorption hold for the capital accumulation needs of poor countries? The essay continues as follows: the second section presents a brief description of the surplus concept, and questions whether the tendency for the share of the surplus in GDP to rise has abated under globalizing capitalism. The third section discusses at an abstract level how the surplus is generated and allocated in internationally organized production. In the fourth section empirical clues on the last question are investigated, which seem to indicate an increasing flow of surplus from periphery to core. The fifth section takes up the problem of surplus absorption and juxtaposes the rising consumption of the surplus in the core with the fixed capital formation in the periphery. Section six concludes.

2. THE SURPLUS

It seems useful to begin by reviewing the theoretical framework we will employ. The social surplus is a basic concept of classical political economy which has been revived in the post-war period by Paul Baran and Paul Sweezy.[3] They defined it as

> " ... the difference between what a society produces and the costs of producing it. The size of a surplus is an index of productivity and wealth, and of how much freedom a society has to accomplish whatever goals it may set for itself. The composition of the surplus shows how it uses that freedom: how much it invests in expanding its productive capacity, how much it consumes in various forms, how much it wastes and in what ways". (Baran and Sweezy, 1966: 23).

The surplus can be calculated in alternative ways. One is to estimate the necessary costs of producing the national product, and to deduct the costs from the national product. This raises the conceptual problem of calculating the necessary costs of production. Some of the outlays recorded as costs by firms (such as outlays for superficial product differentiation and advertising) may be unnecessary from the social viewpoint. Hence the determination of the necessary costs is crucial for this first method. A second method is to estimate the various

[3] Baran and Sweezy made the surplus a measurable concept. Lippit (1985), Danielson (1990) , Yeldan (1995) provide similar definitions and descriptions of the concept. A more general theoretical presentation of the classical surplus approach can be found in Garegnani (1988).

expenditures absorbing the surplus (non-essential consumption, investment etc.) and to add them up.

The difficulties of estimating the surplus at the global level either way are obvious.[4] This paper does not attempt to estimate the global surplus produced, but uses available statistics to make conjectures about *trends* in the generation and the disposal of the surplus.

The re-elaboration of the surplus concept in the post-war period is connected to the evolution of certain features of capitalism. In *Monopoly Capital* (1966) Baran and Sweezy argued that capitalism had made a transition from a competitive phase to a monopolistic phase in the twentieth century. In their view, the concentration of capital in giant corporations enables them to fix prices, in contrast to nineteenth century capitalists who worked under more intense competition. These giant corporations set their sales prices by adding mark-ups to production costs. Such price setting gives the corporations control over the partition of the value added with their workers.

Corporations also strive to increase their profits by reducing their production costs. On the macroeconomic plane, the general endeavour to reduce production costs (inclusive of labor costs) tends to raise the share of the surplus in GDP. This rising surplus can be sustained only if it is absorbed. The consumption of capitalists, the consumption of employees in non-productive activities (e.g. superficial product differentiation, advertising, litigation etc.), investment and some part of government expenditure (e.g. public investment, military outlays) are the main outlets for absorbing the surplus.

As forty years have elapsed since the above framework was formulated, it is legitimate to ask: has the increasing ratio of trade to global output in the last decades of the twentieth century impaired the diagnosis of Baran and Sweezy with regard to the monopolization of capital, and with respect to the inclination for the surplus in GDP to increase? Has increasing trade and integration of markets raised competitive pressures so as to restrict the pricing latitude of industrial conglomerates?

The immediate effect of global trade expansion obviously must be to increase overall competition, as greater numbers of firms would come to compete in formerly segregated markets. But a countervailing effect would emerge when large firms with greater financial resources and organizational advantages eliminate smaller firms (as happens when large transnationals take on firms of peripheral countries in opened markets).

Another countervailing trend to the competition-enhancing effect of trade expansion is mergers and acquisitions, on which there is evidence in the core countries. Statistics show that in the US the number of merger and acquisition 'deals' have risen in a wave in 1965-73, in another wave in 1981-89 and between 1992 and 2000 (USBancorp 2001-3 : 4). The advent of the euro triggered a boom in cross-border megamergers in Europe, an increase of 87% from 1998 to 1999 (Graff 2000). Overall, "[a] powerful trend increase in the extent of firm level concentration of global markets share could be observed in industries as diverse as aerospace and defence, pharmaceuticals, automobiles, trucks, power equipment, farm equipment, oil and petrochemicals, mining, pulp and paper, brewing, banking, insurance, advertising, and mass

[4] There are surplus estimations for the US (Baran and Sweezy 1966, Stanfield 1973, Dawson and Foster 1992 and Lippit 1992) and one for Turkey (Somel 2003). Baran reports estimations of potential surplus -hypothetical surplus that could be produced in full employment- for a number of underdeveloped countries (1967: 227). Other work on the surplus in underdeveloped countries include Kanth (1987), Lippit (1987 and 1988), Danielson (1990) and Yeldan (1995).

media" (Nolan 2003: 302-3).[5] Indications are that the competition-enhancing effect of trade is balanced (perhaps even overwhelmed) by the monopolizing effect of the centralization of capital, which may sustain the ability of large corporations to control the market prices of their products.

On the other hand, if mergers and acquisitions imply an increase in the average size of the workforce of corporations, this could stimulate a counterbalance to corporate power by higher unionization and worker militancy. However, the increasing mobility of capital, goods and services on the one hand, and unemployment on the other is weakening unionization in the core countries, and making workers accept temporary employment, part-time employment, flexibility in hiring and dismissing, flexible working days and weeks, and flexibility in assigning tasks in the workplace (Walby 2000).[6] Increasing flexibility in labor relations shifts various risks related to the product markets and the associated costs from firms onto workers. Enhanced flexibility cannot but boost gross profits. Hence the trend towards increased flexibility in labor practices clearly implies increased surplus generation for given output in individual countries.

The neoliberal global reform agenda also includes measures to increase surplus generation through fiscal and institutional reforms, both in developed and underdeveloped countries. Lowering taxes on corporate profits, capital gains and high incomes; increasing taxes on consumption; raising fees on public services and privatization of these services, of utilities and of social security – all these policies aim at disburdening the high income earners and property owners of contributing to financing essential services for the maintenance of the labor force (Jones 2001: 13).[7] These reforms also contribute to increasing the share of surplus in total output.

In brief, in the era of neoliberal policies evidence does not seem to suggest that the tendency for the share of surplus in GDP to rise in individual countries may have waned. If so, what is happening to the surplus generated in international production?

3. OUTSOURCING TO THE PERIPHERY

Baran and Sweezy argued (1966; Baran 1952, 1967) that the surplus of underdeveloped countries had been and was being drained away to the centers of the world-system. Their description of core firms' overseas activities in *Monopoly Capital* can be read as a description of offshore outsourcing activities today if one replaces 'subsidiary' with 'suppliers' (1966: 200):

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[5] Frequent reports in The Economist (February 19, 2004; April 7 2005; July 14, 2005; September 1, 2005; September 8, 2005) testify to an ongoing boom in MandA activities in the US and Europe.

[6] See JIL (2004: 58) for the unionization rate decline in Japan over 1945-2003; JIL (2000) for the unionization rate decline in Japan, US, Germany (1985-1997) and the UK (1990-1997); Friedman (2005: Table 4) for the decline in the unionization rate in the US 1953-2000 and the decline in combined unionization rate in Canada, France, Germany, Italy, Japan and the UK 1980-1990. The weakness of labor and trade unionism in most peripheral countries needs no substantation.

[7] Privatization of socially owned assets and services is a tendency of capitalism that stretches back to the sixteenth century English enclosures, a tendency that was driven off course by Keynesian policies in the twentieth century (Nasser 2003). Shaikh (2003) shows that the 'net social wage' has been a small fraction of GDP in the major industrialized countries in the 1980s and 90s. Privatization is penetrating the most vital services, provoking sharp social responses, as in the water crisis in Bolivia in 2000 (Gosh 2003; Moberg 2004).

> What they [giant multinational corporations] want is monopolistic control over foreign sources of supply and foreign markets, enabling them to buy and sell on specially privileged terms, to shift orders from one subsidiary to another, to favour this country or that depending on which has the most advantageous tax, labour and other policies...

The authors' view was that imperialism had a two-fold function with respect to the surplus: finding cheap foreign sources of supply (which increases the surplus in the home country), and using other countries' markets as outlets (which helps absorb the surplus of the home country).

A major motive of transnational companies in their current practice of outsourcing parts of production to underdeveloped countries is to cut production costs, hence to increase gross profits. When the corporation of a core country decides to outsource its production to a peripheral country, or when it shifts its sources of supply of intermediate inputs to a peripheral country, this increases global surplus creation. Global output remains the same, the costs of producing it decline.[8] For the firm, the effect of offshore outsourcing is the same as if it were to reduce its own (in-house) costs of production, or were to outsource to a cheap supplier in the home economy. If the workers in the core country dismissed due to the offshore outsourcing find newly created jobs and continue to produce surplus, then global output increases and surplus creation increases *a fortiori*. If the workers dismissed due to the outsourcing remain unemployed, then their consumption (provided by family, unemployment benefits etc.) absorbs part of the surplus produced by other workers in employment. Should the supplier in the peripheral country expand her production to meet the order under subcontract, there will also be some increase in surplus creation in the peripheral country. In this case the total increase in surplus may accrue to both countries' economies - in indeterminate proportions.

Rough estimates suggest that by outsourcing globally a multinational firm may be able to lower its costs by as much as 50-70% (*The Economist,* 2004: 4). The McKinsey institution estimates that for every dollar American firms spend on services from India, the US economy receives between \$1.12 and \$1.14 in benefits (Drezner 2004). Of that dollar spent in India only part contributes to surplus generation in India; the rest is the necessary cost of production. But the \$1.12 accruing to the US is pure surplus.

It is worth noting that the effect of offshore outsourcing on productivity in the core economies is ambiguous. The formula

$$\text{productivity} = \frac{\text{sales revenue} - \text{material input cost}}{\text{number of workers}}$$

shows that an increase in material input cost (due to the increase in outsourced inputs) and a reduction of the in-house workforce (due to outsourcing) may ultimately affect the outsourcing firm's productivity either way. The gains that motivate firms to outsourcing are not gains in labor productivity (which arguably could legitimize outsourcing from a social viewpoint), but gains in gross profits – i.e. in surplus appropriation.

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[8] Here the implication is that integration of national economies through trade is reducing the 'necessary costs of production' which is taking the attribute of a global concept.

4. GLOBAL SURPLUS TRANSFERS

To substantiate their argument on the transfers of surplus from the periphery, Baran and Sweezy (1966: 191-201; also Baran 1967: 228-230) showed that the repatriated profits from investment exceeded investment in peripheral countries by core countries' firms, and that investment returns of firms in core countries exceeded their returns in the periphery.

Today we have access to more factual information and analytical tools for gauging international transfers of surplus. The first indicator of surplus flows is trade balances: a country that runs a trade surplus must be transfering net resources (part of its saved surplus) elsewhere. World Bank Indicators show that the high-income countries (and also the high-income OECD countries) have recorded deficits in their trade in goods and services with the low and middle income countries through 1999-2002 (summary figures in Table 1); hence the periphery has been realizing a net transfer of resources to the core, assuming that prices reflect values of resources.

This recent surplus of the periphery in recorded trade might not accurately reflect the magnitude of the real transfer if the prices of peripheral exports were increasing at a higher rate than the prices of core exports. However, evidence suggests the converse. In a recent study investigating the terms of trade of twenty-six developing countries Ram (2004: 251) found that "[w]hile there are some cases of positive trends, the overall scenario is of sizable negative trends for most developing countries over the thirty-year period 1970 to 1999." Another study reports the deterioration of the terms of trade in manufactured commodities for underdeveloped countries in their trade with the EU by an average annual 2.2 percent over 1979-1995 (UNCTAD 1996: 148). Yet another calculation shows an average annual terms of trade deterioration for non-oil exporting developing countries of 1.3 percent for 1982-1988, and an average annual deterioration of 1.5 per cent for 1989-1996 (UNCTAD 1999: 85). Morisset (1998) highlights the increasing difference between commodity prices in international trade and their prices in developed country markets, suggesting that the increasing spread may be due *inter alia* to the ability of large international trading companies to influence such spreads. He reports that "the spread between world and domestic prices almost doubled in all major commodity markets during 1975-94" (1998: 503). To sum up, in view of the terms of trade deterioration of the periphery, trade balances -whether in surplus or in deficit- tend to underestimate the periphery's actual resource exchange with the core countries.[9]

Changes in the periphery's terms of trade with the core can be tracked to various variables that affect the costs of production in different countries: real wage differences, differences in profit margins, tax policies etc.[10] Another important variable that bears on

[9] Computations of the ecological and natural resource content of trade are not central to this paper but significant from the viewpoint of surplus transfer. A study of the environmental and natural resource content of trade between the developed and underdeveloped countries finds that industrialized countries are in general physical net-importers of natural resources from other world regions. In some material categories (like fossil fuels and basic metal products) "a clear tendency toward an increasing physical trade surplus can be observed" (Giljum and Eisenmenger 2003: 16). The authors highlight the role of declining primary commodity prices in sustaining the imbalance in trade in physical resources. Lipke (2002) and Jorgenson and Rice (2005), using ecological footprint per capita, likewise find a net transfer of ecological capacity through trade from the periphery to the core.

[10] Emmanuel (1972) argued that real wage differences are the main determinants of relative prices of the exports of core and periphery; and that differences in profit rates do not play the defining role in these prices.

terms of trade and on resource transfers in core–periphery trade is the undervaluation of underdeveloped countries' currencies with respect to their purchasing power parity. Köhler (1998) has suggested that, as the purchasing power parity exchange rates compiled by international agencies are based on a comparison of prices of a certain basket of goods and services in the US and in other countries, the purchasing power parity figures can be interpreted as, roughly, the price of goods and services in local currency units in other countries that are priced at one dollar in the US. Hence the difference between a currency's purchasing power parity and its market exchange rate to the dollar can be used as a rough measure of the overvaluation or undervaluation of a countries' exports with respect to their values in the US.

Table 2 shows the deviation of exchange rates from purchasing parities for 20 peripheral countries. Dividing the GDPs in current dollars by GDP in current international dollars highlights the under- or overvaluation of currencies in market exchange rates compared to their purchasing powers. The undervaluation in some of the countries (the South Asian countries, China, Indonesia, Malaysia, Zimbabwe) appears to have been increasing. To note some extreme cases: the average undervaluation of the national currency against the US dollar compared to its purchasing power in 2000-2004 was 78 per cent in Bangladesh and China, and 81 per cent in Vietnam and India.

Table 3 shows the same exchange rate deviation for the currencies of ten major core countries. The dollar exchange rates of the core currencies appear to gyrate around unity; and the figures indicating an undervaluation generally do not approach the extreme degrees seen in underdeveloped countries. It follows that the currencies of underdeveloped countries generally tend to remain undervalued not only with respect to the US dollar, but also with respect to the currencies of the other major core countries. The undervaluation of peripheral countries' exports with respect to their values in the core countries implies that outsourcing production to the periphery generates *an unrecorded flow of surplus* to the economies of the outsourcing firms in the core.

Köhler (1998) estimated the unrequited transfer due to distorted exchange rates from 97 underdeveloped countries to 22 OECD countries for 1995 and found a transfer amounting to 8 percent of the GDP of the OECD countries and 24 percent of the GDP of the underdeveloped countries.[11]

Table 1. External Balance in Goods and Services of Country Groups (Annual Average Balance, billions current US dollars)

	1975-1979	1980-1984	1985-1989	1990-1994	1995-1999	2000-2002	2003	2004
High income	-1	-21	-39	86	165	-71	...	...
High income: OECD	-35	-67	-68	49	112	-159	...	...
Low income	-14	-27	-24	-19	-27	-18	-25	...
Middle income	-12	1	17	-1	-13	93	140	127

Source: World Bank, World Development Indicators.

[11] Lipke (2002), using and refining Köhler's method, finds a positive correlation between the unequal exchange in goods and the unequal exchange in ecological content of exports and imports (ecological footprint).

Table 2. The Ratio of GDP at Current US Dollars to GDP in Current International Dollars (for selected underdeveloped countries)

	1975-1979	1980-1984	1985-1989	1990-1994	1995-1999	2000-2004
Bangladesh	0.39	0.31	0.28	0.27	0.25	0.22
Bolivia	0.41	0.35	0.43	0.42	0.44	0.38
Brazil	0.60	0.48	0.44	0.52	0.66	0.40
Chile	0.73	0.78	0.44	0.52	0.59	0.48
China	0.64	0.39	0.28	0.22	0.24	0.22
Colombia	0.37	0.41	0.28	0.28	0.39	0.29
Egypt	0.47	0.40	0.37	0.32	0.40	0.36
India	0.37	0.35	0.30	0.21	0.20	0.19
Indonesia	0.62	0.59	0.36	0.34	0.30	0.29
Kenya	0.70	0.59	0.46	0.32	0.36	0.39
Malaysia	0.75	0.72	0.56	0.55	0.53	0.44
Mexico	0.55	0.58	0.41	0.60	0.52	0.68
Nigeria	1.33	1.25	0.48	0.34	0.35	0.41
Pakistan	0.47	0.46	0.33	0.29	0.28	0.27
South Africa	0.36	0.43	0.39	0.42	0.39	0.32
Thailand	0.50	0.46	0.39	0.44	0.40	0.30
Turkey	0.79	0.53	0.43	0.54	0.49	0.44
Venezuela	0.99	1.19	0.70	0.51	0.65	0.74
Vietnam	...	...	...	0.14	0.20	0.19
Zimbabwe	0.66	0.61	0.40	0.31	0.22	...

Source: Calculated from World Bank http://devdata.worldbank.org/dataonline/ by dividing "GDP (current $)" data by "GDP, PPP (current international $)" data and taking arithmetic averages over periods.

Table 3. The Ratio of GDP at Current US Dollars to GDP in Current International Dollars (for selected core countries)

	1975-1979	1980-1984	1985-1989	1990-1994	1995-1999	2000-2004
Belgium	1.12	0.82	0.83	1.06	1.06	0.90
Canada	1.09	1.00	0.96	1.03	0.88	0.87
France	1.10	0.93	0.95	1.14	1.12	0.95
Germany	1.11	0.90	0.97	1.22	1.20	0.98
Italy	0.70	0.68	0.80	1.01	0.91	0.84
Japan	0.97	0.90	1.22	1.50	1.49	1.24
Netherlands	1.09	0.89	0.88	1.03	1.03	0.91
Sweden	1.47	1.16	1.17	1.43	1.28	1.09
Switzerland	1.12	1.00	1.15	1.40	1.43	1.24
United Kingdom	0.71	0.81	0.76	0.94	0.95	0.99

Source: Calculated from World Bank http://devdata.worldbank.org/dataonline/ by dividing "GDP (current $)" data by "GDP, PPP (current international $)" data and taking arithmetic averages over periods.

What drives the currency undervaluation in peripheral countries? Capital account convertibility in peripheral countries instigates a private demand for dollars and for other reserve currencies as a store of savings and for capital flight.[12] In addition, volatile international capital flows unleashed by this convertibility compel central banks to accumulate large reserves in order to prevent currency crises, generating a rising official demand for reserve currencies. The accumulation of foreign exchange reserves in poor countries is seen in Table 4. The rising trend of the ratio of reserves to imports and to GDP reftects an increasingly costly hoard, and a source of downward pressure on the exchange rates of peripheral national currencies against the reserve currencies.[13]

Table 4. Low and Middle Income Countries' Official Reserves Relative to Imports (world reserves and GDP)

	1981-1985	1986-1990	1991-1995	1996-2000	2001-2003
Ratio to imports	0.21	0.22	0.30	0.41	0.52
Ratio to GDP	0.04	0.04	0.07	0.11	0.15
Ratio to world reserves	...	0.18	0.27	0.35	0.39

Source: World Bank, World Development Indicators.

Note: Total reserves comprise special drawing rights, reserves of IMF members held by the IMF, and holdings of foreign exchange under the control of monetary authorities. Gold holdings are excluded. Imports refers to imports of goods and services and does not include factor incomes.

Table 1 showed that the high income countries as a group have been running trade deficits in goods and services, largely due to OECD countries' deficits in the 1980s and in recent years. Table 5 reveals that when the undervaluation of the currencies of the low income countries is used to find a rough estimate of the value of their exports in the markets of the core countries, this undervaluation overshadows these countries' recorded deficits in trade of goods and services. Similarly, Table 6, comparing the value in the core countries of middle income countries' exports with their recorded external balance in goods and services, suggests that the undervaluation these countries' exports to the core countries may far exceed their recorded trade surpluses. However, peripheral countries do not trade only with the core countries, but also trade with each other. The different rates of undervaluation of currencies of peripheral countries (highlighted in Table 2) suggest that trade among these countries also incurs unrequited surplus transfers.

[12] "In the emerging markets, for each dollar of net inflow there was a net outflow of 14 cents in the 1980s, but of almost 24 cents in the 1990s. For developing countries as a whole, this share more than doubled during the 1990s alone" (UNCTAD 1999: 106).

[13] In an alternative explanation for the undervaluation of currencies in the periphery, Reich (2004) argues that a country with a lower productivity in the production of tradables compared to its trading partners must have lower wages than its trading partners to be able to price its tradable goods competitively ("the law of one price"), given the exchange rate of its currency. Then wages in the non-tradables sectors in this country would also have to be lower. If productivity of labor in the non-tradables sectors of this country is comparable to that of its trading partners, then the prices of non-tradables are underpriced comparatively to the corresponding non-tradable goods in developed countries. Reich attributes exchange rate distorsion to this underpricing of non-tradables in excess of productivity differentials. But this cannot explain why transnational companies outsource production of tradable goods to suppliers in peripheral countries.

Table 5. Low Income Countries' Annual Exports in Current International Dollars and Their External Balances (billion US dollars)

	1980-1984	1985-1989	1990-1994	1995-1999	2000-2003
GDP in PPP $/GDP current $ (=current e-rate/PPP)	2,36	2,93	4,03	4,31	4,69
Exports in current dollars	66	65	91	133	192
Exports in PPP $	154	191	366	575	953
Exports in PPP $ - exports in current $	88	126	275	442	750
External balance on goods and services (current $)	-24	-21	-16	-24	-14

Source: World Bank World Development Indicators.

Notes: PPP $ rate/current $ rate is calculated by dividing GDP in current international US dollars by GDP in current US dollars. Exports in current international dollars are calculated by multiplying exports of goods and services by the PPP $ rate/current $ rate. Exports in current dollars are actual earnings from exports. All figures are simple arithmetic averages for periods indicated.

Table 6. Middle Income Countries' Annual Exports in Current International Dollars and Their External Balances (billion US dollars)

	1982-1984	1985-1989	1990-1994	1995-1999	2000-2003
GDP in PPP $/GDP current $ (=current e-rate/PPP)	2,20	2,59	2,56	2,53	2,98
Exports in current $	471	475	773	1292	1803
Exports in PPP $	1004	1231	1975	3278	5132
Exports in PPP $ - exports in current $	534	757	1202	1986	3416
External balance on goods and services (current $)	11	4	2	1	130

Source: World Bank World Development Indicators. Note: Calculations are same as in Table 5. Averages begin in 1982 for lack of 1980 data.

Tables A1-A3 in the appendix and Table 7 below present a tentative calculation of unrequited transfers through exchange rate distorsions between regional groups of core and peripheral countries. The reader should be reminded of the exclusion of East European and Central Asian transition economies from the estimations, and of our crude assumptions underlying the calculation of the distorsion factors for whole regions -necessitated by the incongruence of aggregate data from ECLAC and from the World Bank- so that the tables should be taken rather as a methodological exercise than an estimation with any claim for precision.

Still, with due caution, the figures in Table 7 merit some scrutiny. The total value of unrequited transfers appears to increase with trade from 1985 to 2000. Latin America's surplus transfers seem to concentrate in the US and Canada, while that of developing Asia appears more balanced between Western Europe, North America and 'other industrialized countries'. The net unrequited transfers from the Asian periphery overshadow that from the other two peripheral regions. The change in the relative position of Africa with respect to 'developing' Asia and Latin America from 1985 to 2000 is to be noted. The table shows an upward stream in 2000 of undervalued exports from Africa to 'developing Asia', from Asia to Latin America, and from the latter region to the core countries; and the confluence of surplus from each of the 'developing' regions directly to the core blocks.

Table 7 depicts a hierarchy of transfers – the "structured inequality" of the world-system demarcated by territorially based states (Tabb 2005: 50). Asian peripheral countries' undervalued exports to other peripheral countries may serve to underpin local support in peripheral countries for free trade policies. Workers in Turkey, for example, may be unaware of the market price in the EU of their products exported there, or may not notice how export competition against other Asian producers pushes down their wages and deprives them of their jobs; but they may see more easily the advantages of purchasing cheap consumer articles imported from China or India which enable them to survive on their wages.

Table 7. Net Unrequited Transfers between Different Regions, 1985 and 2000 (billion current international dollars)

1985 Destination/Origin	Western Europe	US and Canada	Other industrialized	Latin America and Caribbean	Asian developing	Africa
Western Europe	-	65	10	-	-	-
US and Canada	-	-	-	-	-	-
Other Industrialized	-	21	-	-	-	-
Latin America and Caribbean	37	90	12	-	-	1
Asian developing	67	117	102	2	-	2
Africa	48	18	3	-	-	-
2000 Destination/Origin						
Western Europe	-	70	53	-	-	-
US and Canada	-	-	46	-	-	-
Other Industrialized	-	-	-	-	-	-
Latin America and Caribbean	34	225	17	-	-	-
Asian Developing	976	1282	875	90	-	-
Africa	132	52	14	13	8	-

Source: Table 3A. Inter-regional flows are ignored.

5. Surplus Absorption

From the viewpoint of economic development, the critical matter in the use of the surplus is fixed investment in the underdeveloped countries. To investigate whether the level of fixed capital formation in the periphery offers any prospects for per capita income convergence, it seems logical to focus on fixed capital formation *per capita*, as labor productivity is largely determined by the quantity of the means of production per worker, and its quality. Table 8 shows per capita gross fixed capital formation figures for underdeveloped regions as ratios to the corresponding figures in the high-income OECD countries, and for the low income countries and the middle income countries as blocks, estimated both on market exchange rate and purchasing power parity bases. The relevant ratio for a country should lie between the two estimates, depending on how imported investment goods and domestically produced investment goods are combined in fixed capital formation.

Table 8. Per Capita Gross Fixed Capital of Peripheral Country Groupings Relative to per Capita Gross Fixed Capital Formation in High-income OECD Countries

	1975-1979	1980-1984	1985-1989	1990-1994	1995-1999	2000-2002
East Asia and Pacific (a)	0.04	0.04	0.03	0.03	0.05	0.06
East Asia and Pacific (b)	0.06	0.08	0.09	0.14	0.19	0.22
Europe and Central Asia (a)	...	...	...	0.10	0.08	0.08
Europe and Central Asia (b)	...	...	...	0.30	0.23	0.23
Latin America and Caribbean (a)	0.22	0.20	0.12	0.11	0.13	0.12
Latin America and Caribbean (b)	0.37	0.33	0.28	0.24	0.25	0.24
Middle East and North Africa (a)	...	...	...	...	0.06	0.07
Middle East and North Africa (b)	...	...	...	...	0.18	0.18
South Asia (a)	0.02	0.02	0.02	0.01	0.02	0.02
South Asia (b)	0.05	0.06	0.06	0.07	0.08	0.09
Sub-Saharan Africa (a)	0.07	0.05	0.03	0.02	0.02	0.02
Sub-Saharan Africa (b)	0.11	0.09	0.06	0.05	0.05	0.05
Low income (a)	0.03	0.02	0.02	0.01	0.01	0.01
Low income (b)	0.05	0.05	0.05	0.06	0.06	0.07
Middle income (a)	0.12	0.11	0.08	0.06	0.07	0.08
Middle income (b)	0.21	0.21	0.20	0.18	0.20	0.22

Source: World Bank World Development Indicators.

Note: (a) The ratio of per capita gross fixed capital formation of indicated countries to that of high-income OECD countries in current US dollars.

(b) The ratio of per capita gross fixed capital formation of indicated countries to that of high-income OECD countries in current international dollars.

The table reveals that the ratios in general appear to be stagnating in purchasing power parities, and appear to be decreasing in current US dollars. The ratios for East Asian and the East European and Central Asian grouping show upward trends. If these upward trends were to continue, they would imply a convergence not of per capita stocks, but of *rates of increase* of per capita stocks. As long as the absolute difference between per capita fixed investment in two regions continues, the gap in per capita stock of fixed capital deepens. Convergence of per capita capital stocks of peripheral countries with the core countries would necessitate that the figures in the table be over unity – moreover, *substantially* over unity. Given the figures, the prospects for the low and middle income countries' raising their capital accumulation and labor productivity to levels commensurate with that of the core countries seems to be nil.

The alternative mode of surplus absorption is that part of private and government consumption that cannot be categorized as necessary for the maintenance of the workforce. There is no doubt that such non-essential consumption is widespread in the periphery of the world-system (formerly among the comprador and 'traditional' ruling classes, now among the emerging transnational élite groups[14]) and that this consumption diverts resources away from investment. It lies beyond the scope of this paper to estimate non-essential consumption for groups of countries. However Table 9 reveals that as the peripheral countries are being officially exhorted to raise their saving rates, the propensity to consume in the core countries is increasing. An increase in the share of consumption in national income in core countries may be interpreted as impinging on the global surplus, unless there are reasons to suppose that the necessary costs of maintaining the labor force in the core rises faster than GDP. The declining overall saving rate and trade deficits of the core countries as a block flies in the face of the need to make provisions for aging core populations.

The United Sates and the European Monetary Union countries as a group have been contributing less to global saving (relative to GDP) than the middle income countries since the 1970s, and Japan appears to have joined the former group in this respect since 2000. The high income OECD countries' final consumption share in GDP has risen by four percentage points from 1975-1979 to 2000-2003, and the final consumption share of the low income countries has declined by four percentage points. The average saving rate in the core has dropped to the level of the low income countries in 2000-2003. The increase in the consumption rate from 0.78 in 1999 to 0.79, 0.80 and 0.81 in 2000, 2001 and 2002 in the high income OECD countries has deprived the world of roughly 1.49 trillion dollars (1.55 trillion in current international dollars) of saving in the three years, a sum equal to 1.5 percent of world output in those years (1.1 percent by current international dollars). The increasing flow of global surplus to the core countries makes it both possible and necessary to increase consumption rates in the core.

The rise in the consumption rate in the major core countries appears to be maintained *inter alia* by a rising household consumption rate in the US and Japan. Private consumption expenditure is sustained by advertising, superficial product differentiation and planned obsolescence. Asset prices inflated by speculation (such as the current housing bubble in the US) play a part in encouraging consumption. As income levels in the core countries become increasingly polarized, corporate sales strategies develop mass markets in segments, e.g. in

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[14] Sklair (1994).

markets for ‘life-style model’ consumer goods and markets for discount-store consumer goods (Jones 2001: 14).

Capitalists, for their part, present advertising as necessary to serve consumers, who are portrayed as having mysteriously become more whimsical in their demands and preferences.[15] World advertising expenditure (Table 10) amounted to around one percent of world GDP in 2003 and 20 percent of the fixed capital formation expenditure of the low and middle income countries combined. Much of expenditure on advertisement can be seen as a waste of resources that is used to abet further waste. Another factor that instigates private consumption in the core countries is consumer credit, which has enabled US consumers to accumlate a debt of ten billion dollars at the end of 2004 (Wolff 2005).

The share in GDP of the other component of final consumption expenditure, government expenditure, in the core countries appears to stable, balanced by Japan’s rising share and a declining trend in the US. In the context of government expenditure, US military expenditure played an important role in absorbing surplus during the Cold War (Baran and Sweezy, 1966: Chapter 7). In the 1990s the proportion of disclosed military expenditure in GDP and in central government expenditures has been slightly declining according to World Development Indicators; in 2002 its share in GDP was 3 percent in the US, and 2 percent in the European Monetary Union. But a comparison of the level of military spending with investment figures in the periphery yields a more telling picture.

Table 9. Final Consumption as Percentage of GDP (%)

	1975-1979	1980-1984	1985-1989	1990-1994	1995-1999	2000-2003
Low income	84	85	83	82	82	80
Middle income	74	74	73	74	74	73
High income: OECD	76	78	78	79	78	80
European Monetary Union	77	79	78	78	77	78
Japan	67	69	67	67	71	74
United States	80	81	83	84	82	85
Per capita GDP as percentage of High Income OECD						
	1975-1979	1980-1984	1985-1989	1990-1994	1995-1999	2000-2004
Low income	7	6	6	6	6	7
Middle income	17	18	18	17	18	19

Source: World Bank, World Development Indicators. Per capita GDP ratios (not in percentages) calculated by dividing ‘GDP per capita, PPP (current international $)’ figures of low and middle income country groupings by that of the high-income OECD countries.

[15] An ICC Policy Statement argues “In an increasingly competitive environment and the tendency toward shorter product life spans, new products and services must be introduced without delay to the local market so that business can meet consumer expecations and or preference …” (ICC 2002).

Table 10. Advertising Expenditure through Major Media* (billion US dollars)

	1996	1997	1998	1999	2000	2001a	2002b	2003c	2004c
North America	105.6	112.6	118.9	124.9	131.2	146.7	150.3	158.4	167.9
Europe	72.9	78.6	83.4	87.7	92.2	76.9	86.9	89.5	95.0
Asia and Pacific	61.7	67.2	67.2	70.4	74.0	61.3	66.2	69.7	75.0
Latin America	21.1	24.2	26.7	29.6	33.1	18.3	14.1	13.7	16.1
Rest of World	5.3	6.1	6.8	7.6	8.4	9.4	11.4	14.2	17.4
Total	266.5	288.8	303.1	320.1	338.9	312.6	328.9	345.5	371.4

Source: For 1996-2000 figures: http://www.asianmediaaccess.com.au/ftimes/adspend/summary.htm (14 July 2005), original source: Zenithmedia.

a ZenithOptimedia Press Release June 30, 2003.

b ZenithOptimedia Press Release July 19, 2004.

c ZenithOptimedia Press Release April 18, 2005.

*Major media comprises newspapers, magazines, televison, radio, cinema and outdoor advertising. The internet is also indicated in the source tables for figures beginning 2001.

Table 11. Military Expenditure (billion US $, 2003 prices and exchange rates)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Western Europe	209	210	209	211	214	216	215	220	223	220
North America	347	328	326	319	320	332	335	375	424	466
World	789	772	774	765	773	806	819	864	927	975

Source SIPRI. http://www.sipri.org/contents/milap/milex/mex_wnr_table.html

Western Europe comprises Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, Malta, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, UK. North America comprises US and Canada.

Table 11 shows the share of the core in global military expenditure.[16] In 2003 world military expenditure figures of the Stockholm International Peace Research Institute amounted to 53 percent of gross fixed capital formation in the low and middle income countries combined (1758 billion current US$ - World Development Indicators); and the military expenditure of the core corresponded to 37 percent of this investment. The opportunity cost of military expenditure is only one side of the coin. Maintaining military might, flexing it and intermittently using it is necessary for the core countries to maintain the momentum toward deregulating trade and capital movements, and controlling global natural resources.

[16] It should be recalled that in many countries part of military expenditure is concealed in other government accounts and SIPRI cannot give data on a number of countries.

CONCLUSION

In conclusion, it emerges from the observations above that the basic tendencies in the production and growth of the social surplus described by Baran and Sweezy have not changed under 'globalizing capitalism'. New economic policies, corporate strategies and international rules of conduct appear to promote increasing surplus transfers from the periphery to the core of the world-system.

In order to lift itself out of destitution the periphery is exhorted to remove restrictions on trade and capital flows, and to compete for advantageous positions in global value chains controlled by transnationals by improving quality, reducing costs, innovating etc. The export-led growth economic strategy compels peripheral producers to individually compete for exportation by repressing wages, and conceding much of the surplus produced to their trade partners in the core countries. Part of the surplus accruing to the periphery is consumed by transnational élites imitating the consumption of the well-to-do in the core societies. On the other hand dollarization, capital flight and official reserve accumulation exert downward pressure (a pressure unrelated to trade balances) on the exchange rate of peripheral currencies. The undervaluation of peripheral currencies, reflected in deteriorating terms of trade, translates into a loss of surplus to the core countries, and reduces the capacity of poor countries to import capital goods from the core. The resulting meager per capita fixed capital formation in the underdeveloped countries bodes grim prospects for the welfare of future generations of working people in the periphery.

These trends are maintained by the insertion of millions of workers in Asian hinterlands into global production networks, and by the willingness of peripheral states governed by transnational élites to continue free trade and capital transactions policies, and to accumulate foreign exchange reserves. Africa's poor populations await their turn to be drawn into the world labor market, to eke out a subsistence and produce a surplus, of which a large part will likely flow to the core.

In order to prevent the drift of the victims of globalizing capitalism to irrational reaction (religious or nationalist fanaticism, 'clash of civilizations' etc.) and to focus their attention on the real issues, social scientists and activists should open to debate the social and economic consequences of the export-led growth idea, all the theories and policies that give precedence to global efficiency over national saving and investment, and the social psychology of consumerism. There is pressing need to promote socio-economic programs based on the principle of self-sufficient and self-reliant national development, wherein the people can decide through democratic procedures how they will dispose the social surplus they produce (how they will distribute it, how much they will save, invest, export) under less pressure from world markets dominated by transnational companies, and with less interefence from international institutions and core states. Within the framework of the capitalist world-system, there is little hope for solving the deep social contradictions the system reproduces. The solution, reason shows, lies outside the logic of the system.

Appendix

Table A1. World Exports by Origin and Destination , 1985 and 2000 (billions US dollars)

1985 Destination/Origin	Western Europe	US and Canada	Other industrialized	Total industrialized	Latin America and Caribbean	Asian developing	Africa	Total developing	Total by origin
Western Europe	663	115	35	813	18	55	27	102	915
US and Canada	84	157	53	294	24	40	7	71	362
Other industrialized	51	106	22	179	7	57	4	66	245
Total industrialized	798	378	110	1284	49	152	38	239	1522
Latin America and Caribbean	33	64	9	106	15	4	2	20	128
Asian developing	77	93	91	259	7	84	4	95	356
Africa	64	18	4	86	2	4	2	9	95
Total developing	175	175	104	453	24	95	9	126	579
Rest of world	73	4	7	84	2	18	7	24	108
Total by destination	1045	557	221	1821	75	265	51	389	2209
2000 Destination/Origin									
Western Europe	1952	352	115	2427	77	222	46	345	2764
US and Canada	283	505	145	934	245	184	8	436	1371
Other industrialized	153	237	46	436	23	260	8	283	720
Total industrialized	2389	1095	306	3790	337	666	61	1064	4862
Latin America and Caribbean	61	283	15	360	77	23	0	100	459
Asian developing	360	452	291	1103	38	628	15	681	1784
Africa	84	31	8	130	8	31	8	38	168
Total developing	505	766	314	1585	123	674	23	819	2404
Rest of world	283	38	15	337	8	38	8	54	390
Total by destination	3185	1899	636	5720	467	1378	92	1937	7657

Source: Figures calculated from Table 2.2 ("Structure of World Imports, By Origin and Destination, 1985 and 2000" showing exports in percentages of world exports) from ECLAC (2002: 33); and from world "exports of goods and services" figures in World Development Indicators of the World Bank (http://devdata.worldbank.org/dataonline).

Note to ECLAC table: The data on world imports refer to the total imports of 82 reporting countries, corresponding to approximately 90% of world trade. 1985 refers to the annual average for the period 1984-1986. 2000 refers to the annual average for 1999-2000. The countries not included as reporting countries are primarily those with economies in transition. Western Europe: European Union plus Switzerland, Norway and Iceland. Other industrailized: Japan, Australia, New Zealand and Israel. "Rest of World" is not included as a destination for lack of information. Asian origin, [sic] "Rest of World" refers to economies in transition, Oceania except Australia and New Zealand, free zones, etc.

Table A2. World Exports by Origin and Destination, 1985 and 2000 in Current International Dollars (billion current international dollars)

1985 Destination/Origin	Western Europe	US and Canada	Other industrialized	Total industrialized	Latin America and Caribbean	Asian developing	Africa	Total developing	Total by origin
Western Europe	1052	182	56	1291	28	88	42	161	1452
US and Canada	86	161	55	302	25	41	7	73	373
Other industrialized	62	129	27	218	8	70	5	81	299
Total industrailized	1200	473	138	1811	61	199	54	315	2123
Latin America and Caribbean	80	155	21	257	37	11	5	48	311
Asian developing	176	211	206	588	15	191	10	216	809
Africa	128	35	9	173	4	9	4	18	190
Total developing	385	402	236	1018	57	211	20	282	1310
2000 Destination/ Origin									
Western Europe	446	80	26	554	17	51	10	79	3395
US and Canada	293	523	151	968	254	190	8	452	1420
Other industrialized	126	196	38	360	19	215	6	234	594
Total industrialized	2818	1152	330	4309	367	678	71	1109	5409
Latin America and Caribbean	112	517	28	657	140	42	0	182	839
Asian developing	1387	1741	1121	4249	148	2420	59	2626	6875
Africa	227	82	21	350	21	82	21	103	453
Total developing	1725	2341	1170	5257	308	2544	80	2911	8167

Source : Calculated from Table A1 and exchange rate distorsion factors. Exchange rate distorsion factors found by dividing GDP, PPP (current international $) figures by GDP (current US$) figures from World Development Indicators of the World Bank (http://devdata.worldbank.org/dataonline) for 1985 and 2000. As the regional data of the World Bank do not correspond to those of Table A1 drawn from ECLAC, approximations for exchange rate distorsion explained in Table A4 were used.

Table A3. Unrequited Transfers through Exports due to Exchange Rate Distorsion, 1985 and 2000 (billion current international dollars)

1985 Destination/Origin	Western Europe	US and Canada	Other industrialized	Total industrialized	Latin America and Caribbean	Asian developing	Africa	Total developing	Total by origin
Western Europe	389	67	21	478	10	32	16	60	597
US and Canada	2	5	2	9	1	1	0	2	11
Other industrialized	11	23	5	39	1	13	1	14	53
Total industrialized	403	95	27	525	13	46	17	76	601
Latin America and Caribbean	47	91	13	151	22	6	3	28	182
Asian developing	99	118	115	329	8	107	6	121	453
Africa	64	18	4	86	2	4	2	9	95
Total developing	210	227	132	567	33	118	11	158	731
2000 Destination/Origin									
Western Europe	446	80	26	554	17	51	10	79	631
US and Canada	10	18	5	33	9	7	0	16	49
Other industrialized	-27	-41	-8	-76	-4	-45	-1	-49	-125
Total industrialized	429	57	23	512	22	12	9	45	555
Latin America and Caribbean	51	234	13	297	63	19	0	82	380
Asian developing	1027	1289	830	3146	109	1792	44	1945	5091
Africa	142	52	13	220	13	52	13	65	285
Total developing	1220	1575	856	3664	185	1863	57	2092	5756

Source: Calculated by taking differences of corresponding regional export figures in Tables A1 and A2.

Table A4. Exchange Rate Distorsion Factors for Regions in Table A2

Region in Tables A1-A3	Country/Region in World Development Indicators	Year	Exchange rate distorsion factor	Weights (from annual exports in billion current dollars)	Regional exchange rate distorsion factor
Western Europe	European Monetary Union	1985	1.587	-	1.587
		2000	1.228	-	1.228
US and Canada	US	1985	1.000	0.752	1.029
	Canada		1.116	0.248	
	US	2000	0.986	0.769	1.036
	Canada		1.202	0.231	
Other Industrialized	Japan	1985	1.169	0.812	1.218
	Australia		1.222	0.114	
	New Zealand		1.720	0.029	
	Israel		1.756	0.045	
	Japan	2000	0.694	0.769	0.826
	Australia		1.290	0.134	
	New Zealand		1.480	0.028	
	Israel		1.123	0.069	
Latin America and Caribbean	Latin America and Caribbean	1985	2.423	-	2.423
		2000	1.826		1.826
Asian developing	East Asia and Pacific	1985	0.466	2.742	2.274
	South Asia		0.1000	3.238	
	Middle East and North Africa		0.433	1.548	
	East Asia and Pacific	2000	0.675	4.199	3.853
	South Asia		0.099	5.041	
	Middle East and North Africa		0.226	2.306	
Africa	Sub-Saharan Africa	1985	0.379	2.794	2.004
	Middle East and North Africa		0.621	1.549	
	Sub-Saharan Africa	2000	0.352	3.400	2.691
	Middle East and North Africa		0.648	2.306	

Note: The distorsion factor for Western Europe is based on the World Bank's GDP figures for European Monetary Union; the distorsion factor for US and Canada is average of World Bank's GDP figures for the US and Canada, weighted by exports of goods and services; the distorsion factor for other industrialized countries is average of distorsion calculated from World Bank's GDP figures for Japan, Australia, New Zealand and Israel, weighted by these countries' exports of goods and services; the distorsion factor for Latin America and Caribbean is calculated from World Bank's GDP figures for this region; the distorsion factor for Asian developing countries is average of distorsion factors calculated from World Bank's GDP figures for East Asia and Pacific, South Asia and the Middle East and North Africa, weighted by these regions' exports of goods and services; the distorsion factor for Africa is average of distorsion figures calculated from World Bank's GDP figures for Sub-Saharan Africa and the Middle East and North Africa, weighted by exports of goods and services.

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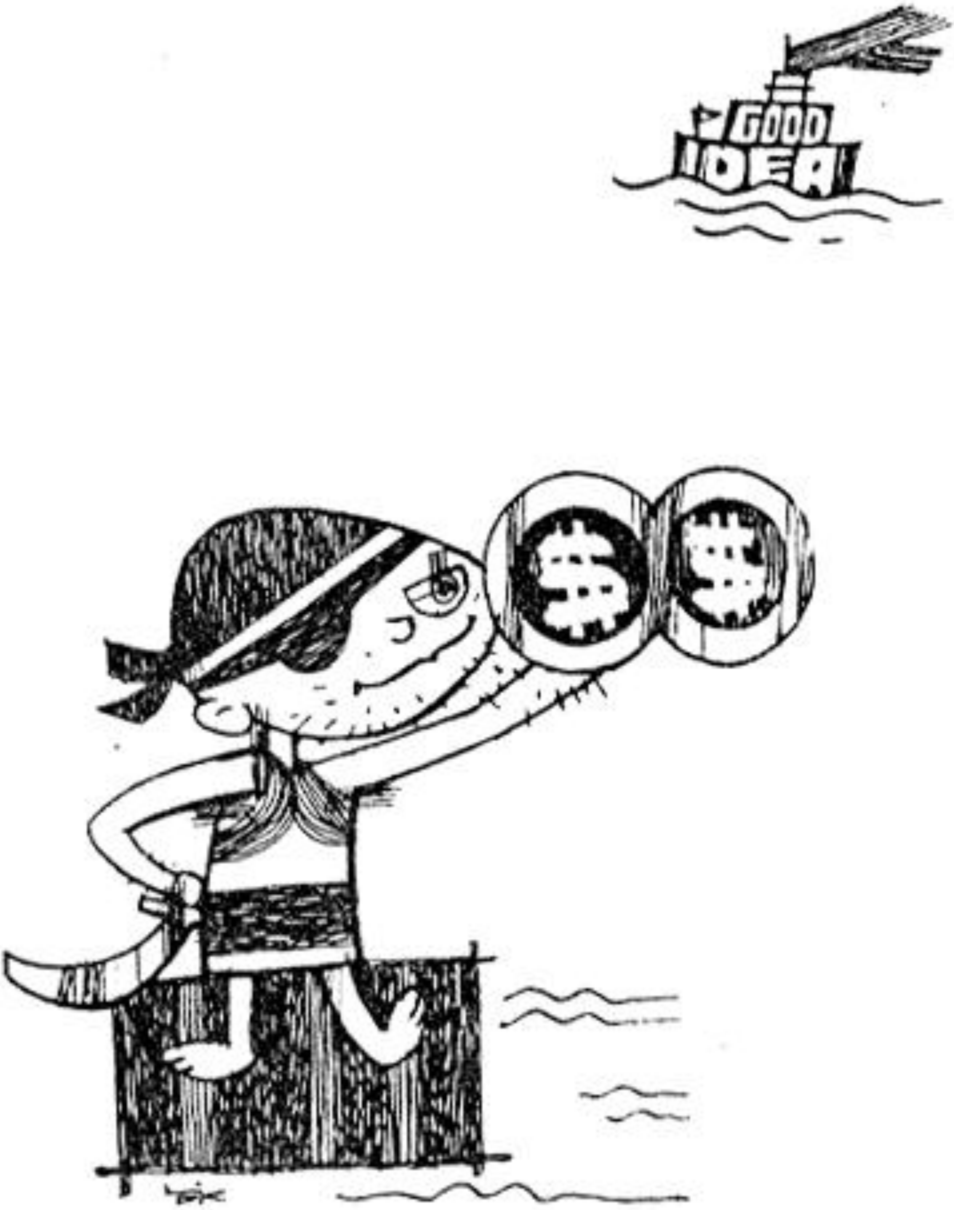
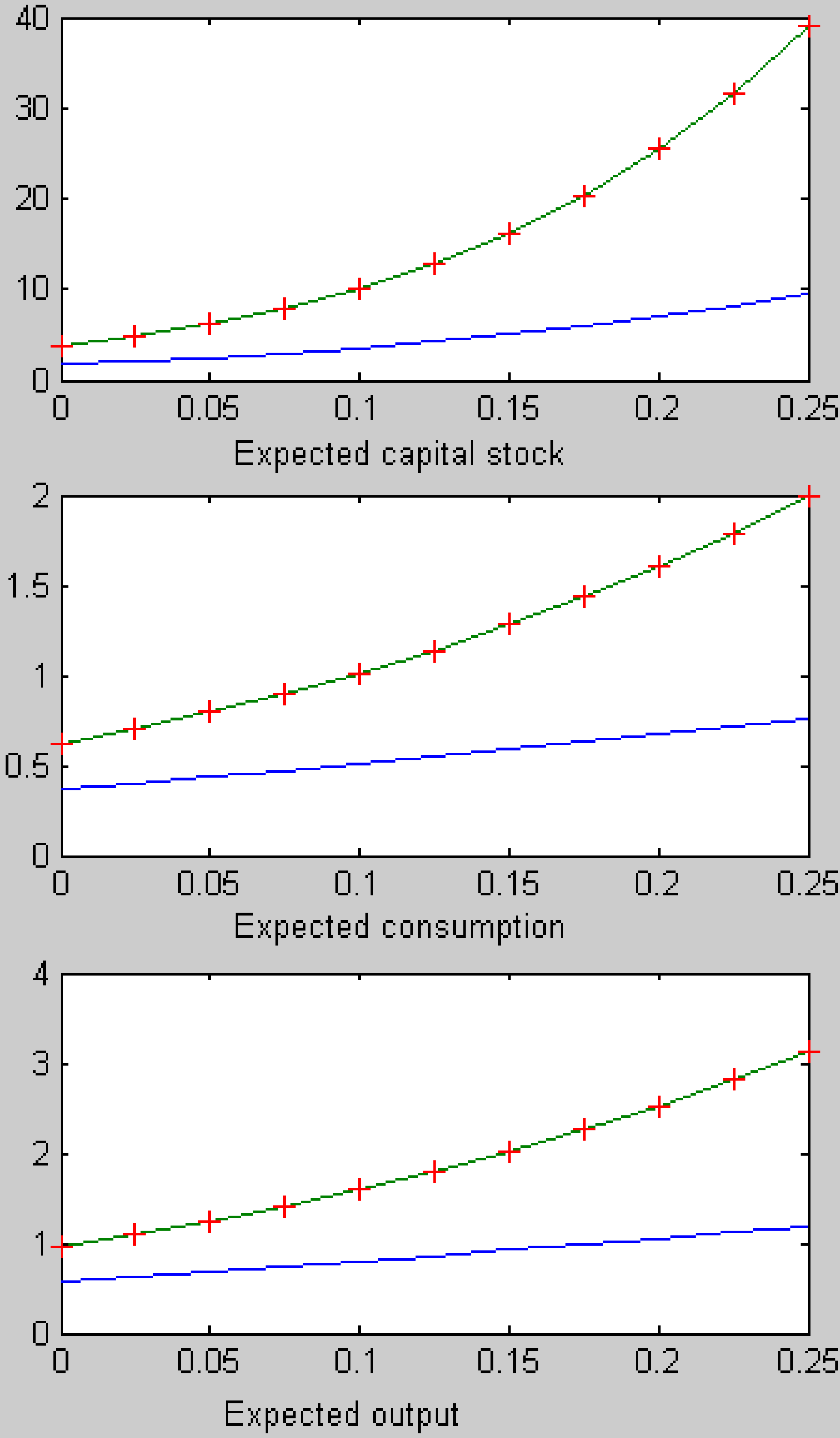
不要DESIGN的人



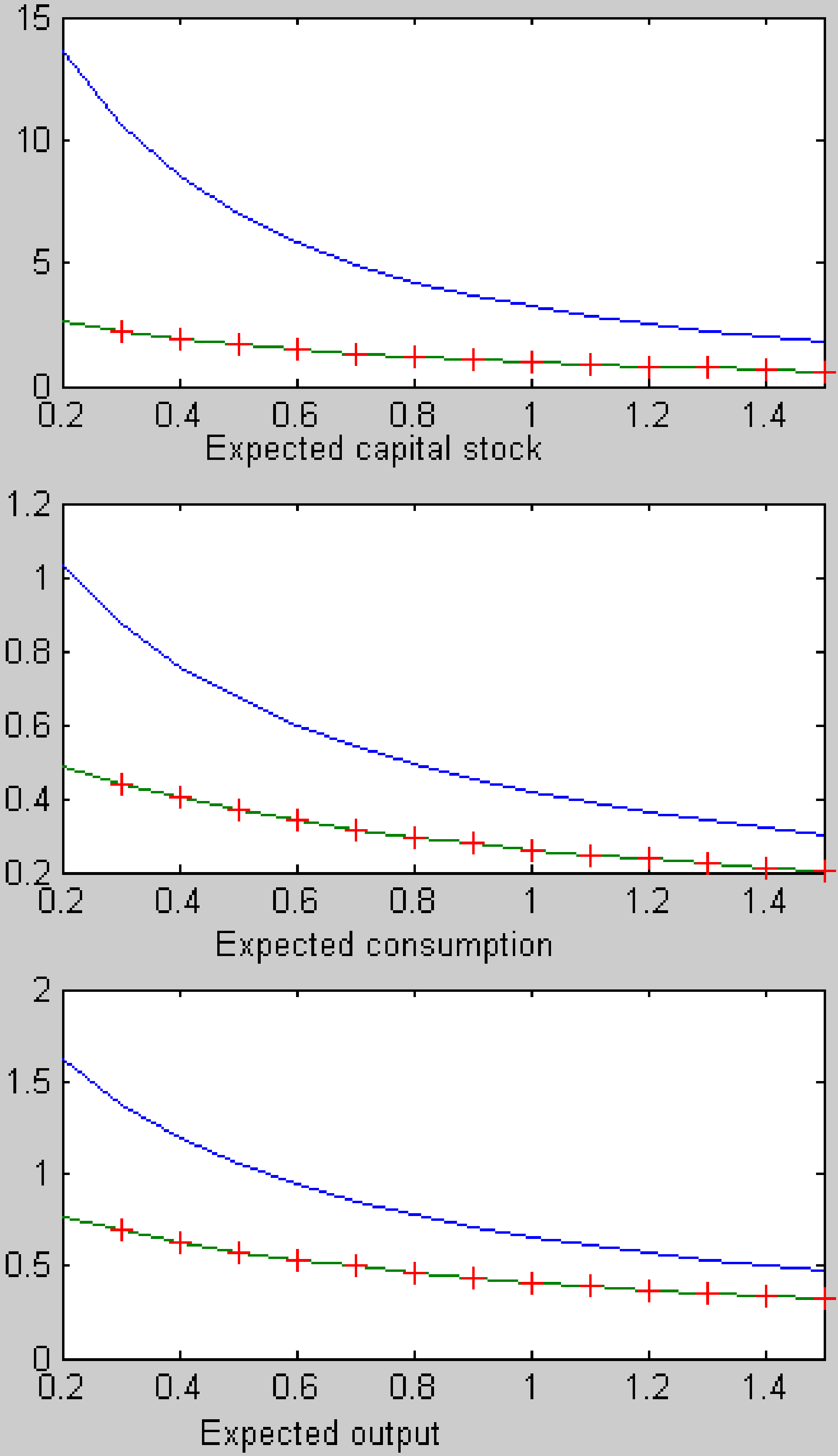
設計海盜

IMITATION大王

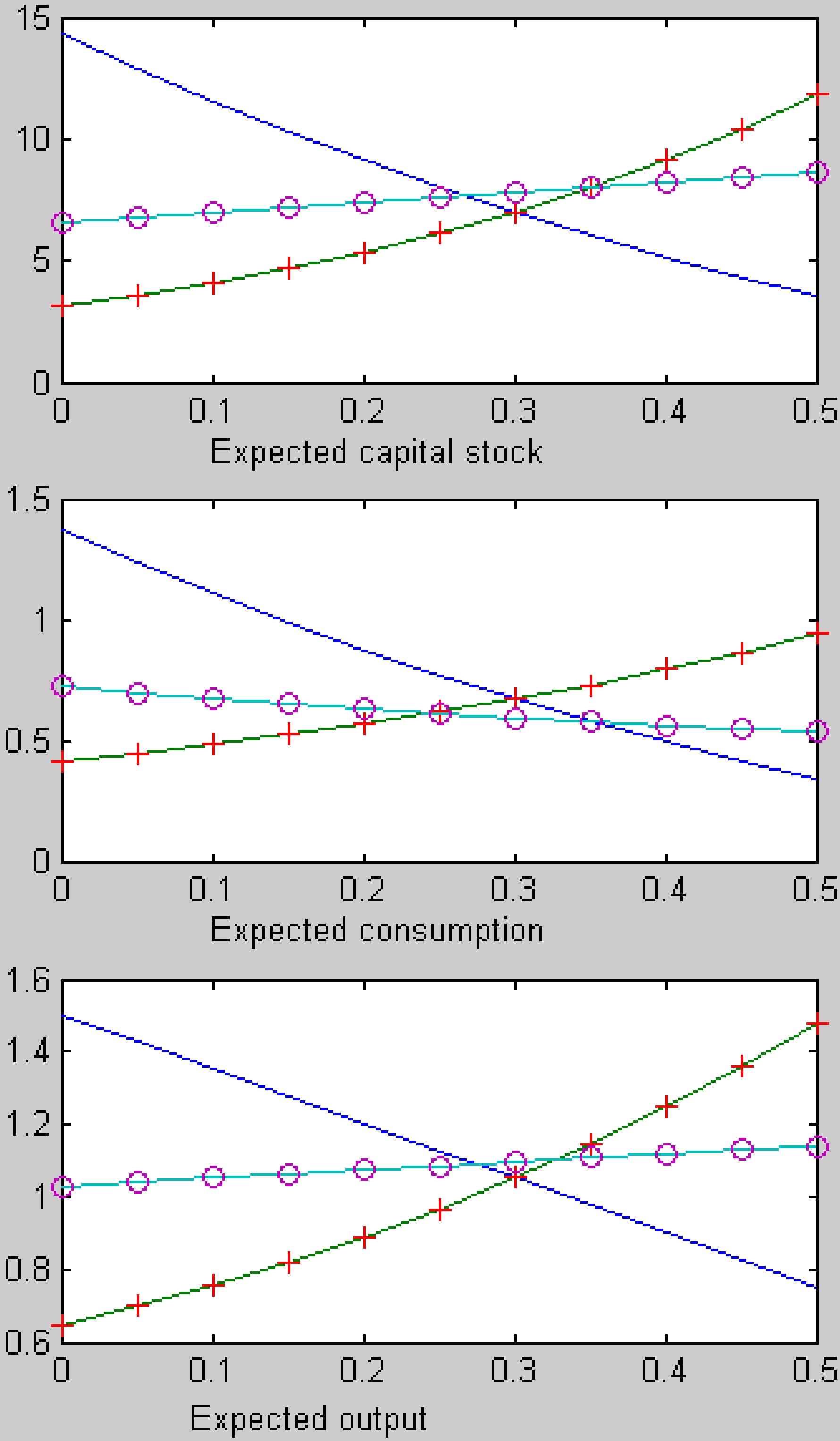
IT'S VERY WELL
MADE IN TAIWAN

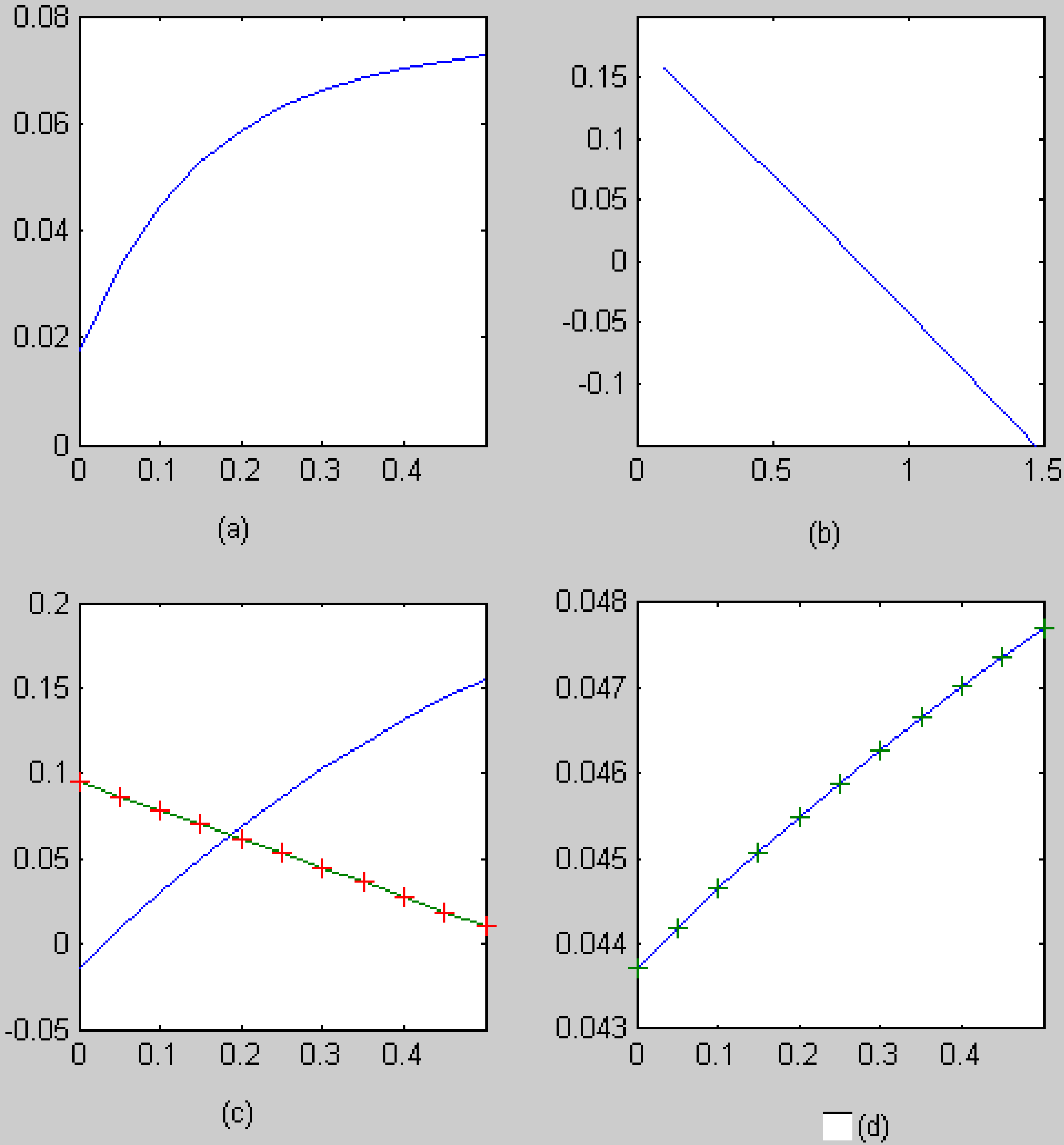


40
30
20
10
0
0
0.05
0.1
0.15
0.2
0.25
Expected capital stock
2
1.5
1
0.5
0
0
0.05
0.1
0.15
0.2
0.25
Expected consumption
4
3
2
1
0
0
0.05
0.1
0.15
0.2
0.25
Expected output



15
10
5
0
0.2
0.4
0.6
0.8
1
1.2
1.4
Expected capital stock
1.2
1
0.8
0.6
0.4
0.2
0.2
0.4
0.6
0.8
1
1.2
1.4
Expected consumption
2
1.5
1
0.5
0
0.2
0.4
0.6
0.8
1
1.2
1.4
Expected output


15
10
5
0
0
0.1
0.2
0.3
0.4
0.5
Expected capital stock
1.5
1
0.5
0
0
0.1
0.2
0.3
0.4
0.5
Expected consumption
1.6
1.4
1.2
1
0.8
0.6
0
0.1
0.2
0.3
0.4
0.5
Expected output



0.08
0.06
0.04
0.02
0
0
0.1
0.2
0.3
0.4
(a)
0.15
0.1
0.05
0
-0.05
-0.1
0
0.5
1
1.5
(b)
0.2
0.15
0.1
0.05
0
-0.05
0
0.1
0.2
0.3
0.4
(c)
0.048
0.047
0.046
0.045
0.044
0.043
0
0.1
0.2
0.3
0.4
(d)

Eugene N. Shelton
Editor

CAPITALISM IN BUSINESS, POLITICS AND SOCIETY

€£$¥ƒ ECONOMIC ISSUES, PROBLEMS AND PERSPECTIVES €£$¥ƒ

NOVA