THE PROFOUND HEGEMONY OF NEOLIBERALISM:
Economic theory, public policy and capitalist accumulation

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ABSTRACT

The central thesis of this dissertation is that neoliberalism is an accumulation strategy, an ideology and a public policy paradigm that is about diminishing the collective capacity of workers to negotiate credibly over the distribution of the surplus at either the level of the enterprise (through unions for example) or through more ambitious collective action at the level of macroeconomic policy (via a democratically determined industrial policy).

I employ a critical realist methodology to investigate the different facets in the development of neoliberalism's hegemony. *Inter alia*, I argued that neoliberalism, as an ideology and policy paradigm, is better understood as an amalgam of intellectual currents taken not only from within neoclassical political economy but also from what I have referred to here as neo-Weberian political economy. The hegemony of neoliberalism is illustrated, on the one hand, by the capitulation of new Keynesians to the supply side logic embedded in new classical micro economics and, on the other, by the neo-Weberian incorporation of the neoclassical firm into the heart of its comparative enterprise. In the last section a quantitative description of neoliberalism across a broad range of metrics is undertaken. The central message to emerge is that while neoliberalism, as an accumulation strategy, has been more or less successful in rising and maintaining profit rates and price stability, it has not been successful in terms of other macro-economic indicators. In particular, there has been an increase in employment insecurity, precariousness and market based income inequality. Further, in the Anglo American countries, while neoliberalism has been successful in restoring profit rates in manufacturing, these self same policies have not been successful in arresting the overall decline of manufacturing. Lastly, and perhaps most devastatingly for the protagonists of neoliberalism, these policies have not been successful in restoring GDP per capita growth of unemployment rates to their Golden Age levels . And even if those levels were exceptional, they were held out as the ultimate goal of early neoliberal innovation and restructuring.

Acknowledgements

When this research project began very few academics outside of the radical schools of political economy were even talking about neoliberalism in the English speaking world. One of the few political science departments in English speaking North America where there was and remains an intensely active conversation about neoliberalism is in the Department of Political Science at York University. Without the training, inspiration and patience of the professors I studied under, and the graduate students I studied with, I would never have had the courage to undertake such an ambitious project.

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List of Abbreviations

Canadian Labour Congress	CLC
Coordinated Market Economy	CME
Federal Reserve Economic Data	FRED
Gross domestic Product	GDP
General Equilibrium Theory	GET
International Labour Organisation	ILO
International Monetary Fund	IMF
Investment Savings / Liquidity Money	IS/LM
Liberal Market Economy	LME
National Union of Mine Workers	NUM
Neoclassical Institutionalism	NI
Neoclassical Political Economy	NPE
Neo-Weberian Political Economy	NWPE
New Keynesian(ism)	NK
Non Accelerating Inflationary Rate of Unemployment	NAIRU
Organisation for Economic Cooperation and Development	OECD
Professional Air Traffic Controllers Organization	PATCO
Rational Expectations	RATEX
World Bank	WB
World Development Indicators	WDI
Varieties of Capitalism	VoC

Country Abbreviations

Canada	CAN
Germany	DEU
United Kingdom	GBR
Japan	JPN
Netherlands	NLD
Sweden	SWE
United States of America	USA

PART I

CHAPTER 1: INTRODUCTION AND OVERVIEW

> Men make their own history, but they do not make it as they please; they do not make it under self-selected circumstances, but under circumstances existing already, given and transmitted from the past. The tradition of all dead generations weighs like a nightmare on the brains of the living. And just as they seem to be occupied with revolutionizing themselves and things, creating something that did not exist before, precisely in such epochs of revolutionary crisis they anxiously conjure up the spirits of the past to their service, borrowing from them names, battle slogans, and costumes in order to present this new scene in world history in time-honoured disguise and borrowed language.
>
> Karl Marx, *The Eighteenth Brumaire of Louis Bonaparte* (1852).

THE HEGEMONY OF NEOLIBERALISM

Even with the benefit of a healthy historical distance, trying to come to grips with revolutionary periods of change is a daunting task. That task is made even more difficult when one is trying to account for, and adequately describe, such epochal change in near real time. The ascendancy and eventual hegemony of neoliberalism took some twenty short years from the mid 1970s to the mid 1990s. And even at the century's closing, many still denied the degree to which the neoliberal epoch had eclipsed the reform liberal consensus of the post World War II order. This dissertation argues that in terms of the ideological orientations of policy makers and politicians, and in terms of the basic orientation of capital and its attendant accumulation strategies neoliberalism has indeed become hegemonic.

In the late 1970s and early 1980s, neoliberals had originally dressed their program of supply side ameliorations for an advanced capitalism in crisis during the 1970s in the polite garb of the necessary reforms to increase economic growth, stability, productivity, employment and a renewed growth in personal incomes. Now at its apogee, neoliberalism has revealed the naked truth of a globally entrenched capitalist system in which the prerogatives of capitalist accumulation and power dominate all else. Since the onset of the global financial crisis in 2007 the contradictions of neoliberalism as an accumulation strategy have become readily apparent. And yet, neoliberalism remains as entrenched as ever despite being shorn of its *beaux vêtements*.

Indeed, in the wake of the 2007 financial crisis, the global economy plunged into what some commentators at the time called the 'lesser depression'. Broad swaths of the global financial system were either overtly or de-facto nationalized, workers' financial assets (pension funds) and physical assets (house valuations) were seriously eroded, savings rates were at historical lows and debt to household income were at historical highs across much of the rich countries which comprise the Organisation for Economic Cooperation and Development (OECD). No sooner had the major capitalist states rolled-out a tepid, albeit coordinated, plan of macroeconomic stimulus via tax cuts and direct public spending, than a clarion call was put out by the major think tanks and policy centres (the OECD leading the call) for an exit from stimulus and the roll-out of austerity plans. All of this while unemployment either continued to climb or remained stubbornly above pre crisis levels and far from any definition of full employment. Presently, Europe is deeply mired in a debt crisis of its own making and pursuing austerity with a wicked abandon.

The compositional fallacies involved here are clear enough to see: not all countries can export and devalue their way to growth at the same time, and not all countries can pursue austerity at the same time. Either one of these policies pursued jointly by the major capitalist nations would be self-defeating, but pursuing both, jointly, at the same time seems like mutually assured destruction. What is perhaps most telling about the entrenched nature of neoliberalism is that the policies responsible for the crisis and the policies pursued in search of its remedy have been undertaken by political parties from conservatives and socialists in Spain, to social and Christian democrats in Germany, to conservatives and social democrats in England through to Republicans and Democrats in the US. For whatever differences there may be between the electoral left, centre and right there has been a remarkable convergence on macroeconomic policy over the last 30 years.

This dissertation thus attempts a partial answer to the question: how did the hegemony of neoliberalism become so profound? The profound hegemony of neoliberalism can be witnessed at three different levels of analysis. First, in terms of orthodox political economy the hegemony of neoliberalism can be traced from its origins in new classical microeconomic theory to its incorporation within new Keynesian macroeconomic theory through to its awkward acceptance within neo-Weberian political economy. Second, this theoretical convergence within orthodox political economy has been matched by a parallel neoliberal shift within the dominant public policy paradigms.

Third, the profoundness of neoliberalism can and must also be investigated at the level of accumulation, the dynamics of distribution and the compositional restructuring of advanced capitalist economies.

I must indicate what I consider to be the limitations of this dissertation. To my mind three central limitations can be identified. First, a large part of the story of neoliberal globalisation is finance. This dissertation only hints at this. One of the reasons I have not broached the important relationship between neoliberalism and finance is because several other researchers, more knowledgeable than I, are engaged in exploring this relationship. Moreover, and more importantly, the intent of this dissertation is to demonstrate how neoliberalism as a policy paradigm is predicated on making labour markets the central mechanism of macroeconomic adjustment. This thesis takes as a given that financialisation both aids and abets the processes of shunting macroeconomic adjustment onto the shoulders of workers.

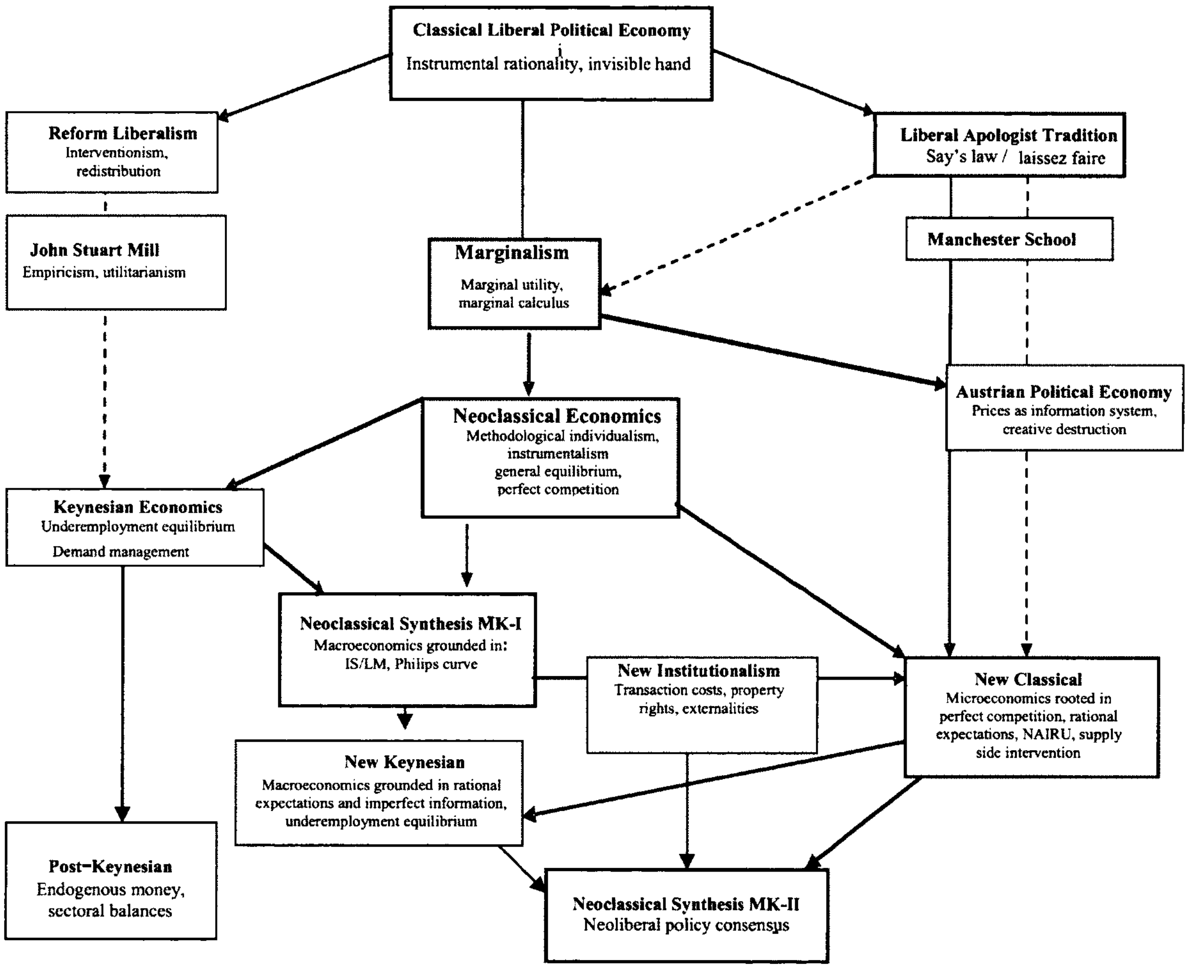
The second limitation of this dissertation is that it does not provide an account of the politics of the institutionalisation of neoliberalism. That is to say, in all the cases surveyed, I have not provided an account of how neoliberal policies could become hegemonic in a democratic context. Although certain explanations have been hinted at — neoliberal reforms were initially framed as necessary to restore growth and full employment for example — I make no systematic attempt to investigate national level processes of neoliberalisation. This is a tremendously important area for future comparative study. From the point of view of this project, however, I was primarily concerned to give an intellectual accounting in the development of the hegemony of neoliberalism.

The third *lacuna* in this dissertation is that I did not attempt to provide a country level analysis of the particular legislative changes which reflect neoliberal restructuring. Again, this is an important comparative exercise. As important as it is, it is a complex task that demands its own treatment. One of the central arguments made in this dissertation is that differences in formal institutions can yield similar substantive outcomes. Indeed, to fetishise national institutional differences — which is, on this analysis, the cardinal sin of the VoC scholarship — is to ignore the processes driving a convergent ideology and logic in the system as a whole. This dissertation has thus been conducted on a high plane of analysis. In the context of an increasing trend towards disciplinary specialisation and in the objects of analysis of social science practitioners, this dissertation has rather sought to make whole cloth from disparate threads.

OVERVIEW

Parts I and II are principally dedicated towards exploring the origins and spread of neoliberal thought within orthodox political economic thought (neoclassical) and neo-Weberian political economy. While the relationship between neoliberalism and new classical microeconomic theory (which is a major subfield of neoclassical economics) is well established, what is much less appreciated is the degree to which neoliberal precepts were smuggled into the reform liberal wing of economics and comparative political economy. In this thesis, I designate the term reform liberal(ism) as that current of liberal democratic thought which has sought to ameliorate the average condition of citizens within the limits of capitalist accumulation. In Figure 1.1 (below), I have schematically mapped out the major movements within both the reform and apologist wings of liberal political economy beginning with classical political economy. For my purposes it is the ascendency, hegemony and decline of reform liberalism (indicated by the neoclassical synthesis MK-I – for Mark I- in the diagram below) through to the rise to the hegemony of neoliberalism as marked off by the second neoclassical synthesis (MK-II) that is of interest. In retrospect it is clear that the first neoclassical synthesis which attempted to moor Keynesian macroeconomic insights to a neoclassical pier via Hicks's IS/LM construct was at best an awkward marriage and at worst what Joan Robinson called 'bastard Keynesianism'.

Figure 1.1 Orthodox political economy and the lineage of the neoliberal consensus



Chapter 2 presents the basic ontological and epistemological foundations of neoclassical political economy. I argue that the strictures of methodological individualism and comparative statics produce a flat ontology of capitalism which renders neoclassical economists incapable of producing dynamic social level analyses of power. As an example of the extremely narrow scope of neoclassical political economy I examine their inability to satisfactorily account for, and come to terms with, the quintessential capitalist institution — the firm. The essence of the argument is that their flat ontology deprives neoclassicals of the ability to differentiate between markets and capitalism on the one hand, and, on the other hand, between agency, institutions and structures.

In Chapter 3, I argue that neo-Weberian political economy in its most recent incarnation, the Varieties of Capitalism (VoC) paradigm, is similarly incapable of providing a robust account of capitalism and thus of neoliberalism. I will show that this failure stems, in part, from the ambiguous treatment of markets within the original Weberian formulation (as it too clings to an 'adding up of markets' theory of capitalism). This ambiguity is made even more problematic by the incorporation of the flawed neoclassical theory of the firm, albeit in its 'soft' formulation of bounded rationality, into the core of the neo-Weberian comparative enterprise. It is here argued that this compromise with neoclassical theory inevitably entails a substantive hollowing-out of the core concerns of the previous comparative political economy literature. If more traditional comparative political economy, both Weberian and Marxist, was concerned with issues of class, conflict and distribution, the neo-Weberian comparative enterprise has been more concerned with coordination, compromise and growth. I argue that this shift in objects of analysis is directly a function of the VoC insistence on making the neoclassical firm the centre of their analyses with its reduction of the firm to an institution for managing ex *post facto* change. One of the consequences of this change in the objects of analysis has been the neoliberalisation of neo-Weberian comparative political economy.

In Chapter 4, an alternative, radical, ontology of capitalism and the capitalist firm is presented. The chapter starts with an examination of critical realism as an alternative foundation for conducting social science research. Here the goal is to chart a course between the linear mechanistic causality of neoclassical positivism and the causal relativism of Weberian political economy. Having mapped out the ontological and epistemological implications of critical realism I then attempt a rational reconstruction of capitalism, the capitalist firm and capital. This reconstruction is achieved by making the capital-labour relation and its reproduction the centre of the analysis of capitalism. From this vantage point, it is possible to understand the firm not as a passive institution for managing *ex post facto* change, but rather as the most significant actor which must continually drive transformations in the reproduction and expansion of its capital. That is, both quantitative and qualitative changes are the *sine qua non* of capitalist accumulation and the firm is thus the central protagonist of *ex ante* change in which it must navigate a fundamentally uncertain future which is not existentially given but rather the consequence of unplanned, anarchic markets.

Part II of this dissertation is principally concerned with providing an intellectual accounting of the developments within orthodox political economic theory (both in its reform and apologist manifestations) which have provided an ideological underwriting service to neoliberalism as a hegemonic accumulation strategy. On this reading, and in fitting with the idea of hegemony, neoliberalism cannot be merely read as the dominance of a policy paradigm rooted in new classical (understood as the conservative, orthodox wing of liberalism and neoclassical economics) microeconomic theory, but rather, must take into account the reform liberal (new Keynesian) and social democratic (neo-Weberian) accommodation of those precepts within their respective intellectual and public policy practices.

Chapter 5 argues that the basic new classical formulation is by and large a negative public policy paradigm. That is to say, the new classical apparatus derives its basic policy stance from a negative view of the state and collective intervention. On this reading, new classical theory had little to offer by way of state restructuring outside of a general preference for state retrenchment. I argue it was theoretical innovations within another branch of the neoclassical research program—new institutionalism — which helped to transform the orthodox wing of neoclassical economics into a positive public policy paradigm. Mature neoliberalism is not principally about a retrenchment of the state but rather is qualitative restructuring.

Chapter 6 then takes up the question of the transformation of reform liberalism and social democratic reformism. What I demonstrate in this chapter is that to adequately understand the profound hegemony of neoliberalism it must be appreciated the degree to which the two prominent strands of reformism — reform liberalism and social democracy — not only capitulated with respect to their previously held ontological scepticism towards capitalism, but eventually became active participants in the theoretical construction of the neoliberal consensus. I track this shift along two theoretical vectors. First, I illustrate that new Keynesian macroeconomics accepted the basic core of new classical micro theory (rational expectations embedded in general equilibrium) to which it then married limited assumptions about imperfect competition owing to frictions in the price system. The result was a near complete traverse from traditional Keynesian concerns over aggregate demand to a view of a less than full employment equilibrium originating in microeconomic supply frictions. Second, a similar move to supply side considerations also came to dominate neo-Weberian comparative political economy. Beyond the preoccupation with firms and their coordination problems which naturally serve to focus researchers' attention on micro-economic, supply side considerations, VoC scholars also recast working class institutions as instruments of capitalist accumulation. So, for example, trade unions are rendered as junior partners in the quest for microeconomic flexibility in terms of firm level restructuring and human capital formation, and as a potentially important aid in helping regulate the macro economy via price stability through the institution of wage restraint in collective bargaining.

Chapter 7 then moves from the realm of theoretical innovation in the development of neoliberalism to its instantiation as a dominant public policy paradigm and hegemonic accumulation strategy. Here, I am principally concerned with tracking the evolution of neoliberal policy emanating from the OECD. The OECD makes for an excellent a case study of the institutionalisation of neoliberalism. What makes the OECD particularly attractive as a case study in the institutionalisation of neoliberalism is that the organization is essentially a policy club of advanced capitalist countries which, unlike the International Monetary Fund (IMF), lacks enforceable compliance mechanisms. The OECD, therefore, must be understood as an endogenous institution in the sense that it relies on the support of its clients for its existence. It is difficult for the OECD to make policy recommendations that run contrary to the official zeitgeist in its member states. We are concerned with two significant policy events. The first was the release of the MacCracken Report in 1977. This report can be fairly characterised as a form of attempted early neoliberal policy innovation. Even though the report was as much neoliberal as Keynesian, it drew heavy criticism both within and outside the organisation. Less than 20 years later the OECD would release its *Jobs Study* in 1994, which was a thorough going neoliberal program for labour market reform.

Part III of the dissertation then takes up the question as to the macroeconomic performance within the national varieties of neoliberalism. Chapter 8 introduces the 7 national case studies — the US, the UK, Sweden, Germany, Canada, Japan, and Holland — providing a broad overview of the evolution of their macroeconomic performances across a range of metrics from productivity growth through to precarious employment. A comparative assessment of the positive claims that were made in favour of the putative Anglo American models during from the early 1990s until the mid 2000s is undertaken and upon which neoliberal policies were advocated. I also assess the relative success of the late neoliberal adopters (Sweden, the Netherlands and Germany) in achieving higher growth and lower unemployment. What emerges is that none of the cases managed to restore postwar, golden age, growth rates or employment levels.

In Chapter 9, I focus on the manufacturing sector of the 7 national cases. There is a good deal of debate within Marxian literature on whether or not neoliberalism, as an accumulation strategy, has been successful in restoring profit rates. Two observations from the data stand out. First, neoliberalism does appear to have been successful in restoring the profit rates in the national manufacturing sectors. Second, and a caveat to the first, while all the cases studied *inter alia* have seen a continual growth in the size of their service sectors, particularly financial services, vis-à-vis their manufacturing sectors Sweden, Germany and Japan managed to stabilize their manufacturing value added shares of total output while the US, Canada and the UK all saw marked decreases in their manufacturing sectors. Thus, rather than speak of a difference between coordinated and liberal market economies (CMEs and LMEs), it may be more profitable and neutral to speak of a distinction between export and import based neoliberal restructuring. As a follow up to this, I query the economy wide trends in the secondary distribution of income (that between income earners). The general finding is that there has been an increase in inequality in the distribution of market incomes across all the cases although some important caveats apply.

In the conclusion, I return to some the issues raised in Parts I, II and III. By way of summary, I employ a heuristic model to systematically analyse neoliberalism by focussing on the distinction made in Marxian political economy between abstract and concrete labour. The model developed inter alia brings the traditional concerns of political economy — class, conflict and distribution — back to the foreground. The purpose is not to fetishise these objects of analysis but to demonstrate how they provide a means to assess socio-economic policy which drives beyond the abstract theorems of neoclassical economic efficiency and mundane neo-Weberian concerns with the firm's existentially given coordination problems. Specifically, the model places power and the distributional conflicts that arise between capital and labour from the processes of accumulation at the center of the analysis and allows for a dynamic tracing of the interrelationship between private and public restructuring.

CHAPTER 2: A CRITIQUE OF NEOCLASSICAL POLITICAL ECONOMY

The first part of this dissertation concentrates on critically evaluating the animating core of the dominant research programs in comparative political economy. The main argument presented in this chapter is that neoclassical political economy (NPE) cannot provide an adequate foundation for undertaking a comparative assessment of contemporary capitalism or neoliberalism. This is judged to be the case chiefly with respect to the flat ontology of NPE which demands an ahistorical and an a spatial account of capitalism which is almost completely de-socialized. Alternatively stated, it can be argued that the animating model at the center of NPE applies to a null domain: not simply in the lack of realism of its simplifying assumptions but also chiefly because NPE lacks a conception of the *social, and, as such, power*.

In what follows, I shall first present the basic ontological model of NPE and some aspects of its attendant epistemology. I will then proceed to examine attempts within NPE to provide an adequate theory of one of the most dominant of capitalist intuitions — the firm. Finally, this chapter will conclude with a consideration of what I have called the NPE synthesis as exemplified by Oliver Williamson's theory of the firm. As we shall see, in both iterations, the asocial and ahistorical nature of the NPE analytical apparatus deprives them of the capacity to provide a realistic account of the firm and the social relations it (re)produces. The consequence of which is that theory of the firm provided *inter alia* is simply too abstract. In the orthodox reconstruction of Ronald Coase's theory of the firm by Armen Alchian and Harold Demsetz the boundaries between firms and markets is obliterated; whereas in the Williamsonian reformulation, the firm is simply rendered as an *ex post* institution for managing unforeseen change. Pitched at this level, there is not really anything that distinguishes the capitalist firm from any other institution: for it could be equally argued that most institutions serve this existential purpose.

NEOCLASSICAL POLITICAL ECONOMY: HARD CORE CONSIDERATIONS

The basic NPE analysis rests on a series of idealized conceptualizations about the behaviour of individuals, firms and private markets (Shaikh, 1980; Botwinick, 1993). In its most basic form neoclassical economics can be described be described as "a form of dispositional behaviourism which directs research toward the particular observable environmental stimuli and conditioning of the utility maximizing disposition that is supposed to be present within all people" (Lloyd, 1991: p. 202). Hence, the hallmark of the NPE approach to social science is the *ontological claim that individuals are pre-constituted by an inherent instrumental rationality and that it is this rationality which is responsible for all social and cultural phenomena.* This can be stated as the adherence by NPE practitioners to a strong form of *methodological individualism.* This form of methodological individualism may be further described as a type of neo-positivism that asserts: (1) that individuals are the logical unit of analysis; and (2) that the constitution of individual agents ought to be taken as given.[1] The strictures of methodological

[1] Owing to its positivist foundations neoclassical economics must take the constitution of agents as given because the actions of individual agents are the empirical "data" and thus cannot be reduced to lower level structural or institutional explanations. Ultimately the actions of individuals can only be explained along observational lines. See Gregor McLennan (1981). Somewhat differently, Christopher Lloyd (1991) prefers to use the descriptor of logical empiricism to describe the "philosophical foundations of advanced scientific reasoning." Lloyd's distinction between the two is useful insofar as all positivists could be described as logical empiricists but not all logical empiricists could be described as positivists. For Lloyd,

individualism thus entail the near complete hollowing out of much of the substantive meaning of the concept 'society' — society must be understood as merely an aggregation of an individual's preferences. For example, in a standard NPE textbook the authors state: "Just as [we] do with institutions conventional economists accept the tastes of consumers and the motivations of workers and managers as given and unchangeable: 'just human nature'" (Baumol, *et al.*, 1991: p. 650). Further, because the individual *must be ontologically prior,* i.e., causally prior, to society to posit that social structures exist and are constitutive of preferences would thus be regarded by NPE as a perversion of reality. The consequence of which is that for NPE, the individual is not reducible to 'unobservable' social structures such as class, gender, race, language. Or even, as we shall see in the second section, can explanation be made via recourse to the quintessentially capitalist institution: the firm. The defence of this behavioural postulate is rarely mounted through recourse to a 'proof' of the essential character of individuals as being pre-constituted by an instrumental rationality—hard to sustain—but, rather, epistemologically. As Gary Becker argues: "I do not mean to suggest that concepts like...social norms, are without any scientific content. Only that they are tempting materials...for *ad hoc* and useless explanations of behaviour" (1986: p. 117). At no point does Becker go on to make the case why social norms ought to be regarded as "useless explanations of behaviour". It could be for example that behaviour is purely random or

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the distinction is apparently made over whether or not logical empiricists would describe their work as conforming to the same "foundation of the method of natural science, particularly physics." Alternatively, McLennan prefers the descriptor of neo-positivism to include both positivists and logical empiricists within the same family of explanation. I retain McLennan's usage primarily because neoclassical economists tend to view themselves as employing the methodology of the natural sciences and in particular physics (Mirowski, 1989).

irrational and therefore the explanation of that behaviour would have to take on a certain arbitrariness. In any case, non *ad hoc* explanation itself requires an ontological justification. That is, either it must be posited that human behaviour is for the most part governed by a particular kind of intransitive rationality or it must be argued that a transitive social structure imparts a particular rationality to human behaviour. Practitioners of NPE inevitably plumb for the first ontological option. Regardless, the practical effect of *this epistemological stricture against explanations that flow from social phenomenon to individuals is that it produces an ontological claim about the nature of socio-economic reality and human nature.*[2]

Given that individuals constitute the logical unit of analysis and that explanations of social reality must be referenced back to the natural predispositions of individuals' — innate, stable and true in all instances in time and place — it is not possible to speak of other generative social phenomena which exist independent of, or behind the backs of,

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[2] There is a further reason to be suspect about an epistemological defence of this behavioural postulate. Namely, the claim that human nature is inherently instrumental and rational is one that has its antecedents in classical liberal political economy. Adam Smith's formulation in the *Wealth of Nations* should suffice as an illustrative example:

> This division of labour, from which so many advantages are derived, is not originally the effect of any human wisdom, which foresees and intends that general opulence to which it gives occasion. It is the necessary, though very slow and gradual consequence of a certain propensity in human nature which has in view no such extensive utility; the propensity to truck, barter and exchange one thing for another (1993: p. 21).

Hence, even within the classical liberal formulation, liberal political economy held that individuals were constitutive of markets and not vice-a-versa. This dispositional behaviourist (naturalistic) conception of individuals is one of Smith's most durable and significant legacies on contemporary neoclassical political economy.

Beyond the persistence of a naturalistic understanding of human behaviour there is also within Smith's formulation another important legacy; namely, a conceptualisation of capitalism as exchange. That is to say, neoclassical political economy has retained Smith's insistence on conceptualising capitalism as merely the expansion of exchange relations among individuals, groups and nations that, in turn, sets in train a series of cumulative social changes. More comprehensively stated, the rise of capitalist societies are explained as the result of the expansion of exchange relations which allows for a deepening in the social division of labour which then produces a complex social system. All of this is a consequence of the natural predispositions of agents to truck barter and trade. The second legacy of Smith is derivative of the first.

individuals'. As I have already indicated, this means that significant socially generated, historically contingent, yet contingently (re)produced, behaviour such as gender and race are left out of what constitutes social reality. That alone ought to be a sufficiently devastating indictment of the neoclassical research paradigm as an adequate foundation for conducting a comparative political economy of capitalism. Yet, equally and certainly more devastating,[3] is that the neoclassical program is silent on the most basic aspect of capitalist social reality: namely, that of class. Consequently, the relations between and within classes are not given any analytical standing whatsoever. In the place of social relations, NPE proceeds via a series of what are held to be scientifically generated universal concepts such as scarcity, opportunity costs, and rationality. As such, researchers within the neoclassical tradition are asked to study the reality of capitalism and its animating dynamics without any reference to the most basic social division which is constitutive of capitalist society — i.e., the class origins of its basic hierarchical structure and generative mechanisms and all the emergent socio-economic dynamics which follow there from.[4]

As has already been indicated, given that these economic proclivities arise as a consequence of a natural behavioural predisposition ingrained in all individuals, the analytical framework of neoclassical economics is held by its practitioners to be

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[3] I say certainly more devastating with good reason. It would be one thing for the neoclassical research program to be relatively silent on the mechanisms responsible for and consequences of social structures like racism and patriarchy in so far as their continued reproduction through time is not essential to the reproduction of capitalism even if they have played and continue to play central roles in explaining the gendered and racial social division of labour. Class division, on this reading, is the *sine que non* of capitalist production and reproduction through time.

[4] Thus even Ronald Coase's (1937) attempt to describe the capitalist firm as a conscious island of power was met with hostility by neoclassical institutionalists such as Alchian and Demsetz (1972). See section 2 of this chapter.

universally applicable through time and across space.[5] Hla Myint (1965: p. 479), one of the leading protagonists of the 'hard' version of NPE in the field of economic development during the 1960s and 1970s, argued that "with suitable adaptations to take into account local circumstances, the demand and supply analysis can be made to explain the behaviour of individuals in the market and the prices and quantities bought and sold, etc..." Hence, capitalism is to be understood *not* as a specific kind of social system, in which investment, production and exchange are organized in a historically novel way — including supply and demand it must be added. Rather, capitalism is to be understood as a multifarious set of interdependent spot markets where competing rational agents engage in mutually beneficial exchanges. Stable patterns of exchange that do arise between individuals, such as the continuous sale of labour-power by one class of individuals and the purchase and direction of that labour-power by another class of individuals, are not reflective of a behavioural constraint imposed by capitalism and its essential class structure. Rather, patterns of behaviour that do emerge merely reflect the realisation of individuals' natural predispositions and endowments in the marketplace. Needless to say, this produces an exceedingly vague framework for investigating and comparing the processes of capitalist (under)development through time and across space.

The atomistic conception of society demanded by the neoclassical commitment to methodological individualism further requires that they understand social change "as the patterned result of behavioural or intentional motivations" (Lloyd: p. 190). In practice,

[5] "There is only one social science...What gives economics its imperialist invasive power is that our analytical categories — scarcity, cost, preferences, opportunities, etc. — are truly universal in applicability...Thus economics really does constitute the universal grammar of social science" (Hershleifer: 1985, p. 53 as quoted in Milberg, 2006: p. 27).

this means that development occurs as a positive externality generated by the interaction of rational maximising agents. Within formal neoclassical models, if the economy fails to produce somewhere on its production possibility frontier, i.e., there are underemployed or unemployed factors of production, by definition, it cannot be ascribed to the failure of markets. Rather, it must be exogenously located within institutional rigidities which subvert the smooth functioning of the price mechanism and which in turn prevents markets from achieving equilibrium at the point of maximum social welfare. Accordingly, economic development becomes the problem of identifying formal or informal institutional rigidities that distort the price mechanism and thus prevent smooth adjustments up and down aggregate supply and demand curves. Alternatively phrased, capitalism (and its representative agent the utility maximizing individual) is ontologically prior to institutions and, therefore, institutions can only act to encourage or fetter capitalist development over time. Although non-economic factors are sometimes recognized within NPE, the explanatory role they play is minimal in so far as capitalism is always lurking immanently waiting to escape the confines of dysfunctional institutional arrangements.[6] Hence, capitalist development is necessarily theorized and then comparatively assessed as the problem of successfully removing *obstacles that restrain the innate desire of individuals to realize their nature in exchange.*[7]

In this sense capitalism never needs to be explained within NPE. Rather, for the practitioners of NPE, it is the non-existence of capitalism which needs to be explained.

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[6] This of course begs the question how and why rational economic agents would create 'bad' institutions in the first place.

[7] Ironically, therefore, NPE contains an explicit theory of individual alienation.

Hence, as with Douglas North, this is done via reference to institutional blockages which prevent the development of capitalist institutions. But even here it would seem that these blockages, frequent as they are, *must also be accounted for as part of the existential human condition* and thus are no less natural than instrumental rationality. Stated differently, if economic irrationality is equally present and immanent then recourse to the natural propensity to truck, barter and trade *a la* Smith is no more or less a basis for preferring one kind of rationality over the other: to privilege one is to discriminate against the other. The supposed naturalness of the existential human trait in question is thus beside the point.

It is, perhaps, of little coincidence that NPE is the least well situated paradigm for making comparative assessments of change within capitalist societies. Indeed, in order to deal with the dynamic and transitive nature of social-economic reality, neoclassical economists construct their analytical apparatus in very peculiar way. On the one hand, NPEs have opted to ape what they understand as the hypothetical-deductive model of the 'hard' sciences.[8] This strategy finds its apogee in Walrasian general equilibrium theory (GET), which came to dominate neoclassical practice after the Second World War.[9] Here

[8] In *More Heat Than Light* (1989) Philip Mirowski explores the ways in which neoclassical economics attempted (poorly) to mimic what they understood to be the standard protocols of 19th century physics.

[9] It could be argued that the Walrasian version of GET no longer has the dominance it once did. Although as subsequent chapters will make clear the substantive policy preferences remain for the most part intact. Which in and of itself may indicate that the tail wags the dog. Moreover, there are some sound reasons to believe that the Walrasian GET has maintained its dominance within neoclassical economics throughout the 1990s through to the present. As David Colander noted in his September 10, 2009 testimony to the US Investigations and Oversight Subcommittee:

> [T]he economics profession spent much of its time dotting i's and crossing t's on what was called a Walrasian general equilibrium model which was more analytically tractable. As opposed to viewing the supply/demand model and its macroeconomic counterpart, the Walrasian general equilibrium model, as interesting models relevant for a few limited

the problem of dynamics (change) is safely shut-out of view via an omnipotent auctioneer armed with simultaneous equation sets and the statistical techniques of comparative statics. As is well known, the central problem with Walrasian GET is that it is incapable of suggesting let alone describing the forces that push and pull the economic system in and out of equilibrium. Samuel Bowles (2004: p. 216) observes the Walrasian process of exchange is:

> highly centralized, requiring the assistance of the omniscient and omnipotent Auctioneer to preclude out-of-equilibrium trading. Perhaps surprisingly, markets play no role in the model, nor is the model consistent with any plausible process of equilibration. The reason is that buyers and sellers do not set prices they are 'price takers'. The Auctioneer thus obviates the need for a theory of market dynamics.

Thus not only does the model seem to elide the central ontological reality of capitalism — its dynamic qualities — it does so by positing an ahistorical (and non-capitalist it should be added) model which attempts to trans-historicize economic analysis via timeless equation sets which are shorn of any socially substantive (transitive) information.

On the other hand, the analytical apparatus of NPE further strips out the social fact by commencing with a de-socialized, innately instrumentally rational individual, then further renders this agent up to the level of a representative agent and then drops that *undifferentiated* representative agent into a static framework of equilibrium analysis.[10]

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phenomena, but at best a stepping stone for a formal understanding of the economy, it enshrined both models, and acted as if it explained everything. Complexities were just assumed away not because it made sense to assume them away, but for tractability reasons. The result was a set of models that would not even pass a perfunctory common sense smell test being studied ad nauseam.

[10] As Alan Kirman (1992) demonstrates the common defence of neoclassicals' to representative agent macro-models is that they (1) provide adequate micro foundations for macroeconomic models, and (2) they

Alan Kirman (1992: p. 118) usefully summarizes two of the problems with the way in which micro-foundations and individual heterogeneity are treated within neoclassical macro-models:

> First, whatever the objective of the modeller, there is no plausible formal justification for the assumption that the aggregate of individuals, even maximizers, acts itself like an individual maximizer. Individual maximization does not engender collective rationality, nor does the fact that the collectivity exhibits a certain rationality necessarily imply that individuals act rationally. *There is simply no direct relation between individual and collective behavior.*
>
> Secondly, even if we accept that the choices of the aggregate can be considered as those of a maximizing individual, there is a different problem. The reaction of the representative [agent] to some change in a parameter of the original model—a change in government policy for example—may not be the same as the aggregate reaction of the individuals he "represents." Hence using such a model to analyze the consequences of policy changes may not be valid (*italics added*).

Kirman's first observation reduces to the compositional fallacies involved when trying to aggregate up from rational individuals to a conclusion of a rational whole or vice versa.[11] Kirman's second observation is equally germane insofar as even if we grant that a representative agent can be said to fairly represent the preferences of all individuals at any given point in time, a change in policy (the environment) will not necessarily or even likely produce a reaction by the representative agent that will represent the preferences of all individuals that the agent represents.

Outside of these two problems, there is the question of the degree to which the use of a representative agent adequately demonstrates fidelity to either the strictures of

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do so in a way which makes the models tractable. As Kirman points out, the use of single representative agent models actually may lead to very unstable properties at the aggregate level.

[11] Overcoming these compositional fallacies has been at the heart of liberal political economy since Adam Smith. Smith's *Wealth* is beset by similar such problems: i.e., how to get to a rational and equitable whole from myopic self-interested property bearing individuals.

methodological individualism — explaining capitalism and institutions by reference to the individual — and hence an adherence to 'real' micro-foundations. Philip Mirowski (2004: pp. 502-3) goes so far as to argue that in actuality NPE has no real interest in either individuals qua individuals or micro-foundations:

> ...the 'methodological individualism' to which neoclassicals pledge their troth is an empty creed, for there are no full-blooded individual humans in their models. Hence all those methodologists who whine about the 'atomistic' character of orthodox economics mistake the promotional verbiage for substantive content. I would add that the models are not so much atomistic as 'machinic', and that once one meets that conceptual requirement, then all other ontological commitments go flying out the window...Memes, brains, people, clubs, firms, political groups, nations: "We don't care don't care [sic] at what level of organization an individual is defined," intones our upright defender of orthodoxy...*Once the individual loses their identity, the 'social' by definition resides both nowhere and everywhere, since levels of interaction are not distinguished, and the scale-free model of machine behavior becomes a crude Theory of Everything (TOE).* The apotheosis of this logic is Nash's paranoid solution: a solipsistic entity so supra-rational it can only play itself (the *ne plus ultra* of being 'noncooperative'). Then, in the name of pursuit of a truly general theory, the analyst turns around to insist that the only legitimate economics or ethics or politics must be cast in terms of their ontologically bereft machines. The disconnect from anything resembling the touted humanist ambitions of economics or ethics could not be more palpable (italics added).

Mirowski's critique is thus more damaging than that of Kirman's even if they share affinities. For Mirowski is arguing that the invocation of the representative agent is used in an *ad hoc* fashion at any level and scale of analysis thus rendering the whole concept of micro-foundations — and the individual — a chimera: because the individual can be defined as anything from a real existing human being to a nation thus allowing for the crudest and most flat of structural functionalist renderings.

Additionally, however, as Mirowski's critique only hints, the redefinition of the individual up and down organizational levels has the effect of collapsing the distinction between the units of analysis such that for example a given rationality at the level of the whole (the economic system or society) cannot be distinguished from the rationality of institutions (firms, political parties, state institutions) which cannot be distinguished from individuals whom in turn cannot be distinguished from one another. As Mirowski argues this is indeed a curious way to demonstrate a fidelity to humanism and the concept of agency. But, and more importantly, owing to the neoclassical collapsing of social reality into a flat plane, nor can causally more powerful units of analysis — generative institutions and mechanisms — be distinguished from less powerful units of analysis. Hence within this frame it is very difficult to identify let alone account for generative mechanisms that are responsible for the hierarchical nature of both social reality and the reality of capitalism. As such, building a comparative framework of analysis whether that be for purposes of assessing public policy or an adequate description of the political economy of significant changes within or between capitalist social formations becomes a rather sterile exercise. As we shall see in the section below this problem is not limited to the hard neoclassical core. It also bedevils neoclassical institutionalism, particularly with respect to the relationship between the capitalist firm and the market.

NPE Institutionalism: The Paradox of the Capitalist Firm

The problem of the firm for neoclassical theory can be simply stated as one which arises when considering why firms exist at all in capitalist societies. The question arises because if markets are inherently efficient and all factors of production are for sale and hire on the market then why do firms exist? On the face of it, firms replace the horizontal ask-bid-contract relations among different owners of inputs with a hierarchical structure in which the factors of production are centrally directed. This creates a paradox within NPE because it is supposed to be the case that free exchange through markets creates the most efficient outcomes. The founder of the NPE theory of the firm, Ronald Coase (1937), argued that the existence of the capitalist firm could be explained by recourse to the concept of 'transaction costs'. The basic idea of transaction costs being that contracting, and in particular re-contracting in the market, is not a costless activity: those asking and those bidding must continually identify themselves (search costs); not all askers and bidders are of the same quality (information costs); and, lastly, contracts themselves are not perfectly clear or exhaustive (monitoring, enforcement, and interpretation costs). Capitalist firms, in this view, exist because they are capable of bringing all the factors of production under the direct hierarchical control of the firm which avoids the costs of continually contracting in the market: the internal command economy of the firm *thus replaces the external coordinating mechanism of the price system.* In Coase's (1937: pp. 387-89) clearly articulated words:

> Within a firm, the description [of the price system] does not fit at all. For instance, in economic theory we find that the allocation of factors of production between different uses is determined by the price mechanism. The price of factor A becomes higher in X than in Y. As a result, A moves from Y to X until the difference between the prices in X and Y, except in so far as it compensates for other differential advantages, disappears. Yet in the real world, we find that there are many areas where this does not apply. *If a workman moves from department Y to department X, he does not go because of a change in relative prices, but because he is ordered to do so.... It can, I think, be assumed that the distinguishing mark of the firm is the suppression of the price mechanism* (italics added).

In his *Sveriges Riksbank Prize Lecture* (1991: un-paginated), Coase noted that what motivated his thinking was the paradox between a neoclassical micro-economic theory which argued that the price system provided all the necessary coordination and the empirical reality of a large managerial class.

> The view of the pricing system as a co-ordinating mechanism was clearly right but there were aspects of the argument which troubled me. [Arnold] Plant was opposed to all schemes, then very fashionable during the Great Depression, for the co-ordination of industrial production by some form of planning. Competition, according to Plant, acting through a system of prices, would do all the co-ordination necessary. And yet we had a factor of production, *management*, whose function was to co-ordinate. Why was it needed if the pricing system provided all the co-ordination necessary? (italics added).[12]

Coase's theory was thus both a theory of the origins of the firm and a theory of the origins of management. The problem with orthodox NPE theory for Coase, however, was not just that it did not have a theory of the firm or management, but that a lack of such a theory also undermined a theory of price formation. Rightly so, for Coase (1991, un-paginated) this was a serious limitation to NPE micro-economics which prided itself on being almost uniquely concerned with the price system.

> What is studied is a system which lives in the minds of economists but not on earth. I have called the result "blackboard economics". The firm and the market appear by name but they lack any substance. The firm in mainstream economic theory has often been described as a "black box". And so it is. This is very extraordinary given that most resources in a modern economic system are employed within firms, with how these resources are used dependent on administrative decisions and not directly on the operation of a market. Consequently, the efficiency of the economic system depends to a very considerable extent on how these organisations conduct their affairs, particularly, of course, the modern corporation. Even more surprising, given their interest in the pricing system, is the neglect of the market or more

[12] Arnold Plant was one of Coase's professors during his undergrad.

> specifically the institutional arrangements which govern the process of exchange. As these institutional arrangements determine to a large extent what is produced, what we have is a very incomplete theory.

While it may seem that Coase's original theory takes us much closer to a realistic description of the firm and thus provides an account of one of the most enduring capitalist institutions there is nonetheless a sense in which Coase's theory is equally question begging. Recall that Coase explains the firm as a means to economize on transaction costs. For that to be true the price system must pre-exist the firm: how can opportunities to economize exist without the transaction costs of the price system preceding the existence of the firm? As the above quote suggests, Coase wants to see the price system as being a lower level phenomenon than the institutional setting. That is, it seems as though Coase wants to hold that the firm is the generative mechanism and the price system the emergent phenomenon. But according to Coase, it is the price system which is said to be responsible for the origins of the firm as the firm is a rational solution to the limits of markets. As we shall see, throughout this and the subsequent chapters of Part I, the circularity involved here is not unique to Coase.

The initial response of NPE to Coase's institutionalist (albeit neoclassical in many respects) theory of the firm was silence. By the early 1970s, Alchian and Demsetz (1972) revived Coase's analysis in a more orthodox fashion. Whereas Coase had located the origins of the firm in the logic of transaction costs and thus in the suppression of the price system, Alchian and Demsetz pushed back in the other direction. They argued that firms are nothing more than an aggregation of contracts, or in their turn of phrase, a nexus of contracts, which did not indicate the suppression of the price mechanism.

Rather, the firm exists as a micro-market of loosely constituted exchange relations (contracts). For Alchian and Demsetz, the firm is explained by the problem of responsibility (principal agent) and residual ownership entitlements (externalities). On this view, the capitalist firm arises because in a complex social division of labour it is not exactly possible to ascertain the individual contribution of each factor of production to the final output (of team based production). Thus, the possibility of shirking arises. The solution to the problem of shirking is resolved by the firm because the firm operates as a manager who retains residual rights to the surplus product created by the efficiencies which flow from team based production. The problem of shirking is resolved by giving the manager the claim to this surplus and thus an incentive to monitor and discipline shirkers.[13] Yet, Alchian and Demsetz go further, and in a somewhat contradictory fashion argue that the residual property rights and thus the managerial prerogative to monitor and discipline shirking is in no way an aspect of hierarchical control. Rather, they stipulate that the same kind of horizontal relations characterise all exchange relations. To quote Alchian and Demsetz (1972: pp. 777-78) at length:

> It is common to see the firm characterized by the power to settle issues by fiat, by authority, or by disciplinary action superior to that available in the conventional market. This is delusion. The firm does not own all its inputs. It has no power of fiat, no authority, no disciplinary action any different in the slightest degree from ordinary market contracting between any two people. I can "punish" you only by withholding future business or by seeking redress in the courts for any failure to honor our exchange agreement. That is exactly all that any employer can do. He can fire or sue, just as I can fire my grocer by stopping purchases from him or sue him for delivering faulty products. What then is the content of the presumed power to manage and assign workers to various tasks? Exactly the same as one little consumer's power to manage and

[13] See Sanford J. Grossman and Oliver D. Hart (1986) for an expanded discussion on residual property rights.

> assign his grocer to various tasks. The single consumer can assign his grocer to the task of obtaining whatever the customer can induce the grocer to provide at a price acceptable to both parties. That is precisely all that an employer can do to an employee.
>
> To speak of managing, directing, or assigning workers to various tasks is a deceptive way of noting that the employer continually is involved in renegotiation of contracts on terms that must be acceptable to both parties. Telling an employee to type this letter rather than to file that document is like my telling a grocer to sell me this brand of tuna rather than that brand of bread. I have no contract to continue to purchase from the grocer and neither the employer nor the employee is bound by any contractual obligations to continue their relationship. Long-term contracts between employer and employee are not the essence of the organization we call a firm. My grocer can count on my returning day after day and purchasing his services and goods even with the prices not always marked on the goods-because I know what they are-and he adapts his activity to conform to my directions to him as to what I want each day...he is not my employee.
>
> Wherein then is the relationship between a grocer and his employee different from that between a grocer and his customers? It is in a team use of inputs and a centralized position of some party in the contractual arrangements of all other inputs. It is the centralized contractual agent in a team productive process not some superior authoritarian directive or disciplinary power.

It is hard to square the above account of the relationship between workers and employers with the initial concept of residual property rights. If managers (firms) are identified by their property rights to the residual surplus created through joint production, no selfsame analogue can be found in the relationship between Alchian and Desmetz and their grocer. Indeed, the ability of the consumer to direct their grocer does not translate into the right of the consumer to the residual surplus of that transaction (not to mention that within neoclassical economics, at equilibrium prices, there is in fact no surplus to be had in exchange). Moreover, if the defining characteristic of the firm is its claim to the residual surplus, the collapsing of the distinction between exchange (the price system) and production undermines either the concept of a residual surplus or the notion that the firm can conceptually be equated with the market.

Further, the comparison of the relationship between the customer and the grocer obviously conflates directing and supervising the labour process (see Chapter 4) — i.e., managing — with the exchange of goods and services. In my exchange relations with the supermarket, for example, there is simply no sense in which I can be said to direct, supervise or organise the activities of supermarket employees let alone the owners of the supermarket except in the most superficial sense. Indeed, if customers in general do so, why do supermarkets have managers on the payroll? Clearly management is an activity that goes beyond "my telling a grocer to sell me this brand of tuna rather than that brand of bread".

It is ironic then that one of the clarion calls of NPE, of which the nexus of contracts theorists are a part, is for adequate micro-foundations in the explanation of economic phenomena. Surely, on this score the price system itself needs to be described and explained — something Coase contradictorily attempted and ended up with the firm as both cause and consequence of the price system. Indeed, if as Coase, as with NPE as whole, are wont to insist that individuals are ontologically prior to systems, then surely the firm ought also to be understood as ontologically prior to the price system. That is, surely within the NPE ontology causation must flow from the individual through to institutions and then terminate in the supra-agent institution called the price system. As we have already seen in the first section of this chapter, and in the review of Coase's theory above, the flatness of the neoclassical ontology deprives them of developing a robust (and plausible) account of the relationship between levels of analysis. On the one side, it is difficult if not impossible to discern between individuals, institutions, and systems. And, on the other side, it is equally difficult to provide 'thick' descriptions of the relational hierarchies and dynamics which exist between individuals within the social division of labour, social-property relations, and positions and institutions. The result of which is either the Coasian theory of the firm where the firm is both consequence and cause of the price system or as with Alchian and Desmetz, the firm is rendered conceptually indistinguishable from the market. As will be argued below, this self-same problem — circular functionalism — bedevils all analyses which rest on the even more relaxed version of NPE institutionalist theory.

THE NEOCLASSICAL SYNTHESIS: WILLIAMSON'S NEO-WEBERIAN INSTITUTIONALISM

As the title of Williamson's book, *Markets and Hierarchies* (1975), explicitly indicates, he follows Coase's rigid binary opposition between voluntarist markets and authoritative institutions (firms). However, Williamson's explicit use of bounded rationality (1985) (in contrast to rational expectations and perfect information) allows for a more 'open' ontology (in contrast to the closed, mechanistic ontology of the NPE hard-core) in which uncertainty is fundamental — non-reducible to risk — does represent, in some senses, a non-trivial departure from neoclassicism (Foss: 1994, pp. 53-5). Moreover, Williamson's insistence on portraying the actions and motivations of individuals as something more than that of the possibility of 'slacking it' in situations of moral hazard, that is, allowing for individuals to be genuinely opportunistic (change the rules of the game as it were) is also a step forward into a non-NPE universe. As Foss comments (p. 55):

> Bounded rationality and opportunism cannot be properties of an economic universe characterized by full closure; they run counter to the neoclassical stipulation of full 'intrinsic closure.' And unexpected change is necessary for Williamson's story: no sense can be made of the *ex post* contractual institutions – including hierarchy and authority – without the assumption unexpected change, deriving from strategic action on the part of contractual parties in connection with unexpected change in external circumstances.

Nonetheless, there is an equally potent sense in which Williamson resides well within the neoclassical family of explanation. First, the tidy separation between markets and hierarchies is artificial on its own terms. Surely it is equally possible (if not desirable in some senses) to view some markets as *ex post facto* institutions where prices allow for more than just simple spot-market contracting. Indeed, futures contracts, derivatives, insurance and other risk mitigating products seemingly would have some of the same features as the capitalist firm so described. Moreover, as the burgeoning literature on global value/commodity chains stresses, the relationships between firms in the production of goods and services is difficult to characterize in terms of arms-length impersonal contracting. There is, in fact, a plethora of arrangements which serve contractually to bind firms together in a hierarchical relationship with transnational enterprises exercising a broad range of intra-firm like powers — from licensing arrangements, through to design, inventory, quality and pricing control — which do not at all characterize the type of horizontal, temporary exchanges characteristic of spot markets.[14]

[14] See, for example, Gereffi and Korzeniewicz (1994), Gereffi (1999), Kaplinsky (2000), Kaplinsky, Morris, et al. (2002)

Secondly, as argued above, there is the ontological question if it is appropriate to view the market as something apart from capitalist firms. It could be argued that firms are the institutional prerequisites of the price system — in much the same way that in proto-capitalist societies and epochs the household formed the basic institutional fabric of the price system. Stated otherwise, conceived of at the level of a system, it could be argued that the market is simply a large supra-institutional system for enabling/managing *ex post change* in the context of bounded rationality and opportunism mediated by a series of underlying contracts which assign residual property rights.[15] As we shall see in the next chapter, it is just this option the scholars working within the VoC plumb for.

CONCLUSION

All of the above points to an important inconsistency when NPE theorists attempt to make a clean separation between firms and markets: namely, we are never told if it is just the theory of the firm that requires a theoretical retro-fit or in addition if the neoclassical theory of the market also requires significant modification. Can, for example, it be maintained that the firm needs to be theorized as a necessarily 'open' entity owing to bounded rationality and opportunism, and thus in need of a dynamic framework capable of allowing for multiple equilibria, whereas the market can continue to be theorized as closed system capable of being captured in its essence through a static general equilibrium framework? It would seem more realistic (yet still flawed) to argue that

[15] To be clear, it is not being argued here that this would be the 'right' way to conceive of the price system/market, i.e., as a wholly exogenous entity to the firm. Rather what is being pointed out is that to be consistent within a NPE methodological individualist/institutionalist framework, society like the price system ought to be described as a mere aggregate of more fundamental elements.

firms, being simpler systems, were if anything more amenable to the closed, static general equilibrium type of analysis whereas markets, being populated by complex interactions between these simpler institutional systems, ought to be analysed through more open, dynamic modelling with indeterminate equilibria. Nonetheless, the dualism at work in the NPE intuitionalism is neither easily stretched into a general theory of capitalism, nor a framework of comparative political economy. Yet, as we shall see in the next chapter, it is just that the VoC paradigm attempts to accomplish.

CHAPTER 3: NEO-WEBERIAN POLITICAL ECONOMY AND THE VARIETIES OF CAPITALISM PARADIGM

Although influenced by a range of research traditions — from structuralist currents within neo-Marxism through to NPE institutionalism — the methodological centre of gravity for comparative political economy is decidedly neo-Weberian (henceforth NWPE). In contrast to NPE theory which views individuals as prior to society, neo-Weberians *cum* comparative institutionalists have tended to be ontologically committed to the existence of social structures.[16] Moreover, NWPE can be said to embrace a pluralist ontology — the idea that no one single institution or value can be singled out as more causally significant then the others in the constitution of agents. Simply stated, neo-Weberians tend to hold to a causal pluralism which is relatively flat — that is, its ontology is relatively non-hierarchical (Callinicos, 1995: Ch. 3). NWPE thus tends to favour structurist explanations which proceed from the assumption that: (1) agents are historically constructed by the particular institutional matrix in which they are embedded; and (2) that agents are themselves constitutive of those institutions (Giddens, 1993).[17] Institutions can thus be broadly or narrowly defined, but are usually conceived of in such a way as to identify the most important organisations (church, state, firms, unions) and

[16] However, as we shall see towards the end of this chapter much of the economic theory (New Keynesianism) which now underwrites institutionalist political economy has decidedly methodological individualist foundations which are not easily squared with the notion that institutions are logically prior to individuals. As a consequence institutions get reduced to an aggregate preference function of a representative agent.

[17] If this seems to lack a certain causal determinism we could take the example of language. Clearly as a structure, language predates the individual but nonetheless evolves overtime as agents, in their creative development of language via communication transforms the language. In this sense, agents are both acted upon and act upon structures. However, as is argued in Chapter 4, this is hardly unique to Weberian social science and, moreover, the causal form it takes in Weberian social science is decidedly weak.

the corresponding regulatory regimes they crystallize (rules, roles and social norms). As such, institutions are understood as "structured social practices that have broad spatial and temporal extensions" (Loyd, 1991: p. 213). Consequently, within institutional analyses the key ontological actors tend not to be individuals but dominant groups and their respective values, which have, or grant, privileged access to the main sites of social power. Significantly, institutions are in a sense causally prior to individuals and are thus responsible for both the particularity of each society and its path-dependence through time.

NWPE thus seeks to avoid the pitfalls of the atomistic ontology of the neoclassical tradition by explicitly recognizing (indeed arguing) that society is compromised of multiple institutional logics with competing and overlapping claims on the substantive content of human rationality. The quintessential and classic statement of this view is put forward by Karl Polanyi where, in the *Great Transformation* (2001), he sets up a neat duality between markets and civil society whereby history is partly explained by the changing equilibrium between the logic of market institutions and the logic of social institutions. Indeed, this is a persistent feature of what we have called here neo-Weberianism: the identification of a logic of markets which is distinct from other organizational logics. Whatever increased realism this may add, at an ontological level, it also serves to obscure the hierarchical nature of society and the logic patterning its structure. The question can be posed bluntly: is it true that institutions and their reproductive logics exist on a horizontal plane in which no one logic dominates the others? Or to put in critical realist terms: is the stratified nature of social reality solely the result of an indeterminate interaction (outcome) of a series of social institutions? And following that, it must be further asked: what are the NWPE conceptualizations of markets and the price system? As to the first question NWPE has tended to respond in the affirmative: reality is the precipitate of the indeterminate interactions of relatively autonomous institutions. As to the second question, there has been a relative silence as the existence of a capitalist market is habitually assumed rather than accounted for. For example, Polyani posits a persistent tug-of-war between social and economic forces (markets) which produce a de facto long term equilibrium with the possibility of quite violent short and medium term fluctuations in the balance between the two. Hence, for Polyani, the market is *an existential fact* and its particular historical form is thus left relatively un-interrogated (see below). The methodological institutionalism at work in NWPE — as we shall see particularly within the VoC paradigm — takes this one step further. It suggests that institutions and markets will tend to co-evolve in a manner in which markets and certain institutional logics mutually re-enforce each other, or what NWPE has come to term institutional complementarities and path dependence.[18]

This ambivalence towards the relative strength of different structural logics in part stems, I would argue, from the trans-historical conceptualization of a market logic at play within neo-Weberian *cum* institutionalist political economy. On their reading, capitalism is nothing other than the expansion of an already existing market logic which is left unaccounted for. Even in Polyani's critical account, the problem is that the logic of markets — an instrumental rationality which seeks the increasing commodification of an

[18] For an exhaustive treatment and comprehensive attempt at synthesizing the insights of new-institutionalist political economy, see Bowles (2004).

increasing range of goods and services — which over-extends itself to increasingly commodify what he calls the fictitious commodities of labour and land is never accounted for but is assumed.

It is worth exploring this 'more markets versus less markets' conceptualization of capitalism a bit further. For neo-Weberians, the term market is a rather nebulous concept. In what could be termed Weber's (1966) classic *adding-up* account of markets, the 'market' is merely an aggregation of the opportunities which exist to 'exchange' some good or service. Markets are thus merely a multiplicity of individual exchange opportunities for similar such objects.[19] Exchanges are in turn defined in a manner common to almost all schools of political economy: a formally voluntary agreement between two or more parties to trade goods or services in or out of kind.[20] This highly de-socialized account of 'markets' thus sits somewhat uncomfortably along-side the neo-Weberain commitment to a more substantive rendering of society writ large. We are, for example, deprived of any account of where the market logic comes from, what sustains it

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[19] In *Social and Economic Organization* (1966), Weber defines the market thus:

> By the 'market situation' for any object of exchange is meant all the opportunities of exchanging it for money which are known by the participants in the market situation to be available to them and relevant in orientating their attitudes towards prices and competition (pp. 181-82).

[20] Weber is aware (unlike many of his contemporaries) that he is describing *formally* voluntary exchanges:

> For present purposes, by 'exchange' in the broader sense will be meant every case of a formally voluntary agreement involving the offer of any sort of present, continuing, or future utility in exchange for utilities of any sort offered in return. Thus it includes turning over money for goods...the hiring of any kind of services for wages or salary. *The fact that this last example involves, from a sociological point of view, the subjection to the worker to a system of authority and discipline will, for preliminary purpose, be neglected, as will the distinction between loan and purchase* (p. 170, emphasis added).

overtime, and a robust account of the differences between market societies across time and space.[21]

More particularly, institutionalists engaged in scholarship on the comparative political economy of advanced capitalism also share a common object of inquiry, namely the varieties of national capitalisms (henceforth referred to as the *varieties*). The hallmarks of the varieties paradigm can be readily identified. First, there is the structural pluralism of NWPE that stresses the multiplicity of institutional logics that mutually (re)structure society and yet remain relatively autonomous in their respective reproductive logics. Second, is the embedded nature of institutions such that change is incremental and path dependent as decisions in the past constrain the range of choices actors (individuals and institutions) face in the future. Third, there is the common supposition that private markets are merely one form of coordinating the actions of households and firms and can in no way be ascribed an *a priori* superiority in terms of allocative and productive efficiency to extra-market institutional allocations. Finally, there is the Polanyian feature of the institutionalist paradigm that private markets are embedded in and depend on the existence of other social institutions for their reproduction (Peck and Theodore, 2005).

As has already been indicated, one of the central limitations to the NWPE ontology is that its causal pluralism and thus 'flatness' makes it very difficult (as with the neoclassical ontology) to provide a hierarchical rendering of the formal and substantive institutional structures and mechanisms which are responsible for modern capitalism.

[21] See Ellen Meiksins Wood (1995: Ch. 5), for a more thorough treatment of Weber's conceptualisation of capitalism.

That is to say, the neo-Weberian ontology lends itself to a radical indeterminacy in terms of causation and thus appropriate levels of analysis for the explanation of specific phenomena. As we shall see, this flat ontology plays itself out within the contemporary varieties paradigm via the relatively autonomous and separate logics afforded to the firm/network/market 'trichotomy' which pervades its analytical apparatus.

THE VARIETIES OF CAPITALISM PROBLEMATIC: FIRMS, COORDINATION AND GROWTH

In a sense, Williamson was perfectly placed to provide a conceptual bridge between NPE and the NWPE as manifest in the VoC paradigm. In the hands of Williamson, NPE becomes amenable to a neo-Weberian quasi open ontology — contingent outcomes paired with a methodological individualism/institutionalism embedded within an ideal typical epistemology — and NWPE becomes amenable to NPE type analysis founded on individual attempts to maximize within the confines of an instrumental, albeit bounded and strategic, rationality. Further, on Williamson's account, formal institutions like the firm are explained by recourse to agents' capacity to generate unexpected changes and the firm exists to manage these *ex post facto* changes. Given that Weberians have historically shared with their NPE counterparts the notion that capitalism can be defined as impersonal, arms length, exchange relations it should hardly be surprising that markets and thus capitalism are conceived of as horizontal spaces of power where more or less voluntary (inter)action takes place; whereas formal institutions are conceived of as vertical spaces of power where more or less authoritatively directed (inter)action takes place.

Indeed, in the most contemporary iteration of the VoC tradition as found in the edited volume by Peter Hall and David Soskice (2001), the key relationships which account for the persistence of divergences between national capitalisms is located squarely within the problematic of *firm organization* and their related attempts to solve *coordination problems*. In this variant, the strategies firms adopt to manage industrial relations, inter-firm relations, corporate governance, vocational training, and the selection of employees comprise the basic determinants and path dependence of an economic system over time and across national space. For example, Hall and Soskice (p. 8) argue, "national political economies can be compared by reference to the way in which firms resolve coordination problems they face in these five spheres." According to this typological scheme, national economic regimes are grouped into one of two ideal typical clusters — coordinated and liberal market economies (henceforth, CMEs and LMEs respectively). Reminiscent of Shonfield's (1969) argument, and in keeping within the general tenor of institutionalism, Hall and Soskice reject any *a priori* notion that 'markets' provide a superior solution to the coordination problems faced by firms. The point is made explicitly by Hall and Soskice (p. 65) when they write: "In 'negotiated economies' [CME] such as these, adjustment is often slower than it is in economies coordinated primarily by markets; but markets do not necessarily generate superior outcomes."

To wit, firms and their existential problems of coordination are taken up as the central analytical apparatus of the VoC comparative enterprise. Indeed, the avowed goal of Hall and Soskice (p. 4) is "to bring firms back into the center of the analysis of comparative capitalism". Yet, their project is much more ambitious than simply making the firm the center of comparative political economy. They also want to import the new 'microeconomic' insights of Williamsonian institutionalism and game theoretic modes of analyses into the contemporary comparative enterprise. They (p. 5) argue:

> The importance of strategic interaction is increasingly appreciated by economists but still neglected in studies of comparative capitalism. If interaction of this sort is central to economic and political outcomes, the most important institutions distinguishing one political economy from another will be those conditioning such interaction and it is these that we seek to capture in this analysis. For this purpose, we construe the key relationships in the political economy in game-theoretic terms and focus on the kinds of institutions that alter the outcomes of strategic interaction.
>
> By integrating game-theoretical perspectives on the firm of the sort that are now central to microeconomics into an analysis of the macroeconomy, we attempt to connect the new microeconomics to important issues in macroeconomics.

In some sense, bringing the firm and its 'rationality' to the center of comparative political economy ought to be a welcome development. After all, undoubtedly large trans-national firms surely represent some of the most powerful actors within advanced and developing capitalist political economies. They uniquely possess both the economic and political resources necessary to operate as systemic actors — agents capable of altering the environment (the national and international system) in which they and others act. However, in the VoCs attempt to integrate the firm and its corresponding micro-foundations three problems can be identified.

First, as with Williamson, the VoC scholars explain the firm as an institution that arises to manage and coordinate *ex post* changes that arises because of opportunistic behaviour and the *existential* problem of bounded rationality. Following Williamson (p.

6), they also draw a firm boundary between the vertical, hierarchical command structure of the firm and the horizontal and voluntary nature of markets.

> We take the view that critical to these [profit seeking activities] is the quality of the relationships the firm is able to establish, both internally, with its own employees, and externally, with a range of other actors that include suppliers, clients, collaborators, stakeholders, trade unions, business associations, and governments. As the work on transactions costs and principal–agent relationships in the economics of organization has underlined, these are problematic relationships. Even where hierarchies [firms] can be used to secure the cooperation of actors, firms encounter problems of moral hazard, adverse selection, and shirking. In many cases, effective operation even within a hierarchical environment may entail the formation of implicit contracts among the actors; and many of a firm's relationships with outside actors involve incomplete contracting. In short, because its capabilities are ultimately relational, a firm encounters many coordination problems. Its success depends substantially on its ability to coordinate effectively with a wide range of actors.

However, as hinted at in the above quotation, when distinguishing firms from the networks in which they are embedded, Hall and Soskice account for, and characterize, those networks in the same manner: that is, as institutions for managing and coordinating *ex post* outcomes. Interestingly, Williamson set out to explain the existence of the firm (hierarchies) on the basis of transactions costs rooted in the problems of incomplete contracting and bounded rationality. Thus the firm is explained as a hierarchical institution of power for overcoming, or at the very least managing, the problems of (re)contracting in the existential context of bounded rationality and a fundamental uncertainty *characteristic of markets*. Hence, on the Williamsonian account, the firm is both an *ex ante* response to market failures/inefficiencies and an institution for managing *ex post facto* change. Yet, on the description given by Hall and Soskice in the quote above, these same types of problems plague 'nonmarket' modes of coordination, i.e., these problems plague firms in both their *internal* contracting and in their *external* relations with other nonmarket coordinating institutions (associational networks). In a very real sense, then, for Hall and Soskice, the network is reduced to the same foundational logic of the firm. As was argued in the concluding section of Chapter 2, there is a case that could be made that markets are themselves institutions for managing and coordinating *ex post* change. This would seemingly be the option the VoC scholars seek: markets are nothing other than an alternative coordinating mechanism which firms may more or less rely upon. When, for example, outlining the key differences between their two polar ideal types — CMEs and LMEs respectively — Hall and Soskice (p. 8) argue the following:

> In liberal market economies, firms coordinate their activities primarily via hierarchies and competitive market arrangements. These forms of coordination are well described by a classic literature. Market relationships are characterized by the arm's-length exchange of goods or services in a context of competition and formal contracting. *In response to the price signals generated by such markets, the actors adjust their willingness to supply and demand goods or services, often on the basis of the marginal calculations stressed by neoclassical economics.* In many respects, market institutions provide a highly effective means for coordinating the endeavors of economic actors. In coordinated market economies, firms depend more heavily on non-market relationships to coordinate their endeavors with other actors and to construct their core competencies. *These nonmarket modes of coordination generally entail more extensive relational or incomplete contracting, network monitoring based on the exchange of private information inside networks, and more reliance on collaborative, as opposed to competitive, relationships to build the competencies of the firm. In contrast to liberal market economies (LMEs), where the equilibrium outcomes of firm behavior are usually given by demand and supply conditions in competitive markets, the equilibria on which firms coordinate in coordinated market economies (CMEs) are more often the result of strategic interaction among firms and other actors.*

This seems as a rather odd formulation given that in the original formulation by Coase and Williamson firms arise *to fulfill a need to overcome and manage the shortcomings of markets with respect to coordination.* In the VoC formulation, these failings are pervasive (existentially given) and plague even nonmarket institutions of coordination (firms and networks). Although, VoC scholars start out with the Williamsonian account of the firm with its strong dividing line between firms and markets, they almost immediately begin to blur that distinction because in their account firms, networks, and markets are all viewed as coordinating mechanisms for managing *ex post* change and each is plagued by the problems of incomplete contracting in the existential context of bounded rationality and fundamental uncertainty. It would thus appear that for VoC scholars the distinction between the three coordinating mechanisms is the difference in the types of arrangements each coordinating mechanism allows and not necessarily the surmounting of market failures. On this reading, all arrangements whether market or non-market are plagued by transaction costs, thus turning Williamson in a full circle and situating the VoC well within the orthodox fold (with Williamson himself). Lost in this theoretical move, *inter alia,* is almost any sense of Coase's original formulation of firms as distinct islands of conscious and purposely directed power.

More devastatingly, when pitched at this abstract a level, the theory of the firm is the same as neo-Weberian theory of markets, associational networks and, indeed, any social institution one cares to name. Using Hall and Soskice's formulation, trade unions, for example, can be theorized in the selfsame manner. On the one hand, trade unions can be said to exist to police the opportunistic behaviour of managers and owners and, on the other hand, unions provide an institutional mechanism for managing unforeseen change. As descriptively true as this may be, it is also true for almost any institution.[22] What is lost by theorizing at this level of abstraction is any social account of the specific historical origins of unions and the evolving class nature of their struggles over time. As we shall see in the following section, working at this level of analysis, with what might be characterized as 'violent abstractions', creates a legion of problems for the VoC paradigm when attempting to work at more concrete levels of analysis.

Second, in the VoC formulation it ought to be explained why markets in liberal jurisdictions are *not* characterized by the same degree of transaction costs and fundamental uncertainty and hence why in LMEs firms can depend more heavily on *"the price signals generated by such market."*[23] In essence what the VoC scholars have attempted to do is make transaction cost economics more relevant to CMEs than to LMEs with little rationale as to why. This is not a trivial point. At the very least VoC practitioners need to explain why markets in LMEs do not produce the same economic pressures to *form* "these nonmarket modes of coordination". In Coase's and in Williamson's original formulations it is precisely because *all* markets are characterised by transaction costs that firms exist. If then, in CMEs an extra layer of institutional

[22] To put matters bluntly, we could read-off the history of the western church in much the same manner. One could posit the origins of the church in the functional need of an institution to police the opportunistic behaviour between disparate feudal states and between feudal lords and their peasants and to provide a coordinating institution to manage unforeseen change. This is, in many ways, a form of trans-historical functionalism.

[23] The resort to marginal calculus will not suffice as an explanation. The Williamsonian endeavour does not hinge on the existence of marginal calculus for it accepts explicitly marginal calculus and marginal analysis. Indeed, this is one of the major features which qualify it as a NPE form of institutionalism. The central premise of the NPE theory of the firm, from Coase through to Williamson (as reviewed above), is that markets are replete with transaction costs and it is these costs which explain the existence of the firm.

arrangements (networks) come into being, which are neither of the firm nor of the market type mechanism for coordination, to deal with the inherent limitations of markets, it ought to be explained why these same pressures do not arise in LMEs. This is especially so given *that the transaction cost theory of the firm was developed specifically in the context of the experience of American capitalism* and the formation of large hierarchical institutions of command type control — the corporate firm.[24]

Further Hall and Soskice seem to be claiming that not only can national economies be placed along a continuum of one of two ideal types but that the analysis of each model type requires its own economic theory. In other words, the suggestion seems to be that the tools and axioms of the 'conservative wing' of neoclassical (new classical) economics apply to LMEs whereas the tools and axioms of the 'progressive' wing (new Keynesian economics) apply to CMEs.[25] In Soskice (2000: p. 38) for example, the claim is made: "[I]n important respects the NC [new classical model] can be identified with the deregulated approach to labour markets, whereas unionized labour markets fit more

[24] It is true that VoC scholars (Hall and Soskice 2001; Hall and Gingerich 2004; Hall and Thelen 2009) have consistently pointed to the difference between the depth and breadth of capital markets and stock market capitalization as a significant push factor. In LMEs goods and services markets, capital markets and the degree of stock market capitalization are said to be so extensive that effectively the market is more liquid and thus more conducive to short-term contracting without the need for long-term strategic coordination because the markets are effectively so deep, that there is high probability that firms can find the goods and services that they need ready to hand in the market. While the polar opposite example of Germany and the US may give some credence to this observation it would, however, be much harder to argue for more peripheral LMEs such as Canada, Australia and New Zealand.

But all of this still leaves open the question as to origins. Why did countries like the US develop these deep extensive markets and countries like Germany did not? Hence, even if we accept the premise of the VoC dichotomy, the interesting question remains unanswered. This question reveals the pith and substance of the matter. If CMEs and LMEs are said to be institutionally stable, that is, tend toward their relative institutional equilibrium, how was it that the LME (or CME) model developed in the first place? That is, how and why did the US move from 'thin' capital, goods and service markets to 'deep' markets?

[25] As I will demonstrate below, this dualism has intractable policy implications particularly for LMEs.

easily with NK (new Keynesian) models". Muddying the analytical waters further, Hall writing with Gingerich (2000: pp. 7-8) argue that game theory is the appropriate lens through which to analyze CMEs:

> The varieties of capitalism approach draws a distinction between two modes of coordination. In one, firms coordinate with other actors primarily through competitive markets, characterized by arms-length relations and formal contracting. *Here, equilibrium outcomes are dictated primarily by relative prices, market signals, and familiar marginalist considerations. In the other modality, firms coordinate with other actors through processes of strategic interaction of the kind typically modeled by game theory.* Here, equilibrium outcomes depend on the institutional support available for the formation of credible commitments, including support for effective information-sharing, monitoring, sanctioning, and deliberation (emphasis added).[26]

This quote basically reduces to the claim that LMEs are characterized by perfectly competitive markets structures whereas CMEs are characterized by varying degrees of oligopolistic market structures. There is some reason to be sceptical of the claim that each model type requires a different strain of NPE theory. How is it that the axioms of perfect competition can be said to well describe LMEs? This is especially so because one of the specific claims made about LMEs is that they tend to be more innovative particularly with respect to technology (see below). Neither the operating system (OS) market nor the central processor (CPU) market seems well described by the term

[26] It is difficult to make sense of the above quote as neither game theory nor new Keynesian theory repudiate the use of marginal analysis *per se*. It is true that in analysis of oligopolistic market structures most schools of liberal economics agree that prices may deviate from marginal costs. Further game theory can be employed to make some educated guesses about market structure (the number of competitors and the extent of the market) and the likely degree of deviation of prices from marginal costs. But in neither case is marginal analysis jettisoned. Furthermore neither in Hall and Soskice (2000) nor in Hall and Gingerich (2000) is empirical evidence on market structure produced to support their claim.

competitive market structure.[27] And this of course says nothing about more traditional sectors of the US economy such as autos, airlines, telecommunications, pharmaceuticals, agriculture, tobacco and alcohol none of which are particularly well known as markets staffed by numerous competitors. Even leaving the question of market structure to the side, there is the further question as to what strain of NPE theory would then apply to cases that sit more towards the center of the continuum between LMEs and CMEs? Taking the above critiques together, it is not at all clear that the VoC scholars have managed to provide a coherent account of the micro-foundations which explain the existence of their two ideal types. [28]

Third, explicitly advocating against other traditions in comparative political economy VoC scholars (Hall and Gingerich, 2004: p. 7) argue that "[i]n contrast to the large literature focused on national labour movements, varieties of capitalism analyses assume that firms are the central actors in the economy whose behaviour aggregates into national economic performance". Presumably, the desire to provide adequate micro foundations for comparative political economy stems from a desire to identify where agency in the system resides even if constrained/enabled by broader environmental and

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[27] Microsoft controls about 90% of the global operating system market according to *Net Market Share* (June, 2010). According to *Tom's Hardware* (January, 2010) despite competition from AMD, Intel has a market share of around 80 percent. Indeed, the only question in the central processing industry is whether the mild competition from AMD will erode some of Intel's capacity to aggressively mark-up their prices.

[28] It should be stressed that I am not taking issue with the VoC characterization of the time frame in which firms tend to make their calculations. More short term horizons in LMEs and longer term horizons in CMEs may exist; although this too requires substantiation. Rather, the issue is whether or not the differences can be attributed to the absence or presence of marginal analysis and decision making of actors and the structure of the markets in which they act. A case can be made, and often is by post-Keynesians and Marxist economists, that the assumption of perfect competition and marginal pricing does not characterize any capitalist economy and thus the new classical strain of neoclassical theory ought to be jettisoned in its entirety.

systemic considerations. However, when it actually comes to describing the causal relation between the micro, meso, and macro levels of analysis (firms, networks and markets: as the three mechanisms of coordination), VoC scholars have tended produce 'thick descriptions' of the relational networks in which firms are embedded. But they have not tended to locate firms, networks or even national political economies at the *causal center of change.* Rather, and perhaps owing to a Williamsonian legacy, firms act as agents of reactive change to exogenous shocks: "deliberative institutions can enhance the capacity of actors in the political economy for strategic action when faced with new or unfamiliar challenges. This is far from irrelevant *since economies are frequently subject to exogenous shocks that force the actors* within them to respond to situations to which they are unaccustomed" (Hall and Soskice: p. 12). And again at the end of their introductory chapter (pp. 62-3) they write:

> We see *national political economies as systems that often experience external shocks emanating from a world economy in which technologies, products, and tastes change continuously. These shocks will often unsettle the equilibria on which economic actors have been coordinating and challenge the existing practices of firms.* We expect firms to respond with efforts to modify their practices so as to sustain their competitive advantages, including comparative institutional advantages. Thus, much of the adjustment process will be oriented to the institutional recreation of comparative advantage (emphasis added).

This seems to be an odd formulation. For it would seem that far from bringing firms to the center of the analysis as active agents, that VoC scholars have rather rendered firms as merely reactive agents passively awaiting change only to move their national system back towards their ideal typical equilibrium.[29]

In an expanded discussion of the conceptualization of change at work in the VoC framework, Hall and Thelen (2009: p. 27) retain the insistence that the ideal types auto-equilibrate in the face of external shocks although they do allow that incremental changes by firms can cumulatively lead to transformational change over the medium to long-term. Nevertheless, they persist in viewing firms as essentially passive actors incapable of changing the economic environment even if they grant, as they must, that firms can change the institutional environment.[30] Beyond the structural functionalism implied by the above rendering of capitalism and national political economies, it also imposes severe restraints on scholars seeking to undertake critical examinations of neoliberalism in general and as we shall see macroeconomic and social policy more specifically.

NEOLIBERALISM, ANGLO AMERICAN CAPITALISMS AND THE VOC

In general, VoC scholars have been quite dismissive of the debates surrounding neoliberalism and its international doppelganger — globalization. [31] There are three obstacles to conducting serious research into the political economy of neoliberalism within the VoC framework of analysis. The first obstacle arises owing to the nature of

[29] The presumption of a complete compliment of institutions is essential to the VoC formulation. It is required to ensure a systematic inertia and path-dependence which continuously reconstitutes the ideal types in their essence if not basic form.

[30] Reproducing essentially the perfect competition assumptions of NPE where firms are passive price-takers and not price-makers.

[31] Although VoC scholars do not use the term 'neoliberalism', they do roundly take up the debate on globalization, liberalization and institutional convergence.

the debate over convergence. The second obstacle stems from the strong conceptualization of institutional equilibrium at work within the VoC framework. Finally, an obstacle to a serious consideration of neoliberalisation is the degree to which the national cases are actually well described by the ideal type models they are said to represent. I shall take up each of these obstacles in their turn.

VoC scholars have tended to lump the arguments (by protagonist and antagonist) about globalization into a single institutional convergence camp. That is to say, VoC scholars have tended to view arguments about the structural constraints emanating from the dynamics of the global economy and interstate system as essentially arguments about the necessity of *institutional* convergence (Hall and Sockice, 2001; Hall and Thelen, 2009). As Hall and Thelen (p. 24) summarize:

> To frame the debate in terms of an undifferentiated view of 'liberalization' squanders one of the principal advancements offered by the varieties of capitalism framework. The corporatist literature of the 1970s and 1980s often arrayed countries along a single continuum, portraying differences between them as differences in degree (i.e., as 'more' versus 'less' corporatist). In contrast, the varieties-of-capitalism framework recasts the debate, organizing the analysis of political economies around ideal-typical models that operate according to different logics. In other words, the differences among them are in kind rather than degree. Many current analyses of liberalization effectively re-situate countries on a single continuum, thereby reducing the issue of change to one about movement along that single continuum.
>
> By now an impressive body of research demonstrates that, even after two decades of liberalization, a substantial gap remains between the coordinated and liberal market economies.

There are two central problems with the above framing of the debate. Outside of a few vocal neoliberal protagonists the debate about globalization/neoliberalisation has not been about the necessity of the convergence of *institutional design.* Rather, it has been about the forces pushing existing institutional arrangements to make neoliberal accommodations. On this reading, convergence in institutional design is rather beside the point. That is to say, the 'gap' between the model cases may be entirely misleading. For it is well known that LMEs like the US have become significantly more 'liberal' over the past three decades and at the same time model cases like Germany have also become relatively more liberal (see below). Thus, if each of the model cases is moving in the same direction then the extent of the institutional 'gap' may remain. Yet, what remains unaccounted for, in the VoC paradigm, is the direction of change (towards greater liberalisation) in both model cases over the last three decades.[32]

Moreover, the extra-firm, non-market arrangements for strategic coordination between labour and capital vis-à-vis coordinated, centralized wage settlements (the German model) are not necessarily antithetical to the dynamics of global neoliberal capitalism provided such arrangements allow firms to remain competitive in the face of increasing international competition. To the extent that German wage setting institutions in the export sector have been traditionally geared towards maintaining the international competitiveness of that sector, there is little reason to suspect those formal institutional arrangements needs to change. What counts, however, is the degree to which those institutions put increasing pressure on unions to moderate their wage demands in light of increased international competition. It is on this basis — on the balance of power between strategic actors within those institutions and the outcomes being generated —

[32] Robert Goodin (2003: p. 207) makes a similar point with reference to the UK. As he notes, three decades ago Britain looked a lot more like a CME than an LME.

that the effects of neoliberalism become evident. Streeck (2009), for example, makes the cogent and patient case that given the raft of incremental changes to the German model over the last two decades whatever formal continuity institutional structures may exhibit the substantive outcomes they generate has changed to the point where it is no longer useful to talk about Germany as the polar opposite ideal typical case to a LME.

Second, on a deeper level, as alluded to above, the structural functionalism at work in the VoC paradigm has a built in bias towards viewing the ideal typical model cases as exhibiting strong institutional equilibrating tendencies. Thus, in CMEs there is a selection bias towards institutional innovations which re-compose the strategic networks (and the equilibrium) which give CMEs their comparative institutional advantage; the same is said to be true of LMEs. Thus, "[i]n liberal market economies, where coordination is secured primarily through market mechanisms, better economic performance may demand policies that sharpen market competition, while coordinated market economies may benefit more from policies that reinforce the capacities of actors for non-market coordination" (Hall and Soskice, 2001: p. 46). Further, Hall and Soskice (p. 49) argue that "[i]n general, liberal market economies should find it more feasible to implement market-incentive policies because of the bluntness of the instruments available to states and the importance of markets to these economies, deregulation is often the most effective way to improve coordination in LMEs". It is not difficult to move from this hypothesis to the hypothesis that in the face of globalisation and thus increased international competition, macroeconomic policy in LMEs drives in the direction of increased deregulation and liberalization: namely, neoliberalism while CMEs do not. They (pp. 57-8) contend:

> Finally, our perspective calls into question the monolithic political dynamic conventionally associated with globalization. It predicts one dynamic in liberal market economies and a different one in coordinated market economies. In the face of more intense international competition, business interests in LMEs are likely to pressure governments for deregulation...[B]ecause international liberalization enhances the exit options of firms in LMEs, as noted above, the balance of power is likely to tilt toward business. The result should be some weakening of organized labor and a substantial amount of deregulation, much as conventional views predicted. In coordinated market economies, however, the political dynamic inspired by globalization should be quite different. Here, governments should be less sympathetic to deregulation because it threatens the nation's comparative institutional advantages. Although there will be some calls for deregulation even in such settings, the business community is likely to provide less support for it, because many firms draw competitive advantages from systems of relational contracting that depend on the presence of supportive regulatory regimes. In these economies, firms and workers have common interests to defend because they have invested in many co-specific assets, such as industry-specific skills. Thus, the political dynamic inspired by globalization in these countries is likely to entail less class conflict and to center around the formation of cross-class coalitions, as firms and workers with intense interests in particular regulatory regimes align against those with interests in others (cf. Swenson 1991, 1997). Instead of the monolithic movement toward deregulation that many expect from globalization, our analysis predicts a bifurcated response marked by widespread deregulation in liberal market economies and limited movement in coordinated market economies.

Insofar as VoC scholars consider neoliberalism, it is viewed largely as a public policy paradigm that is both limited to LMEs and, in fact, a system conforming policy paradigm. More bluntly, within the VoC theoretical apparatus neoliberalism is viewed as the appropriate policy response for LMEs. The structural functionalism at work in the VoC thus produces a somewhat pathological account of policy formation in both CMEs and LMEs. The competitive pressures emanating from the global economy are institutionally channelled in one of two different directions. Here it is held that the national institutional frameworks are stronger poles of attraction than any particular exogenous forces. If CMEs can take some solace that their institutional matrix will channel processes of adjustment in the direction of further strategic, deliberative and coordinated responses, then, by definition, LMEs have little choice but to pursue neoliberalism as liberalization and deregulation are, in any case, the types of policy responses appropriate to their ideal typical logic.

Third, outside of the rather glib account of policy formation in LMEs, there is also the relevant and challenging question of how well the characteristics ascribed to LMEs actually apply outside of the model US case?[33] Recall that the central categorical axe for generating the two ideal VoC types is the degree of the breadth and depth of markets. On the one hand, in CMEs capital, product and labour markets are said to be relatively thin requiring strategic contracting and longer term relationships to ensure adequate supply of the relevant factors. These features are said to encourage incremental innovation. On the other hand, the hallmarks of the LME type is suppose to be relatively broad and deep capital, product and labour markets which allow firms to engage in extensive arms length contracting in the market and these are held to be the key features which allow LMEs to engage in radical innovation (Hall and Soskice, 2001: pp. 36-40). The question then that naturally arises is whether or not these features fairly characterize LMEs outside of the

[33] In fact there is some degree of scepticism whether or not the characteristics ascribed to CME and LME ideal types fit either of the relevant model cases, i.e., the US and Germany. In this regard, see Blyth (2003).

US? Does such a description fit the more subordinate Anglo American capitalisms like New Zealand, Australia or Canada? Is the economy of Britain or Canada during the last thirty years well captured by the descriptor 'radical innovator'?

These questions go to the heart of the debate on neoliberalism because, at the political level of analysis, it was the promise that neoliberal restructuring would deliver up dynamic national economies capable of generating radical innovation, high growth and low unemployment. To wit, there have been clarion calls with increasing intensity since the 1980s in policy circles around the advanced capitalist zone and beyond for intensification in the marketisation of goods and service production and distribution (liberalisation) along side the relative flexibilisation of existing labour relations regimes. Yet, and somewhat ironically, within the VoC framework it is a forgone conclusion that LMEs were already characterized by these attributes. That is to say, it is difficult to explain why it was that Anglo American capitalist politics should have come to be dominated by a neoliberal policy paradigm when, according to the VoC school, Anglo American capitalisms were *already* characterized by such a macroeconomic structure before the advent of neoliberalism. Not only should this have made a neoliberal policy paradigm superfluous in the LMEs, but it also fails to account for the history of the postwar epoch in which, at least, in a limited way, there was a trend toward state planning and the de-commodification of a range of goods and services in LMEs.

CONCLUSION

The contemporary VoC paradigm suffers from a series of conceptual ambiguities. I would argue these ambiguities arise in the main because the VoC paradigm is by and large cobbled together from a series of meso-level theorisations. The NPE theory of the firm was developed in an attempt to explain the existence of the firm regardless of its geographical location or the peculiarities of its national institutional setting. As demonstrated in Chapter 2, the various NPE formulations were not without their flaws. Centrally the recourse to transaction costs as an explanation for the existence of the firm is question begging because they view the firm as the institutional prerequisite for, and a precipitate of, the price system. This central flaw stems from the insistence of viewing capitalism as the mere expansion and intensification of markets: circularity is simply compounded upon circularity. The contemporary VoC paradigm doubles-down on the NPE circularity. It attempts to press the NPE theory of the firm into the service of rationally constructing dichotomous ideal typical representations of existing national capitalisms.

Significantly, none of the NPE formulations reviewed in Chapter 2 are specific to any particular historical capitalist social formation. That is, true to NPE form, the theorizations are conducted on the high plane of abstract capitalism in which imperfect competition and information and thus transactions costs are a given of markets. On this account the origins of all firms — German, British, American Japanese, etc., — are a consequence of this existential fact. Transaction costs, and its precipitate the firm, can not be the foundational basis for comparing varieties of national capitalisms because they are the common denominator between national capitalisms. The VoC paradigm tries to finesse this by postulating an additional layer of extra-market coordination — the network — as the dividing line between CMEs and LMEs. Here, again, the original sin of the incomplete NPE theorization (as in ahistorical and asocial account) of capitalism rears its head. In order to explain the existence of the network, the VoC scholars rely on an explanation grounded in bounded rationality and the need to manage *ex post facto* change which is the selfsame explanation they give for the origins of the capitalist firm. At this point the historical question comes to the foreground: Why do LMEs develop firms but not the dense networks characteristic of CMEs? As an answer to this central question VoC scholars merely postpone the socio-historical question by positing 'deep' markets in LMEs. Outside of the fact that no explanation is given for why LMEs develop deep markets and CMEs do not, there is equally the important question as to whether this characterisation fits all LMEs. Is it true, for example, that more peripheral LMEs such as New Zealand, Australia and Canada are characterized by deep markets? If not why have they not developed an additional institutional layer — the network — to overcome higher transaction costs?

In the next chapter a rational reconstruction of the capitalist firm is undertaken founded upon the social relation between capital and labour. This account of the capitalist firm has the advantage of both specifying the historical specificity of capitalism as a socio-economic system and in its capacity to identify the salient features of the capitalist firm and the raison d'être of management. Moreover, such an approach has the benefit of bringing class, conflict and distribution back to the center of comparative political economy.

CHAPTER 4: BRINGING SOCIAL RELATIONS BACK IN

> Whatever the form of the process of production in a society, it must be a continuous process, must continue to go periodically through the same phases. A society can no more cease to produce than it can cease to consume. When viewed, therefore, as a connected whole, and as flowing on with incessant renewal, every social process of production is, at the same time, a process of reproduction.
>
> Karl Marx, *Capital I*, Ch.23.

In the last two chapters serious limitations were identified with respect to the extant theories of political economy. Both the NPE and NWPE paradigms define capitalism by the extent of markets. On this definition capitalism has always existed as some form of market has existed throughout most of human history. The central conclusion to be drawn is that in essence capitalism is a trans-historical phenomenon which is more or less profound — measured according to the extent of markets — depending on the number of goods and services produced, the spatial extension of markets across regions, and the relative freedom with which individuals are free to produce and consume via the mediation of markets. As such, capitalism is to be ontologically understood as an *intransitive* phenomenon: an extension of the existentially given nature of human beings in the neoclassical account to 'truck, barter and exchange', and in the neo-Weberian account the spread of an instrumental rationality. Second, both paradigms lack a credible account of the firm which is the most prominent institutional feature of contemporary capitalism. In both accounts, albeit via subtle and not so subtle differences, the capitalist firm is essentially reduced to a managerial institution *sans* any sustained evaluation of the relationship between the firm and its capital.

Conversely, in this chapter it is argued that capitalism is a historically novel socio-economic system which is thus *transitive* in nature and founded upon the basic social relationship between capital and labour. Having substantiated this claim, it will be further argued that it is only by starting from the capital-labour relation that it is possible to develop a clear theory of the firm that: (a) does not reduce the firm to management; (b) does not reduce management to the ontological reality of *ex post facto* change; and (c) provides a theory that unambiguously defines the connection between capital, the firm and between its owners, managers, and employees.

THE ONTOLOGICAL QUESTION: CRITICAL REALISM AND THE TASK OF SOCIAL SCIENCE

Critical realism developed in reaction to the neo-positivist hypothetico-deductivist model. More precisely, it developed in the wake of the imperialism of neo-positivism and the latent critique developing within an extreme form of constructivism; namely, post-modernism.[34] Tony Lawson's (1994: p. 262) account of critical realism starts with a contrast to neo-positivist empiricism at the ontological level in the following manner:

> [I]n contrast to empirical realism, the world is composed not only of events and our experience or impression of them, but also of (irreducible) structures or mechanism, powers and tendencies, etc., that, although perhaps not directly observable, nevertheless underlie actual events that we experience and govern or produce them...[T]he world is composed not only of such 'surface phenomena' as skin spots, puppies turning into dogs, and relatively slow productivity growth in the UK, but also of underlying and governing

[34] The two foundational texts in this regard are Roy Bhaskar's *A Realist Theory of Science* (1978), and *The Possibility of Naturalism* (1979).

> structures or mechanisms such as, respectively, viruses, genetic codes and the British system of industrial relations. In short, three domains of reality are...distinguished, namely the empirical (experience and impression), the actual (events and states of affairs—i.e., the actual objects of direct experience) and the *non-actual*, or, metaphorically, the *'deep'* (structures, mechanisms, powers and tendencies).

The basic thrust of the critical realist ontology, then, is that social reality is highly stratified with objects and our experience of them not sufficiently accounted for — i.e., explained — by their existence and our sensing of them. That is, the *existence* of the objects we observe must be explained (i.e. the generative mechanisms identified) as well as the *way* in which we appropriate (observe and reflect on) them.

Additionally, according to Lawson (p. 264), empirical realism (the neo-positivist form of empiricism) "neglects, if among other things, the causal criterion for ascribing something as real, acknowledging as real only what is experienced. One consequence of these 'mistakes'...*is an inevitable failure or inability to distinguish the conditions under which experience is in fact significant to science."* Hence, within a critical realist philosophy there is an explicit acknowledgement of the *necessity of theory* or theorizing even at the level of experience. That is, the facts themselves, our appropriation of them in and through the senses, and the process through which they are rendered in thought are all valid if not necessary objects of inquiry for social scientific endeavours.

Further, Gregor McLennan (1981: pp. 31-2) makes the argument that social science is necessarily *history* as well as theory laden.

> A realist theory cannot be cognitively assessed primarily on empirical evidence, though realism must explain empirical phenomena. Realism is the philosophical view that knowledge is knowledge of objects or processes that exists independent of thought. In the terminology... science

> discovers the 'generative mechanisms' that when known causally explain phenomena. Natural science works by creating artificially 'closed' conditions in which relatively decisive empirical tests of theories can be carried out. But the natural world itself is an 'open' system, a system that cannot be adequately grasped in terms of the constant conjunction of observed phenomenon (the latter being the dominant empiricist criterion).
>
> Society, too, for realism is an open system, but social science, unlike natural science, cannot construct decisive evidence, because human beings can and do change their social practice in the light of knowledge and self-consciousness. Agency and thought are thus constitutive of the object of study. As a consequence, social theory is necessarily historical, because the relations of social structure to knowledge and practice are always relations over time.

Three essential points emerge from the texts above. First, in line with empirical realism, critical realism holds to the view that the world exits independent of thought. However, whereas empirical realism fetishises this point to such an extent that the constant conjunction of observed events is sufficient to make truth claims and establish covering laws they do so on the basis that the objects of observation are irreducible; whereas critical realism holds that the objects themselves need to be explained. That is, *objects are reducible* to the extent that they themselves are constituted by other higher or lower order relations. Second, unlike the natural sciences, the social sciences cannot achieve *the same degree of artificial closure.* The consequence of which is that the problem of claims to knowledge in the social sciences are made that much more difficult and less certain. Third, unlike phenomena in the natural world, even when social scientists do manage to establish some generally agreed upon causal propositions such as 'in Y environment an individual located in institutional context X will do Y', this will likely be a temporary state of affairs because: (a) individuals can change institutions, (b) institutions can change the general environment, and (c) the environment will itself change and thus new attempts at adaptation will ensue at both the individual and institutional levels. All of this is a rather arduous way of saying that social science rarely, *if ever,* can establish covering laws that are 'good' for all times and all places. Regularities (constant conjunctions of events) are themselves the result of latent tendencies which are themselves the latent properties of relatively unstable — in historical time — institutional arrangements and agents' orientations to both institutions and the broader environment.

In this regard, the oft-noted truism/justification by methodological individualists in support of their position, namely, that without individuals society would not exist, is greeted by critical realists with a determined scepticism. For methodological individualists (to which neoclassical economic theory is wedded), the individual is posited as the logical unit of analysis with both their preferences and rationality held as irreducible and the necessary first abstraction for social scientific reasoning. And as we shall see in the next section, this leads to intractable difficulties when accounting for the historical origins of both institutions and systems. For neo-Weberian institutionalists, however, the individual is held to be irreducible because it is their subjectivity which accounts for the reproduction of social structures. The response of critical realists such as Lawson (p. 274) to both these propositions is: "Certainly, if the human race were to disappear tomorrow, social structures including the economy would disappear with it. But, it is important to avoid the mistake...of conflating the insight that society is *concept dependent* with the error that it is *concept determined.*" It is in this manner that critical realism guards against an extreme form of (de)constructivist idealism. Moreover, critical realists also hold that institutions can neither be collapsed into aggregations of individuals, nor can individual agency simply be read-off from institutional parameters because as Lawson (p. 274) explains: "social structure depends on human agency it cannot be treated as fixed at the same time neither can it be treated as the creation of individuals, for the individual intentional action presupposes its prior existence. Structures then can be neither *reified* nor interpreted as a *creation* of individuals. Rather the relevant conception here must be of reproduction or transformation".

This argument can be developed further via the idea of 'relationality'. From the critical realist perspective, the key to cutting the Gordian knot of agency and structure is to analyse institutions and agents in a relational manner. Following Lawson's (p. 275) lead, it is necessary to construct a "conception of the material of social reality as highly relational, and society and economy as comprising *totalities.*"[35] The idea clearly being that concepts such as society and economy need to be understood as *integral entities* in which the parts only have meaning within their relation to the other parts and exist as structured wholes — change a major institution (or in some cases a minor regulation) and one changes (or abolishes depending on the modification) one or more of the dynamics of that given socio-economic system. Now, as Lawson points out (p. 275), it is essential to distinguish between two kinds of relations: external and internal. In the case of external relations "[t]wo objects or aspects...are said to be *externally* related if neither is constituted by the relationship in which it stands to the other." Lawson gives the example

[35] Given the structuralist baggage that comes with the word 'totalities,' I would rather substitute the word 'integrities.'

of a barking dog and a postman. Here the two events coincide: the passing of a postman and the dog barking, but neither is responsible or necessary for the existence of the other — dogs bark without postmen passing by and postmen deliver mail without barking dogs. Yet, notice this is not a spurious relationship: the dog barking and the postman passing are causally related but only externally.

By way of contrast, "two objects are said to be *internally* related if they are what they are by virtue of their relationship to the other" (p. 275). That is to say, one object is constitutive of the other and both are sustained by a deeper generative institution and or mechanism. In the social realm, these institutions are historically bounded — as in, they are precipitates of time and human agency — and thus the laws governing their relations are finite and their durability ultimately precarious. Table 4.1 (below) presents a series of clarifying examples. Notice that each identity in the pairs presupposes the other identity: a husband presupposes a wife, a worker presupposes an employer, and a student presupposes a teacher. Further, notice that for each of the paired identities the relationship has tended to be characterized by a relation of relative subordination and domination between the two paired identities. To inquire about the mechanisms responsible for the reproduction of these subordinate/dominate relations, researchers must look for both formal and substantive supporting institutions/generative mechanisms. So for example, a husband and wife pairing are formally sanctified in law via the legal institution of marriage (and common law) and grounded in the substantive mechanisms of patriarchy. However, note that because patriarchy is by definition a historical social phenomenon, its formal and substantive content changes over time. Hence, the forms of patriarchy today and the specific roles of men and women inside the institution of marriage may be significantly different than what they were 100 or even 50 years ago. Moreover, there is nothing 'natural' about patriarchy. For patriarchy, while a relatively enduring generative mechanism of a sub-set of social reality, is nonetheless a historically contingent, generative mechanism. And a similar such case could be made with respect to private property. Finally, in the third example given in the table, there are good reasons to assume that learning (like creativity) *is integral* to human existence and thus is not historically contingent in a substantive sense although it is *contingent* in its *formal institutionalization* (School in the table below).

Table 4.1 Constitutive identities, formal institutions and generative mechanisms

Identity		Institution / mechanism	
Subordinate	**Dominant**	**Formal**	**Substantive**
Wife	**Husband**	**Marriage**	**Patriarchy**
Worker	**Employer**	**Labour Contract**	**Private property**
Student	**Teacher**	**School**	**Learning**

In each of the examples provided in the Table, the formal institutionalisations of the more abstract generative mechanisms can only be characterized as open systems not susceptible to intrinsic closure. However, the open-endedness of social reality should not be taken to mean that relative continuity does not need to be accounted for. Moreover, relative continuity must be placed on equal footing with the necessity of explaining relative change. As Lawson (p. 279) sums: "In the social world, change and continuity are on equal terms, both as real possibilities and as phenomena that can and should be accounted for, i.e., explained in the laborious social practice of science." There is, however, a danger that in focussing in on the 'fluidity' of social reality that it becomes impossible to identify dynamics endogenous to complex institutions which sustain and reproduce that system over time. And while Lawson's invocation is appreciated that "it would be a mistake to regard any social structure or system...as something that would somehow reproduce itself unless obstructed from doing so". Yet surely, the task of social science is to identify and explain how complex systems like capitalism endogenously generate the very dynamics and institutions that are necessary for their reproduction through time even if we recognize that these institutions are the product of human agency.[36] Indeed capitalism represents an excellent example of the kind of complex system in which moments of continuity are always matched by moments of change and it is only through acknowledging lower level generative institutions — historically novel institutions created by humans *it must be stressed* — such as private property, enshrined in contract law, upheld via civil juridical institutions, competition between capitalist

[36] The target of Lawson's observation is most likely the neoclassical insistence on viewing capitalism as essentially the liberation of human instrumental rationality in its modalities.

firms for profits, industrial relations regimes and the like, that it is possible to account for relative continuity and change. That is to say, it is important to identify the endogenous institutions and mechanisms that are at once responsible for continuity and change. In sum, if capitalism like social reality is on one level highly variegated and shot-through with indeterminacy, capitalism, like society, is quite stable at another level. Indeed, moments of significant change are limited and moments of truly revolutionary change even more rare still. We could perhaps amend Marx's famous phrase to say 'Men make their own history, but they do not make it as *or when* they please'. One of the tasks then of social science is to describe and explain how and why change or stability occurs at certain periods of time and not others. A case will have to be made whether or not those changes originate in the dynamics of the integral system being studied or rather in exogenous forces.

Critical realism does not *a priori* warrant the use of any given methodological device, protocol, or technique insofar as they must be justified with respect to the ontological nature of the object(s) being studied and the level at which those phenomena are being investigated. Moreover, and most significantly, the critical realist ontology cannot be used to justify the substantive content of any given theory about the nature of systems, institutions or generative mechanisms.[37] Thus, although an acceptance of the critical realist ontology will give one reason to be prejudiced against theories that posit

[37] Indeed, in a debate with Collier on the merits of critical realism Geoff Hodgson (2004) wryly observed:

> Collier...rightly argues that 'there is a multitude of generative mechanisms at work' and says quite reasonably that 'science must necessarily abstract from some of them to formulate laws, while remembering that the concrete situation is always a conjuncture. . . of several interacting processes.' Fair enough. But that does not give us a law of the rate of profit to fall any more than it gives us a law of the rate of profit to rise (p. 58).

one-sided and flat explanations it will not give the researcher the ability to establish the veracity of the substantive content of any theory *a priori*. Social scientists, then, are always in a position of having to explicitly defend their epistemology and ontology and always carry the caveat that almost nothing is pre-given and stable over time. Each stage in the analysis must be justified and even then left open to the possibility of doubt.

From this stance social science practice ought to differ from the practices in natural sciences most evidently because: (1) the objects that social scientists study tend to be of the historically and socially contingent type and thus tend not to be stable over given increments of time and space; and (2) that this is necessarily so because the objects are themselves socially constituted such that individuals are always both the central actors and the elemental parts of a broader reality (structure) in which they must however autonomously act (that is, act in a more or less self-conscious and self-directed manner). The problem confronting the social scientific practitioner is that their objects are neither stable nor independent of the environment in which they act. In short, human subjectivity and objectivity are inextricably bound together as one in the same process.

This observation can be taken further. Human beings are constantly in the process of objectifying their subjectivities in the objects they fashion, the ideas they formulate and the institutions they collectively create in support of the creative realization (or suppression as the case may be) of their subjectivities.[38] It follows, therefore, that institutions are the historically contingent outcomes or crystallizations of social relations and practices. Thus to inquire about the nature of an economic system is to always

[38] I take this to be the central contribution of Marx and subsequent Marxist scholarship to a philosophy of society and thus the social sciences.

inquire about a historically bounded set of social institutions which both enable and constrain a feasible set of economic relations among individual members of any given community. Rajani Kanth (1992: p. 169), following a critical realist take on the problem of social science, draws out the implications of practicing a form of social science that steers a clear course between the pitfalls of neo-positivist empiricism and neo-Kantian constructivism.

> In this "realist" understanding, the true subject matter of a social science (i.e. a system that investigates real causes and real determinations) is neither the domain of action (or even interaction) nor events; nor behaviors, nor structures, nor systems. For although all these social forms are real enough, they constitute epiphenomena, i.e. that which needs to be explained. *The true subject matter of a social science, rather, is relations and relations between relations; these are the irreducible phenomena, the ultimate object-data phenomena and, therefore are more primary in the causal chain.* Society — an ensemble of these social relations — is the ever present condition and outcome of all these phenomenal forms. Our actions, behaviors, etc., never really create society, *ab initio,* however they do reproduce and transform it, for social practice — based on relations — is nothing other than the continuous production and reproduction (if in transformed ways) of all such conditions of existence. Activity is conscious, of course (how could it be otherwise?), but works its effects quite unconsciously, and often in opposition to intentionality. So practices, and the roles constituting relations within them, form the link between human resolve and social structure, individual and society, serving as the mediating agency between these two orders, bridging the ontological gulf between them. Although its effects are knowable empirically, however, the totality of society can only be grasped *theoretically*. The enterprise of social science is a qualitative one, for the search is for meaning: relations are not susceptible to measurement.

The critical realist perspective on social science practice as outlined by Kanth is unmistakeable in its radical implications. Social science is the study of the social relations which structure the interaction between individuals and between individuals and institutions. A social science practice which contents itself with merely bearing witness, via measurement and or description, to the *consequences* of deeper social mechanisms and processes can only ever at best be superficial. Thus, the hierarchical ontology that is being implied by critical realists demands a radically different orientation to social scientific practice in which the *conditions of possibility* for the *evident effects* (consequences) must be investigated and theorized prior to an analysis and description of the apparent facts. What is more, the dangers of not doing so are legion insofar as a failure to account for generative mechanisms, more often than not, leads beyond misrepresentation through to obfuscation.[39]

As we have seen in the previous two chapters both the NPE and NWPE schools of political economy are perennially plagued by the dangers of social scientific obfuscation — with the theory of the firm on offer by both research programs as an illustrative case in point. Any analysis of the capitalist firm which merely takes capitalism and its generative mechanisms for granted will at best remain a partial account. In what follows, I will make the case that by drawing on tradition of radical political economy (RPE) it is possible to make a rational reconstruction of the political economy of capitalism, one which lays bare the principle generative mechanisms (social relations) of capitalism, and from which a comparative framework for assessing the changing nature of national capitalisms (in their sub and supra national dimensions) can be constructed.

CONTINGENCY AND STABILITY IN THE RADICAL ONTOLOGY

[39] Think of a study which merely contented itself with cataloguing the apparent differences between the genders as registered in labour market surveys and then drew conclusions about the essential differences between men and women. Here the conclusions would clearly be erroneous because the generative structure of those differences (the evident effects in labour market data), namely, patriarchy would be completely unaccounted for and in a real sense naturalized by the study in question.

For whatever the flaws of RPE may be, (and there are several), there is nonetheless a long tradition within RPE of searching for the deeper generative mechanisms which underlie the superficial socio-economic data. RPE, in the context of this dissertation, is short-hand for a family of research programs which share two fundamental philosophical tenets in common: ontological holism and philosophical realism.[40] RPE shares with neo-Weberian institutionalists the notion that social structures are ontologically prior to individuals. Moreover, both schools would broadly agree that society should be understood as being comprised of extra-individual entities that *constrain and enable* the field of options (motivations, choices and possibilities) open to individuals. Hence preferences for radical political economists, unlike within neo-positivist research programs like NPE theory, are understood to be endogenous. However, radicals tend to adhere to a holistic ontology as opposed to the pluralist ontology held by their NPE counterparts. This holism leads radical political economists to view society as a structured (but not closed) social totality/integrity in which the individual parts only have meaning, i.e., they only have substantive content, in relation to other parts and to the whole. That is, the whole cannot be reduced to its individual constituent parts — for example, firms and workers — nor can the individual constituent parts simply be aggregated up to the whole as is the case in neoclassical economics.[41]

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[40] Realism holds that objects exist independently of how they are appropriated in thought. It is not necessary to delve into the differences between the various strands of realism as they do not directly impinge on the argument and exposition being presented in this chapter.

[41] The methodological individualism of NPE implies that all process can be deduced from the basic ontological claim that individuals are pre-constituted by an inherent myopic rationality — rooted self interested optimizing behaviour — and that it is this rationality which explains the behaviour of the whole.

Moreover, unlike the neo-Weberian quasi-holistic ontology, radical political economists tend to hold to a stratified or layered ontology in which the different levels are relationally bound within a hierarchical matrix. This is what scholars such as Andrew Sayer (1992; 2005) and Margaret Archer (1995) refer to as the emergent character of the whole. From Sayer (2005: p. 8):

> The phenomenon of emergence suggests that the world is not merely *differentiated but stratified*...Emergence can be understood as follows...Where the interaction of objects produces changes in the structure, powers and susceptibilities of those objects, it can prompt the development of emergent powers – powers not independently or merely additively possessed by those objects. Where these are discovered, explanation of behaviour attributable to them need not involve a regress to the powers of the constituents on which they depend...In the case of internally-related individuals, such as where individuals relate as landlord and tenant, as specialised producers in a division of labour, or as superior and inferior, so that some of the powers and susceptibilities of the individuals are changed by the relationship, emergent powers arise, such as the development of the institution of rent and the productivity gains of division of labour (emphasis added).

The above quote, outside of providing some definitional clarity, also helps to sharpen the contrast between the holistic ontology of RPE and that of both the pluralist ontology of neo-Weberianism (methodological institutionalism) and the ontological reductivism (methodological individualism) of NPE.[42]

As has already been argued, the neo-Weberian tendency is to argue that extra-individual structures exist but that these entities have separate internal generative logics

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[42] The neoclassical paradigm *reduces* the economic system to a series of idealized functional relations between agents (as for example between the quantity/price demanded by the employer and quantity/price supplied by workers) in order to derive law like regularities essential for closure and stability and thus prediction. In contrast, a holist ontology and its corresponding realist epistemology, however, are primarily concerned with the way in which the character (stability) and fluidity (contingency) of a system is brought about or caused when elements combine to produce a non-reducible novel higher order phenomena.

which remain essentially *autonomous* when set in a dynamic relation with other extra-individual structures. The ontological whole, for neo-Weberian institutionalists, then arises from the *contingent* interaction between these autonomous structures. Alternatively stated, for neo-Weberians, it is not the case that there exists an overarching logic at the level of the system; rather the system, the totality, exists as an amalgamation of the logics of the institutional parts. In short, for neo-Weberians there is not an autonomous or even dominant logic of reproduction at the level of the socio-economic system as a whole.[43]

By way of contrast, in discussing Marx's method, Michael Lebowitz (1992: 52-3) provides a description of the type of holistic ontology at work within Marxian political economy:

> For Marx, a society is a particular complex of interconnected elements, a whole composed of various aspects which *'stand to one another in necessary connection arising out of the nature of the organism'*. And, those elements are differing limits of an organic system, a 'structure of society, in which all relations coexist simultaneously and support one another'. Rather than *'independent, autonomous neighbours' extrinsically or accidentally related, the elements 'all form the members of the totality, distinctions within unity.'*

Lebowitz stresses that within the Marxian tradition the individual elements of the whole are related in a *necessary* and *non-autonomous* way to each other. The idea clearly being that the individual constituent elements (individuals and institutions) exist only as part of a broader system, i.e., the system is both produced by and reproduces the constitutive elements.

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43 In some crucial aspects, therefore, neo-Weberianism apes the methodological individualism of neoclassical economics albeit by substituting institutions in the place of individuals. In the next chapter, I will come back to this point with specific reference to the problems this creates for scholars working within the VOC paradigm when it comes to accounting for the direction of change across the advanced capitalist zone.

Similarly Michel Aglietta's (2000: pp. 12-3) statement helps to clarify the type of ontological holism at work within the early Regulationist paradigm and its relationship to Marxian political economy.

> The attempt to define the regulation of a system in movement [rupture and reproduction] leads to a different conception of the system. It implies the conception of a *hierarchy* in the constitutive relationships of the system, and not merely a functional interdependence...These methodological indications pose the question of the analytical tools needed to establish the concept of the mode of reproduction. For the study of a mode of production will seek to isolate the determinate relationships that are reproduced in and through the social transformation, the changing forms in which these are reproduced, and the reasons why this reproduction is accompanied by ruptures at different points of the social system.

The type of holism which Aglietta is arguing for is fixated on the ontological reality of a dynamic world. Here it is acknowledged that while on one level change is constant, there are, nonetheless, stable hierarchical social relations which provide for relative stability in the reproduction of the system. Further, drawing on the work of Jamie Peck (1996: p. 94), it is possible to track the form that ontological holism takes within the contemporary version of regulation theory in analysing labour markets:

> It is axiomatic for realists that spatial and temporal contexts affect the ways in which causal powers are realized in concrete circumstances. This is especially true of conjunctural structures like the labour market. There can be no pregiven rules dictating how diverse causal forces will be reconciled in a particular empirical context, as the triad of causal processes associated with production, reproduction, and social regulation interact in different ways at different times *and in different places* (italics in original).

Clearly in Peck's almost post-structuralist formula, labour markets are not so much a sub-system or an institution but rather are the concrete (contingent) instantiations of other emergent properties of capitalist societies — production, reproduction, and social regulation.

Broadly speaking, the tradition of RPE shares with critical realists the ontological position that reality is both objectively verifiable and subjectively structured. Those working within the radical tradition would also share with critical realists the notion that reality is a highly variegated integrity (in Lawson's words a "totality"). However, where those working within the RPE have tended to part company with some critical realists and most neo-Weberians is over the question of the integral nature of socio-economic reality. That is to say, RPE has tended to view capitalism as a historically specific (novel) socio-economic system which is dynamic in nature (an inherently open system) and with its essential social relations tending to dominate other socio-economic relations and institutions. It is to the centrality of the social relation between capital and labour that this chapter now turns.

THE CAPITAL-LABOUR RELATION, THE FIRM AND ACCUMULATION

> The capitalist system pre-supposes the complete separation of the labourers from all property in the means by which they can realize their labour. As soon as capitalist production is once on its own legs, it not only maintains this separation, but reproduces it on a continually extending scale. The process, therefore, that clears the way for the capitalist system, can be none other than the process which takes away from the labourer the possession of his means of production; a process that transforms, on the one hand, the social means of subsistence and of production into capital, on the other, the immediate producers into wage-labourers.
>
> Karl Marx, *Capital I*, Ch. 26.

In order to analyse neoliberalism as a broader phenomena than merely the ideal typical policy paradigm of Anglo American countries it is necessary to develop a comparative framework of analysis which places the evolving nature of the economic and political bargaining power of the relevant actors at the forefront of the analysis. Unlike NPE and NWPE which have tended to characterize (if they do at all) capitalism by the degree of the extensification of markets (more verses less), the RPE tradition starts from an investigation of higher level (more determinate) social property relations which give any *type* of market society (mode of production) its substantive content. From a radical perspective for example, it is possible and necessary to distinguish between different types of market societies (in the classic terminology modes of production — slave, feudal, mercantile, tributary, etc., and capitalist). Within this framework, and *contra* NPE and NWPE, *the extent of markets is neither the primary focus nor the litmus test for discerning one economic system from another.*[44] Rather, it is the social logic regulating the rules of socio-economic reproduction which structure the primary relationships between different actors that differentiate classes of socio-economic agents from one another, and thus delineates the boundaries between different types of economic systems or modes of production.

It is true, of course, that any range of important but non-crucial socio-economic distinctions can be made within a given market system. The distinction between consumers and producers, or between those who produce goods and those who produce services, are two common socio-economic distinctions drawn in conventional analyses. The conceptual limitation with the former is that all producers are consumers but not all

[44] The extent of markets may be of interest in so far as it can reveal the degree to which any given economic system has developed and the spatial extent to which different markets have become interconnected. The word market in this sense is entirely abstract. For example it is possible to speak of 19th century sugar markets which in fact articulated slave, mercantilist and capitalist modes of production. And it is precisely this complexity which demands a non-flat ontology.

consumers are producers. The limitation with the latter is that it creates a rather arbitrary distinction within a much broader and complex social division of labour. Moreover, neither distinction furnishes us with any substantive socio-historical information. Put differently, both distinctions can be employed irrespective of the epoch and type of mode of production being investigated. Consider, for example, that classical Rome had both producers and consumers. Slaves both produced and consumed, and some slaves rendered accounting services to their citizen masters while others tilled the soil.[45] For the purposes of comparative political economy, what is more interesting and germane would be an assessment of the rules of socio-economic reproduction which governed the relationship between the slaves and their citizen masters and thus the social relations which underwrote the political economy of the Roman Empire. While it is useful to draw comparisons between different epochs, cultures, and the organization of their economic life it is necessary to specify the nature of the relationships between socio-economic classes within any given socio-economic formation in order to develop a substantive understanding of the things being compared. It is for this reason that radical political economists have, almost uniquely, stressed the importance of making a careful analysis of the different manner in which socio-economic classes are relationally bound to one another: each class being the precedent and the antecedent of the other. These are *essential social relations*: (a) in the sense that they determine the integral quality of a given socio-economic system; (b) they are the irreducible objects of analysis; and thus

[45] For a careful treatment of this subject see Robert Brenner (1976; 1982).

(c), they are the fundamental analytical point of departure for rigorous research in political economy.

In radical ontology, particularly the Marxist variant, human nature is not fixed in any ahistorical or essentialist sense. Rather it is transitive and malleable with the only intransitive dimension resting in and through the capacity of human beings to engage creatively with, and alter, their exterior world.[46] For Marxist scholars, the proposition has tended to be that understanding the dynamics by which human beings order their relations with each other and with their external environment is the key to a rigorous social science practice precisely because it is *social.* Within capitalist societies, it is a further presumption that the animating characteristics of capitalism — capitalist rules of reproduction — are the dominant generative mechanisms from which other emergent properties of the system flow. It follows, then, that a description of capitalism and its generative social mechanisms is logically prior to inquiring about the nature of lower level (in the sense of apparent) phenomena like interest rates, the capitalist firm, national varieties, and public policy paradigms.[47]

Unlike both the NPE and NWPE schools of political economy which start from exchange relations, as between buyers and sellers, the radical analysis starts with production relations, as between the immediate producers (workers) and the appropriators (those that organize the appropriation — managers — and the owners of the firms capital

[46] This is not to say, however, that human beings and the societies to which they belong (and reproduce) are inexplicable. Rather, human beings and their societies must be explained without recourse to naturalist or essentialist types of arguments: in short, social science is a science because it is *social.*

[47] It goes without saying that such a procedure also provides a strong rationale upon which capitalist countries can be studied and compared: they are all capitalist which share in common fundamental social generative mechanisms even if they diverge at the level of appearance.

— capitalists). In capitalism, the capital labour relation is the primary social nexus — and the historical *differentia specifica* — which makes possible[48] the (re)production of capitalism as an economic system. The origins of capitalism are thus intimately tied to the socio-historical process whereby the direct producers become alienated from the means of their subsistence. As Marx (1959: p. 714) notes, it is "a process that transforms, on the one hand, the social means of subsistence and of production into capital, on the other, the immediate producers into wage labourers. The so-called primitive accumulation, therefore, is nothing else than the historical process of divorcing the producer from the means of production". And as Robert Brenner (1977: p. 104) has usefully demonstrated, the processes through which the direct producers became separated from the means of production was a protracted socio-political process that had its origins in the balance of class forces that obtained in rural England during the early modern period.

> From this viewpoint, the origins of capitalist economic development, as it first occurred in England, are to be found in the specific historical processes by which, on the one hand, serfdom was dissolved (thus precluding forceful squeezing as the normal form of surplus extraction) and, on the other, peasant property was short-circuited or undermined (thus opening the way for the accumulation of land, labour and the means of production). Clearly, this two-sided development is inexplicable as the result of ruling class policy or ruling class intention, but was the outcome of processes of class formation, rooted in class conflict.

The contrast between this account and the one offered up by NPE and NWPE is quite stark. In the radical research program the origins of capitalism are ultimately sought in the changing social property relations that alter the relationship between the producing

[48] Understood here as a necessary but not a sufficient condition.

classes and the appropriating classes and not as the other traditions would have it in the extensification of markets.

Historically capitalism comes to be the dominant economic system in society once the majority of the population has been transformed into free wage labour.[49] Classically, this is what Marx (1959: Ch. 26) referred to as the "doubly freed" worker: workers are free to (de)contract with whichever employer they choose but they must at some point contract with an employer as they have been "freed" from the access to the means of their subsistence.[50] The basic social dynamics which characterize the capital labour relation are both hierarchical and coercive. It is hierarchical because, as a class, capital has exclusive control over the access to and the direction of those means of production. It is coercive because it is the means of production which workers must access in order to survive. That is, not only does capital retain a monopoly over the means of production but as with all forms of private property they also retain the right to direct the use and enjoyment of that property. The corollary of which is that workers both must contract with capital *and* take direction from capital during the labour process. The basic capital

[49] Unlike in the institutionalist account where development is equated with the spread of 'modern' value orientations and the creation of rational bureaucratic political institutions, in the Marxist account capitalist development is understood as the process through which private property relations displace other social property relations as the dominant mode of production and appropriation. Moreover, it is these relations that establish the basis for the reproduction of capitalism through time. Capitalism, in this account, is not identified by commodity production and the expansion of exchange relations, although these are necessary conditions for the development of capitalism, but, rather, by the evolution of a historically novel set of social relations that sustain capitalism as a more or less self-reproducing *mode of production*. That is to say, capitalism is historically contingent on the reproduction of a historically bound set of social-property relations which are not, as in the liberal view, a product of the innate desire to truck, barter, and trade. The extent of the free labour market is thus the only sense in which the extent of markets defines capitalism.

[50] While primitive accumulation has by and large taken its course in advanced capitalist countries, it is very much an active and hotly contested process in developing countries with a direct consequence being that primitive accumulation is very much an aspect of globalization and the contemporary world market. As an economic development paradigm neoliberalism is very much about the conversion of peasants into workers via the privatization of land and natural resources.

labour relation thus provides at once both a historically more accurate and theoretically more robust explanation for the origins of the capitalist firm and modern management than the theories reviewed in the previous two chapters.

Recall that in the theories of the firm reviewed in Chapters 2 and 3, capitalist labour markets and the management of the relationship between capital and labour are merely assumed and never explained. That is, these theories are essentially managerial accounts of the firm. For example, in the Coasian conjecture, the firm is explained by the fact that contracting in the market is not costless. The firm arises on this account because it is essentially an institution which can economize on transaction costs by bringing those transactions inside the firm and thus mitigating their costs. Management and thus the firm is the cost of minimizing on transaction costs. But why does the labour process need to be directed and managed in the first place? Once it is recognized that workers must first be separated from their means of (re)production and then be recomposed as a class of factor owners (understood as a socio-historical processes) who only have their labour power to sell, only then does the need for 'modern' supervisory management arise. Following an extensive discussion on the origins of management and its relationship to capitalism, Harry Braverman (1974: pp. 67-9) concluded that:

> As capitalism creates a society in which no one is presumed to consult anything but his self-interest, and as the employment contract between parties sharing nothing but the inability to avoid each other becomes prevalent, management becomes a more perfected and subtle instrument. Tradition, sentiment, and pride in workmanship play an ever weaker and more erratic role, and are regarded on both sides as manifestations of a better nature which it would be folly to accommodate...

> It was not that the new arrangement [management] was "modern," or "large," or "urban" which created the new situation, but rather the new social relations which now frame the production process, and the antagonism between those who carry on the process and those for whose benefit it is carried on, those who manage and those who execute, those who undertake to extract from this labor power the maximum advantage for the capitalist.

Hence the issue of wage labour is not just that labour is deprived of its means of reproduction but by the very same process thereby deprived of their ability *to decide what and how* to produce. Contracting labour thus becomes the problem not just of finding workers on the labour market but also of their control, direction and supervision once contracted. Only within radical political economy is it possible to clearly explain why modern management is such a persistent feature of the firm without reducing the firm in a functionalist fashion to its managerial direction.

The present discussion can be extended further by asking the naïve question: to what end do managers manage? In the Coasian conjecture, it is as though the firm exists merely as a managerial entity to economize on transaction costs. But how does the firm come about? We are initially asked to conceive of a strictly neoclassical world with infinitesimally small productive units each carrying out small tasks within the economy. Then we are asked to imagine that at some point in time a group of entrepreneurs *cum* would-be managers realize that if a number of these small operations were brought under one roof, they could minimize on market transaction costs and net the implied surplus. This, of course, cannot explain why the independent producers would agree to be brought under one roof. This is not a very compelling theory of one of the hallmarks of capitalism; namely, firms generating persistent profits over and above managerial compensation.

As we have seen, in assessments of Coase (e.g. Alchian and Demsetz, 1972), the problem of what entices the independent producers to come under one roof and submit to managerial control is the offer of compensation which is greater than any one factor could produce on its own with management holding the right to any residual surplus above and beyond payments to the individual factors. While moderately compelling, this story of the firm is flawed on three grounds. First, it does not explain the distribution of factors between different classes of economic actors (see below). Second, it raises the question as to why independent producers do not form into cooperatives and engage in factor self-management and appropriate the entire surplus. Third, nor equally, does it provide an indication of where future gains will arise (again see below for an elaboration on this point). They, however, do posit the firm as a profit center which originates in the potential surplus that arises from cooperatively combining the factors of production. Management and the firm on the account given by Alchian and Demsetz (p. 777) is the result of the possibility of realizing the gains from cooperative production.

> The mark of a capitalistic society is that resources are owned and allocated by such non-governmental organizations as firms, households, and markets. Resource owners increase productivity through cooperative specialization and this leads to the demand for economic organizations which facilitate cooperation.

Irrespective of the explicit functionalism involved here, there is a least the nod to the idea that profits are linked to something beyond the coupon clipping account found in Coase. According to Alchian and Demsetz, the problem is that without managers it is not clear who has a claim to that surplus. By giving managers a claim to that surplus (in part) each factor is made better off because the supervisors ensure that shirking does not take place on the part of the various factor owners. Supervision and hence management is, on this reading, an aspect of any type of cooperative endeavour in which each factor is made better off then they would be producing alone. How can such a view be squared with the Marxian capital-labour relation account of the firm?

The short answer is that it cannot: the basic sociological premise of the Marxian position is that the sale of labour-power is not a voluntary act. Neither, therefore, is the submission on the part of workers to the supervision and direction of the labour process by the agents of capitalists a voluntary act. Workers' alienation from the labour process, according to the Marxian position, thus demands that capital employ supervisors to monitor shirking and *maintain control* over the labour process. These two managerial functions, when viewed from outside the capital-labour relation, are necessarily superfluous and inefficient. The various neo-institutionalist cum neoclassical accounts of the firm skirt this problem by first assuming the separation of individual factors and then asserting that shirking is a natural propensity which would arise in any type of cooperative endeavour and thus under any given set of socio-economic relations or mode of production. At root in the various neoclassical accounts of the firm is what Bowles (1985: p. 32) has identified as an essentialist and neo-Hobbesian account of human nature. To quote Bowles at length:

> Are the command relations of the firm a rational solution to the problem of the coordination of individual and group rationality? Or are they, in some sense, a market failure attributable to the successful

> pursuit of the interests of those who command the firm? This is the central issue dividing the neo-Hobbesian from the Marxian analysis.
>
> Coase, basing his concept of the firm on the notion that command relations supersede market relations when the transactions costs of markets exceed the analogous costs of command and nonmarket coordination, initiated a literature which affirmed the efficiency of the hierarchical structure of the firm. Because malfeasance is no more than an expression of the natural self-interestedness of human beings, the cost of policing malfeasance cannot be considered evidence of a failure of markets. The logic of this position can be illustrated within the terms of the Marxian model.
>
> Let us make the (neo-Hobbesian) assumption that the labor extraction function is given by human nature. People's attitude towards work — broadly, the disutility of labor — is unrelated to the social institutions that govern the process of work. In this case, the extraction function must be considered to be exogenous, not only to the firm but to the society as a whole. Hence the various employer strategies and their results must be considered to be little more than a consequence of the (possibly lamentable but ineradicable) human tendency to avoid work.
>
> A society might nonetheless choose to discourage discrimination, to minimize involuntary unemployment, or to discourage the use of surveillance equipment or personnel, but they would do so only at the cost of choosing to permit a higher level of what the neo-Hobbesian literature terms free riding or shirking, and consequently a lower average level of output per hour of labor. But the assumptions required to sustain the neo-Hobbesian view are exceptionally restrictive and implausible.

These assumptions are implausible for several reasons. First, as has already been indicated in all of the neoclassical models the separation of society into classes of factor owners is merely asserted and further assumed to prevail under any given set of socio-economic relations. This is more than an innocent assumption: it is a substitution of the reality and history of capitalist social relations for the reality and history of humanity *en toto*. Second, as Bowles (p. 33) points out, all that needs to be shown is that *labour effort* is not an exogenously given function, but, rather is endogenously related to workers' perception of fairness and bargaining capacity. Indeed there is a vast industrial relations literature which demonstrates this to be the general and not the exceptional case (what, indeed, is the *raison d'etre* of human resource management?). As such, the supposition that the degree of third party supervision and surveillance utilized within the capitalist firm represents an existentially given (technically determined efficient level) rather than a socially and historically determined level is rather difficult to sustain. As Bowles sums (p. 34):

> The neo-Hobbesian's normative position thus seems dubious on two grounds: the discrepancy between profitability and efficiency, and the endogeneity of the labor extraction function. If the social nature of the labor extraction function is conceded and, further, if the feasibility of forms of social structure and work organization conducive of lower levels of work resistance or higher levels of work motivation is accepted, or, if the possible nonoptimality of the competitively determined profit rate is admitted, the command relationships within the firm and the associated patterns of involuntary unemployment, technical choice, and discrimination must be viewed as market failures rather than simply as unavoidable transactions costs.

If, as has been presented, the capital-labour relation presupposes the historical separation of the immediate producers from their means of production/subsistence and the monopolization of the means of production by capitalists as a class, not much has yet been said about the objectives of the capitalist firm and its managers outside of directing and supervising labour — accumulation.

The Marxian model of accumulation starts with the rather obvious, yet necessary, observation that from the point of view of the owners of capital — capitalists — the production of goods and services is not carried-out for its own sake. Rather it is done for the realization of a profit above and beyond the initial capital outlaid for raw materials, machinery, wages and managerial salaries. The first thing that needs mention is that from this point of view, the compensation of management is a cost of capitalist production and not its satisfaction.[51] Schematically, the Marxian model is formally rendered as follows:

$$M \rightarrow C \ldots P \ldots C' \rightarrow M'$$

Where M is a given sum of money which advanced to purchase (C) labour power and the materials and depreciation (means of production) which are then combined in a production process (P) in order to produce a new mass of commodities (C') which has a greater potential exchange value then represented by C and which *may* realize a return of the original capital advanced plus a profit (M'). Some brief remarks about this highly abstract rendering of the capitalist process of accumulation are warranted. First, while highly abstract the model captures what is popularly understood as the objective of any capitalist enterprise: namely, a profit on enterprise which cannot be reduced to managerial compensation or interest payments. Second, the model is dynamic: it is clear that historical time enters into the model in the separation between each moment in the circuit. Thus, unlike the timeless quality of formal neoclassical production functions, the Marxian circuit of capital makes evident the crucial role that time plays in capitalist processes of production.[52] Third, the separation between the moments in the circuit

[51] This is an important point in the sense that within the neoclassical and neo-institutionalists paradigm it is though the firm exits for managers. For an expanded conversation on the profit maximizing role that management plays in capitalist enterprises see Dumenil and Levy (2004a; 2004b; 2011). The basic distinction they make is between surplus producing labour and surplus maximizing labour, with management and clerical staff performing the latter. This is a useful distinction insofar as it directs attention to pivotal role management plays in ensuring the maximum work-effort by the labour force. I will come back to this point below.

[52] See David Harvey (2006) for a useful discussion on time as a barrier to capitalist accumulation in particular with respect to the turnover time of capital. As the stock of capital also implies a flow of capital

represents not only a separation in time but a *transformation in the form the capital of the firm takes*. All the transformations: from M to C, the combination of variable capital (labour) and means of production in a production process (P), to produce an augmented quantity (or quality) of commodities (C'), which embody a value superior to the initial outlay, and then the further transformation back into money capital (M'), must be carefully metered and monitored by managers (in all spheres of the economy from the shop floor to the centers of finance) in order for the circuit to be viewed as a success from the point of view of the owners of capital. Hence, this abstract rendering of capitalism (and the capitalist enterprise) represents a complex consideration of the actual processes and exigencies of capitalist production and reproduction.

With an eye firmly fixed on the uncertainty capitalists face when advancing their initial capital in the hopes of realizing a surplus one is immediately given a more solid understanding of why, for example, the firm and its mangers find themselves pre-occupied with the problem of *ex-post* change which so preoccupies the Williamsonian and VoC characterization of the firm. Moreover, within the Marxian framework both *ex post and ex ante* change is understood *as a necessity* and not simply in the existential sense that Williamsonian tradition would have it. Rather, the capital of the capitalist firm *must undergo a series of radical transformations in order to realize a profit.* That is to say, capitalism requires the constant management of expected change plus the mitigation of unforeseen changes. Both the micro and macroeconomic accumulation strategies of

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from the surplus value realized this implies that the faster a firm can turnover its capital the greater will be the rate of accumulation. This, too, has implications for analyzing economic policy paradigms of which more will be said below.

capitalists — including under a regime of neoliberalism — can thus in part be evaluated as an attempt by capital to exploit and confront the necessity of change and the opportunities that presents for the realization of a profit

As Edward J. Nell (1980: p. 495) stresses:

> A firm's capital is what makes it what it is. *"The firm" is the institutional form a particular capital takes.* Its permanent existence is not as a set of capital goods, but as a fund of capital, embodied from time to time in capital goods, such as plant, equipment, and inventories. *But capital remains while capital goods are used up, and inventories are converted to output and sold off.* All of which is another way of saying that the activity of a firm is making a profit in the turnover of its capital (emphasis added).

The essence, then, of the firm is the capital embodied therein. Further, the essence of that capital is its continual transformation in quality in order that its quantity may be continually expanded. Closely affiliated with this definition of the firm is the idea that the faster the firm can turnover (transform) its capital the greater will be the pace of accumulation. For the owners of capital this implies, among other things, a more rapacious appetite for the capital of the firm to undergo its time and form dependent transformations, i.e., to traverse the circuit of capital: M—C...P...C'—M'. Clearly the faster the inputs (raw materials and machinery) can be combined in a production process by labour and transformed into a new set of outputs (C...P...C') the faster the firm will be able to turnover its capital and realize a profit and thus increase its rate of accumulation. The efficient use of work-time is thus directly related to the firm's profit rate not just in absolute but also in relative terms.

Defining the firm and its relationship to capital does not as such provide a definition of capital. The question over the appropriate definition of capital which has so long bedevilled (and continues to) neoclassical economics, as instanced in the as yet unresolved 'capital controversy',[53] can only be answered once it is comprehended that capital is in fact a social relation: *not* in its essence a quantitative phenomena but rather a qualitative phenomena — its quantity being only its monetized and fetishized form. Theoretically this is indicated by the repeated attempts by neoclassical economists to redefine capital in an internally consistent manner only to arrive back in the same intellectual cul-de-sac. After an extensive critique of the internal inconsistencies between attempts by neoclassical economists to theoretically define both the firm and capital, Nell (pp. 507-8) surmises that:

> ...each of the two principal versions of neoclassicism has its characteristic defect, namely the absence from it of the concept of capital that defines the other. Each is therefore fatally one-sided, and represents a failure to live up to Clark's original vision. But the two versions share a further flaw: neither can offer an adequate theory of the firm, for neither is able to integrate the theory of the firm—in which supply price is based on costs—with the theory of distribution, in which costs reappear in the guise of factor incomes. But the doctrine of prices as signals of efficient allocation requires that costs represent relative scarcities, which means that no factor incomes can be pure residuals—all must be determined by supply and demand. This causes the theory of the firm to break down, since rising supply prices cannot be explained. Nor can an adequate account be given of the relation

[53] See Avi J. Cohen and G. C. Harcourt (2003) and Edwin Burmeister (2000) for a review of the issues involved for neoclassical theory. See, in particular, Alan Kirman (1992) for an indication of the way the representative agent and rational expectations skirts the problem in orthodox macroeconomic theory. The aggregation problem arises when attempting to aggregate heterogeneous capital goods. Similar problems arise when trying to aggregate heterogeneous individual preferences. The representative agent side-steps this problem by assuming one set of preferences for the whole economy — a very odd form of fidelity to the micro-foundations of macroeconomic analysis. However, the issues involved here are more than mere aggregation problems and theoretical legerdemain. As argued here, the problem is more fundamental: capital is not a thing, it is a social relation. In this sense, the capital controversy is a rather *scholastic* problem which is related to the internal consistency of what is at base a fundamentally flawed ontological understanding of capital and the methodologically bankrupt analytical apparatus of general equilibrium. While the former error remains, the latter has been put to the side in favour of partial equilibrium models (which is precisely what is required so as not to address the former). See Christopher Bliss (2005) for a contorted defence of orthodox capital theory.

> between capital funds and capital goods. The result is a complex, three-way incompatibility: neoclassical theory cannot simultaneously encompass a full-bodied concept of capital (funds and goods successively), a concept of the firm in which its position defines the nature of the market, and a theory of distribution determined by supply and demand in factor markets.
>
> The central doctrine of neoclassicism—that competitive markets tend to bring about an "efficient allocation of scarce resources"—is therefore fundamentally suspect, *and the way is open to treat capital, not as a "scarce factor" but as a social relationship whose institutional form in the modern world is the corporation, which is maintained and reproduced by economic activity*. For many contemporary economists, this marks a welcome scientific advance, a triumph of reason over ideology (emphasis added).

Whether or not we are here dealing with merely the ideological remains a case to be made. Nonetheless, what Nell efficiently outlines in his argument is the degree to which attempts to define capital and its institutional form, the firm, in some quantitative or existential form (as an institution for managing *ex post facto* change as within the VoC paradigm for example) are futile. For what is required is that capital and its relationship to the firm be reduced to its most constitutive form, which is the crystallisation of a set of social relations between those who possess capital (owners), those who manage and oversee the transformation of that capital (managers), and those that perform the labour which transforms and thereby augments the initial capital invested (in the Marxian lexicon, productive or surplus value producing workers).

CONCLUSION

To speak, therefore, of CMEs and LMEs is, at best, to register the difference between the capacities of socio-economic actors to share-out the various risks and rewards inherent in the processes of capitalist accumulation and which are endemic to the capital-labour relation.[54] These differences may not be trivial so long as the subordinate actors are not merely reduced to facilitating the process of capitalist accumulation but rather retain or gain the capacity to negotiate over the distribution of the surplus that arises from production. The key difference between CMEs and LMEs, then, is not to be found in the type of relationships which characterize the linkages between firms, but rather in the relative bargaining power (and the form that takes) of the relevant economic actors: owners, managers and workers. It is from an appreciation of this perspective that this dissertation will analyse neoliberalism. The central thesis of this dissertation is that neoliberalism is an accumulation strategy, an ideology and a public policy paradigm that is about diminishing the collective capacity of workers to negotiate credibly over the distribution of the surplus at either the level of the enterprise (through unions for example) or through more ambitious collective action at the level of macroeconomic policy (via a democratically determined industrial policy).

[54] The fact that CMEs have developed a whole barrage of institutional arrangements to build trust and arrive at practicable compromises between the significant actors indicates just how essential conflict is to the capital-labour relation.

Part II

CHAPTER 5: THE INSTITUTIONALISATION OF NEOLIBERALISM

> Now, if man-made institutions intervene in these matters to nullify divine law, evil nonetheless follows upon error, but it falls upon the wrong person. It strikes him whom it should not strike; it no longer serves as a warning or a lesson; it is no longer self-limiting; it is no longer destroyed by its own action; it persists, it grows worse...Now, this is exactly the tendency not only of most of our governmental institutions but also and to an even greater degree of those institutions that are designed to serve as remedies for the evils that afflict us. Under the philanthropic pretext of fostering among men an artificial kind of solidarity, the individual's sense of responsibility becomes more and more apathetic and ineffectual. Through improper use of the public apparatus of law enforcement, the relation between labor and wages is impaired, the operation of the laws of industry and exchange is disturbed, the natural development of education is distorted, capital and manpower are misdirected, minds are warped, absurd demands are inflamed, wild hopes are dangled before men's eyes, unheard of quantities of human energy are wasted, centers of population are relocated, experience itself is made ineffective...
>
> Frederick Bastiat, *Economic Harmonies* (1996: pp. 61- 62)

> Unless this complex society is to be destroyed, the only alternative to submission to the impersonal and seemingly irrational forces of the market is submission to an equally uncontrollable and therefore arbitrary power of other men (sic). In his anxiety to escape the irksome restraints which he now feels, man does not realize that the new authoritarian restraints which will have to be deliberately imposed in their stead will be even more painful.
>
> F. A. Hayek, *The Road Serfdom* (1944: p. 224)

From J.B. Say and Frederick Bastiat through to its modern instantiation in the Chicago school and new Classical economics, a persistent feature of liberalism in its apologist form (recall Figure 1.1) has been the near paranoid fear that collective action which seeks to ameliorate the outcomes produced by capitalism will cause a greater tyranny than that generated by the "impersonal and seemingly irrational forces of the market."[55] The traditional policy stance of the apologetic strain of liberalism has been decidedly negative in that it sought the limitation of collective intervention, whether by the liberal democratic state or by trade unions, into private markets. The central thesis of this chapter is that in order to properly understand neoliberalism it is necessary to appreciate the transformation of apologetic liberalism into a positive paradigm in which public institutions are not viewed necessarily as existential threats, but rather, as opportunities for the behavioural restructuring of individual incentives and rationality.

Until this point in the dissertation I have employed the term neoclassical political economy (NPE) as an umbrella term for what is in fact a plurality of currents within liberal economic theory. In this chapter I make a distinction between new classical economics and neoclassical institutionalism (NI). I argue it is the amalgam of these two currents which account for the hard theoretical core of neoliberalism. The first section of this chapter provides an overview of the development of neoliberalism as it took shape in the reaction to what liberal apologists viewed as the conceit of postwar reform liberals and social democrats. The second section outlines the basic new classical ontology of

[55] The liberal apologetic tradition corresponds to what Marx called 'vulgar political economy' and to which Keynes perpetuated solipsism by calling 'classical political economy'. The quote here is from the Hayek quote that opens the chapter.

capitalism and the central role perfect competition plays in formalizing this ontology. 'Ontology' here is used to indicate that the basic neoclassical model operates as both a technical analytical apparatus and a heuristic or ideal-typical representation of what its proponents view as the underlying mechanics and relationships which regulate capitalist economies. The third section of this chapter reviews the key modifications and contributions that NI made to the neoclassical research program. I argue that NI scholars played a key role in transforming the initial new classical reaction from merely a negative policy paradigm (that is one that emphasized state failure) into a positive neoliberal policy paradigm in which a qualitative restructuring of state institutions could be designed. The fourth section sets out the neoclassical synthesis (Mark II, see Figure 1.1) which presently underwrites what some scholars have come to call the 'new monetary consensus', that is, central bank independence, inflation targeting, and floating exchange rates.

THE IDEOLOGICAL REACTION: EARLY NEOLIBERAL FORMULATIONS

Neoliberalism, as an ideology, needs to be located within the broader movements and debates within liberalism and rival ideological currents of the 19th and 20th century. One of the central ontological debates within liberalism, from Adam Smith (and indeed John Locke) onwards, has been the extent to which the myopic self-interest of propertied individuals will generate positive externalities that exceed the social costs of private gain.[56] On this reading, the origins of neoliberalism can be located in a reaction to the

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[56] For a review of the debates on laissez faire at the beginning of the twentieth century see Stephen Leacock (1998) and Keynes (2004).

ascendancy of reform liberalism to a position of dominance in the postwar order.[57] Milton and Rose Friedman (1962) provide a useful summary of the reaction to reform liberalism as it began to take shape in the 1940s:

> The nineteenth-century experience highlighted the advantages of the invisible hand — and also the economic, social, and political problems to which it gave rise. The twentieth-century experience has highlighted the advantages of the paternal state — and also the economic, social, and political problems to which it gave rise.[58]

The Friedmans' fixation on identifying the limits to the "paternal state" and the "economic, social, and political problems to which it gave rise" provides a straightforward description of the original neoliberal project which although telling is not framed as the perfection of capitalist markets, but, as the imperfection of collective attempts to remedy those defects. That said, I should put some water in my wine. In the early days of the Chicago school there was, at least by one of its central protagonist, Henry Simons, tacit recognition that the project of neoliberalism was not a renouncement of the state *per se*, rather it rested in defining the qualitative boundaries of state

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[57] Following C.B. Macpherson (1962; 1977; 1979), it is possible to see the origins of what I have called here reform liberalism in the transition from pre-democratic liberal theory, *e.g.* John Locke, to liberal democratic theory, *e.g.* John Stuart Mill. The distinction drawn by Macpherson between the two epochs of liberal theory and practice is located in the claim by thinkers like Mill that capitalism exists to augment human beings developmental power and not just as Bentham had it, i.e., to serve the drive of propertied individuals to augment their extractive power. In this sense, Keynes can be located squarely in the tradition of reform liberalism (what Macpherson calls liberal democratic theory). The depression, the subsequent mobilization for war, and the massive destruction that followed in train coupled with intense ideological competition gave reformers the decisive upper hand vis-à-vis their more conservative classical liberal counterparts. I would argue it is in this context that the comments by Friedman and Hayek need to be placed.

[58] The above quote can be usefully compared with the statement from F.A. Hayek quoted in the introduction to this chapter.

intervention (Philip Mirowski, 2009; Bradford DeLong, 1990). As Simons (1948: p. 42) argued:

> The representation of laissez-faire as a merely do-nothing policy is unfortunate and misleading. It is an obvious responsibility of the state under this policy to maintain the kind of legal and institutional framework within which competition can function effectively as an agency of control. The policy, therefore, should be defined positively, as one under which the state seeks to establish and maintain such conditions that it may avoid the necessity of regulating "the heart of the contract" — that is to say, the necessity of regulating relative prices. Thus, the state is charged, under this "division of labor," with heavy responsibilities and large "control" functions...(as quoted in DeLong: p. 606).

Thus, from the very start, nascent neoliberals understood the need to develop a positive policy paradigm, an interventionist program, which nonetheless rested squarely on classical liberal foundations.

The protagonists of neoliberalism have been and are more united in their rejection of the reformist conceit that capitalist markets are characterized by coordination failures that the state can and or should remedy through appropriate fiscal policy and social legislation, than they are to any particular analytical modelling technique or mode of analysis. For example, Hayek who was one of the first to lead the charge against Keynes' *General Theory*, and who was a central figure in the establishment of the Chicago school (Mirowski, 2009), eschewed formal mathematical models relying instead on a more conjectural, substantive analysis whereas Friedman and his new classical brethren were and are firmly rooted within abstract modes of formal mathematical modelling and equilibrium analysis.[59]

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[59] The Austrian school of political economy, of which Hayek is a central figure, is generally hostile to both mathematical modelling and to the whole apparatus of general equilibrium analysis. For Hayek and his

Yet as a policy paradigm, the origins of neoliberal hegemony must be located within the crisis of advanced capitalist management during the 1970s in which the Keynesian macroeconomic paradigm (and reform liberalism) came unhinged in the face of economic and political turmoil wrought by stagflation. Despite the *political* affinity of Austrian and new classical strains of economics, neoliberal policy formulation has squarely rested on new classical modes of economic analysis and its associated research projects. As such, this section begins with presentation of the basic new classical model and then proceeds to review the core modifications and developments within the new classical research program that have shaped the neoliberal policy paradigm with particular respect to labour markets.

THE ONTOLOGICAL MODEL: PERFECT COMPETITION

Partially the development of the new classical, and the larger neoclassical family, of analytical apparatus should be viewed as an attempt to render and reconcile the precepts of liberal political theory into a formal and logically consistent weltanschauung. While I cannot possibly hope to give an adequate intellectual history of the development of this here, it is nonetheless worth pointing out that when one makes a cursory survey of the development of neoclassical theory one cannot help but notice that two central political propositions have been front and centre. First, there is the attempt to formalize the

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followers, the dynamics of capitalism are provided by the disequilibria of markets. Where Austrians like Hayek find common ground with their neoclassical brethren is in the political defence of capitalism. Indeed, in some respects, Austrian liberals are to be preferred to their neoclassical brethren if only because they allow that the scientific analysis of any economic system must include some concept of power and ambiguity. That is, Austrians defend the inegalitarian distribution of power in capitalist societies whereas their new classical counterparts deny its existence. As is illustrated below, the whole apparatus of perfect competition is designed such that none of the actors have the capacity to exercise power over their rivals.

contention that the transfer of surplus value from a subordinate class to a dominant class does not characterize capitalism—hence marginal productivity theory. And second, that the ultimate end of capitalism is the development of human creative capacity which is subsumed by neoclassicals under the general heading of consumption in the face of relative scarcity. The subsumption of the development of human creative capacity by the ontological proposition that the essence of human existence is a ceaseless libidinal drive to consume is, as Macpherson (1967a; 1967b) rightly pointed out, where the contradiction at the heart of liberal democratic theory is located. That is, the development of an individual's creative capacity is not the same as the drive to satiate unlimited desire through the consumption of commodities. Thus at the very least it needs to be pointed out that the neoclassical apparatus, in an attempt to finesse the promise and ultimately the contradiction that lay at the heart of reform liberalism; namely, that the market was merely an efficient mechanism to facilitate the maximum development of an individual's creative capacity, was collapsed by neoclassicals into the proposition that the market is the means and the end. The level of consumption, and by extension, the extensification in the commodification of goods and services (range of choice) then becomes the empirical measure by which the development of human capacities is measured. The result of which is that the concept of human developmental capacity like power is banished from consideration.

As has already been illustrated, the core of neoclassical theory rests on a combination of a series of idealized conceptualizations about the behaviour of individuals, firms and private markets. These core behavioural postulates are derived such that in a perfectly competitive market system, all markets clear at exactly the point where all factors of production — labour and capital — are fully employed and each factor is paid its marginal contribution to production. Thus, in a *perfectly competitive* setting, prices are said to convey all of the necessary, market clearing, information to individuals and firms.[60]

Surrounding, indeed enabling the core of the neoclassical ontology of capitalism is the concept of perfect competition. Four conditions are required to meet the neoclassical test for perfect competition. First, it is assumed that there are a sufficiently high number of relatively small firms that are incapable of influencing market prices. That is, firms are price-takers whose output behaviour can in no way manipulate the prices of the goods and services they sell. Second, the good or service produced by the firm is homogenous with the goods and services produced by its rivals, that is, markets are not characterized by product diversification. Third, it is assumed that there are no barriers to exit or entry into a given line of production. Fourth, both firms and consumers are perfectly informed about products and their prices (Bamoul et. al., 1991: p. 505). It is well recognized by neoclassicals' that these conditions are rarely satisfied in the 'real world. Rather they argue that over the long term the conditions of perfect competition are approximated well enough to yield robust policy conclusions. As Mark Blaug (1992: p. 157) argues in the defence of the concept of perfect competition:

> Nevertheless, the principle qualitative predictions of that theory are widely employed in applied economics to provide rough-and-ready answers to

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[60] This may seem rather esoteric but the significance of the above observation is fecund when trying to outline what separates neoliberalism from postwar reform liberalism as a *political ideology* and as a *policy paradigm*. It is interesting also in this regard that by 1968, Macpherson had already identified the Friedmans as having developed a significant new strain of liberal theory: namely, neoliberalism.

> questions that cut across the entire of business firms, including firms that are clearly oligopolists. The notion is that, despite the existence of monopoly and oligopoly, the dynamic process of rivalry between giant corporations produces results that approximate the outcome of a perfectly competitive process, so that, lo and behold!, the neoclassical theory...is a useful parable and provides robust conclusions even in situations that violate virtually all the auxiliary assumptions of the theory.

As Blaug makes clear, regardless of actual market structure and its multifarious imperfections it is assumed, within the neoclassical ontology, that markets, firms and consumers nonetheless behave as though the forces of perfect competition exert themselves at a deeper level of causation driving the system to a full employment equilibrium. It is a little odd given the precise mathematical strictures of neoclassical models that such deviations could nonetheless produce such robust policy conclusions. But then how many fairies can really dance on the head of the pin?

Irrespective of the contradictions, the process of policy formulation derived from the neoclassical ontology rests on demonstrating how existing state policy and extra-market institutions inhibit prices from regulating the behaviour of individuals and firms such that private markets produce an economically efficient, self-reproducing social system of regulation. And what is more, given the Blaug defence, policy recommendations can be given without regard to actual market structure! Hence, in a strict sense and at deep level (at the hard core, that is) the neoclassical ontology only permits state/society failure and does not admit market failure because even when the axioms of perfect competition are violated, as Blaug argues, they nonetheless assert themselves through other (unspecified) mechanisms.[61]

An expanded presentation of the evolution in the neoclassical explanation of wages and unemployment is warranted because nowhere can the degree to which the basic model precludes collective action of any sort be better understood than with respect to labour markets. The 'evolution' of the neoclassical theory of distribution — aggregate wage and unemployment levels — can be stylistically represented as the restitution of Pigou's (1933: p. 252)[62] early neoclassical theory of marginal productivity, wages, and unemployment:

> With perfectly free competition among work-people and labour perfectly mobile, the nature of the relationship will be very simple. There will always be at work a strong tendency for wage rates to be so related to demand that everybody is employed. Hence, in stable conditions every one will actually be employed. The implication is that such unemployment as exists at any time is due wholly to the fact that changes in demand conditions are continually taking place and that frictional resistances prevent the appropriate wage adjustment from being made instantaneously.

Two core elements of this model are worth highlighting as they form the backbone of contemporary explanations for unemployment and wage rates. First, implicitly in Pigou's model the typical (normal) state of all markets, including labour markets, is a full employment equilibrium. As such, all instances of less than full employment are

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[61] This is in direct contradistinction to Hall and Soskice.

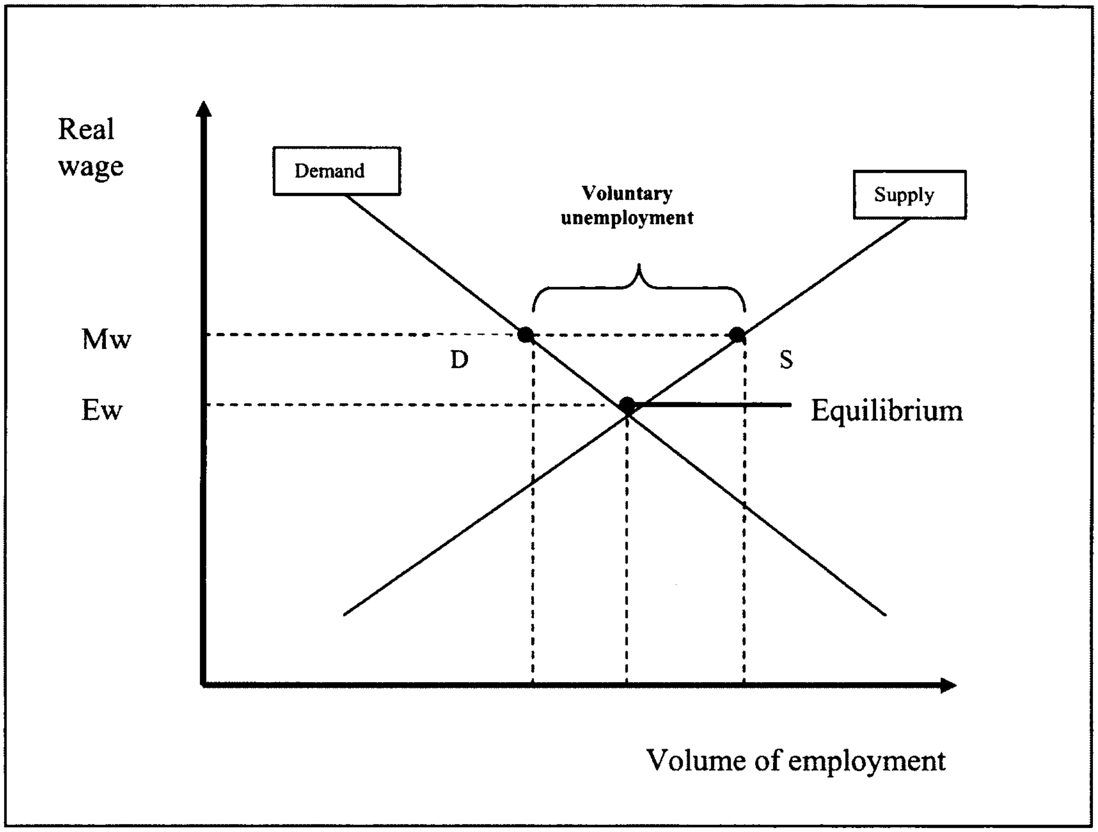
[62] I could have equally utilized any of the Chicago school luminaries such as Henry Simons (1948), George Stigler (1946), Milton Friedman (1951), Gary Becker (1957), to make the point. But given that the Chicago spent a good deal of energy and resources arguing that the economy did in fact resemble the world of Pigou — which Keynes had so savagely attacked — it seems reasonable to start with their object of restoration and affection.

aberrations not typically characteristic of capitalist markets. Second, on this account, the key mechanism impeding a return to full employment lies not in the demand for labour; rather it lies with the failure of the supply price of labour (the real wage level) to adjust to new levels of demand for labour. As we shall see in Chapter 6, this is exactly the argument that Keynes rejected but new Keynesians and the VoC have embraced as wages are said to be downwardly sticky.

In Figure 5.1, the canonical representation of the relationship between wages and employment is presented. Outside of the claim that labour receives the value of its physical marginal product embodied in the real wage, the model purportedly substantiates three further claims.[63] First, taking the demand curve it becomes clear that in order for the volume of employment to expand, workers, individually or collectively, must be willing to accept lower wages. This is necessarily so because firms face diminishing marginal returns, which, in turn ensures that the demand curve for labour is the same as labour's marginal product curve.

[63] In fact what the model does is to *graphically represent* rather than substantially prove a series of claims. Proof would, at the very least, require measurement of both the supply of labour and its physical marginal product at the point of production. And while the former is generally possible the latter is not.

Figure 5.1 Standard NPE model of wages unemployment and collective action



Second, by insisting that the supply schedule of labour is determined by workers' subjective estimation of their preference for leisure over work, the real wage rate is understood as the opportunity cost of work. Simply stated, workers prefer leisure to work and, therefore, wages must increase to induce a further supply of work-time and/or workers. Not only does this ontological claim give the labour supply curve its upward sloping character it more crucially means that movements along the labour demand curve are all of the full employment variety; that is unemployment is equal to leisure. In other words, all unemployment is voluntary.

Third, from the preceding two claims it is further adduced that any collective action which has as its aim to increase job security or the remuneration of labour (such as Mw) will cause a decline in the volume of employment as demand for labour shifts to the left (point D) while supply shifts up and to the right (point S). The gap between D and S is what is understood as voluntary unemployment. Similarly were minimum wage laws or collective agreements to impede a reduction of the real wage, in the face of changing demand variables over the short run, the result would be a decreased volume of employment.[64] The policy message quite clearly being that it is the wage level (holding constant for skills) which determines the volume of employment (and in a solipsistic fashion the unemployment rate). It does not take much effort to get from the above to see how welfare and unemployment programmes are considered to have similar deleterious effects on the supply of labour as both programs raise the reservation wage of workers. Should the reservation wage come near to approximating the equilibrium wage rate (Ew), given that work has a utility of zero and leisure is always positively signed, workers will prefer to take welfare transfers and unemployment benefits in lieu of work.

The neoliberal insistence on viewing the volume of employment as a purely supply side phenomena (determined by the real wage) is buttressed by developments in new classical microeconomic wage theory. In its first iteration, human capital theory (Becker, 1957; 1964; Weiss 1966; Kahn 1979) extended the basic neoclassical model of

[64] Interestingly, the neoclassical predilection for viewing all points on the demand curve as a full employment equilibrium ought to deprive them of the capacity to refer to the excess volume of workers as unemployed. There is a contradiction here with the populist neoliberal rhetoric that held up unions and minimum wage laws as the *cause of high unemployment* through the late 1970s into the mid 1990s. One does wonder why there is a persistent conceptual slippage from the volume of employment to the rate of unemployment.

distribution, rooted in the theory of marginal productivity, to explain inter and intra industry wage rate differentials. The basic argument of Becker and the others is that wage rate differentials are a function of the general and specific skill level that workers have accumulated. The essential policy message flowing from the human capital theory of distribution is that workers are responsible, via their training choices, for their level of remuneration and status within labour markets. That is, the level of remuneration through to security of job tenureship is a strictly supply side phenomena (residing with the quality of the individual worker) which, like the volume of employment, is a consequence of workers subjective preferences and instrumental ranking of relative choices.

NEOLIBERALISM AS A POSITIVE POLICY PARADIGM: NEOCLASSICAL INSTITUTIONALISM

However much postwar new classicals have been wedded to an unfailing fidelity to equilibrium analysis with its rigid assumptions about perfect competition and the like, the political project or policy paradigm remained by and large a negative policy paradigm insofar as a raw defence of capitalist markets provided little guidance for state policy makers. As I will argue, *inter alia*, the neoliberal policy paradigm in its development and deployment must be understood as involving a drive beyond merely asserting the superiority of 'non-politically' regulated markets. In this regard, NI as part of the broader neoclassical research program, marks off the transformation of new classical economics from an abstract mode of inquiry into a formidable policy paradigm. The degree to which NI work takes its queue from new classical economic theory is evidenced by the adherence of its followers to the basic policy message "that a regime of well-defined, alienable and extensive property rights that are cast within the rule of law is not a bad recipe for creating growth" (Foss, 1997: p. 16). If their orthodox counterparts stress the inherent superiority of private markets for achieving productive and allocative efficiency, NI scholars ask the prior question: what juridical framework must be present for individuals and firms to behave the way new classical theory assumes they should?

Douglas North (1994) outlines the project of NI thus: "Neoclassical theory is simply an inappropriate tool to analyze and prescribe policies that will induce development. It is concerned with the operation of markets, not with how markets develop." However, North (p. 359) goes on to state that the NI project is a sympathetic modification of the neoclassical research project: "[Our] analytical framework is a modification of neoclassical theory. What it retains is the fundamental assumption of scarcity and hence competition and the analytical tools of microeconomic theory. What it modifies is the rationality assumption. What it adds is the dimension of time." It is important to note that the key modification that North *et al.*, make to the neoclassical rationality assumption is that they make instrumental rationality one aspect of human rationality and as such requires nourishing by institutions. This becomes clear when North outlines his theory of economic development or its lack thereof (defined as an increase/stagnation/decline in the wealth of nations). With regard to the cause of developmental stagnation, North (p. 364) argues: "In fact, most societies throughout history got 'stuck' in an institutional matrix that did not evolve into the impersonal exchanges essential to capturing the productivity gains that came from the specialization and division of labour that have produced the Wealth of Nations" (emphasis added). This statement clarifies how North understands instrumental rationality. Unlike his neoclassical counterparts (and more in keeping with Weber), North (p. 359) seeks to historicize the development of instrumental rationality by locating that form of rationality in an institutional matrix which supports and promotes "the impersonal exchanges essential to capturing the productivity gains that came from the specialization and division of labour that have produced the Wealth of Nations."[65]

As such, if in the initial reaction to the ascendancy of reform liberalism, new classical economics was characterized by an intransigent insistence on the superiority of markets vis-à-vis the inherent problems of coordination through the state, in the ascendancy and consolidation of neoliberalism NI scholars, such as Simon (1948, 1983), Williamson (1985), and North (1990; 1994), successfully refocused attention on the necessity of restructuring the institutional matrix necessary to make agents behave in a narrowly instrumentally rational way. To be clear, it is necessary to reinforce the point that for NI economists the market requires extra-market institutions to reinforce and reproduce the conditions for the full development of instrumental rationality. Nevertheless, NI scholars are preoccupied with the identification of market based forms of institutional organization that arise out of the competitive process to cajole actors to

[65] It is on this reading that it becomes clear the degree to which economists such as North are implicated in the great debates within liberalism. For the type of rationality that North is identifying as the *sine qua non* of human progress are the processes and institutions that make possible increased consumption and not necessarily, and certainly not sufficiently, the maximum development of human creative capacity. It is important to keep this in mind because it demarcates the dividing line between a humanist reform liberalism and a neoliberal anti-humanism in which the extent of the market and hence the continual extension of the commodification of human existence becomes the end and man (sic) becomes the means. Clearly this is not merely a modification of reform liberalism.
Rather, it is an intercene ideological *coup*.

converge on best institutional (capitalist) practice. The idea being that even in cases where the forces of competition appear to be driving the evolution of the market in the opposite direction (e.g. a market structure characterized by large oligopolistic transnational corporations), in which the *external* price system is supplanted by *internal* mechanisms of coordination, command and control, the existence of such entities is nonetheless optimal because their rules of reproduction have nonetheless been forged in confrontation and competition within the market (Coase, 1960).[66] In a phrase: if instrumental rationality is the paramount characteristic of actors in capitalist markets, then, it is argued, organizations which evolve in that context must be instrumentally rational entities. In this way institutions from firms, business organizations through to private voluntaristic standards associations which sustain themselves over time are understood as embodying best practices and, crucially, as (market) efficient. In contrast, institutions that develop outside of the instrumental logic of the market, while perhaps created to resolve coordination problems and resolve conflict nonetheless do so through

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[66] Coase is thus a key figure in providing vulgar political economy with a theoretical end-run around the traditional classical liberal concerns with the concentration of power in cartels and monopolies. If Simons' *Program for Laissez Faire* (1934) had provoked some lingering doubts with Hayek at the time (Mirowski, 2009), Coase, some 40 years later, had little doubt about Simons' classical liberal credentials:

> [He] would like to raise a question about Henry Simons…[His] *Positive Program for Laissez Faire* [1934]…strikes me as a highly interventionist pamphlet…[I]n antitrust, [Simons] wanted to...restructure American industry. . . [I]n regulation…he proposed to reform things by nationalization... I would be interested if someone could explain (as quoted in De Long, 1990: p.601).

Further as DeLong notes:

> Simons' former Chicago pupils, his successors as upholders of classical liberalism in economics, did not rise to his defense. Instead, they responded as follows: First, they acknowledged that Simons was not a pure liberal, but at best a mixed breed. "You can paint him with different colors…" said Harold Demsetz. "It's quite a mixed picture," said George Stigler."

What this commentary makes evident is just how far to the right of classical liberalism neoliberals have veered.

mechanisms that do not necessarily drive in the direction of increasing efficiency over time — the developmental trap *a la* North.

Comparative political economy within the NI framework is primarily concerned with, on the one hand, an assessment of the degree to which different states have instituted the requisite juridical frameworks and institutions that enable private firms to minimize transaction costs and more completely internalize the externalities generated from profit seeking activities (Rosenberg and Birdzell 1986; North 1973; 1990; 2003; 2005). And, on the other hand, the degree to which states themselves have developed the capacity to fend-off political rent-seeking from narrow special interests and similarly the degree to which welfare state programs force individuals to more directly bear the costs of their private decisions (Olson, 1982).

The key modification NI makes to the neoclassical tradition, and by extension the role it has played in the formation of the neoliberal policy paradigm, is that they insist there is a positive role for the state to play in economic regulation (as opposed to the merely laissez-faire policy prescriptions derived from orthodox neoclassical models). In so far as state intervention takes the form of establishing and underwriting the behavioural "conditioning framework"[67] necessary for capitalist markets to function efficiently. The central characteristic element of neoliberal policy formulation, therefore, is not that it advocates for state withdrawal from macroeconomic regulation (broadly understood) as some proponents and critics have suggested; it is the qualitative

[67] As Ricardo Grinspun and Robert Kreklewich (1994) have pointed out with respect to free trade agreements, the key element of such deals may lay in their ability to constrain the range of political options open to citizens and their states vis-à-vis their trade relations with other nations and, most importantly, with foreign capital.

restructuring of the form that state intervention takes. In this sense, the quantitative size of the state (as measured by the state's contribution to GDP, investment or distribution for example) is less important than the disciplinary (qualitative) content of the rules through which citizens are able to develop, deploy and access their state and its public institutions.

MATURE NEOLIBERALISM: GROWTH, PRICE STABILITY AND UNEMPLOYMENT [68]

Three areas of macroeconomic management have come to dominate the mature neoliberal policy agenda: growth, price stability and the liberalisation of trade and financial flows. In this section I will only take up the first two, as they are central to explaining the key role that labour market flexibility and the form that the qualitative restructuring of the welfare state has taken. Suffice it to say that liberalized trade and financial flows, broadly conceived of as not just including trade liberalisation in goods and services, but also the liberalisation of the balance of payments including the capital accounts and a floating exchange rate regime provide the disciplinary regime which enforce a commitment to the first two—growth and price stability.

The first and most general concern has to do with economic development or growth.[69] If Shonfield's (1965) observation that the most significant impact of the

[68] "Mature neoliberalism" is a term employed by Saad-Filho (2005). While I retain his usage I nonetheless do not fully accept his substantive description of mature neoliberalism.

[69] I am not convinced, as are some critics (e.g. Saad-Filho, 2005) of neoliberalism, that the fixation with securing higher rates of economic growth was and is mainly a rhetorical red herring. All things being equal, capitalists prefer higher rates of economic growth to lower rates of economic growth. It is the context in which growth takes place, i.e., who controls the process of growth and who controls distributive shares flowing from increased rates growth. Saad-Filho is right to focus on the shift in the balance of class forces that neoliberalism with its attendant shift in power from both the state and workers to financial

Keynesian revolution had been to turn the attention of policy makers towards achieving the full employment of resources (most notably labour) over the course of the business cycle is correct, it may be equally said that the significance of the neoliberal counter-revolution has been to turn the attention of policy makers toward the determinates of long-term growth rates. The basic policy message from neoliberal scholars and research centres has been that the key role of the state is to promote a stable, risk minimizing regulatory environment in which firms are given a maximal degree of flexibility in meeting their short to medium-term planning objectives. Both in theory and in practice this has meant an inversion of the populist Keynesian logic with the policy priorities running from price stability and growth enhancing tax and investment policies (supply), through to employment, and then terminating in distribution (demand).

It is possible to graphically illustrate the shift in policy from variants of Keynesian macroeconomic regulation loosely carried out under the rubric of smoothing the business cycle via demand management to neoliberal (supply side) variants of macroeconomic regulation which are chiefly concerned with raising the secular rate of growth.[70]

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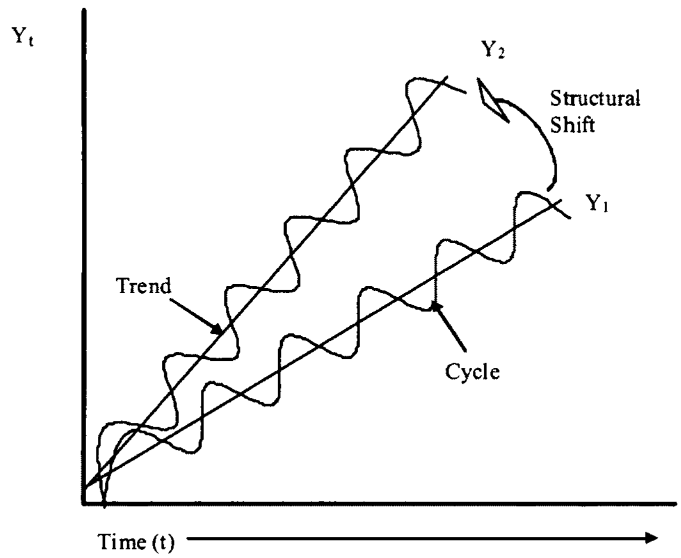
markets has created. But he is wrong to suggest that the shift in control was *not* for the purposes of establishing, albeit on preferential class terms, renewed growth.

[70] Foss (1997) makes the argument that this is where New Growth Theory really came into its own after the period of the monetarist preoccupation with stabilization and restructuring and a refocus of macroeconomics on secular rates of growth and the maintenance of price stability.

Figure 5.2 Keynesian macro-economic stabilization versus neoliberal macro- economic restructuring



As Figure 5.2 illustrates, in the stylized version of Keynesianism, the central concern of macroeconomic regulation is with smoothing out the business cycle (dampening the magnitude of the wave above and below the trend rate of growth) while maintaining, more or less, full employment. Whereas neoliberal macroeconomic policy, on the other hand, is both sceptical about the capacity of monetary and fiscal authorities to manage the business cycle and at the same time is fixated on inducing long-term structural change such that the economy is moved to higher trend rate of growth (from Y1 to Y2).[71] With

[71] In this regard, there may be some truth to the statement that "Keynesianism is the economics of depression." Clearly the problem for capitalist policy makers in the mid 1970s to early 1980s was one of increasing the rate of economic growth and taming inflation not, as was Keynes, with initializing growth and re-inflating the economy. On this reading, Keynesian economics becomes a special case of a more general neoclassical theory. I will leave it to the reader to decide which general theory subsumes the other or if either should rightly be understood as a general theory of capitalism. My preference is revealed through my choice of analytical frameworks as developed in Chapter 4 and the conclusion.

the supply side logic essentially being that in the long run, higher rates of growth lead to a higher volume of employment and higher real wages.[72]

In terms of monetary and fiscal policy this has seemingly meant a shift away from fiscal to monetary policy as the central tool of macroeconomic regulation. Crucially monetary policy in the form of price stability is one of the hallmarks of the neoliberal policy paradigm. Within the neoliberal framework, what others have described as the 'new consensus' (Arestis and Sawyer 2003; Alfredo Saad-Filho 2006), interest rates are viewed as the only effective tool for managing inflation in the long run.[73] Irrespective of

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[72] Mention should be made that one of the populist components of neoliberalism as a political ideology stemmed from its protagonists insistence that the *ultimate* goal of the project was full employment and stable prices. With the latter being a necessary condition for the former. As such the project was originally framed within the logic of reform liberalism, i.e., markets in the service of human beings. Of course, it would not be long until the basic logic of competition embedded in the neoliberal project, at both national and international levels, made all solid promises melt into thin air.

[73] The relationship between monetarism, supply side economics and the new consensus is politically quite straightforward even though it is theoretically complex. Theoretically speaking, in terms of the cause of inflation, the new consensus has little in common with Friedman's monetarism. In Friedman's formulation all theories of cost-push inflation are eschewed in favour of a purely monetary explanation of inflation rooted in the supply of money. The new consensus, however, retains the Keynesian predilection for viewing inflation as a cost-push phenomenon (rising real wages) but rejects the inflation / employment trade-off owing to an acceptance of the rational expectations theorem (which is an extension of Friedman's adaptive expectations hypothesis). Politically, speaking monetarism and the new consensus are close insofar as both see unemployment as (a) voluntary and (b) effectively permissible. I will address unemployment within the neoliberal paradigm in the section below. As Anwar Shaikh (1999) points out:

> In its [neoclassical] basic form, inflation arises when an increase in the money supply stimulates aggregate demand in the face of a full-employment-constrained aggregate supply. More recent versions incorporating concepts such as the natural rate of unemployment are merely refinements of this basic argument (p. 90).

While Shaikh is certainly correct in his assessment, he misses that those 'refinements' play a role in legitimating central banks (CBs) prioritization of price stability even in the face of relatively high unemployment because almost any level of unemployment is understood as the natural rate: *hence these refinements— the rational expectations augmented Philips curve and the NAIRU—mean that the economy is always understood to be on its full-employment-constrained aggregate supply curve.* Saad-Filho (2006) understands this when he makes the distinction between monetarism as a tool for helping to *restore* financial discipline and the mature neoliberal monetary policy paradigm in which inflation targeting is employed by CBs to *maintain* financial discipline. What is explicitly missing, however, although implied, the formal macroeconomic model at the core of the new consensus, fixation on price stability flows intuitively from the neoclassical insistence on viewing prices as the central (and politically neutral[74]) signalling system coordinating the actions of disparate firms and individuals over the short and medium run. Hence, by providing certainty in the form of a stable price/interest rate environment the central bank is said to be able to minimize risk and moral hazard in planning and investment decisions. Low and stable expectations with respect to the price level (inflation) is then paired with a permissive regulatory and tax environment to ensure a stable planning environment and a disciplined labour force for capital. Thus, it is hoped, inducing a structural shift to a higher rate of growth.

Crucially adjustment in the neoliberal policy paradigm is provided not only from monetary authorities per se, but, also, and centrally, by labour markets. Alternatively expressed, it can be argued that central bank independence, politically insulated, and with a mandate to prioritize price stability above all else, is premised on flexibility in the labour market. Hence, neoliberalism entails that labour markets are the mirror of interest rates in terms of the sources of dynamic adjustment in the macro-economy. This becomes clear when the centrality of labour markets to price stability is expressed theoretically via the connection that neoliberals make between macroeconomic stability (operationalised as policy in the sanctity of price stability), on the one hand, and firm level flexibility, on the other. In the standard competitive equilibrium macro-model, the

is that the new consensus entails shifting the cost of adjustment onto atomized workers. I will come back to these points in the conclusion.

[74] The notion that prices are politically neutral is examined in the conclusion.

level of inflation is understood to be a function of the level of unemployment via the theoretical construct of the natural rate or non accelerating inflationary rate of unemployment (NAIRU). In this model, equilibrium is assumed to rest closely around the NAIRU (which is itself understood to be the practicable level of full employment). The role of monetary authorities is to raise the interest rate when the actual level of unemployment is below the NAIRU and lower the interest rate when the rate of unemployment is above the NAIRU.[75] Clearly, then, within the neoliberal policy paradigm the source of endogenous inflation is labour markets.[76] Consequently, unemployment is the remedy for inflation. In order for unemployment and wage rates to

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[75] Andrew Jackson (1998: p. 11) argues that part of the problem with the NAIRU concept is that it is simply tautological and as a policy guide it fails:

> The key problem with this *ad hoc* extension of NAIRU theory to include the impact of demand side changes is that the policy implication of NAIRU remains the same — that macro-economic policy should not be stimulative once the supposed NAIRU is approached. But this argument is clearly circular and damaging. If the supposed constraints of NAIRU are not tested, then macro-economic restraint arising from fear of inflation will result, via hysteresis, in higher unemployment and a higher NAIRU.

What Jackson is suggesting is that there is a self-fulfilling aspect to the NAIRU if it is normally assumed the economy is always operating close to the NAIRU level. When unemployment decreases policy-makers automatically assume that unemployment is approaching the NAIRU threshold and then proceed to raise interest rates thereby contracting the economy and increasing unemployment. As capacity is successively wrung-out of the economy and the skill base of workers eroded (hysteresis), the NAIRU is understood to migrate upwards as both the supply of qualified workers and capacity to absorb them shrinks.

[76] This is necessarily so even in the case of early neoliberal experimentation in the form of monetarism. Even though monetarists argued that inflation is anywhere and everywhere a monetary phenomena that, nonetheless, was only true for them if, and only if, the economy is at a full employment equilibrium. Increasing labour market flexibility, *ceteris paribus*, should increase the ability of the system to absorb increases in the supply of money. So the theory should go. Something like this seems to have recently crept into current central bank thinking about inflation and interest rates. In the early 1990s, the monetary and fiscal authorities were convinced that the level of the NAIRU was high (8.5%) and as such they argued:

> The rate of unemployment...cannot be forced lower without causing inflation to accelerate. If an attempt is made to push unemployment below the core rate — e.g., by highly stimulative macro-economic policy — the economy produces little extra real output or jobs, except very temporarily. Instead, the economy spins its wheels by generating an upward spiral of higher prices and wages which is unsustainable (Department of Finance as quoted in Jackson, 1998: p. 1).

be sufficiently responsive implies that firms have maximal flexibility in determining both the volume of employment and wages.[77]

Outside of providing policy direction for monetary authorities the NAIRU also enables neoliberals to provide policy prescriptions for the state with regard to labour market regulation. This is because the NAIRU is considered to be a purely supply side phenomenon. That is, the NAIRU is said to be determined by institutional rigidities (union density, inappropriate labour standards legislation, unemployment insurance, presence of women and youths in the labour market, etc.)[78] which create distortions in the wage rate such that the price system fails to clear labour markets at or near full employment (or more accurately the volume of employment is adequately determined by the price system). Gordon Betcherman (2000: S131)summarizes the core of neoliberal policy advocacy vis-à-vis labour markets:

> The basis of this argument (most frequently applied to European countries but also to Canada) is that high payroll taxes, rigid labour regulations, and unresponsive union contracts inflate the cost of labour and that generous welfare programs reduce work incentives.

In so far as employment growth is insufficient to absorb all the new entrants into the labour market, it is a priori understood as a consequence of inappropriate extra-market institutions frustrating the smooth adjustment of labour markets (the level of the real wage and the supply of labour) to a full employment equilibrium state. The clear policy

[77] Interestingly, the conditions that are required for long-term structural stability necessarily entail short-term (within the business cycle) stabilisation. As such, this represents a departure from Friedman's monetarism. Given adaptive expectations and time-lag effects, Friedman and monetarists were sceptical about the capacity of monetary authority's to regulate short-term fluctuations in the business cycle.

[78] This points to one of the other limitations of the NAIRU concept. Namely, there was and is not a generally accepted list of variables which are said to be responsible for changes in the NAIRU.

message was that the level of the NAIRU is directly a function of labour market regulation. This has been the analysis on offer from the OECD (1970; 1977; 1990; 1994; 1996), to the major centres of policy advocacy in Canada, most notably including the Department of Finance (1994). It has also provided a large part of the analytical rationale informing advocacy for changes to labour standards legislation, unemployment insurance and social assistance since the mid 1970s (see also, Green 1976; Richards 1995).

CONCLUSION

In this brief review of the development of the neoliberal policy paradigm and its relationship to both developments within liberal political and economic theory, three central premises have emerged. First, in its initial ideological formation neoliberalism developed in reaction to what its protagonists viewed as the dangers of the reform liberal and social democratic conceit: that capitalist markets are characterized by coordination failures that the state and public institutions can and/or should remedy through monetary and fiscal policy and social legislation. In its initial development, neoliberalism was largely a negative policy paradigm that, owing to the political economic and social turmoil of the 1970s, acted more as an ideological resource at hand than as an adequate foundation for the restructuring of the state and civil society. NPE, particularly in its vulgar form, was already hostile to unionization and social attempts to regulate the living standards of workers owing to marginal productivity theory. It formulated a powerful monetary theory of inflation — monetarism. What is most noteworthy about monetarism is that it provided a quasi institutionalist theory of inflation by identifying workers, their institutions, and social legislation as the source of system wide price rigidity, and thus the causes of unemployment and inflation.

Second, although monetarism provided neoclassical economics with an institutional account of unemployment and inflation, it was nonetheless in the form of identifying the 'blockages to dynamic adjustment', and therefore remained largely negative in its implications. NI, however, provided elements of a truly positive policy paradigm by offering a theory of why it was necessary to restructure institutions in a way that complimented and reinforced the instrumental rationality of private markets. These insights provided a guide for restructuring the private and voluntary regulation of capitalist markets and for the reform of public institutions and social programs. For NI scholars it is not the existence of the state or even necessarily the state's quantitative size relative to the private sector that matters. It is the substantive content of state institutions and the structure of incentives those institutions enforce that are of importance. Explicit in the new institutionalist scholarship is the proposition that a new activist state could be created which exposed rather than isolated its citizens from, in Hayek's famous phrase, "submission to the impersonal and seemingly irrational forces of the market", as the reform liberal vision of the state did to a greater or lesser extent. Restructuring was to be designed in a manner to embed citizens in, to paraphrase Douglas North, "an institutional matrix that enforces and expands the impersonal exchanges essential to capturing the productivity gains that come from the specialization and division of labour that produce the Wealth of Nations." This re-conceptualisation of the state as the enforcer of an individual instrumental rationality rather than and along-side embodying other forms of rationality — such as democratic, social, and humanist rationality most obviously — represents nothing less than the defeat of the central promise of reform liberalism of the postwar era.

Third, if one of the central promises of reform liberalism had been the subordination of capitalism to the development of human creative capacity, then the most apparent and practical example of this was with respect to labour markets and the social wage. Yet, the 'new consensus' is premised on continual and enforced insecurity in labour markets because the flexibilization of the entire wage relation plays a central role in neoliberal macroeconomic management. The necessity of both flexibility in the wage rate and the volume of employment is the *central location of dynamic macroeconomic adjustment*. More specifically, all of the other forms of macroeconomic adjustment from floating exchange rates, to the liberalization of the capital account, through to interest rate adjustment are premised on enforcing and exploiting flexibility in the labour market.

In the next chapter I will conduct a brief survey of the reform liberal/social democratic paradigm as it is presently configured. The focus of the following chapter is the accommodation (and some would argue capitulation) that reform liberalism and social democratic theory came to make with essential elements of the supply side thesis: namely, that the social wage needed to be reformed and that labour markets needed to be made more flexible and responsive to the demand schedule for labour (both quantitatively and qualitatively understood).

CHAPTER 6: THE KEYNESIAN CONTRIBUTION TO NEOLIBERALISM

> The classical theorists resemble Euclidean geometers in a non-Euclidean world, who discovering that in experience straight lines apparently parallel often meet, rebuke the lines for not keeping straight — as the only remedy for the unfortunate collisions which are occurring. Yet, in truth, there is no remedy except to throw over the axiom of parallels and to work out a non-Euclidean geometry.
>
> John Maynard Keynes, *The General Theory* (1936, p. 16)

> The ability of national governments to fine-tune the economy in order to secure growth and jobs has been exaggerated. The importance of individual and business enterprise to the creation of wealth has been undervalued. The weakness of markets have been overstated and their strengths underestimated.
>
> Tony Blair and Gerhard Schröder, *Europe: The Third Way/Die Neue Mitte* (1998, p. 3)

The decline of Keynesianism is a well-established and well-commented upon phenomenon across a broad range of social science disciplines. In this chapter, a recapitulation of the decline of Keynesianism will not be revisited. Rather, what this chapter seeks to accomplish is a theoretical accounting of the manner in which reform liberalism and social democracy (reformism) came to make important theoretical compromises and indeed eventually important contributions to the formation of a mature neoliberal consensus.[79] It is argued that reformers made key compromises (capitulations)

[79] At base I employ the terms reformism to describe a range of reformist ideological currents from social democracy (and its socialist interlocutors) to the more centrist orientated strains of liberal democracy which became hegemonic in the postwar epoch. It is only in hindsight that it is possible to lump in social democratic reformers with their reform liberal counterparts — a judgement of history not of essence. And

with particular elements of the neoliberal ontology thus making it possible for neoliberalism to become a truly hegemonic project. To provide evidence for this claim theoretical developments in two different disciplines — economics and comparative political economy — will be examined. In each case I will map out theoretical and analytical shifts which exemplify the reformist accommodation with, and contributions to, the consolidation of neoliberalism.

This chapter thus starts with a brief overview of the essence (its ontological underpinnings) of postwar reformism. I then proceed to illustrate the way in which both mainstream macroeconomic theory (new Keynesian economics) and comparative political economy (NWPE), have shifted from a social science practice which once sought to ameliorate the negative effects of capitalist accumulation to a social science practice which seeks to ameliorate the negative effects of welfare-state institutions (particularly labour market institutions) on the processes capitalist accumulation. That is, while retaining an essentially ameliorative ontology, the dominant forms of reformism seek to reinforce the behavioural logic of capitalist markets via public policy and state restructuring.

POSTWAR REFORMISM

Unlike the dominant place that new classical economic theory occupies within the neoliberal policy paradigm, the ideological core and economic theory that motivated postwar reformism was relatively eclectic and pluralistic. To the extent that Keynesian

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it is only in the ascendancy of neoliberalism and the subsequent exhaustion of social democracy that a collapsing of reform liberalism and social democratic practice was made fully possible.

theory underwrote the reform liberal project of the postwar order it did so in rather ambiguous and non-uniform terms (see section below). Regardless, what Keynesianism shared with other strands of reform liberalism was a commitment to the proposition that capitalism as an economic system did not naturally tend toward a full employment equilibrium nor therefore could capitalist markets be relied upon to do all the heavy lifting of economic development and modernization.

The ontology of capitalism which animated the multifarious reform projects was quite distinct from that which underwrites the neoliberal vision. In Keynes' classic formulation, as set out in the *General Theory,* capitalist economic systems are best understood by a stable underemployment (of labour and savings) equilibrium. Moreover, such a condition arises endogenously from the normal functioning of capitalist markets. Keynes (pp. 249-50) summarized his ontological stance thus:

> In particular, it is an outstanding characteristic of the economic system in which we live that, whilst it is subject to severe fluctuations in respect of output and employment, it is not violently unstable. Indeed it seems capable of remaining in a chronic condition of sub-normal activity for a considerable period without any marked tendency either towards recovery or complete collapse. *Moreover, the evidence indicates that full, or even approximately full, employment is of rare and short-lived occurrence* (emphasis added).

Despite whatever misgiving other reform liberals might have had with the particular lines of causation (or lack thereof) in Keynes' model or with the appropriate target and form of intervention, the ontological conceptualisation of capitalism as system which required *persistent* state coordination and intervention enjoyed a broad subscription in the postwar epoch.

In *Modern Capitalism,* Shonfield identified five core propositions that he argued animated postwar capitalist development and public policy: first, there was an expanded role for the state in macroeconomic management; second, a ramping up of welfare state programs; third, managed competition and increasing economies of scale; fourth, a focus on human capital and active training measures which encouraged the smooth transition of workers from declining to ascendant sectors; and, finally, a commitment to long-term planning horizons (pp. 66-7).[80] Similarly, commenting on social democratic practice in Britain over the postwar period, Arestis and Sawyer (2001: p. 275) argue that the "economic policies of social democratic governments did not fit into a single mould and varied over time and across countries...There was an acceptance of some key aspects of Keynesianism, particularly that budget deficits could be used to support aggregate demand [and] some extension of public ownership." Further it must be pointed out that this was not just in the case of social democratic governments, but governments of all ideological stripes across much of the advanced capitalist zone. In Canada at the federal level, for example, it was the two main bourgeois political parties which built a modest Keynesian welfare state after the war and at times leaned heavily on fiscal policy to stabilize the economic cycle and maintain relatively low rates of unemployment.

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[80] These are indeed general propositions and it must be stressed that depending on the national jurisdiction in question not all these propositions were applicable. For example, although Anglo American countries did roughly conform to the general trend in the area of labour markets (a commitment to full employment) they tended to rely on passive transfers with very little effort in terms of coherent retraining regimes. Nonetheless, from Shonfield's list some common threads emerge. There was a broad consensus on the need for an activist state charged with the responsibility for macroeconomic management, which focussed on labour markets as the keystone to smooth and sustained rates of growth.

In the Anglo American countries this became, in the main, what was meant by the phrase 'Keynesian welfare state'. Moreover, even if continental capitalisms such as Germany remained less enamoured with Keynesian economics, particularly with respect to monetary policy, the issue is not whether they could be fairly labelled as Keynesian. Rather what is at issue is whether or not the state took on a primary responsibility for coordinating the macro-economy, underwriting the risks inherent to labour markets both in terms of skill formation and income loss, and provided some institutional scope for the democratic administration of private production.[81] From the accounts provided by Shonfield and Arestis and Sawyer it is possible to describe the reformist epoch as having been characterized by a broad political consensus on the necessity of state regulation of the macro-economy through the use of *fiscal and monetary policy and various institutional coordinating mechanisms with an eye towards targeting unemployment at low and stable rates*. In this regard, it was hoped that unemployment would be made *relatively invariable* by the *variable* application of monetary and fiscal policy and institutional coordination.[82] As we shall see, however, in its contemporary instantiation,

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[81] On the last point, I would argue that the industrial relations regimes in each country was said to play this role even if in jurisdictions like Canada and the US democratization was encapsulated almost entirely within the rubric of collective bargaining and the strong policing of the boundary between task control and managerial direction of the labour process. Although in Canada there was some reliance on publicly owned enterprises. Whether this stemmed from a commitment to public ownership and democratic control or from the desire to develop essential sectors of the economy that the private sector would not or could not is a moot point. In either case public ownership drew significant popular and elite support. For a brief overview of the German economic system in the first thirty years proceeding the Second World War, see Duwendag (1975). For a useful description of the dynamics of the contemporary period in Germany see: Iversen, Pontusson and Soskice (2000: pp. 63-9).

[82] Again, Germany is perhaps an outlier in this regard as the Bundesbank was for the most part non-accommodative. However, it was so with the explicit understanding between the tripartite actors that they would coordinate their actions to keep unemployment low. If in doing so, however, the tripartite actors stepped outside the envelope of price stability the bank would sanction the behaviour of all three actors by

macro-economic and labour market intervention inverts the objectives of traditional Keynesian policy with respect to employment: making employment levels variable in order to make the price level relatively invariable.

NEW KEYNESIAN ECONOMICS, LABOUR MARKET REGULATION AND UNEMPLOYMENT

While New Keynesian (NK) economics retains some fidelity to the old Keynesian paradigm as it developed over the course of the postwar era (see Figure 1) the NK paradigm is even more circumscribed within the confines of neoclassical methodology and has restricted itself to investigations of deviations from perfect competition originating in informational asymmetries and incomplete markets. However, the ontological distance between Keynesianism and NK should not be exaggerated.[83] In Keynes' original ontological formulation, it is true that capitalist markets tend toward endogenously generated and prolonged periods of unemployment. Yet, as Keynes argued in the *General Theory,* appropriate monetary and fiscal policy could be deployed by officials to remedy the problem of unemployment via manipulations to the level of effective aggregate demand and at such a point the neoclassical model based on the theory of perfect competition, marginal productivity and the litany would regain its relevance. As Keynes (1936: p.378) sums: "But if our central controls succeed in

jacking up interest rates: workers would get unemployment, exporters would get an appreciating currency and the state would face higher borrowing costs. See: David Soskice (2000: pp. 63-8).

[83] There is of course much debate over how radical of a departure Keynes actually made from the neoclassical theory of his day. While textual evidence can be found to support any number of different readings the subsequent development of Keynesian economics in the postwar era was decidedly neoclassical in methodology and ontologically speaking well within the gambit of perfect competition once requisite government fiscal and monetary capacities were developed. As Greenwald and Stiglitz (1987: p. 119) summarize: "He (Keynes) confronted the unemployment problem, and argued government intervention could solve it. Once unemployment was removed, the classical vision of the efficient market could be restored. Samuelson dubbed this the Neoclassical Synthesis".

establishing an aggregate volume of output corresponding to full employment as nearly as is practicable, the classical theory comes into its own again from this point on". And while the dynamics and the central variables of NK models differ from those of the standard Keynesian set-up, the basic *ameliorative ontology remains*.

It is well known that in Keynes's formulation deficient aggregate demand is the proximate cause of *sustained periods of unemployment*. However, the question as to the *origins of unemployment* remains vague and confused within the writings of Keynes (Spencer, 2006).[84] In some measure, postwar Keynesians followed Keynes and simply assumed that a deficiency in effective aggregate demand was responsible for the *persistence* of involuntary unemployment and that its (aggregate demand) augmentation was the remedy. This then led Keynesians to focus on the question as to the origins of the deficiency of aggregate effective demand. Such a deficiency was thought to reside in entrepreneurs' propensity to invest which, in turn, was derived from expectations with respect to the future profits to be realized on present production and the prospect of augmenting future output (the propensity to invest) which, in turn, was determined by expectations with respect to sentiments about the community's propensity to consume.[85]

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[84] The confusion as to the origins of unemployment arises in Keynes writings chiefly as a consequence of his retention of neoclassical marginal productivity theory and its associative labour supply curve. As Spencer (2006, p. 467) points out, Keynes' deployment of effective demand does not account for the *origins* of unemployment; it explains its persistence and does not necessarily point in the direction of a certain policy intervention because Keynes retained the crucial neoclassical equality between the real wage and the marginal disutility of labour. In other words, unemployment within the writings of Keynes may be caused by a failure of wages to fall to market clearing levels. This ambiguity has allowed NK economists to make price stickiness (wages included) the central market failure. In this sense, however, wage stickiness was part of Keynes' original apparatus.

[85] There were of course other aspects such as diminishing returns, economies of scale and the tendency of the real rate of interest to gravitate toward zero. For this exposition these facets of the Keynesian model need not be explored here.

Keynes focused on effective demand because he was uniquely concerned with investors' expectations with respect to future profits. That is, it was the manipulation of the sentiments of the owners of capital about future revenue which Keynes argued was central to determining the ultimate volume of employment and the best way to affect those expectations was through the guarantee of stable and increasing rates of consumption.[86]

NK retains the Keynesian pre-occupation with investors' sentiments and unemployment, although the hydraulics of the two models is rather different. Keynesian unemployment is purely a demand side phenomena caused by insufficient investment to absorb all the surplus labour for a given level of technology, investment and aggregate demand. A *generalized* fall in wages cannot correct the problem of unemployment because although the costs of production are falling so, too, is total aggregate demand. The Keynesian prescriptions are well known and need not be rehearsed here.

While NK economics seemingly retains the Keynesian fixation on effective aggregate demand it does so in an entirely different manner. For NKs, the trick has been to demonstrate that within the new classical framework of rational expectations and profit maximization markets will nevertheless fail to clear producing an underemployment equilibrium. As Robert Gordon (1990: p. 1137) comments:

> The development of new-Keynesian economics in the past decade has primarily involved the search for rigorous and convincing models of

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[86] Notice that, technically, government intervention could be directed at any moment (the demand or supply sides of the equation) within this circuit because no one moment can be isolated as prior to the other. In a very real sense, therefore, the debate between neoliberals and Keynesians can be distilled down to a debate over the appropriate moment in the circuit for the state to intervene. The new classical challenge to Keynesianism and the subsequent reformulation of Keynes by NKs ought to be read through this lens.

> wage and/or price stickiness based on maximizing behavior and rational expectations...The key ingredient in the...new-classical approach was...the assumption of continuous market clearing...Most new-Keynesian models combine rational expectations with maximizing behavior at the level of the individual agent. Any attempt to build a model based on irrational behavior or submaximizing behavior is viewed as cheating...*So the game is to tease a failure of macro markets to clear from a starting point of rational expectations and the maximization of profits and individual welfare at the micro level.* In short, effects of changes in nominal aggregate demand on real output and employment are derived in models characterized by equilibria in which each individual agent takes only those actions that make him better off and in which no agent foregoes an opportunity to take advantage of a gain from trade (emphasis added).

For NKs, the two 'magic bullets' that have been proposed to 'tease a failure of macro-markets to clear' has been some version of the *menu cost hypothesis* on the product market side and some version of the *insider-outsider hypothesis* on the labour market side. And while this chapter is primarily interested in what the NKs have to say with respect to labour market policy, it is nonetheless useful to provide a brief exposition of the product market side of the price rigidity story because it is key to understanding the overall policy bent of NK economics.

Menu costs simply refer to the costs of changing prices such as republishing catalogues, informing customers and the like. Added to these obvious costs of changing output prices is the fact that much of the demand for the firm's output may be locked within supply contracts of varying time duration. Taken together these menu/contract costs are said to explain why prices change infrequently and are lumpy (both in terms of time and quantity).[87] When aggregated at the level of the total economy, the difference

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[87] For the most part NK models either employ menu cost type explanations or contract type explanations. Ball, Mankiw, and Romer (1988) make the distinction between 'state dependent' and 'time dependent'

between the quantities demanded and the *supply price* can diverge significantly to produce an underemployment equilibrium because in the short run adjustment takes place through the *quantity supplied* rather than the prices paid.[88] This general understanding is then buttressed by more specific arguments with respect to information asymmetries and free-rider problems.[89] While NKs accept the basic logic of the rational expectations augmented Philips curve (that is, the NAIRU is semi-fixed in the long-run), monetary and fiscal policy can nonetheless be deployed in the short-run so long as the cause of the deterioration in effective demand is not caused by adverse supply shocks such as an unemployment rate below the NAIRU, insufficient capacity or medium to long-run supply constraints. This essentially amounts to a hawkish policy stance against inflation and support for less than full employment.[90] Or alternatively stated, outside of a liquidity trap, NKs are almost indistinguishable in terms of macroeconomic policy from their new classical cousins.

The NK prejudice against full employment is further buttressed on the labour market side of the price rigidity question in two main respects. First, in symmetry with the assumption of less than perfect competition in product markets, NK models tend to embrace labour market models (and almost always in the case of the VoC scholarship) in

models with menu costs belonging to the former and staggered contracts to the latter. For the purpose of this chapter the two have been lumped together and are in any case complimentary rather than rival goods.

[88] Notice that within these NK type models, although firms are profit maximizers, some form of imperfect competition must be assumed as firms are effectively price makers not price takers.

[89] For the free rider problem that arises see Mankiw (1985), and for information asymmetries, particularly as it relates to financial markets, see Greenwald and Stiglitz (1987) and Stiglitz (1999).

[90] As we shall see below Shapiro and Stiglitz (1984) make the argument that unemployment (above its frictional level) is functional to aggregate efficiency.

which there is less than perfect competition between workers for jobs. Two types of models are dominant. One variety is efficiency wage models and the other is insider-outsider models (henceforth EW and IO respectively). I shall take up each in turn.

While seemingly recognizing the shortcomings of human capital theory – an inability to explain the phenomenon of workers with similar education and experience receiving differential wages – EW theory nonetheless retains its fidelity to neoclassical economics in two important respects. First, as the name suggests, the explanation for dualism is not that pay differentials can be explained by 'extra-economic' factors such as racism and sexism or even economic factors such as excess supply of workers, cost cutting, contracting-out and off-shoring, rather they are explained through the rational preoccupation of employers with efficiency and the rational preoccupation of workers with the price of their labour relative to their effort. That is, EW theorists posit that some workers are provided with higher than average wages and higher than average security of job tenureship in order to elicit the necessary effort and loyalty on the part of these employees. From the point of view of employers, the cost of retaining these workers is mitigated by the performance premium they receive (Krueger and Summers, 1987: p. 18). Hence, from the point of view of cost per unit of output, efficiency wages *initially* have neutral to positive effects and thus can in no way be considered as non-market clearing prices. Second, in an alternate formulation of EW theory, shirking models argue that it is rational for employers to pay a premium to workers to raise the cost of dismissal and thereby encourage workers to avoid shirking (Shapiro and Stiglitz, 1984). In either case, if all employers adopt this strategy in the next round of wage bargains, higher aggregate wages will result in a concomitant increase in aggregate unemployment.[91] IO models are essentially monopoly bargaining models whereby a core group of workers earns quasi-monopoly rents on their skills or are protected by a union contract in which it is assumed that the union is sufficiently strong to win a premium wage above the industry or sectoral average. Here the cause of unemployment is straightforward (insofar as it conforms to the basic NPE model of wage and employment presented in Chapter 2). Higher than aggregate marginal product wages cause a decrease in the amount of labour demanded.

The main difference between IO and EW models would seem to resolve itself to a question of whether it is employers or employees who are ultimately responsible for higher than aggregate marginal wages. Within EW models, it is presumably the rational decision of employers to pay higher than average wages which is the cause of unemployment. On the other hand, within IO models unemployment results from the myopic rents unionized or highly skilled workers extract from their employers. Notice, however, that in both cases it is the psychological character of workers that is responsible for unemployment. In the case of EW theory, it is essentially natural disposition of workers to 'shirk' or 'slack-off' and in the case of IO models it is essentially the myopic tendency of the employed to raise wages above what their marginal product would warrant. In Keynes' original formulation involuntary unemployment existed because

[91] Shapiro and Stiglitz (1984: p. 433) explain the dynamics of unemployment thus:

> To induce its workers not to shirk, the firm attempts to pay more than the going wage; then, if a worker is caught shirking and is fired, he will pay a penalty. If it pays one firm to raise its wage, however, it will pay all firms to raise their wages. When they all raise their wages, the incentive not to shirk again disappears. But as all firms raise their wages, their demand for labour decreases, and unemployment results. With unemployment, even if all firms pay the same wages, a worker has an incentive not to shirk. For, if he is fired an individual will not immediately obtain another job. The equilibrium unemployment rate must be sufficiently large that it pays workers to work rather than to take the risk of being caught shirking.

workers could not find work at or even below their marginal product levels: there simply were not any jobs on offer. In the NK version, workers are involuntarily unemployed because other workers are employed above what their marginal productivity would warrant and employers — for any number of reasons — are prevented from lowering wages. That is, it is the employed who ultimately are responsible for unemployment!

At a policy level, all of the above effectively leaves NKs well within NPE even if the lines of *micro-economic* causation in their models are different. For example, the policy insight with respect to unemployment and welfare benefit levels that Shapiro and Stiglitz (p. 434) glean from their model is wholly consistent with NAIRU thinking:

> The theory we develop has several important implications. First, we show that unemployment benefits (and other welfare benefits) increase the equilibrium unemployment rate, but for a reason quite different from that commonly put forth (i.e., that individuals will have insufficient incentives to search for jobs). In our models, the existence of unemployment benefits reduces the "penalty" associated with being fired. Therefore, to induce workers not to shirk, firms must pay higher wages. These wages reduce the demand for labour.

So, even if the supposed Keynesian aggregation error type model is preserved, its central policy conclusions are not. And what is more, the policy conclusions derived are nearly identical to those derived from neoclassical orthodoxy: wages and the reservation wage needs to be forced down.

COMPARATIVE POLITICAL ECONOMY: FROM CLASS, CONFLICT AND DISTRIBUTION TO FIRMS, COORDINATION AND GROWTH

In the postwar era, the varieties problematic was given its classic formulation in Shonfield's seminal text *Modern Capitalism* (1969). Schonfield's text is particularly germane here because he centred his argument on the proposition that the dynamics of post-war advanced capitalist development were qualitatively different from their pre-war configurations. He argued optimistically that advanced capitalist countries despite their multifarious and divergent institutions and differential capacities had converged in several important respects: all states had developed an ability to manage the macro economy through the expansion of public ownership, social welfare, monetary policy and long-term planning capacity; the private sector had tamed the 'violence of the market' via collaboration between firms and an extension of their own planning capacity and horizons. Taken in tandem, these two developments, Shonfield argued, had created the conditions for a long-term secular increase in the rate of technological innovation that made possible a continual annual increase in real income. Although not as explicit as in contemporary contributions to the varieties literature, Shonfield implicitly denied that private markets provide superior allocative and productive efficiency to that of planned or coordinated markets.

From the mid 1970s through to the mid 1990s, the varieties paradigm took up at least three different research trajectories each assigning one set of social relationships more analytical priority than others. In the power resources variant (Huber and Stephens 2001; Esping-Andersen 1985, 1990; Korpi 1983; Stephens 1979), the task was not only to describe the variations between advanced capitalist welfare states but also to explain the *causes of that variance* (change) and the processes responsible for its reproduction over time (path dependence). Here causal weight was given to the balance of class forces (primarily along the capital and wage labour axis), which was determined by the level of political and organizational capacities of each class. Gosta Esping-Anderson's now classic trichotomy of welfare capitalisms (social democratic, liberal and conservative) was developed by looking at the "ways in which welfare production is allocated between state, market, and households" (1996: p. 73). Each of the ideal types is said to be the consequence of particular class compromises that became embedded in state-society institutional relationships. The persistence of these regimes was explained in terms of how the outcomes they generated tended to favour particular classes and their organizational capacities. For example, in social democratic countries generous welfare provisions de-commodified a range of goods and services such that workers have increased leverage over their employers because increased public provision means less dependence on access to paid labour. Whereas, in liberal regimes access to paid employment was the primary determinant of distribution alongside a residual welfare state that provided direct transfers to those determined to be in legitimate need. Thus, within Anglo American capitalisms the key determinant of distribution resides with an individual's ability to access higher segments of the paid labour market and relations with employers have a more atomistic patterning.

This theoretical project has since shifted from an explanation of the stability of welfare regime types to an explanation of the likely direction of change within those types as a result of shifts in employment from the industrial to the service sector (Esping-Andersen, 1999; Iversen and Wren, 1998; Scharpf, 1997). In the parsimonious account provided by Iversen and Wren, the shift in employment away from the industrial sector toward the service sector entails a series of trade-offs and social conflicts that vary according to the type of welfare regime under consideration. The basic dynamics of the analysis are given by the singular constraint imposed by service sector led growth, namely, low productivity resulting in low wages. In social democratic regimes, low unemployment along with wage equality is ensured through high levels of public employment and as such implies large fiscal outlays by the state. In Christian democratic regimes, where low wage dispersion is maintained through entrenched labour rights and relatively high payroll taxes, fiscal conservatism is maintained via relatively low public sector employment and the result tends to be upward pressure on unemployment rates. Whereas, in liberal market welfare regimes, low unemployment and fiscal restraint are purchased at the cost of high levels of wage inequality.

For however limited these NWPE contributions to comparative political economy may be, their preoccupation with class, conflict and distribution served to focus the attention of social scientists on the essentially social and thus political nature of various national instantiations of the reformist project as a hegemonic strategy of accumulation (even if not explicitly theorized as such). Indeed, it was precisely because these studies attempted to provide an account of the way in which the particular structural constraints and opportunities that were presented to the significant actors in the political economy provoked particular trade-offs, compromises and institutional orderings in particular national settings via recourse to assessment of the changing balance of power between the significant actors that they served a valuable intellectual service. The eclipse of this tradition by the VoC paradigm, however, marks-off not only an intellectual step backwards but also a profound change in the orientation of reformist pragmatism.

If the older reformist tradition was essentially corporatist in orientation, it was so in an explicit manner in which capitalist processes of accumulation and the inevitable distributional conflicts they provoked were made evident. As was demonstrated in the last three chapters of Part I of this dissertation, the VoC paradigm focuses on firms and their coordination problems and thereby serves to obscure the nature of capitalist social relations, the capitalist firm and thus the way in which the very nature of profit seeking activities provokes distributional conflicts and ironically coordination problems. While this is severe enough on its own terms, the VoC paradigm goes one step further and essentially renders all other significant actors in the political economy at best functionally subservient and at worst irrelevant. Nowhere is this better evidenced than in the treatment of unions.

To the extent that unions can help firms solve their coordination problems, they still have a place within the VoC research project albeit only as hand-maidens to residual concerns over price stability, skill formation and deference to managerial restructuring. By adopting the basic IO labour market models paired with the consensus interpretation of cost push inflation (mainly from wages), the VoC paradigm has almost entirely inverted the policy implications of the comparative welfare state tradition. As has already been presented, the standard dichotomy within the VoC paradigm is that between CMEs and LMEs, with LMEs being viewed as largely deregulated economies. The standard macro-economic practice following this logic has been to analyse the two ideal types with different economic models. Anglo-Saxon LMEs are held to conform to the perfect competition, self correcting ontology of the new classical school with the analysis of CMEs amenable to the market imperfection, institution correcting ontology of NK models. While intuitively this strategy seems pragmatic if not aesthetically appealing, it is in fact incoherent. As with the theories of the firm that were examined in part I, the designers of NK models were not attempting to model different economic systems than new classicals, but attempting to design a coherent macro-model for capitalist economies in general

More importantly, as demonstrated above, given the NK capitulation with respect to rational expectations and perfect competition, albeit with sticky processes of adjustment on the labour market side with respect to wages, the policy implications of such a position drive in a similarly neoliberal direction. Given the lack of coordinated bargaining within LMEs and accepting the basic new classical ontology the most likely cause of unemployment within LMEs is held to be unions and their 'rational' refusal to engage in wage restraint. Hence, the policy recommendations drive in the direction of the further deregulation of labour markets in LMEs with a non-accommodating central bank.[92] In CMEs, two policy choices are open. The first follows the LME profile and calls for the deregulation of labour markets; the second option entails a non-accommodating central bank with centralized bargaining being almost completely reduced to delivering wage restraint. Both options reproduce the basic contours of the

[92] In the context of Canadian policy reformation debates, those working within the institutionalist research program have stressed that "the dualist welfare state reinforces the creation of a dual labour market and a dual society" (Muszynski, 1996: p. 318). Given that in LMEs, the coordination of labour markets is said to take place, in the main, through market based processes of adjustment there is a strong self-reinforcing tendency within liberal regimes to allow market signals to provide the necessary incentives to coerce individual adjustment (both in terms of skill and wages). In absence of other policy measures, this dynamic creates a strong tendency to establish income and benefit replacement rates below the going rate in specific labour markets thereby increasing income polarization and exacerbating the problem of job insecurity unemployment.

neoliberal policy paradigm: unions can either act as institutions in the furtherance of price stability or they need to have their capacity to bargain eroded (see Iversen *et al.,* 2000). If this seems to overstate the case, Torben Iversen's (p. 228) enthusiastic endorsement of the policy implications of the VoC research paradigm clarifies the matter:

> More generally, the emphasis must be on the creation of decentralized, high-quality production regimes in both the public and private economies. Social democrats must acknowledge that the centralization that used to characterize the social democratic state in terms of industrial relations system, the coordination of macroeconomic policies, and the welfare state can no longer play a role in the political organizational future of social democracy. *The need as well as capacity for peak-level coordination in economic policies has disappeared along with growing capital-market internationalization and movement toward a postindustrial economy.* In a similar vein, an improvement of both the quality and efficiency of public services will require continued decentralization of services, more *consumer* involvement in decision making, and more competition between providers. *In short, Social Democrats must bring their political ambitions into line with an institutional and technological environment in which production of goods and services is becoming more knowledge-intensive, more internationalized, and more decentralized.* The moderate left can either become an active and significant political force in this continuing structural transformation, or it can engage in a losing political battle to defend the interests of those who benefited most from the rise of the bureaucratic and centralized Keynesian welfare state (emphasis added).

Beyond, therefore, simply registering a shift in the objects of analysis of comparative political economy — from class, conflict and distribution to firms, coordination and growth — the VoC paradigm evidences a broader political shift within reformism. It is a move from a view of capitalist processes of accumulation as hand-maidens to human development to a view of capitalist accumulation as synonymous with the development of human creative capacity.

Greg Albo (1994) aptly termed this a movement towards 'progressive competitiveness,' whereby the modernization of reform-liberalism and social democracy has entailed nothing less than the redeployment of the multifarious welfare state institutions, unions and social democratic parties into the service of global capital accumulation. The shift in emphasis of the role of unions and their parliamentary wings as sites for working class political organization in the furtherance of class struggles over the distributive shares between wages and profits and broader struggles over citizenship to institutions which may facilitate economic restructuring and price stability is telling. It marks-off the end of the reformist epoch as it demarcates an ontological-theoretical capitulation to the essence of neoliberalism as a hegemonic accumulation strategy.

CONCLUSION

In this exposition of the evolution of postwar reformism, particularly as it relates to comparative political economy and the underlying economic theory that underwrites it, three interrelated trends have been identified. At a theoretical level the varieties paradigm has shifted from the explanatory variables of *class*, *conflict* and *distribution* to *firms*, *coordination* and *growth* as the central organizing concepts. This shift in analytical objects of inquiry is in keeping with the general tenor of neoliberalism as it serves to focus attention narrowly on the supply side of the macroeconomic equation. This movement has been mirrored (and underwritten) by the movement from a Keynesian preoccupation with full-employment to a NK preoccupation with price stability and functional levels of unemployment as embodied in the NAIRU.[93] Taken together the two theoretical trends have produced a reformist policy paradigm in which, although the basic

[93] At a deeper level this also marks a movement away from macro structural type explanations to micro institutional type explanations. Stated somewhat differently, these trends indicate the triumph of methodological individualism within the fields of economics and comparative political economy.

ameliorative ontology remains, the appropriate type of intervention has shifted. In the older reformist policy paradigm, the attempted amelioration of market failures was channelled through a series of state based and/or sponsored institutions and programmes which were directed at insulating workers from the vicissitudes of labour markets and stabilizing the economic cycle. In the new reformist paradigm, underwritten as it is by NK economic theory married to an NI account of institutions, the quality of intervention has shifted to an emphasis on overcoming market failures through the behavioural restructuring of individual incentives. On the one hand, this has meant an emphasis on training and the development of human capital with an eye toward augmenting growth through labour productivity; on the other hand, it means an advocacy of forms of intervention which augment the stability of firms planning horizons through price stability and new 'soft' regulatory regimes. In this sense, the reformist project has jettisoned its commitment to any definition of the full development of human capacities by narrowly defining those capacities and institutions purely in reductive economic terms centered on, as with NPE, the pace of accumulation. Hence, these trends in the evolution of reformism — at the ideological, intellectual and policy level — should in fact be seen as incorporated within the broader neoliberal ideological consensus.

CHAPTER 7: FROM EXPERIMENTAL TO HEGEMONIC NEOLIBERALISM

In the previous chapter I examined the theoretical turns which tracked the exhaustion of postwar reformism and the rise of the intellectual hegemony of neoliberalism. This chapter is principally concerned with tracking the institutionalisation of neoliberalism as the dominant public policy paradigm. To that end, I will use the OECD as a case study of institutionalisation. What makes the OECD particularly attractive as a case study in the institutionalisation of neoliberalism is that the organization is essentially a policy club of advanced capitalist countries which, unlike the IMF, lacks enforceable compliance mechanisms. The OECD therefore must in many respects be understood as an endogenous institution in the sense that it relies on the support of its clients for its existence. This is quite unlike the IMF which is, for the most part, exogenous from, and can dictate terms (policies) to its clients. This means that for the OECD to be successful in guiding the policy debate and policy design, it must help construct an *a priori* 'consensus'; it must achieve hegemonic status at the level of the policy discourse.

This chapter is divided into three sections. The first section examines the origins of the neoliberal policy consensus at the OECD. The first major rupture in the hegemony of Keynesianism (neoclassical synthesis MK I) at the OECD came with the publication of the *McCracken Report* in 1977. Some left critics have come to regard the *Report* as the first truly neoliberal policy document sponsored by the OECD. I intend to challenge this interpretation by arguing that the *Report* is better understood as a rupture in the Keynesian consensus and not necessarily a fully worked-out alternative and certainly not evidence of a coherent neoliberal paradigm. The second section, attempts to clarify the relationship between monetarism and neoliberalism. After a brief theoretical presentation, I will then examine the conference proceedings from the 1978 Boston Federal Reserve's *After The Phillips Curve: Persistence of High Inflation and High Unemployment* conference. This conference is interesting because within its proceedings it is apparent the degree to which Keynesians like Robert Solow and Barry Bosworth were beginning to cross over from the demand to the supply side. The third section examines the *OECD Jobs Study* released in 1994. I argue that the publication of this document signals the hegemony of the neoliberal policy consensus.

THE MCCRACKEN REPORT: A RUPTURE IN THE KEYNESIAN CONSENSUS

In 1975, the OECD commissioned a report by 'outside' experts, a group of high ranking, mostly public sector economists from OECD nations, to provide an analysis of and policy recommendations for solving the stagflationary crisis of the 1970s. The *Report* was published in 1977 and provoked a series of reactions. Some left critics at the time (Wolfe, 1983; Gonick, 1983) viewed it as vindication of their structuralist Marxist critique of the limits to reformism. The hard right of the time, monetarists (Korteweg, 1979), castigated the *Report* for being too interventionist and too timid with respect to fighting inflation. Social democrats similarly grasped the implications of its analyses for the difficulties facing the reformist programme (Keohane 1978; Cornwall, 1978). Contemporary assessments of the *Report* view it as the harbinger of a neoliberalism to come (Mahon and McBride, 2008; Clifton and Diaz-Fuentes, 2011).

It must be remembered that the *Report* was written by putatively Keynesian economists external to the OECD and that it was received poorly by the Keynesian economists working within the OECD at the time (Clifton and Diaz-Fuentes, 2011). Outside of being an example of how the Secretariat of the OECD was attempting to engineer a paradigm shift within its own organization,[94] the *Report* is also a good example of the confusion that the crisis of the 1970s had brought to the centre of orthodox economic thinking of the time. The *Report* is not a consistent document which perhaps helps explain why critics on the right, left and center found it wanting. On the one hand, the *Report* located the causes of the crisis of stagflation in exogenous shocks (food and oil price increases), policy gaffes and labour market institutions. Given the institutional rigidities, the response to the exogenous shocks and policy gaffs was the embedding of inflationary expectations on the part of capital and labour. In this regard the report was solidly neoliberal in so far as it was supply side orientated and indicted the institutions of the Keynesian welfare state. On the other hand, in its policy recommendations it was an incoherent blend of fiscal Keynesianism and an insurgent monetarism.[95]

The *Report* called for a short, sharp, shock on the part of monetary and fiscal authorities to break inflationary expectations and then called for the fiscal and monetary authorities to target a 4 percent rate of growth, a 5 percent rate of inflation and 4 percent rate of unemployment via aggregate demand management (p. 182). Reformists of the

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[94] As Judith Clifton and Daniel Díaz-Fuentes (2011: p. 564) note:

> With hindsight, Stephen Marris, Economic Advisor to the Secretary General during the 1980s, was right when he argued that the chaos of the McCracken Report (1977) was due to the fact that there had been an attempt to fast-track neoliberal economic ideology into the Department of Economics, but that this had failed, at least in the short-term, because of the training in Keynesian economics which most of its economists had received. A paradigm change was possible, but would take time (Marris 1983).

[95] I will clarify what is meant by monetarism below.

time chose to concentrate on the hard monetarist elements of the analysis, viewing the *Report* as a serious repost to social democratic institutions and reformism more generally. In the policy prescriptions they detected a clear and present danger to the legitimacy of the postwar liberal democratic compromise as, in their view, the *Report* called for a more disciplinary (in terms of accumulation) state impervious to democratic demands for reform. Robert Keohane (1978: p. 117) sums up the fears of postwar reformists with respect to the implications of the *Report*:

> This argument is clearly less congenial to mild social democrats or liberals (in the American sense) than it is either to conservatives or radicals. For conservatives, such an analysis is used to reinforce the case for deflationary policies, accepting unemployment in the short term (and perhaps indefinitely) in order to contain inflation and to increase the confidence of businessmen. For radicals, on the other hand, recognition of an unemployment-inflation dilemma suggests that if capitalism cannot solve this problem, it should be scrapped. The contemporary welfare state was viewed by its advocates as a refutation of Marxist theories about the crisis of capitalism. If the managers of the economy were to renounce their commitment to full employment with price stability, one of the key justifications for capitalism (from the viewpoint of the working class) would be undermined. Could one then blame workers for reconsidering their endorsement of political and economic arrangements that had failed to fulfill their expectations?
>
> The economic analysis in the McCracken Report helps us to understand political polarization in Western Europe. The report implies that the social democratic "middle way" is running into a dead end: ambitious welfare states cannot achieve their goals. If people believe this (whether it is true or not), they will feel a greater necessity to choose between Right and Left.

But if the *Report* and its recommendations provoked inquietude in social democrats it provoked an equally strong reaction from monetarists.

Pieter Korteweg (1979: pp. 142-43), one of the leading European monetarists of the time, argued that the *Report* was overly optimistic about the prospects for growth going forward. Both because the increase in oil prices was permanent, thus causing a permanent shift in consumption away from consumer goods to energy, and because labour market institutions had not been modified sufficiently to make wages downwardly flexible; thus:

> By implication, actual levels of output would currently seem to be much closer to potential output levels than the Committee [McCracken Report] believes them to be. Consequently, the Committee's proposed target recovery track of 5.5 percent output growth per annum would seem to be a rate which is impossible to attain. Policies aimed at this unattainable rate are bound not only to fail, but also to add to inflation and rekindle inflationary expectations.

Indeed this was the standard hard monetarist view. Richard Stapleton (1981) writing for *Economic Affairs*, a journal dedicated to free markets, in an article titled "Why Recession Benefits Britain", made the Hayekian monetarist argument for pressing on with Thatcher's strangling of the British economy. *Inter alia,* he made the case against reflation on the grounds that recessions weeded out the weak, low productivity enterprises. He argued that Britain was plagued by large enterprises that had sufficient resources to withstand economic imperatives and therefore were not maximizing profits and thus hurting productivity growth. Further he argued that Britain needed smaller enterprises that could not shield themselves from the logic of capitalist competition and profit maximisation. His argument was contradictory because the small enterprises he sought to nourish would be the least able, given his first premise, to withstand a protracted and deep downturn caused by tight money and high real interest rates.[96]

THE EMPIRE STRIKES BACK: THE RETURN OF THE VERY CRUEL ECONOMIC SYSTEM

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[96] Margaret Thatcher's hard monetarism dissipated in the autumn of 1981 when, on the advice of her mentor, Alan Walters, she cut interest rates (Williams, 2007).

Whatever the validity of the hard monetarist position with respect to the *McCracken Report* was, it is clear that the *Report* was too Keynesian in its policy prescriptions as it preserved a role for both demand management and price controls. Moreover, the OECD remained Keynesian enough into the 1980s, such that both Reagan and Thatcher took their distance from the organization (Clifton and Diaz-Fuentes: p. 564). In order to better understand the ambiguity of the *Report*, the position of the OECD during the 1980s and the degree to which the economics profession itself had not achieved a consensus it is useful to review what the original monetarist project was, what elements of it were to become generally accepted and which of its elements were rejected in the forging of the neoliberalism consensus.

Monetarism could in fact be interpreted as a hybrid of the Keynesianism of the neoclassical synthesis (MKI) and a particular view of monetary policy resting on a non Keynesian quantitative theory of money (Friedman, 1970: pp. 206-7). Moreover, it is clear from Friedman's own writing that he considered his reconstruction of the pre-Keynesian quantity theory of money as undermining the whole of Keynes' ontological view of capitalism as being characterised by a natural predisposition to an unemployment equilibrium.[97] And the argument can and will be made here, that the addition of the rational expectations (RATEX) assumption and the natural rate of unemployment (NAIRU) conjecture were theoretical conveniences necessary to return to a classical, apologist view of capitalism. Many monetarists of the time, like Robert Lucas and Thomas Sargent,

[97] In part, the article was written to undermine the idea that the price system systematically failed to achieve equilibrium price setting.

were members of what would come to be called new classical economics. As we shall see, while RATEX and the NAIRU became generally accepted by the mainstream of the profession, Friedman's account of money never was. Indeed, the policy of targeting the growth in the monetary base was short lived and given up for inflation targeting via interest rate policy.[98]

To say that the 1970s were a pivotal decade in macroeconomic policy thinking is perhaps understated as it was in fact a decade of revolution. There is no need to rehearse the entire debate here. From the perspective of political economy it is, however, important to understand the implications of the RATEX assumption and the NAIRU conjecture with respect to public policy. Prior to the RATEX and the natural rate revolution many economists and policy makers believed that there was a stable and *exploitable* trade-off between inflation and unemployment. This trade-off is usually presented graphically via a plot of the Phillips curve. The shape of the curve is not so much important as the notion that there is an inverse relation between unemployment and inflation. In the curve I have drawn in Figure 7.1, there is the implicit assumption that the closer we move towards full employment the larger the trade-off between lower unemployment and higher inflation becomes. That is to say, the inflationary 'penalty' is lower when moving from A to B than from B to C.[99]

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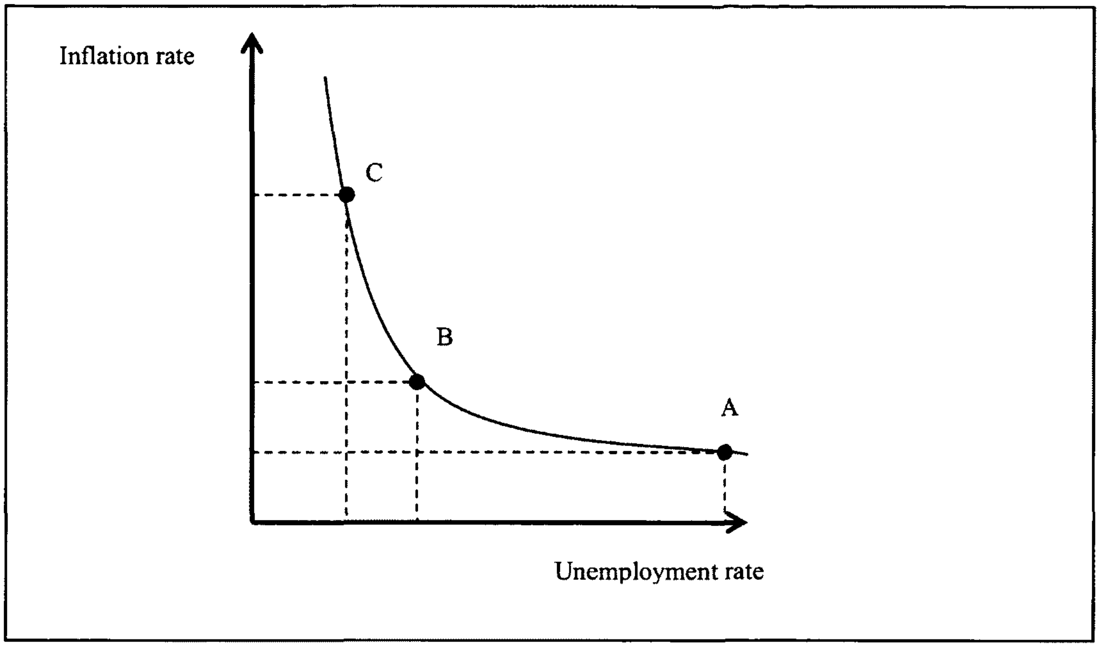
[98] See André C. Drainville (1995).

[99]Strictly speaking this is not a part of the original Phillips curve thinking. The intuition here is that relatively high levels of unemployment most probably coincide with low capacity utilisation rates. Hence, there is a good deal of slack to be exploited by policy makers. As we move towards full employment, however, the short term slack is dissipated creating increasingly inflationary pressures. I have deliberately drawn the curve this way to make explicit the difference between the original Phillips curve intuition and the long term rational expectations augmented Phillips curve.

Figure 7.1 Short run Phillips curve

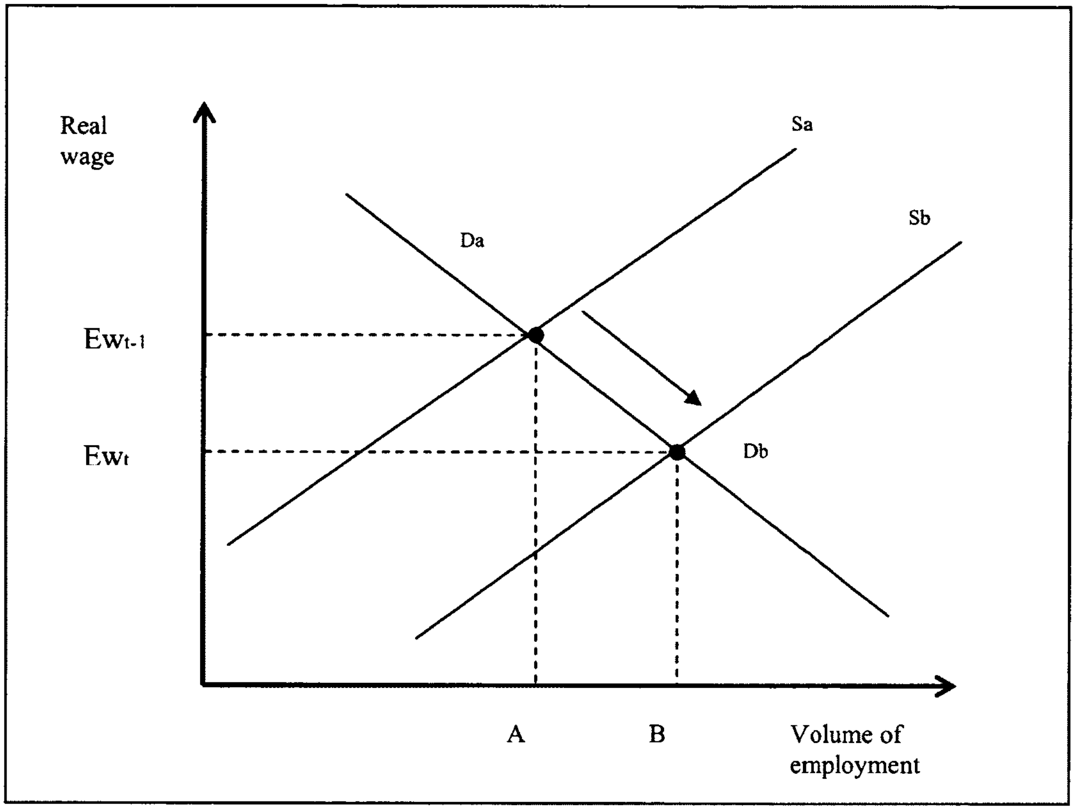


Clearly, the policy implication was that the government could, via monetary or fiscal policy, choose which rate of unemployment it wanted and let inflation drift up or down to that level.

Key to understanding this model is to take the standard neoclassical wage and volume of employment diagram (Figure 7.2) and then assume workers bargain in nominal rather than real terms. That is, workers suffer money illusion. The implication is that the volume of employment can increase (from A to B) because the inflation generated decreases the real wage (from Ew_{t-1} to Ew_t) effectively shifting the supply curve down to the right (from Sa to Sb) and the volume demanded from Da to Db. Notice that this is an entirely supply side argument in terms of the mechanics of adjustment: it is the decrease in the real wage which drives the volume of employment.

The Keynesian element is that the government could manipulate aggregate demand and thereby the volume of employment with an implied inflationary trade-off.

Figure 7.2 The real wage and the volume of employment under money illusion



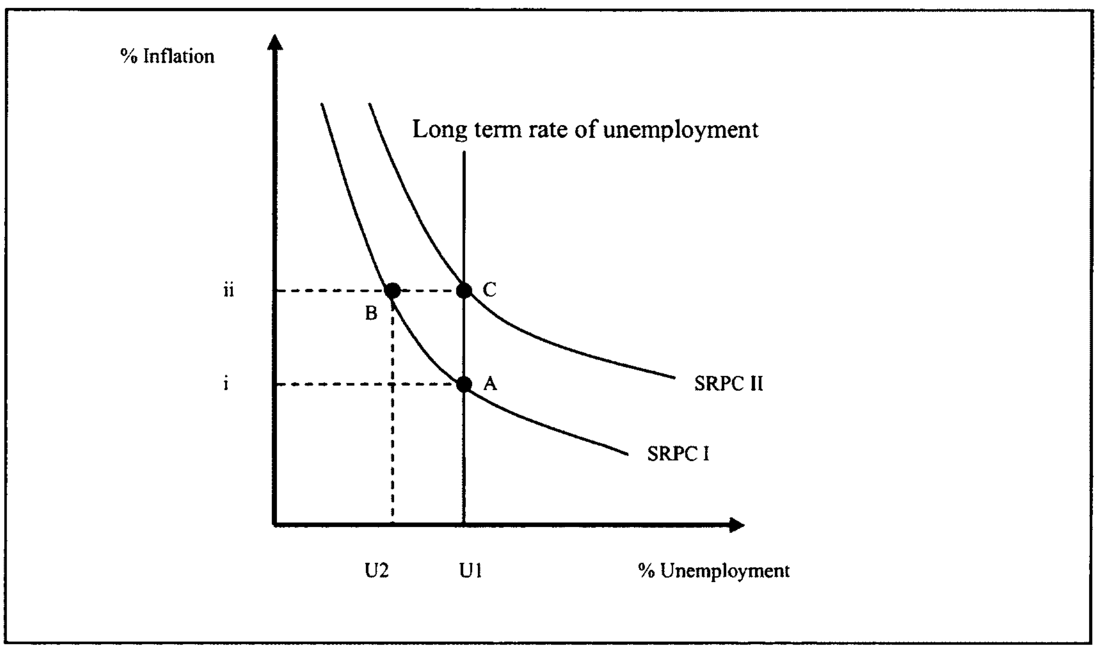
In the soft version of RATEX, adaptive expectations (Friedman, 1968), the government could continue to exploit a trade-off in inflation for employment but monetary and fiscal authorities could not do so because in the long run the 'natural' rate of unemployment or NAIRU is fixed.[100] In Figure 7.3, the logic of this argument is mapped out. The basic thrust of the RATEX, in this context, is that although economic agents (chiefly labour and capital) may err in terms of their assessments of real relative

[100] In the literature, this is frequently called the long run Phillips curve. To speak of a natural rate is of course an attempt to smuggle a normative judgement into the analysis. I will come back to this below.

prices, they will not do so systematically for a sustained period of time. Further, once economic agents recognized a pattern of systematic manipulation (say a persistent counter cyclical fiscal response by the state) they will effectively price these interventions into their future expectations, blunting the simulative effects. The RATEX augmented Philips curve thus argues that economic agents in fact bargain (price) in real terms and are capable of pricing in the present implications of monetary and fiscal policy for the price level in the future. In short, economic agents do not suffer from the money illusion and can formulate accurate knowledge of future events. The implications of which were legion for the standard macroeconomic policy of the time.

Figure 7.3 presents the standard rendition of the macroeconomic policy implications of the rational expectations augmented long run Phillips curve (NAIRU).

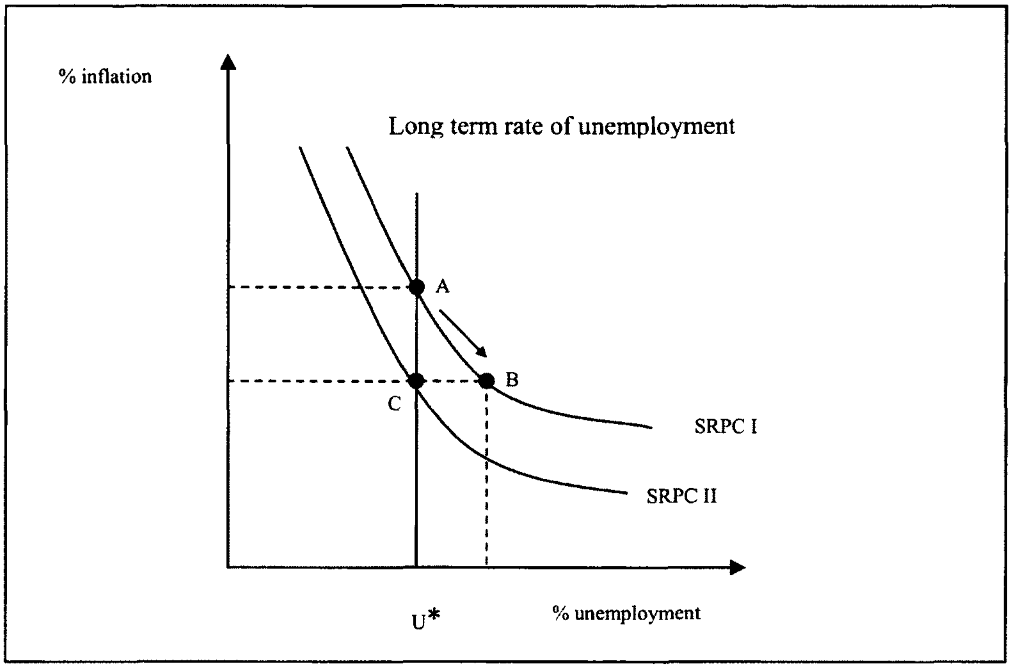
Figure 7.3 Policy implications of a vertical long run Phillips curve



On this model, when the government exploits the trade off between unemployment and inflation by stimulating the economy, moving unemployment and inflation along the short run Phillips curve (SRPC I) from point A to point B, workers eventually realise the inflationary implications and thus incorporate such expectations into their wage bargaining with capital. The result of the new real wage demands is that unemployment moves back from U2 to U1 at a higher rate of inflation (ii), creating a new short run Phillips curve (SRPC II). In the new classical version, increases in inflation are incorporated near instantaneously into agents' future expectations. However, in both the soft and hard form, an inflationary spiral is the logical outcome if policy makers are committed to reducing unemployment below the long term rate.

That a rolling back of the social wage, labour standards legislation, and the industrial relations regimes of the postwar order was the logical conclusion of the theory of a NAIRU, one need only reverse engineer the model presented in Figure 7.3. In Figure 7.4, I have done just that. If one believes that there is a natural long run rate of unemployment, then it follows that the monetary and fiscal authorities are not capable of permanently lowering or *raising* the unemployment rate unless they undertake to alter the institutions determining wage setting. Assume the government decides via monetary policy to increase the unemployment rate above its putative natural level from A to B. Such a case can only be temporary. As the nominal changes induced will not alter real values and thus the short run Philips curve will shift down and to the left from SRPC I to SRPC II lowering unemployment back to the original level U*, albeit at a lower level of inflation. By extension, changing the natural long-run rate of unemployment involves structural changes either through a wages and income policy or through the behavioural restructuring of labour market institutions.

Figure 7.4 Policy implications of NAIRU and RATEX



To the contemporary ear, none of the above seems all that controversial. Indeed, it is at the heart of the neoliberal consensus. However, the RATEX augmented Philips curve was very controversial at the time and remained controversial well into the 1980s. Back in the summer of 1978, the Federal Reserve Bank of Boston sponsored a conference provocatively titled *After The Phillips Curve: Persistence of High Inflation and High Unemployment.*[101] In Robert Solow's (Poole and Solow, 1978: pp. 206-7) attempt to

[101] William Poole (Poole and Solow, 1978: p. 210) noted in his summary remarks on the conference:

> One thought I had was to change "After" to "Because of." There certainly is an element of truth in that revised title. Belief in a stable trade-off between inflation and unemployment has had much to do with the persistence of excessively expansionary policies since 1965. But the most appropriate title is, "The Phillips Curve is Dead - Long Live the Phillips Curve."

fight a rear guard action against the incipient rise of the hard version of the rational expectations augmented Phillips curve of Lucas and Sargent (1978) he noted that:

> While I am confessing, I also worry a lot about U*, the natural rate of unemployment... I even have trouble with the vertical long-run Phillips curve. I see its attractions very clearly, and I saw them at the very beginning. In fact, there is a peculiar inner conflict here. Deep down I really wish I could believe that Lucas and Sargent are right, because the one thing I know how to do well is equilibrium economics. The trouble is I feel so embarrassed at saying things that I know are not true. The long-run vertical Phillips curve seems so inevitable... What is the value of U*? What unemployment rate should policy aim at?
>
> Should I believe 5 1/2 percent for now as Wachter [conference participant] tells me I should, or should I believe the 6 percent that Henry Wallich tells me I should, or should I believe the people who tell me that whatever the unemployment rate is today is the natural rate of unemployment for today?

The degree of cognitive dissonance in Solow's remarks is readily apparent. Indeed, it is not just that Solow had doubts about the NAIRU owing to its unobservable status and the lack of an agreed upon protocol for estimating it; it was that he seemingly could not accept the policy implications. A little further on his commentary (p. 207) Solow made the argument that:

> ...you have to have a very good reason for believing that the natural unemployment rate is 5 1/2 percent if you want to go out and face all those people who are unemployed. It is no joke. For statisticians it is just numbers, just something that comes out when you set something equal to zero and divide one number by another. But those fellows out there are not working. You ought to be sure of what you are talking about, and that the right figure is 5 1/2 percent and not 3 1/2 or 4 1/2 percent before you pretend that it has some relevance to practical life.

Solow clearly understood the policy implications of a high estimate of the NAIRU: it would entail nothing short of the government abdicating responsibility for unemployment and the unemployed because owing to the natural rate hypothesis, there was not any voluntary unemployment below that estimate. Monetarism was thus not just, or even primarily, a quantity of money theory of inflation. At a deeper, ideological, level it was a move to restore a Walrasian general equilibrium, or a pre-Keynesian classical liberal view of the economy.[102] On this interpretation, the assumption of RATEX and the long run natural rate conjecture, taken together, were simply the means by which the reality of the persistence of high unemployment could not simply just be ignored, but rather, *encouraged* in order to restore the threat of the sack. The existence of unemployment was to be taken as a sign of imperfect competition principally in labour markets.[103]

Barry Bosworth (1978: pp. 118-19), a participant in the conference who was at the director of Jimmy Carter's Council on Wage and Price Stability, explicitly accepted the new classical formulation of the problem. In Bosworth's estimation it was not a lack of effective demand which plagued the US economy, nor even the supply shocks of the 1970s, but rather, the institutionally determined structure of the economy in general and labour markets in particular:

> ...I think we have to conclude that within the current institutional structures that we have in this country unemployment, or the fear of increasing unemployment, is just not a viable threat or a viable means of trying to stop inflation. By any definition, the social cost of such policies has become intolerable. For better or for worse the fear of unemployment is not very effective anymore in restraining price increases. I think there are various reasons for this, but the basic cause

---

[102] As Frank Hahn (1980: pp. 15-6) succinctly noted in *Economica:*

> But in any event, if the world is in continuous Walrasian equilibrium then the monetarist case is strong, although perhaps not quite as strong as some Monetarists claim. In such an economy there is no involuntary unemployment at any date, and therefore the main Keynesian macro-objective is absent. The Monetarists in some sense do not just object to Keynesian remedies; they argue that there are no Keynesian ills to remedy.

[103] I say principally because imperfect competition in product markets was also implied as we have seen in some accounts.

> is that our economy just really is not that competitive anymore...We once had high degrees of competition, with a system that was very effective in allocating resources. But at the same time **it was a very cruel economic system**...We changed the structure of our economy and attempted to make it more humane by dealing with its worst features and the cruelties of competition. But these changes have made the problem of inflation worse; we have given groups in society more and more discretion over their ability to set wages and prices. If we look at the way that labor markets operate today, there is almost no resemblance to the type of labor market that is described in Paul Samuelson's textbook on economics. *It is not a competitive labor market, and the factors that determine wages seem to have very little to do with the fear of unemployment* (emphasis added).

Notwithstanding his acceptance of the new classical institutionalist like argument with respect to a high natural rate of unemployment, Bosworth would, nonetheless, go on to argue that the only viable solution to stagflation was a voluntary incomes policy on the part of capital and labour. In short, Bosworth was not as yet ready to accept the monetarist *cum* new classical enthusiasm for class war.[104]

The *After the Phillips Curve* conference demonstrates the degree to which reform liberal economists like Bosworth had traversed the terrain from the demand to the supply side of the Keynesian synthesis. As we have already seen, it is in the crucible of RATEX and the NAIRU that the policy hegemony of neoliberalism was forged. Indeed, if the orthodox economists of the 1970s were unwilling to accept the political implications of the Keynesian counter-revolution, politicians and central bankers in the liberal economic zone were. Thatcher's monetarist experiment was so extreme and confused that even her monetarist economic advisor Alan Walters (Frazer, 1982: p. 525) was alarmed at the ferocity of the Lady's application of monetarist dogma (Williams, 2007) and convinced

[104] Writing for the Brookings Institute in 1980, he reiterated the same position.

her to make a partial climb-down. The problem was that although the central bank pledged to keep monetary growth in the high single digits, it grew around 20 percent demonstrating that the exogenous theory of money driving technical monetarism was, at best, a schoolboy's deduction and, at worst terribly, wrong. As Nicholas Kaldor (1985: p. 11) summed:

> ...[growth in the money supply] was planned to rise by 7-11 percent, had actually risen by 22 percent; both the money supply and the price level rose twice as fast under the new monetarist regime than they did under the five years of the previous Labour government. The cause of this was the new government's failure to recognize (in true monetarist fashion) that prices can rise on account of a rise in costs and not only the pressure of demand. Its first budget was deflationary in terms of the pressure of demand but strongly inflationary in its effects on prices, on account of the switch from direct to indirect taxation, the rise in mortgage rates, charges for school meals, etc.

Across the Atlantic, the Volcker led Federal Reserve Board (Fed) was engaged in an even more frightening quasi monetarist experiment.[105] The Fed was not only raising US interest rates at an alarming pace, it was also raising global interest rates causing a severe recession in the US and laying the ground work for a third world debt crisis.

With their economies bathed in yet higher levels of unemployment, which reform liberals like Solow and Bosworth and social democrats like Keohane once thought politically impossible, the Thatcher and Reagan administrations then set their sights on organized labour. Reagan was first out of the gates when he bussed in 900 military air

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[105] I say 'quasi' because the Fed used interest rates and not a restriction of the money supply as they discovered they could not control the private money supply via a control of public base money. In other words, private credit extension is controlled by banks and the only thing the CB can control is the cost of private credit to a degree. In the wake of the recent financial crisis it is now clear the future prospects of debtors is more important in the decision making of private banks to extend credit than is the rate set by the central bank. For a good discussion of monetary theory in general and the post Keynesian endogenous formulations in particular see Marc Lavoie (2003).

controllers and fired over 11,000 striking controllers during the PATCO strike of 1981. Not to be out done, in 1984 Thatcher picked a fight[106] with one of the strongest unions in Britain at the time, the National Union of Mine Workers (NUM). After six strikers were killed, the NUM eventually surrendered. At the time Thatcher remarked: "We had to fight the enemy without in the Falklands. We always have to be aware of the enemy within, which is much more difficult to fight and more dangerous to liberty" (Khabaz, 2007: p. 226; Wilenius, 2004). Clearly, open class warfare had been declared in the Anglo America zone.

THE OECD JOBS STUDY: THE END OF THE BEGINNING

While the timing has been different in the ascendency and dominance of neoliberalism across the advanced capitalist zone, the mid 1990s nevertheless stand out as the period in which neoliberalism became hegemonic in policy circles. By 1994, the OECD had released its landmark *Jobs Study* in which there was a clear shift from the demand side to the supply side. The equally influential follow up entitled *The Jobs Strategy: Pushing Ahead with the Strategy* was released in 1996. Both pushed a supply side explanation of, and agenda for, the resolution of the unemployment problem which arose in the wake of the early 1990s recession across the advanced capitalist zone. The OECD Jobs Strategy clearly was focussed on aiding and abetting capital with its private efforts in the reorganization of concrete labour via the public restructuring of abstract labour.[107]

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[106] Following the script drafted in the *Ridley Report* of 1974, the Thatcher government undertook measures to ensure that any confrontation with NUM would be fought out on an asymmetrical terrain. See the *Economist* (27 May 1978) and for the post-mortem on the strike, see a concise summary by Richard Hyman (1985).

Moreover, there was nothing particularly hidden about its agenda. The OECD merely accepted that increasing international competition in capital and product markets coupled with liberalized trade and capital flows meant that social protections afforded to workers under the Keynesian hegemonic accumulation strategy were unworkable. In the introduction the authors of the 1996 *Jobs Strategy* (p. 5) made the case in a very stark and candid manner.

> The OECD countries as a whole have experienced modest output growth in the past two years. But unemployment remains high and the risks for social cohesion have not been reduced. In most of those countries where unemployment is currently close to or well below its level of 10 years ago, there has been a substantial rise in earnings inequality. In the countries where systems of social protection and redistribution seek to avoid increasing inequalities, unemployment has not diminished significantly. In both cases, political leaders have found themselves caught between what economic logic dictates and what important parts of the electorate and powerful pressure groups wish to protect – what they have acquired in terms of living standards, job security and social protection, which appears threatened by the way economies are developing.
>
> The work carried out by the OECD since the Jobs Study report of May 1994 has confirmed the report's central conclusion – that the differences between countries in their ability to create jobs and to bring down unemployment lie in their different capacities for structural adjustment. In a world where trade in goods and services, as well as international investment flows, develop much faster than domestic economies, where technologies are developed and diffused extremely rapidly, and where domestic markets are being liberalised, competition is constantly increasing. To stay in the race, firms – and their staff – must continuously innovate and improve their efficiency. This objective is essential and is the basis for the general recommendations, now confirmed, which concluded the 1994 report...

A brief discursive deconstruction of the text will perhaps help to focus the discussion. What is noteworthy about the above quotation is the degree to which the

[107] See the concluding chapter for further discussion of this point.

authors understand neoliberal globalization as a fixed immutable structure whereas national welfare regimes are mutable. There was not, nor is there now, any technical or 'natural' reason why, for example, capital could not be hedged in via a different type of managed trade and capital controls regime. For the authors of the OECD report, the structural imperatives were set in stone. The tell, of course, is the sentence that in part reads: "...political leaders have found themselves caught between what economic logic dictates and what important parts of the electorate and powerful pressure groups wish to protect..." Parsing the phrase "powerful pressure groups", which in this context could have only meant trade unions and working families, indicates the degree to which the OECD had identified the electorate and their irrational expectations in light of the 'new reality' as the main obstacle to necessary structural adjustment. The flip side was that politicians *cum* policy makers were painted as hapless pawns stuck between the devil of the dictates of 'economic logic' and the deep blue sea of an irrational electorate which had the temerity to resist the coming tidal wave of restructuring.[108] The 1994 *Report* (part 2b, p. 2 of 3) was equally stark in the manner in which they depicted the problem facing democratically elected (yet rational) politicians with respect to the timing of national structural adjustment:

> The best moment for the introduction of structural reforms is never obvious. On the one hand, when demand is weak, structural reforms may involve labour-shedding with little compensatory job creation elsewhere. The adverse economic results diminish public support for reform. On the other hand, when economic conditions are good the need for change is often not so evident, even if change in these periods would be much less painful.

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[108] Such anti-humanist ambitions from such a respectable international think tank are indeed rarely less disguised.

Nine specific recommendations were put forward in the *Strategy* for ameliorating unemployment.[109] Although making salutary gestures in the direction of technological diffusion and training, these recommendations nonetheless were primarily concerned with encouraging conservative monetary and fiscal policy paired with deregulation of labour markets and the promotion of "entrepreneurialism." Indeed, most if not all of the proposed labour market reforms were of the supply side variety, which sought to make employment laws more employer 'friendly'; workers more flexible by decreasing passive unemployment programs; and increasing active labour market programs in which the onus is placed on the individual worker to retrain and maintain constant contact with the labour market. All of this was to be enforced by decreasing the reservation wage of the unemployed and thus by default increasing the cost of job loss for the already employed. In short, the *Jobs Strategy* sought to cheapen concrete labour via the restructuring of the

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[109] The specific recommendations outlined on page 6 of the *Jobs Strategy* were:

1. Set macroeconomic policy such that it will both encourage growth and, in conjunction with good structural policies, make it sustainable, i.e. non-inflationary.
2. Enhance the creation and diffusion of technological know-how by improving frameworks for its development.
3. Increase flexibility of working-time (both short-term and lifetime) voluntarily sought by workers and employers.
4. Nurture an entrepreneurial climate by eliminating impediments to, and restrictions on, the creation and expansion of enterprises.
5. Make wage and labour costs more flexible by removing restrictions that prevent wages from reflecting local conditions and individual skill levels, in particular of younger workers.
6. Reform employment security provisions that inhibit the expansion of employment in the private sector.
7. Strengthen the emphasis on active labour market policies and reinforce their effectiveness.
8. Improve labour force skills and competences through wide-ranging changes in education and training systems.
9. Reform unemployment and related benefit systems - and their interaction with the tax system – such that societies' fundamental equity goals are achieved in ways that impinge far less on the efficient functioning of labour markets.

institutions governing the reproduction of abstract labour right down to the level of the basic laws governing the labour contract.[110]

These recommendations were made for all member countries of the OECD with little discrimination or qualification. As such, it is fair to say that by at least 1996, neoliberalism had moved from being an ascendant policy paradigm in the Anglo American territories to a full-blown international hegemonic policy paradigm in the sense that official policy centres across the OECD had moved from policies which sought to mitigate the vicissitudes of capitalist labour markets to capitulation. The question was not one of if, but when. The direction national structural adjustment was to take was clear — recalcitrant electorates to the side.

CONCLUSION

In less than two decades, neoliberalism moved from being an insipient tendency within both the mainstream of economics and policy professions to a hegemonic paradigm. At the end of the 1970s stalwarts of the economics profession like Robert Solow remained yet to be convinced of the merits of monetarism or the supply side, structuralist implications of new classical economics. By the 1990s, this ontological model of contemporary capitalism, as we have seen in previous chapters and in this chapter, had almost been completely digested by the mainstream of the economics profession and international public policy centres like the OECD.

Theoretically, none of this was a foregone conclusion as a number of heavyweights in the economics discipline pointed out the contradictions in the monetarist

[110] See the concluding chapter for an elaboration on this point.

cum new classical formulation of the problem. As Robert Solow said of the NAIRU at the time: "Nobody believes the deflationary half of the proposition. I don't know anybody who would even lie out in the sun, let alone be burned at the stake, for the belief that if the unemployment rate is U* plus epsilon and we wait long enough, there would be accelerating deflation. That part no one believes." In hindsight, an argument could be made that a perpetual weakening of unions, the assault on the social wage, and labour standards legislation over thirty years caused just that: a non deflationary rate of unemployment. That said, there remains Nicholas Kaldor's (1985: p. 12) objection to the NAIRU which reduces to the insight that the NAIRU and the quantity theory of inflation are mutually exclusive propositions.

> In Britain, "monetarism" has not been formally abandoned (as it has recently been in Chile), but it is vieux jeu. Nobody watches the money-supply figures any longer with any interest; government ministers, though professing complete consistency in their policies, are increasingly forgetful about money and increasingly emphatic about the need to moderate the excessive rise in wages — something that is quite contrary to Milton Friedman's philosophy.

In short, if inflation is said to be the cause of an increase in the base monetary supply one cannot control inflation via nominal prices (wages): to attempt to control inflation via wages is to proffer a cost push theory of inflation which, as Kaldor points out, is quite contradictory to Friedman's theory of inflation. In this sense, we can fairly conclude that the assault on labour in the hopes of taming inflation was a thoroughly Keynesian affair.

This creates a puzzle of sorts. How can the neoliberal paradigm so seamlessly blend a series of theoretically contradictory ontological propositions into a seemingly coherent policy paradigm? The short answer is that neoliberalism needs to be understood as an ideological resource ready at hand to the owners of capital. It need only be plausible, it need not be rigorous. Part III of this dissertation attempts to empirically establish the degree to which neoliberalism has indeed served the interests of capital as opposed to those who serve its prerogatives — workers.

Part III

CHAPTER 8: THE MISERABLE METRICS OF NEOLIBERALISM

As illustrated in the first two sections of this dissertation, there are at present three central competing narratives in political economy. The neoclassical narrative is rooted in a teleological account of capitalism which is heavily prejudiced in favour of accounts which stress the natural extension of markets and the convergence on best practice via the processes of competition. The second narrative is essentially embedded in a Weberian frame which like its neoclassical counterpart views the development of capitalism as being synonymous with the extension of market rationality and the instrumental modernization of institutions along those lines. Unlike the neoclassical tradition, however, there is a recognition that multiple institutional equilibrium points exist which constrains and enables a feasible set of institutional structurings (path dependency). In short, for Weberian political economy history and society matter, and the playing out of market rationality may take multifarious institutional forms, of which none can be judged *a-priori* more efficient than others. As we have seen, in the VoC incarnation of neo-Weberian comparative political economy, there are essentially two institutional equilibrium points (understood as poles of adjustment) in the organization of advanced capitalist economies. Against these two bourgeois narratives are radical narratives rooted to a greater or lesser extent in a Marxian historical materialism. Rather than viewing globalization as a technologically determined process of the spread of a given instrumental rationality, Marxist political economists have preferred to start from the development and spread of capitalist social relations and the increasing integration of new nations and regions within the modern capitalist interstate system. On this reading, neoliberal globalization is a new phase in the global development of capitalism which coalesced into a more or less hegemonic accumulation strategy in the wake of the long down turn; the ensuing crisis of Keynesianism (understood itself as a hegemonic accumulation strategy) since the early 1970s; and the eventual disintegration of the Soviet Union during the late 1980s and 1990s. The neoliberal paradigm is understood here as an integral system in which domestic and international institutional restructuring have been mutually reinforcing. The two pillars of neoliberalism are domestic price flexibility and the international liberalization of trade and finance. Domestic price flexibility has been predicated on conservative monetary and fiscal policy paired with the flexibilisation of labour markets both of which are enforced by the liberalization of capital and trade flows.

This chapter is principally concerned with providing a quantitatively descriptive account of the Marxian narrative sketched above. I am particularly concerned to provide a macroeconomic description of neoliberalism in the advanced capitalist zone, with special attention paid to those metrics which have direct bearing on labour market conditions and the security of workers under neoliberalism. To that end, I have selected what have been considered to be potential emulative capitalist models at one time or another for advanced capitalist development since the crisis of the 1970s: Sweden, Germany, Japan, the Netherlands, the United Kingdom and the United States. To that list I have added Canada in order to fill out the roster of Anglo American cases.

NEOLIBERAL HEGEMONY AND THE 'SO CALLED' DECLINE OF THE EMULATIVE MODELS

It is a veritable cliché that in the wake of the 'long downturn' that began in the early 1970s, the hegemonic position of reformism began to wane most evidently in the collapse in the confidence of citizens, politicians and, above all, the bourgeoisie. Yet the crisis itself, acute as it was in the United States and other Anglo American social formations, did not immediately manifest in the hegemony of neoliberalism. Indeed, during the 1970s, although early forms of neoliberal experimentation can be pointed to, it was not a foregone conclusion that neoliberalism would necessarily become the hegemonic policy paradigm. As we have seen, neoliberalism was not as yet a fully formed policy paradigm or a coherent accumulation strategy. There are of course many reasons for this. But a key element in the equation was the fact that other national 'models' of capitalist accumulation — Japan, Sweden and Germany most notably — were generating relatively low unemployment and inflation coupled with high productivity and growth during the 1980s. As was argued in the last chapter, throughout the 1980s and into the early 1990s the policy debate was thus open as to which of the extant models might provide the basis for new hegemonic accumulation strategy. Yet, by the early 1990s the macroeconomic performance of both Japan, and Sweden had deteriorated, and by the mid 1990s the lustre of the post-unification Germany had begun to dull. If continental capitalisms (and Christian and social democratic parties) came late to the neoliberal consensus it is in part explained by the viability of their national hegemonic accumulation strategies which prospered in some cases for a decade and a half after what had initially appeared to be a crisis limited to Anglo American countries (and even within this group macroeconomic performances were mixed).

While the timing has been different in the ascendency and dominance of neoliberalism across the advanced capitalist zone, the mid 1990s nevertheless stand out as the period in which neoliberalism became hegemonic in policy circles. The timing of the *Jobs Study* and the *Jobs Strategy* were tied to the evident waning of the macroeconomic performances of the extant alternative models. Graph 8.1 tracks real GDP per capita relative to the US. By indexing the relative macroeconomic performances of the national cases to the US, it is possible to see the relative timings of the decline and ascendency of the national models and thus the confluence of experiences that enabled a neoliberal consensus. For example, Japan and Germany managed to maintain their momentum towards convergence with US levels until the mid 1990s. This in no small part explains why during the 1980s and into the 1990s Germany and Japan were frequently pointed to as alternative models.[111]

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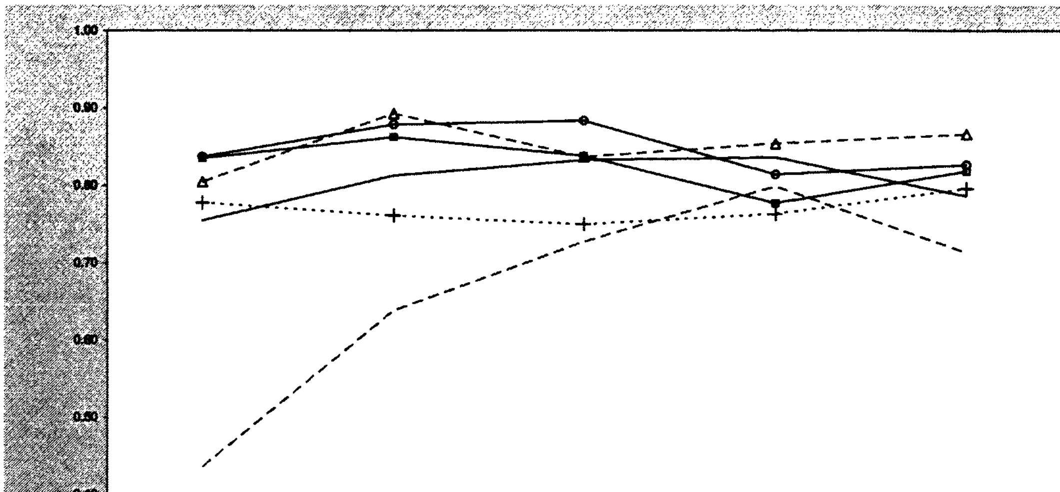
[111] This is most notably so, but not exclusively, with respect to Japan. See Piore and Sabel (1984) for an early example.

Graph 8.1 Decadal comparisons of real GDP per capita relative to the US



	1960s	1970s	1980s	1990s	2000s
CAN	0.84	0.88	0.88	0.81	0.83
DEU	0.76	0.81	0.83	0.84	0.79
GBR	0.78	0.76	0.75	0.76	0.80
JPN	0.44	0.64	0.73	0.80	0.71
NLD	0.80	0.89	0.84	0.86	0.87
SWE	0.84	0.86	0.84	0.78	0.82

Note: USA = 1.00; a score of 0.84 thus indicates that a country is at 84 percent of US GDP per capita for the same decade.
See Data Appendix.

Interestingly, in the case of Sweden, the decline relative to the US set in during the 1970s and began its reversion during the 1990s, whereas the decline of the Netherlands began in the 1970s but was arrested by the 1980s. The UK levels offer no surprises and stick to the well known script of economic decline into the 1980s. From a Canadian perspective, it is significant to note that although stagnation with respect to US levels characterize the 1970s and 1980s real decline did not set in until the 1990s and there from began a minor reversion.

If we take the same data set and look not at relative performances to the US, but rather, rates of growth in real GDP (RGDP) per capita a more intriguing aspect of the debate over the extant models for emulation emerges. Graph 8.2 does just this and it paints a rather bleak picture. What is immediately evident is that the long secular downturn in economic growth was well underway by the end of 1960s across the advanced capitalist zone irrespective of the differences between the models.

Moreover save for the Netherlands and the UK, the trend rate in RGDP per capita growth rates have been lower in each successive decade since the 1960s. In the case of the UK economy, it simply tred water falling below and above group averages over the five decades examined. Over that same period of time, the Netherlands managed a temporary rally in the 1990s only to revert to its downward trend over the course of the first decade of the millennia.[112] The US performance is of note, in that it moved from being one of middling success during the 1990s to one of the worst along with Japan and Germany, the supposed defunct models, during the first decade of the millennia. However, regardless of the above nuances, in all cases there is a significant deceleration in RGDP per capita growth over the 50 years plotted in Graph 8.2. Thus whatever merits one may want to claim for neoliberalism as a hegemonic accumulation strategy, it cannot be based on its merits as a strategy to positively shift structural, long term growth rates higher.[113]

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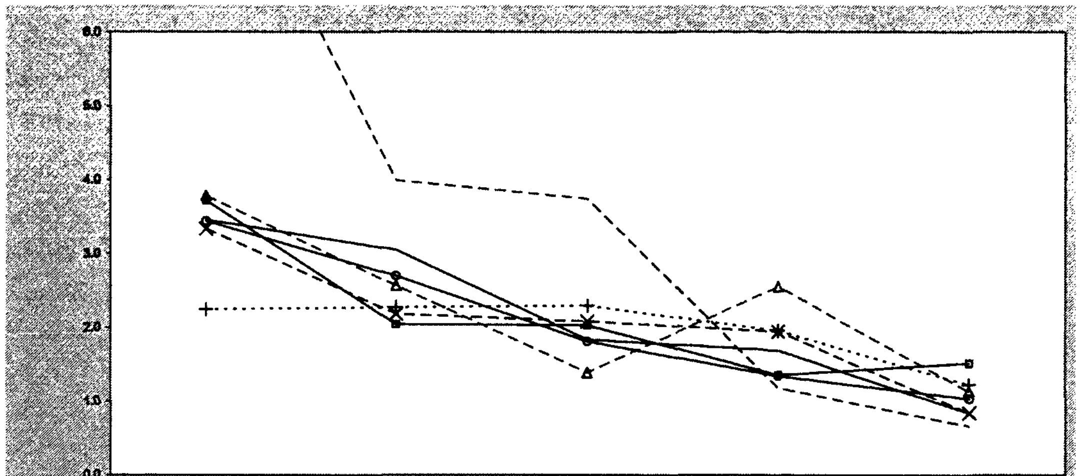
[112] It is perhaps the case that the UK performance simply registers the fact that the British economy had matured earlier then its rivals. I take no particular position on the British decline debate.

[113] Indeed, both the *Jobs Study* and *Jobs Strategy* failed to mention the general secular decrease in GDP per capita growth, subsequent employment growth rates and their interaction with labour force growth rates. See Graphs 8.9 and 8.10 below for an analysis.

Graph 8.2 Decadal comparisons of real GDP per capita growth rates

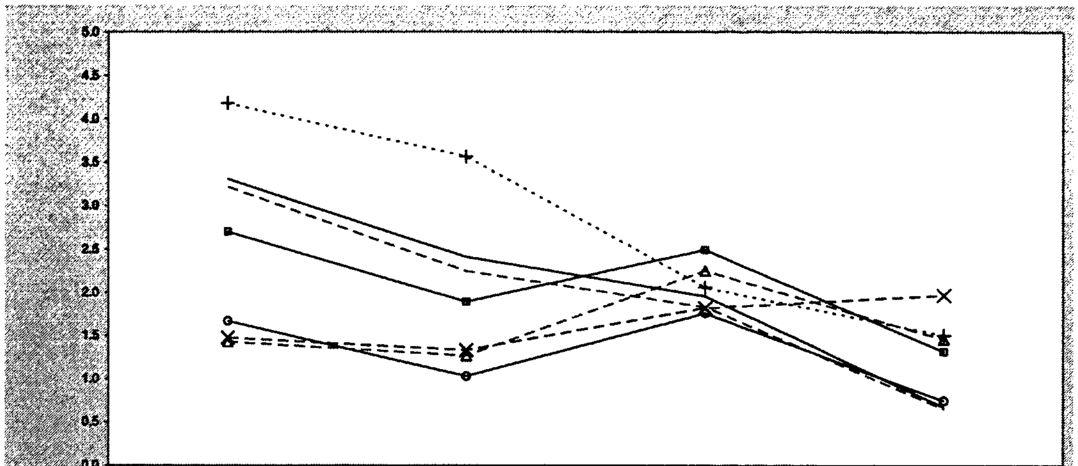


	1960s	1970s	1980s	1990s	2000s
CAN	3.4	2.7	1.8	1.3	1.0
DEU	3.5	3.1	1.8	1.7	0.8
GBR	2.2	2.3	2.3	2.0	1.2
JPN	9.0	4.0	3.7	1.2	0.7
NLD	3.8	2.6	1.4	2.5	1.1
SWE	3.7	2.0	2.0	1.4	1.5
USA	3.3	2.2	2.1	1.9	0.8

See Data Appendix.

If we now switch tack and focus in on the period from the period of 1970-2010 in terms of productivity a slightly different picture emerges. In Graph 8.3, the data has been cyclically adjusted to make for better static comparison. Of the seven cases only the United States managed to meaningfully improve its productivity growth rates over the forty year period covered. Moreover, save for the United States, the productivity growth rates of the first decade of the new millennia were dismal in comparison to the levels of the 1990s for all the remaining cases.

Graph 8.3 Decadal productivity comparisons



	1970s	1980s	1990s	2000s
CAN	1.7	1.0	1.8	0.7
DEU	3.3	2.4	2.0	0.7
JPN	4.2	3.6	2.1	1.5
NLD	3.2	2.2	1.8	0.7
SWE	1.4	1.3	2.3	1.5
GBR	2.7	1.9	2.5	1.3
USA	1.5	1.3	1.8	2.0

See Data Appendix.

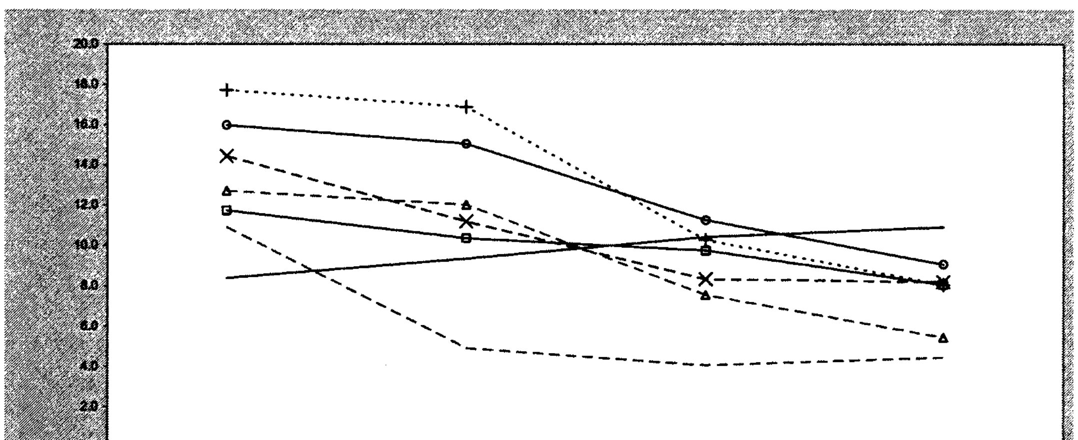
As we shall see below, some of the explanation in the particularities between the impression left from Graph 8.2 and 8.3 has to do with labour force participation rates. The other part of the story is partly addressed in Chapter 9 where investment and profit rates are examined. At a general level, however, the two Graphs tell a similar story which is that of generalized slowdown of which the Unites States is only a partial exception. In the case of the other early adopters of neoliberalism, the United Kingdom and Canada, productivity and GDP growth rates remained below their 1970s averages. And although the 1990s looked promising for the UK, one of the early neoliberal adopters, their last cycle's productivity performance was equally poor when compared to the 1990s and when compared to 1970s and 1980s. Equally telling, for the reluctant or late neoliberal adopters — Sweden, Germany and the Netherlands — their productivity performances were all worse after a decade of neoliberal restructuring. Of course, it would be remiss to conclude that neoliberal restructuring was responsible for the decline. But it would be equally remiss to suggest that the decline was caused by Keynesianism or labour market rigidities as the decline began before the putative crisis of Keynesianism (stagflation) and remained the central tendency some three decades after the beginning of neoliberal reforms.[114]

Notwithstanding the above, if we switch to the issues of price stability and unemployment rates, the initial *raison d'être* of neoliberalism, then a different assessment of the relative merits of neoliberalism emerges. Accordingly, in Graph 8.4, I have plotted cyclically adjusted decadal averages of the so called 'Misery Index' (MI) which is a simple sum of inflation and unemployment rates. The Canadian experience has been exemplary in this regard scoring the worst or the second to worst of all the cases studied *inter alia* over the four decades from the beginning of the 1970s until the end of the first decade of the millennia. More interestingly with the respect to the debate over the relative superiority of LMEs and CMEs, Japan and the Netherlands managed the lowest scores on the (MI) from the 1990s onwards. This is significant as the Netherlands and Japan are not considered to be model exemplars of either ideal type. The United States

[114] As I noted above the US actually managed a turnaround in productivity growth. This is particularly so since the 1990s. Andrew Glyn (2006) noted that nearly two-fifths of that growth was due to growth in the retail and wholesale sectors. However, "the glamorous new economy sectors as a whole (computers, machinery, telephone and telegraph and software) only accounted for around one-fifth of the productivity acceleration" (p. 133). Much of the rest of labour productivity growth in the US can be chalked-up to a successful effort on the part of managers to intensify the labour process particularly from 2000 onwards.

and Germany, the supposed two polar opposites,[115] posted the second and third highest levels respectively in the fist cycle of the new millennia. The significance lies in the fact that as originally set out within the VoC paradigm, as was mentioned in Chapter 3, the ideal types were conceived of as coherent institutional equilibrium points (strong attractors) such that the more policy conformed to the ideal type the more successful it ought to be. Hence the reason they argued neoliberalism was appropriate for LMEs. So even if Germany is left to the side, it does not explain why the US should have preformed so poorly. In fact, five of the seven cases have been classified as neatly fitting into one of the two ideal types and all five had the highest scores on the MI.

Graph 8.4 Decadal comparisons of the misery index (MI)



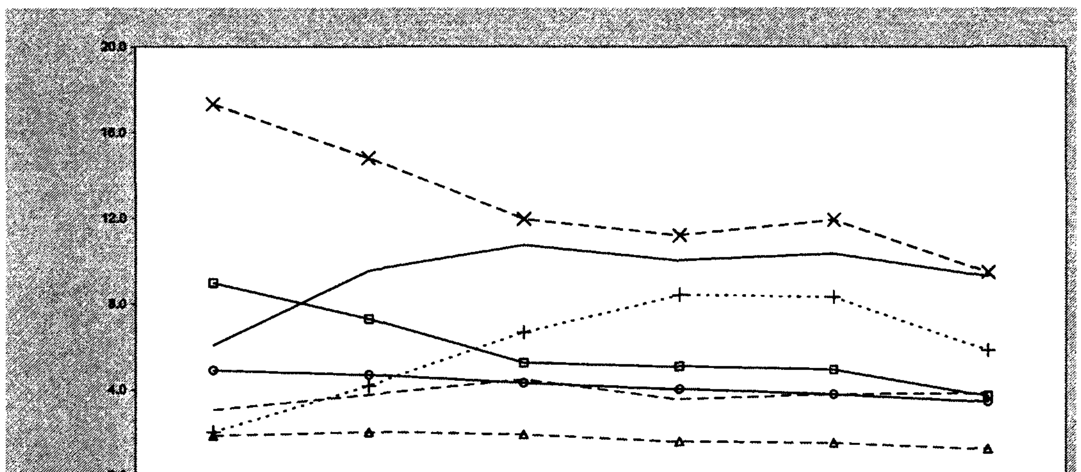
	1970s	1980s	1990s	2000s
CAN	16.0	15.0	11.3	9.1
DEU	8.4	9.3	10.4	10.9
GBR	17.7	16.9	10.2	8.0
JPN	10.9	4.9	4.1	4.4
NLD	12.7	12.0	7.5	5.4
SWE	11.7	10.3	9.7	8.0
USA	14.4	11.2	8.3	8.2

See Data Appendix.

[115] See Streeck (2009) for a definitive promulgation of the argument that Germany if it ever was the model CME essentially was no longer after re-unification.

Moving away from consideration of the relative performances of the individual cases and the inconsistencies within the VoC paradigm, there is the obvious observation to make that neoliberalism has been successful in achieving price stability. Indeed, from the 1990s onwards almost all the differences in the scores in the MI are attributable to differences in unemployment rates as inflation rates clustered into a tight band between 0 and 3 percent.

Graph 8.5 Decadal comparisons of international merchandise export shares



	1950s	1960s	1970s	1980s	1990s	2000s
CAN	4.9	4.7	4.3	4.0	3.8	3.4
DEU	6.1	9.6	10.8	10.0	10.3	9.3
JPN	2.0	4.2	6.7	8.4	8.3	5.8
NDL	3.1	3.8	4.5	3.5	3.8	3.8
SWE	1.9	2.0	1.9	1.6	1.5	1.2
GBR	9.0	7.3	5.2	5.1	4.9	3.7
USA	17.3	14.8	12.0	11.2	11.9	9.5

See Data Appendix.

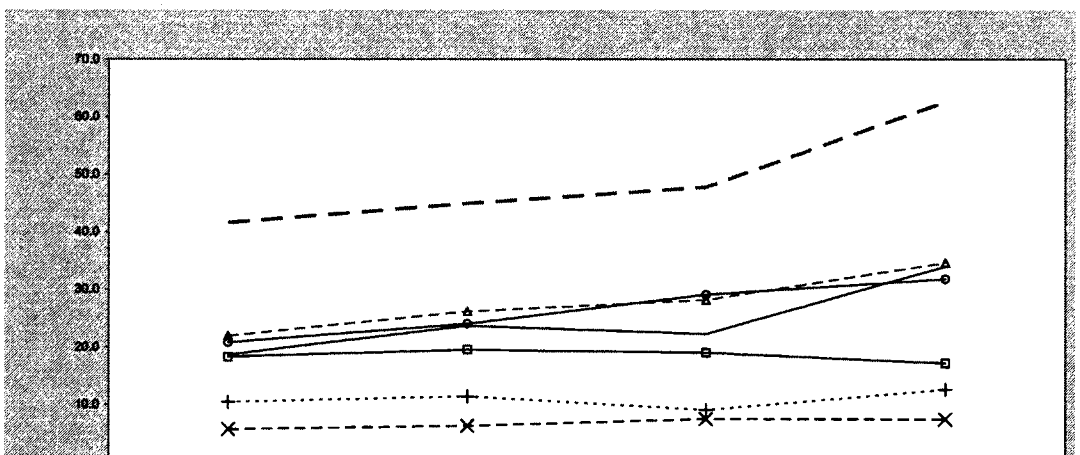
If domestic price stability can be said to be a hallmark of the neoliberal policy paradigm, there has been no concomitant parallel process working to equalise international balances.[116] That is to say, neoliberalism has worked to intensify structural imbalances in the world economy. To be sure, new competitors caused an intensification of competition which altered the global market shares of the leading capitalist countries (Brenner, 1998). Graph 8.5 plots the market share of the seven cases. There are distinct timings in the rise and fall in each of the national cases' market shares. During the 1950s, the United States alone had around a 17 percent global merchandise export share which had declined to around 9.5 percent by the end of the last decade. The decline of British export market shares was equally precipitous over the 1950s and 1960s. The flip side is that it was between the 1960s and 1980s that Japan and Germany increased their market shares dramatically. They more or less held on to those shares until the 1990s, with their declines not becoming fully apparent until the last decade. All of this fits with the general narrative: the British and American 'models' of Keynesianism fell on hard times precisely because they were being bested by their export driven emulators. The weakness in export Keynesianism did not become fully apparent until towards the middle of the 1990s, some two decades after it was apparent for the US and the UK (to which perhaps can be added Canada). The Netherlands and Sweden are interesting because, despite a minor uptick during the postwar period, these gains were largely annulled by the last decade.

To clarify and add some nuance to the narrative, it is useful to consult other metrics with respect to international trade. If we shift perspective and move away from static comparisons to a dynamic evaluation of the individual cases in their own right

[116] This is of course contrary to what would be predicted from standard trade and monetary theory. See Shaikh (2007).

some salient facts emerge. In Graph 8.6, merchandise exports as a percent of GDP for each national case are plotted. At a general level, what is most striking is the degree to which export effort has not necessarily translated into market share. Taking Canada as an example, in the 1970s merchandise exports accounted for around 21 percent of GDP with a global export market share of around 4.3 percent. By the first decade of the millennia, Canadian exports as a percent of GDP had risen to around 30 percent, whereas market share had decreased to 3.5 percent. The Netherlands is an equally dramatic example of the degree to which export effort only weakly translates into market share: despite increasing exports by 150 percent of GDP over four decades, the Dutch also managed to loose market share.

Graph 8.6 Decadal comparisons of exports as a percent of GDP

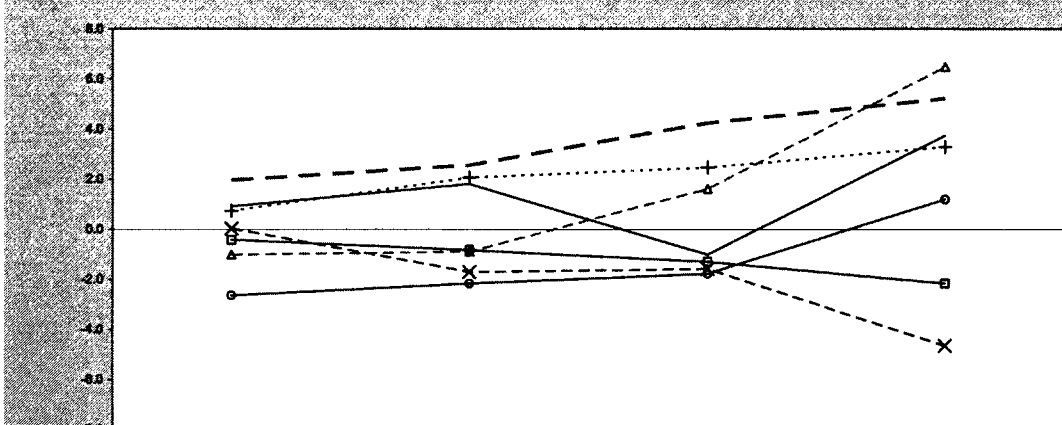


	1970s	1980s	1990s	2000s
CAN	20.8	24.0	28.1	31.8
DEU	18.8	23.7	22.3	34.0
JPN	10.4	11.4	9.1	12.8
NLD	41.6	44.9	47.8	62.8
SWE	21.9	26.2	28.2	34.8
GBR	18.3	19.5	19.0	17.2
USA	5.7	6.3	7.5	7.4

See Data Appendix.

Significantly, the United States and United Kingdom are the two countries in the sample in which export effort has stalled over the two last decades and thus explains the continuing decline in their export market shares.

Graph 8.7 Decadal comparisons of current account balances as a percent of GDP



	1970s	1980s	1990s	2000s
CAN	-2.64	-2.17	-1.78	1.19
DEU	0.91	1.80	-1.00	3.75
JPN	0.73	2.06	2.47	3.30
NLD	1.97	2.56	4.24	5.23
SWE*	-1.02	-0.90	1.61	6.46
GBR	-0.42	-0.84	-1.29	-2.16
USA	0.02	-1.71	-1.58	-4.66

See Data Appendix

By way of summary, Graph 8.7 presents the current account balances of the cases. Despite (or because of) the radical nature of restructuring in the Unites States and Great Britain since the early 1980s both have run persistent and growing current account deficits. As the Graph makes clear, in the case of the United States the current account balance deficit grew to average over 4.5 percent of GDP for first decade of the new millennia. In the opposite direction, Japan and the Netherlands have had steady increases in their surpluses since the 1970s. Germany managed to post solid current account surpluses over the last decade. Sweden is the only case which managed what could be termed a dramatic reversal of fortunes posting a nearly 6.5 percent surplus for the last decade. During the last decade, Canada finally managed to break a three decade long run of current account deficits turning mildly positive over the last decade, although since the last recession, returning to a mild deficit.

What this section makes most clear is that it is not possible to draw any straightforward generalization about the overall success and failure, based on the relative empirical status and merits, of the macroeconomic performance of the cases. Nor is it possible to make the case that neoliberal restructuring delivered, to either its early or late adopters, a remedy for the long downturn. The general trends are of declining GDP and productivity growth along with declining global export shares. By the first decade of the new millennia none of the putative models stood out as exceptional macroeconomic performers. By the end of the first decade of the millennium, unemployment returned to the LMEs with a wicked abandon. The one caveat is that in all the national cases price stability was achieved and has been maintained since the 1990s. As we shall see below, the move to restructure labour markets along neoliberal lines as advocated in the OECD *Jobs Strategy* has met with limited success as well.

'FUNCTIONAL' UNEMPLOYMENT AND MODELS OF 'FLEXPLOITATION'

It is perhaps not too grave an exaggeration to say that if price stability in pursuit of corporate profitability has been the real object of policy makers' affections,[117] unemployment was initially the popular terrain on which agitation for neoliberal (structural) reforms were made.[118] As was demonstrated in the last chapter, in the mid 1990s the OECD was unequivocal in arguing that policy makers had a choice to make between tolerating high unemployment or higher income inequality. However, it was by and large a false choice. As Graph 8.8 makes clear none of the cases have managed to solve the unemployment problem if by that it is meant what was once conventionally understood as full employment and not its contemporary distant cousin the NAIRU.[119] Moreover, as we shall see in Chapter 9, there has been a general trend toward increasing income inequality for the cases presented *inter alia*. Indeed, the Netherlands stands alone

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[117] Recall that the goal of price stability is given pride of place in the McCracken report and OECD *Jobs Study*.

[118] The irony, of course, as the latest economic crisis reveals, is that almost any pretence that high unemployment occupies the concerns of policy makers in the advanced capitalist zone has been abandoned. As argued in the previous chapters, the hallmark of neoliberalism in terms of domestic policy is an abiding concern with price stability. In other words, it is by now clear that neoliberal macroeconomic policy is not about restoring full employment but rather it is about maintaining functional levels of unemployment in the furtherance of price stability and fiscal conservatism. As of the time of finishing the draft of this chapter unemployment across the EU is above 9 percent as it is in the US; core inflation remains within the major CBs target and yet on both sides of the Atlantic governments are engaged in what they believe to be 'stimulative' austerity. In the July 21st 2011 communiqué with respect to a negotiated Greek default, the EU heads of state made it clear that austerity was the order of the day regardless of the particular budgetary health of its members. To wit they pledged:

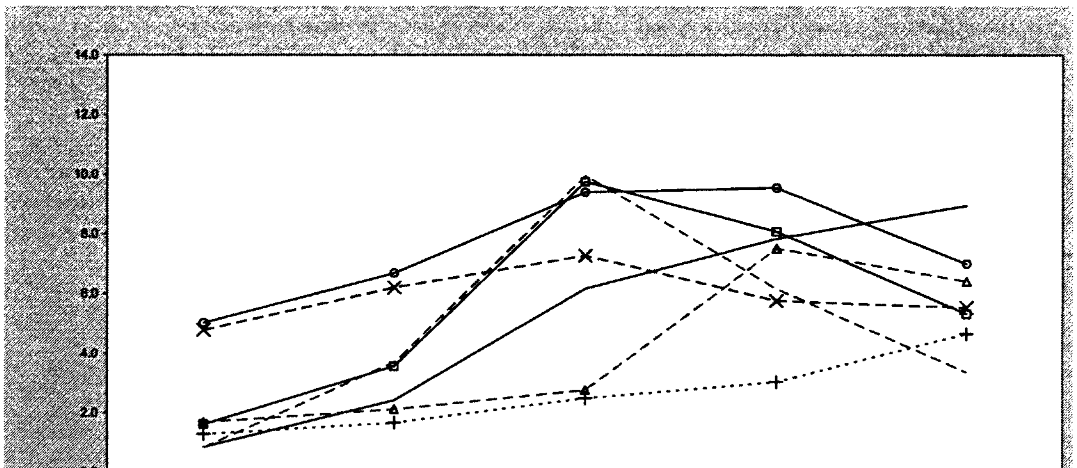
> All euro area Member States will adhere strictly to the agreed fiscal targets, improve competitiveness and address macro-economic imbalances. Public deficits in all countries except those under a programme will be brought below 3% [of GDP] by 2013 at the latest (p. 4).

In the US, the two parties are busy arguing over who can retrench the government the fastest.

[119] Given the discussion in Chapter 7, this is hardly surprising. The NAIRU is almost by definition whatever the existing medium term unemployment rate has been and thus moves up and down with the business cycle. In other words, from a policy point of view, under the neoliberal paradigm unemployment is not the concern of either monetary or fiscal authorities — price stability and profits are.

amongst the cases in achieving what might be considered something close to full employment. That said, as we shall see below, it has done so, by and large, by casual and part time employment.

Graph 8.8 Decadal comparisons of unemployment rates



	1960s	1970s	1980s	1990s	2000s
CAN	5.02	6.69	9.40	9.55	7.00
DEU	0.86	2.43	6.17	7.84	8.96
JPN	1.29	1.87	2.50	3.04	4.68
NLD	0.83	3.70	9.96	6.16	3.36
SWE	1.69	2.12	2.77	7.52	6.42
GBR	1.62	3.57	9.76	8.06	5.33
USA	4.78	6.21	7.27	5.76	5.54

See Data Appendix.

What was left out of the *Jobs Study and Jobs Strategy* account was a thorough consideration of the dynamics between the supply and demand for labour and the secular decline in GDP growth. Plenty of attention was paid to supply side measures which the OECD hoped would boost private sector growth and thus employment. But what they failed to seriously consider was the timing in the expansion that took place in labour force participation rates in the context of a secular decline in growth (see Graph 8.10 below). As we saw above, the secular decline in GDP per capita growth was not staunched by the implementation of such supply side measures. In all but the US and

Japan (and to some extent the Netherlands), the 1990s were a period of exceptionally high unemployment.[120] Moreover in the cases of Germany, Canada and the UK, the 1990s were a replay of the dismal 1980s. Interestingly, while some attention (negative in terms of public sector growth) was given to Germany and Canada in the initial *Jobs Study,* Japan was almost entirely ignored and the UK was skimmed over in order hold-up flexible US labour markets and supply side policies as the direction reform ought to take. This gilding of the neoliberal lily would not have been so easy had the OECD recognized that by all accounts Britain was an early, enthusiastic protagonist and a crucial sight of neoliberal experimentation under the 'yoke' of Margret Thatcher and then later under the tutelage of Tony Blair's New Labour government.[121] Yet, the first half of decade of the 1990s in the UK was a pronounced period of unemployment: a fact that was not at all deemed worthy of serious consideration when it came to formulating policy recommendations in either of the two OECD policy briefs.

This last point has direct bearing on the limitations of the VoC paradigm. To reiterate, in the VoC paradigm system-conforming policies are supposed to produce superior macro-economic results. Thus the types of reforms undertaken in the US, the UK and Canada during the 1980s and 1990s ought to have produced superior results. Yet, only with respect to the US, could the plausible argument be made.[122] If

[120] In the case of Japan, open unemployment rates have been creeping up since the 1960s indicating a durable trend towards convergence with its advanced capitalist brethren.

[121] On the neoliberal nature of New Labour, see Hay (1999), Jahn (2000), Lavelle (2007, Ch. 7).

[122] And even here the results are ambiguous as an equal powerful argument could be made that low unemployment in the US was merely a function of a bubble economy. Indeed, in the wake of the financial crisis and ensuing recession the official unemployment rate (U-3) in the US averaged over 9.5 percent from

neoliberalism was a model-conforming set of policies for LMEs, then the UK and Canada should have had much better macro-economic performances than they actually did. Moreover, while it is true that the performance of the UK and Canada was better during the first decade of the new millennia that was more or less true for all the cases excluding Japan and Germany. Significantly, all the cases could be fairly said to have embraced neoliberal reforms by the early to mid 1990s.[123] On the one hand, if for Sweden the apparent results seemed, if not egalitarian (see Chapter 9), promising with a more than reasonable performance in terms of economic growth and marginal improvements in their open unemployment rates (although nothing like which existed up to the end of the 1980s). Germany, on the other hand, continued to produce high levels of open unemployment along with *relatively low participation rates* (see Graph 8.9 below) and relatively low levels of economic growth. In any event, the evidence confirms that it is indeed hard to make any strong connection between neoliberal restructuring and macro-economic performance.[124] There is little evidence to suggest that, model-conforming or not, neoliberal policies have consistent impacts on the macro-economic performances of the models. What is clear, as we shall see, however, as a hegemonic accumulation

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July 2009-2010 with the U-6 rate for the same period averaging over 16 percent. See the Bureau of Labour Statistics (BLS) series *Historical 'A' Tables (Household data).*

[123] For the particulars on the long, slow demise of social democracy and its capitulation to neoliberal restructuring in Sweden and Germany, see Pontusson (1994), Ryner (1998; 2004) and Lavelle's (2007; 2008: Chs. 9-12) exhaustive treatments.

[124] A judgement which is further bolstered by the financial crisis of 2007 and the distinct possibility that the last boom which painted liberal market economies and neoliberal reforms in such an undulating light was in fact a chimera stoked by a credit boom and a corresponding debt soaked consumption binge.

strategy neoliberalism has produced more, not less, insecurity among the working classes in the advanced capitalist zone.

Moving away from the open unemployment rate, which is a somewhat idiosyncratic measure of labour market performance,[125] to more specific analyses which probe the relationship between the supply and demand for wage labour and the quality of demand, it becomes clear the degree to which labour markets have become much more precarious. At the most general level, one of the most striking observations which can be made is that households are supplying more paid labour than at any other point in history. During the 1960s, the averaged employment rate for all the cases was around 69 percent and by the 2000s the group average was 73 percent.[126]

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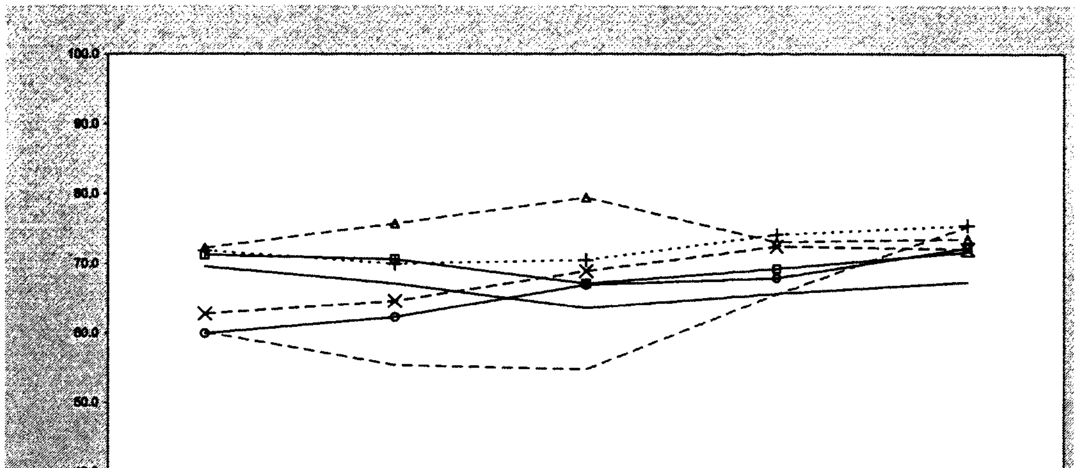
[125] It is an idiosyncratic measure for several reasons. It is a relative measure which is subject to volatility in the denominator (i.e., changes in the size of the labour force). Second, national definitions of what it means to be in the labour force have changed over time and vary between national surveys. Third, unemployment rates do not measure underemployment. While some jurisdictions like the US do provide expanded measures no internationally comparative data exists. Fourth, open unemployment rates vary as much within national jurisdictions as they do between national jurisdictions. Open unemployment rates thus are only a very crude measure of labour slack.

[126] The calculations are based on an un-weighted simple average of the data provided at the bottom of Graph 8.9.

Graph 8.9 Decadal comparisons of employment to population ratios

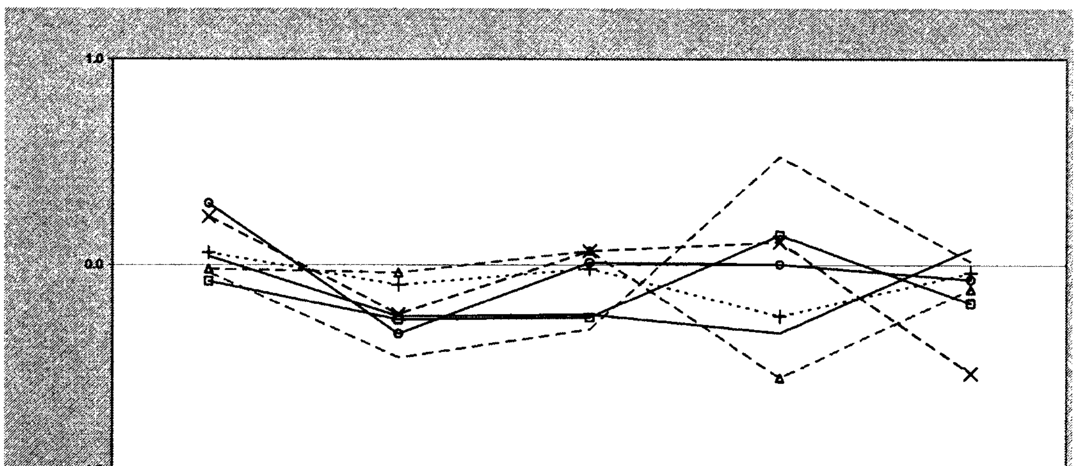


	1960s	1970s	1980s	1990s	2000s
CAN	59.98	62.28	66.94	67.93	72.26
DEU	69.80	67.15	63.58	65.57	67.34
JPN	71.92	69.99	70.53	74.17	75.47
NLD	60.14	55.42	54.80	65.80	75.31
SWE	72.29	75.76	79.48	73.10	73.56
GBR	71.29	70.83	67.15	69.28	71.83
USA	62.78	64.63	68.94	72.48	72.07

See Data Appendix.

Looking more specifically at the national cases, interesting aspects emerge about the dynamics between labour force growth rates and unemployment. In the Canadian case, employment rates shot up by 7 percent from the 1960s to the 1980s, and again by 7 percent between the 1980s and the first decade of the new millennia. However, even though employment rates were increasing, the unemployment rate was edging higher every decade until the end of the 1990s *because the increase in labour force participation rates were larger than the underlying growth in the potential labour force* (15-64 year old population). If, for example, we subtract labour force growth rates from employment growth rates, as is done in Graph 8.10 below, it becomes apparent that employment growth during the 1970s and 1980s compared quite favourably with employment growth during the 1960s. By the 1990s, however, employment growth (minus labour force growth) went negative resulting in historically high unemployment rates. It is particularly this type of analysis that was left out of the OECD *Jobs Study* and *Jobs Strategy* thus making it seem as though passive labour market policies were the cause of high unemployment and welfare rates. To continue, employment growth in the 2000s was not very robust compared to all the other decades except the 1990s in Canada. Passive labour market policies in Canada were less generous in the 2000s than at any point since the 1960s, yet employment growth was less than half as strong during the 2000s then it was from the 1960s through to the end of the 1980s.

Graph 8.10 Decadal comparisons of labour demand and labour supply growth



	1960s	1970s	1980s	1990s	2000s
CAN	0.30	-0.34	0.01	0.00	-0.07
DEU	0.04	-0.25	-0.24	-0.33	0.06
JPN	0.06	-0.10	-0.02	-0.25	-0.04
NLD	-0.04	-0.45	-0.31	0.52	0.02
SWE	-0.02	-0.04	0.07	-0.55	-0.12
GBR	-0.08	-0.27	-0.26	0.14	-0.19
USA	0.23	-0.24	0.07	0.11	-0.53

See Data Appendix.

Similarly, if we take a look at the US, the archetype of an LME and the object of OECD affection during the 1990s (as far as job creation was concerned), employment demand was significantly stronger than labour force growth rates during the 1970s and 1980s, on par during the 1990s, and dismal during the 2000s. The result of which was a slight decline in the employment to population ratio. What allowed for a slight decrease in the average unemployment rate during the 2000s, therefore, was a slight shrinking in the size of the labour force. None of this suggests that labour market policies were the cause of the high unemployment of the 1980s or that the restructuring of the American welfare system under President Clinton had much impact on employment creation. Indeed, the inverse would seem to be case. Sweden is a particularly interesting case because it managed to achieve an employment to population ratio of nearly 80 percent during the 1980s matched by an open unemployment rate of just 2.8 percent. However, as the consequence of a financial crisis for the better part of the first half of the 1990s — which had it origins in financial deregulation during the mid 1980s (Englund, 1999) — the open unemployment rate soared to over 10 percent and resulted in decadal unemployment rate of 8.5 percent. In fact, labour demand averaged *negative* 1.5 percent over the decade of the 1990s leaving Sweden with an employment to population ratio of 73 percent down a full 7 percentage points from the 1980s.[127] As the data make clear, the Swedish labour market still had yet to recover to its levels of the 1980s let alone the 1970s and 1960s. Sweden has thus come to embrace functional unemployment over full employment. This is true for all the cases save for the Netherlands, which is a special case for the reasons outlined below.

[127] The OECD *Jobs Study* and *Jobs Strategy* had nothing to say about the Swedish financial crisis in keeping with its generalist ideological perspective.

The Dutch record of employment does indeed stand-out among the model cases. Between 1980 and 2000, the Dutch economy created a significant surplus of jobs over and above the underlying growth of the potential labour force — an unparalleled achievement among the cases. Yet as Graph 8.11 illustrates, the Dutch accomplished this via the encouragement of part-time employment. In 1983, part-time employment accounted for 18 percent of total employment and by 2009 it accounted for 37 percent of unemployment: a hundred percent increase.[128] The restructuring of labour market institutions under the Polder Government were thus successful in sharing out employment, but not creating full employment. Woldendorp and Keman (2007: p. 320) concluded that:

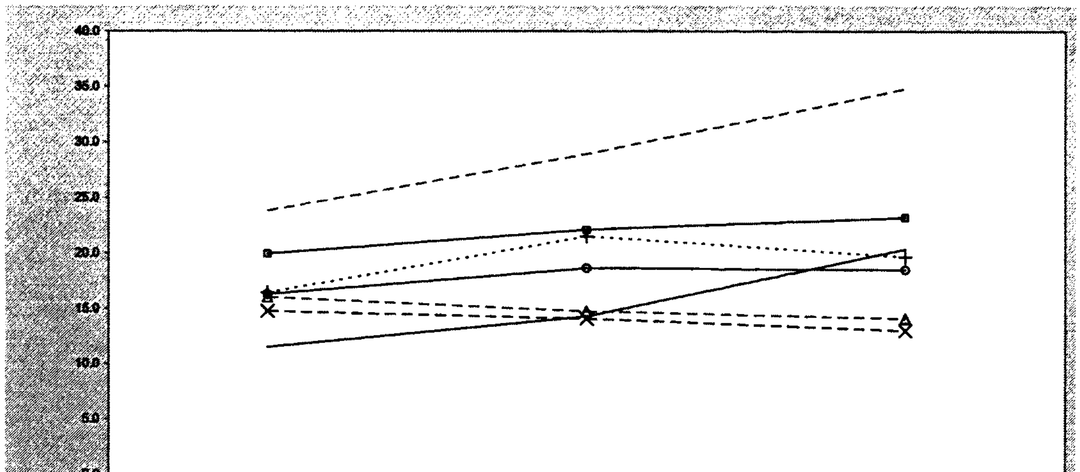
> [I]nstitutional cooperation and active labour market policies did indeed produce more jobs. However, these were mainly part-time jobs for young people and women, and job growth did not result in either higher rates of employment or less 'broad' unemployment (i.e. registered unemployed and social security beneficiaries aged between 15 and 64).

As we shall see, the dominant pattern for the corporatist models studied is one of shared austerity, with market incomes being dispersed widely among more workers along side a general retrenchment in welfare spending (see section below). Perhaps not surprisingly Germany, too, embraced part-time employment as a partial solution to its unemployment problem. While Germany did show strong employment growth over the last decade most of this was of the part time variety increasing from 14 to 20 percent of total employment over the last decade. Japan and Canada saw pronounced one-off increases between the

[128] The incidence of part time employment is very sensitive to the definition. Graph 7.11 is based on a common definition (less than 30 hours). On a national definition basis (less than 35 hours) in 2009 46.5 percent of all Dutch employment was of the part-time variety (Statistics Netherlands, 2011).

1980s and 1990s with stabilization during the last decade. The UK saw a moderate yet steady increase in part-time employment over the last three decades in keeping with the overall European experience (Schmid, 2011). Caution must be exercised when interpreting the data for the US presented in Graph 7.11. The OECD uses a common definition which sets less than 30 hours as the cut-off for determining who is part time and who is full time. The US like the Netherlands uses a less than 35 hour definition (see fn. 20 above) to distinguish part time from full time employment. Unlike the Netherlands however, the OECD definition reverses the trend for the US rather than just the magnitude of part time employment. As shown in the data presented in Graph 8.11, there has been a declining incidence in the level of part time employment. However, on the national definition there has been a mild increase in the incidence of part time employment.

Graph 8.11 Decadal comparisons of part time employment as a percent of total employment



	1980s	1990s	2000s
CAN	16.27	18.61	18.45
DEU	11.51	14.25	20.33
JPN	16.43	21.49	19.64
NLD	23.62	28.92	34.82
SWE	16.00	14.73	14.06
GBR	19.92	22.09	23.19
USA	14.74	14.06	12.97

See Data Appendix.

The data suggests four significant structural shifts have taken place in advanced capitalist labour markets. First, there has been a general feminization of labour markets. Male participation rates have decreased while female participation rates have increased. [129] This could be interpreted as a progressive structural change if female workers were gaining access to core 'golden age' jobs, but they are in fact not (Fast, 2005). Second, feminization has occurred in the context of the winding down of the core sector for

[129] While there has been a general trend toward dumping unemployment on youth, it must be acknowledged that in particular cases there has been cloaked dumping of unemployment on older and low-skilled male workers. This is particularly the case in the US and the UK. Male participation rates have been declining in Europe as well. Where there is significant divergence is in the low-skill sections of the labour market. In general, low-skilled European men have faced a decline in the employment to population of around 1 percent. In the US, the trend is flat with almost all the growth in low-skilled employment going to women. See analysis in Glyn (2006: Ch. 5).

males: that is, a winding down of unionized, living-wage remunerated, secure full time employment resulting in the increase of precarious work. Third, the growth in the secondary labour market has drawn from both female labour reserves and also youth labour reserves. The fourth durable and generalized trend across the cases is the increasing 'dumping' of unemployment on youth workers. In what follows, I will take a closer look at the deterioration of youth labour markets and the evolving situation of women with respect to part time employment.

It is perhaps not surprising that youth unemployment rates are higher than the official open unemployment rates. The usual explanation is that youth have higher search times and a higher frictional rate of unemployment, which all things being equal translates into a higher unemployment rate than the general rate. I take no particular position on the standard conjecture.[130] However, what these search models cannot explain is why there should be an increase in the gap between youth and general unemployment rates irrespective of the level of general unemployment. That is to say, the gap between youth unemployment rates has trended higher despite lower unemployment rates in most of the cases studied. Graph 8.12 tracks the gap in youth unemployment since the 1980s (1990s for Sweden and 2000 for Japan). Taking the Anglo American countries first, in every decade since the 1980s the gap between the youth unemployment rate and the general rate has increased. In the case of the UK and Canada, the major widening of the gap occurred between the 1990s and the 2000s. This is significant because this widening of the gap occurred in the context of the supposedly

[130] The dominant search paradigm has been consistently challenged by labour economists. See the various contributions in R. Freeman and D. Wise (1982) and in D. Blanchflower and R. Freeman (2000).

tight labour markets of the 2000s. If we then turn to the Dutch and German experiences, the data seem to indicate that the situation in the 1990s improved for youth only to deteriorate again in the 2000s. However, as Franz *et al.* (2000) demonstrate with the respect to Germany, youth unemployment was masked by low levels of labour force participation. Unemployment was low because, according to Franz *et al.,* youth were systematically barred from entering paid labour markets. As we have already seen, the unemployment rate in Sweden jumped in the wake of the financial crisis of the 1990s and researchers at the time were alarmed by how rapidly and the extent to which conditions in the youth labour market deteriorated. As P-A. Edin *et al.* (2000: pp. 359-60) observed:

> Youth unemployment skyrocketed as the slump hit the Swedish economy in the early 1990s. Overall unemployment increased from 1.6 percent to 8.2 percent between 1990 and 1993 and has remained stubbornly high. Unemployment among 18-24-olds increased from 3.5 percent to 19.1 percent during the same three-year period. The overall employment-to-population ratio declined by 10 percentage points, whereas the youth employment rate declined by no less than 25 percentage points...Whereas average unemployment among 20-24 year-olds increased from 3 to 17 percent between 1990 and 1994, unemployment among foreign citizens in this age group rose from 6 to 30 percent.

The authors also pointed out that the deterioration in youth labour markets came on the heels of a massive ramping up of active labour market policies specifically targeted at youth since the mid 1980s. By 1993, 1 in 10 youths were involved in active labour market programs. And despite the continuation of these programs, and a decline in the open unemployment rate since the 1990s, the gap in the youth unemployment rate continued to yawn during the 2000s.[131]

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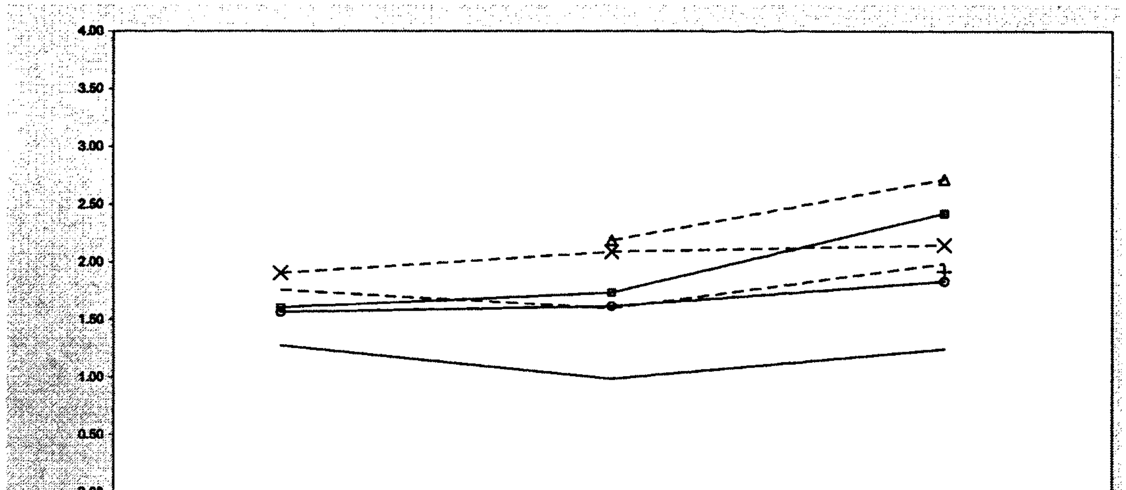
[131] Clearly not the outcome anticipated in either the OECD's Jobs Study or Jobs Strategy.

Youth part time employment statistics confirm the analysis that labour market conditions have gotten worse not better since neoliberal restructuring. Indeed, the trend across the cases (see Graph 8.13 below) is broadly similar, although there is quite a difference in the initial incidence levels. During the 1980s, roughly 15 percent of youth were employed part time. By the 2000s, however, nearly one in three youth were employed part time. The rise in the incidence of part time youth employment is equally severe in the Dutch case. Whereas during the 1980s, one of every four youth were employed part time, by the 2000s that ratio was two to one. In Canada during the 1980s, one of every three jobs for youth was part time. By the first decade of the 2000s, part time and full time positions were approaching parity. The US had the most moderate increase in part time youth employment increasing only four percent over the three decades. In line with other trends already examined, is the observation that a structural shift occurred in labour markets such that either the deterioration in labour market conditions stabilized or continued to deteriorate further.

Graph 8.12 Decadal comparisons of the youth unemployment gap



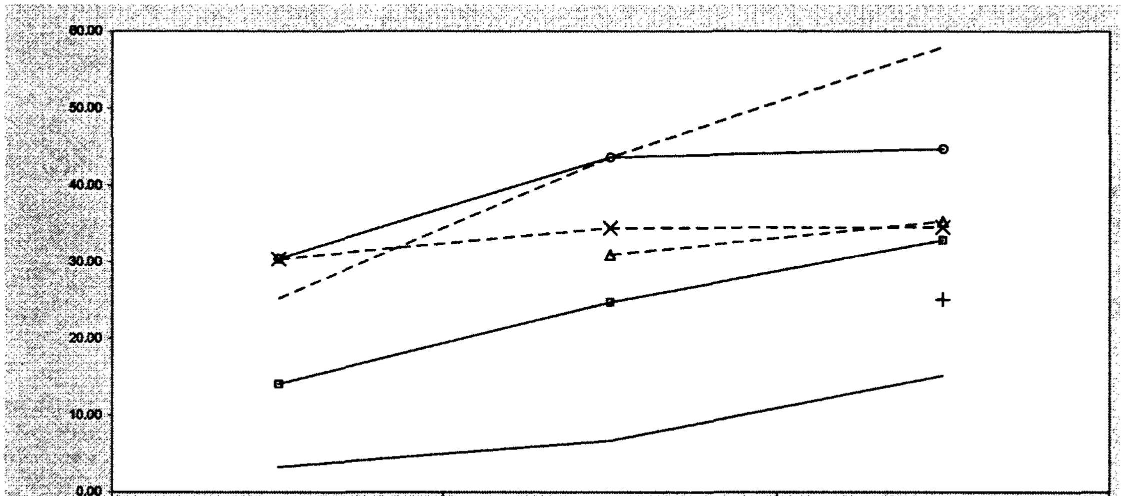
	1980s	1990s	2000s
CAN	1.56	1.62	1.83
DEU	1.28	0.99	1.24
JPN			1.92
NLD	1.76	1.60	1.98
SWE		2.19	2.71
GBR	1.61	1.74	2.42
USA	1.91	2.09	2.15

See Data Appendix.

Indeed, the best spin that can be put on neoliberal labour market policies is that they helped to lock in the new reality and/or contributed to the increasing deterioration of labour market conditions. In none of the cases has there been a return to pre-neoliberal norms. That said, it should be noted that in some of the cases there has been a modest improvement in the gender balance between men and women when it comes to precarious forms of employment. Unfortunately, there is not a consistent definition of precarious employment and thus it is not possible to make systematic international comparisons. Nonetheless, comparable part time employment data does exist and can be used as a rough metric of the distribution of precarious employment. Germany, Sweden and the UK all managed to make a considerable improvement in the distribution of part time employment. Despite these improvements, it should be pointed out that both

Germany and the UK had the highest percentage of women working in part time jobs in the 1980s and continued to have the highest incidence during the 2000s. Sweden, however, managed to converge with Canadian and American norms. Only in the Netherlands was there an increase in the incidence of female part time employment over the three decades.

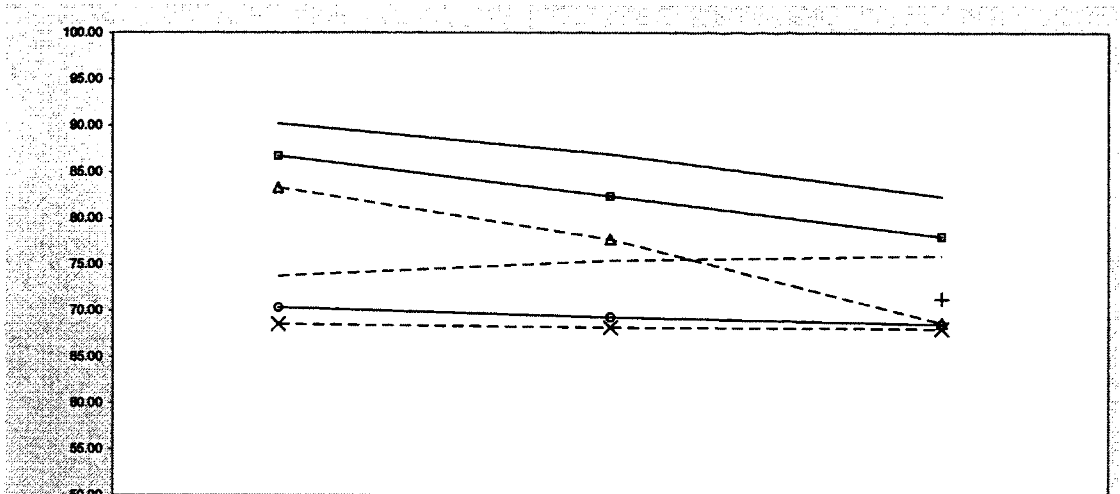
Graph 8.13 Decadal comparisons of incidence of youth part time employment



	1980s	1990s	2000s
CAN	30.42	43.66	44.74
DEU	3.24	6.68	15.15
JPN			25.12
NLD	25.19	43.84	57.99
SWE		30.92	35.32
GBR	14.07	24.72	32.86
USA	30.36	34.43	34.55

See Data Appendix.

Graph 8.14 Decadal comparisons of the female share of part time employment



	1980s	1990s	2000s
CAN	70.35	69.24	68.45
DEU	90.22	86.89	82.30
JPN			71.22
NLD	73.75	75.40	75.91
SWE	83.30	77.69	68.60
GBR	86.74	82.35	77.98
USA	68.53	68.12	67.97

See Data Appendix.

Based on these trends one should not be too sanguine about the overall trends in the growth of precarious employment. The first note of caution here is that even if the incidence of part time employment for women has been declining, the overall incidence of part time employment (as we have seen) is not. Perhaps not surprisingly, in a meta-study of the extant literature, it was found that precarious employment is disproportionately distributed onto the shoulders of the most vulnerable members of the labour force, e.g., among women, youth, the disabled, the low skilled and immigrants (Duell, 2004).

Further, through more detailed nationally specific research on the growth of precarious employment, it is evident that temporary contracts, the increasing use of temp agencies, and self employment have become prevalent particularly in Europe where enterprises (both public and private) seek additional flexibility in their obligations vis-à-vis their employees. In a study for the International Labour Organization (ILO), John Evans and Euan Gibb (2009) found that the single biggest driver of precarious employment in the advanced capitalist zone was labour market deregulation on the one hand, and the drive by employers to cut costs, on the other. Indeed, precarious forms of employment mean that workers do not have the same security and rates of remuneration as their permanent full time counterparts. Moreover, because of the various assumptions built into welfare state programs and labour law, precarious workers are often disqualified from accessing key labour market institutions from collective representation, retirement benefits through to unemployment insurance. Evans and Gibb (p. 26), note that non-standard labour contracts are particularly pernicious in the case of the US:

> A worker with contingent status in the US is potentially in a worse position than workers with similar status in other countries due to the maintenance of an employer-based system of social protection and insurance. Nonstandard jobs in the US are systematically worse than standard jobs and are therefore the growth of these jobs more likely reflects the goals and aspirations of employers than workers. Low pay, lack of insurance, no pension. Employers in the US stand to 'save' approximately 22% of wage and other costs through subcontracting and using temporary or other contingent workers. These 'savings' that accrue to employers are social security and workers' compensation contributions, unemployment taxes, health and pension benefits. Employers are also able to avoid paying minimum wages and overtime pay to workers that are "nominally employed by someone else." The employer based social protection system increases the incentive for employers to use available legal structures in their efforts to externalize costs.

Janine Leschke and Maarten Keune (2008: pp. 9-10) found considerable evidence that German labour markets had become increasingly precarious since the 1990s with a slight improvement on narrow range of precarious indicators for labour markets in the UK. For this study their conclusion is particularly germane.

> In Europe the UK and Germany traditionally represent the 'archetypal' examples of the liberal market economy and the coordinated market economy, the two main varieties of capitalism distinguished in the literature. But the characteristics of labour market institutions in the two cases have changed in the past decade in the opposite direction, with the UK demonstrating a process of (limited) re-regulation (for instance low pay, inequality and average working time are declining) and Germany one of progressive deregulation (low pay, inequality and marginal employment are increasing). As a result, the two cases have become more similar over time, even though important differences remain, in particular where the coverage of collective agreements is concerned. Indeed, looking at the reform paths of the two countries in the last decade, the two cases appear less and less to be two radically different models of capitalism as far as the labour market is concerned.

Clearly something larger then local adjustment is at work here if a convergent logic in the reform of labour markets can be persistently identified across a broad range of scholarship, paradigms and national case studies including the much vaunted LME and CME archetypes. In a sense, these outcomes were cast in stone once social democrats and liberal reformers accepted the basic premise of neoliberal globalisation, i.e., the need for welfare states to be pressed into the service of global economic competition.

CONCLUSION

Consistent with the main line of argument in this thesis, then, is the proposition that labour market flexibilisation is the other side of the neoliberal policy coin: namely, price stability and conservative fiscal policy all locked in via the globalisation of production and finance. In this sense, neoliberalism as a hegemonic accumulation strategy has meant that there is a certain convergent logic when it comes to welfare state and labour market policy design. Indeed, the OECD was encouraging a convergence along neoliberal lines. The flexibilisation of labour markets has become the desired norm. One is tempted to conclude that the VoC paradigm was not so much wrong in its central hypothesis that national capitalisms and their attendant institutional arrangements could come in a variety of formal institutional forms. Where they chiefly erred was in making any serious attempt to evaluate the substantive outcomes being generated by those divergent institutional arrangements (Coates, 2000; Fast, 2005). As Guy Standing (2008: p. 19) succinctly summed just before the consequences of the 2008 global crisis set in:

> Since about the mid-1970s, there has been extensive labour re-commodification, in which (re-)casualisation has been one means of leveraging a new set of social relations of production and distribution. In the name of competitiveness, social scientists and policymakers are seeking to make labour markets more ''flexible''. It is beggar-my-neighbour flexibility, since country after country is urged to make its labour system more flexible by reference to the apparently more flexible system somewhere else. Epitomising this, a debate is taking place in India about the need to make its labour market more flexible to be more competitive with China, the USA and elsewhere, at a time when the Indian economy is growing at 8% a year.
>
> In general, but particularly in western Europe, one alleged cause of unemployment, slow economic growth and labour market ''rigidities'' is the employment protection system built up in the pre-globalisation era. Accordingly, country after country has weakened it. This is not labour market de-regulation, but re-regulation, in favour of employers relative to workers, the reverse of what had occurred in the post-1945 era. Rolling back employment protection is part of a process of re-casualisation, as is the restructuring of social income taking place, which is intensifying income insecurity. It is the essence of labour re-commodification.

The intimate connection between the public regulation of abstract labour and the private regulation of concrete labour (see Chapter 10) was savagely understood by the OECD when it issued its landmark *Jobs Study* and *Jobs Strategy* during the mid 1990s. Once it was accepted that globalisation and cut-throat international competition was the immutable context in which policy makers had to act it was a foreseeable consequence (see for example, Coates, 2000; Albo and Fast, 2001; Fast, 2005), that labour market restructuring would have to take a more punitive turn: even if continental social and Christian democrats would attempt to share out the implied austerity more broadly. If the above narrative once seemed too radical of a proposition to digest, sections of the establishment have now come to accept our central hypothesis in the wake of the ongoing financial crisis.[132] In commentary for the *Financial Times*, Jeffery Sachs (2011) had, in part, this to say:

> ...Neither the US nor Europe has even properly diagnosed the core problem, namely that both regions are being whipsawed by globalisation...Jobs for low-skilled workers in manufacturing, and new investments in large swaths of industry, have been lost to international competition. Employment in the US and Europe during the 2000s was held up only by housing construction stoked by low interest rates and reckless deregulation – until the construction bubble collapsed.

Of course, it should not have taken a global financial crisis rooted in a credit boom and then three and a half years of stubbornly high unemployment across much of the advanced capitalist zone to realize that there was indeed a contradiction at the heart of neoliberalism as a hegemonic accumulation strategy. As we shall see in the next chapter, the hollowing out of US, UK and Canadian manufacturing employment was unmistakable in the time series data prior to the financial crisis. So too was the trend toward increasing pre-tax income inequality. It is to those two concerns that this dissertation now turns.

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[132] Any number of quotations could be pulled from Paul Krugman or Joseph Stiglitz to substantiate this observation.

CHAPTER 9: PROFITS AND LOSSES

> Everything is what it is: liberty is liberty, not equality or fairness or justice or culture, or human happiness or a quiet conscience.
>
> Isaiah Berlin, 1958, *Two Concepts of Liberty*

If neoliberal policies, most notably with respect to labour market and welfare institutions, have had an ambiguous impact on macroeconomic performance across a range of metrics and national cases they have nonetheless generally been successful in raising the margins for capital. This may, at first, perhaps seem to be a contradictory observation. Indeed, the initial protagonists of neoliberalism (monetarism + NAIRU) argued that supply side reforms were justified on the basis of the need to raise secular rates of GDP growth and decrease structural levels of unemployment. It was this very logic, albeit in some moderated form, to which reformists would eventually accede marking-off the hegemony of neoliberalism. However, quite apart from the perceived persuasiveness of the supply side logic with respect to policy formation, profit growth is a necessary but not sufficient condition for GDP growth. And GDP growth is in turn a necessary but not sufficient condition for employment growth. Yet, from the microeconomic perspective of the owners and managers of firms, however, supply side policies are aids in the quest to increase profit margins. It is thus hardly surprising that capital and its representatives have been and remain generally committed to the hegemony of neoliberalism as both an accumulation strategy and an official public policy paradigm. This is particularly so as there is nothing in these policies which commit capital to realizing the macroeconomic goals (such as, higher employment rates, increasing productivity, poverty reduction etc.) of politicians, policy makers and the broader public.

The aim of this chapter is twofold. The first objective is to clarify the relationship between profit growth, investment, employment and distribution. To this end, a series of comparative metrics on profits, wages, investment, rationalisation and restructuring in the manufacturing sector of the seven national cases (investigated in Chapter 8 is presented). Manufacturing has been selected for reasons of data comparability. I will conclude the analysis of each national case with a presentation on the evolution of income inequality in order to provide an indication of the economy wide consequences of neoliberal restructuring.[133] The residual objective of this chapter is to continue with a critique of the VoC paradigm. Based on the empirical evidence presented below, there is little support for the claim that LMEs are more agile both with respect to innovation and restructuring. Conversely, there is suggestive evidence that the classic CMEs (Sweden and Germany) are in fact better at innovation and restructuring then their LME counterparts on some metrics.

THE UNITED STATES

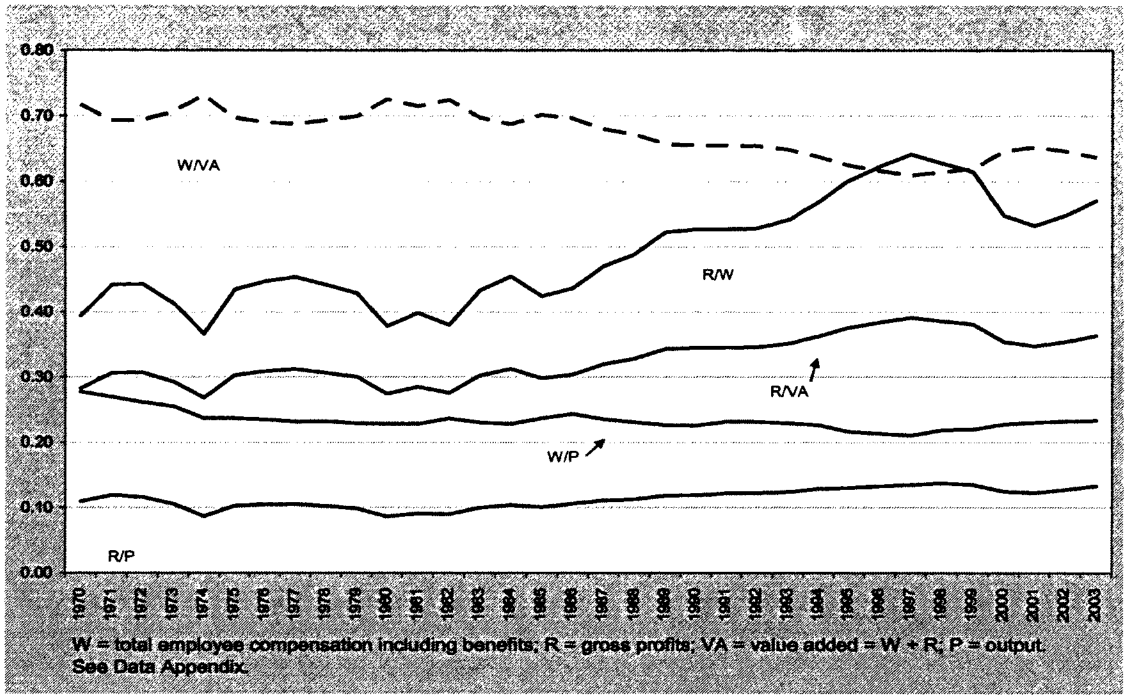
In keeping with the general thrust of this data viewed thus far, the US stands out as a strong performer with respect to the capacity of industrial capitalists to extract a greater

[133] I will use both before and after taxes and transfers Gini coefficients as the measure of income inequality. Given the relative similarity vis-à-vis labour force participation rates and age structure between the six national cases, Gini coefficients are a reasonably good standardized measure of income inequality that is an index for more complex inequality measures.

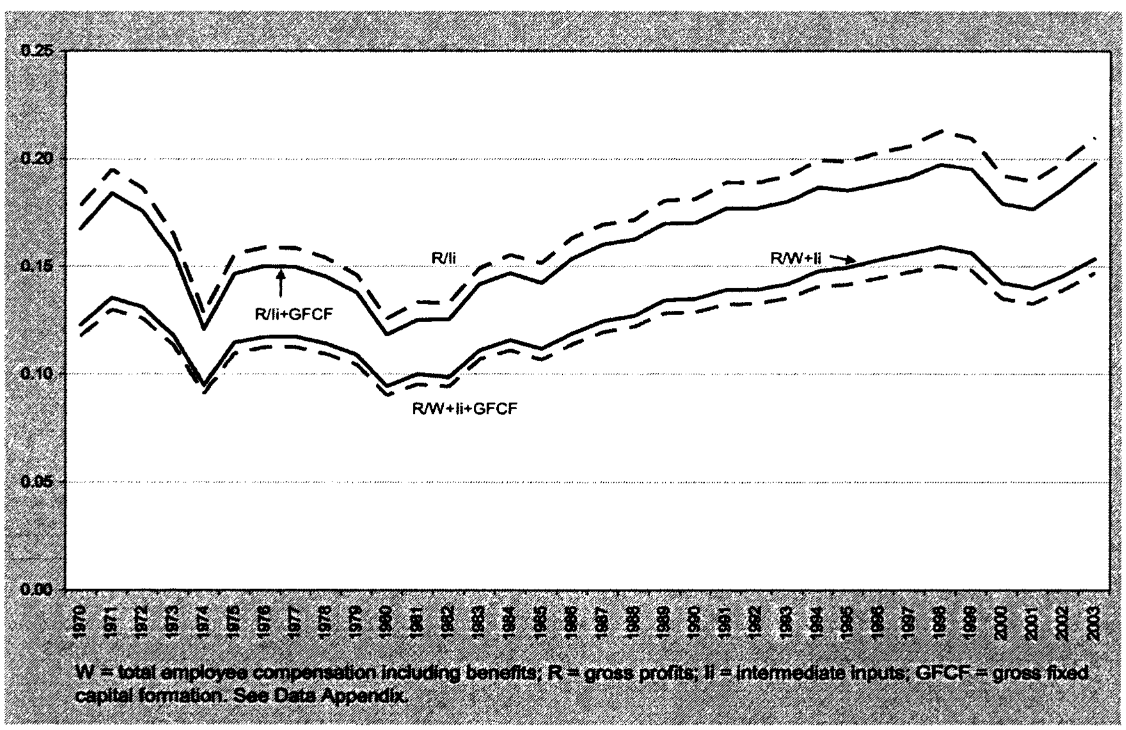
share of the output produced by their workforce. As Graph 9.1 clearly shows, from the beginning of the 1980s US manufactures managed to increase their share of profits (R) in output (P) and value added (VA). The result of which was a marked increase in the ratio of gross profits to gross employee compensation (W). This gap (line R/W) had been widening since the early 1980s, took a brief lull during the recession of 2001, and from there the trend started to revert back to mean.[134] The series on profit rates for the US bears-out the above analysis. In Graph 9.2, four different measures of gross profit rates are presented. Although each measure provides a different estimate of the level of profits in turnover in manufacturing, they all track the same increasing trend rate of growth. That is to say, from the start of the 1980s US manufacturing profit rates began an ascending trend which paused during the recession of 2001. As the previous graph makes evident, this profit boom was not being shared with manufacturing workers. Of course, as a consequence of the highly competitive international environment which began to crystallise in the 1970s, it could be that the increase in profits were being systematically pumped back in via investment in plant and equipment.

[134] This last measure roughly corresponds to the Marxian metric of surplus value. The limitation being that managerial or surplus maximizing labour is included with compensation of surplus producing labour. The result of which is that the ratio of R/W most likely vastly *understates* the levels of surplus value. It is for this reason I have chosen not to use the explicit Marxian terminology so as to avoid confusion in what the metrics actually represent. For the purposes of this section, it is sufficient to demonstrate the changes in distribution trends.

Graph 9.1 US measures of gross wage and profit shares (manufacturing)

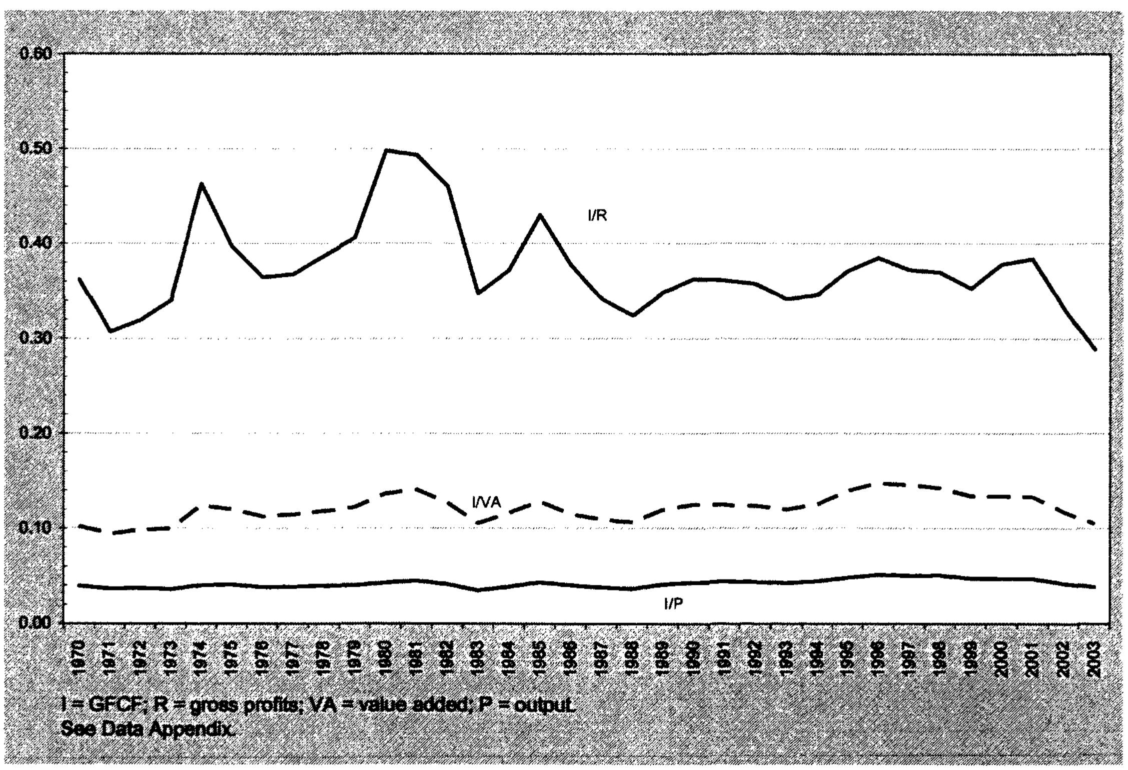


Graph 9.2 US rates of profit in turn-over (manufacturing)



Indeed, the supposed promise of the supply side logic embedded in the neoliberal macroeconomic paradigm is that an increase in profits should allow for an increase in both the productivity and competitiveness of national manufactures via increased investment rates. In the case of the US, the evidence suggests otherwise. Graph 9.3 presents three different measures of investment: one that relates investment as a percent of output (I/P); the second which gauges productivity via investment as a percent of value added (I/VA); and a third metric which plots investment as a percent of gross profits (I/R).

Graph 9.3 US manufacturing investment ratios



The first interesting observation which is evident from the above graphic is that investment as a percent of output in the US has consistently tracked a level between +/- 4 and +/- 5 percent with recessions registering typical temporary dips below trend downward. That is to say, despite the raft of supply side reforms since the start of the 1980s investment continued to track output. Investment as a share of value added tells much the same story although with higher degree of variance with a mild uptick during the mid 1990s. Interestingly, investment as a share of gross profits is the most volatile (and with a negative correlation). As we shall see with the other national cases, investment in manufacturing consistently tracks output and value added to some degree with profit rates having little to no 'determinate' impact on levels of investment.[135] Simply put, profits are variable whereas investment would appear to be relatively fixed with respect to output and value added.

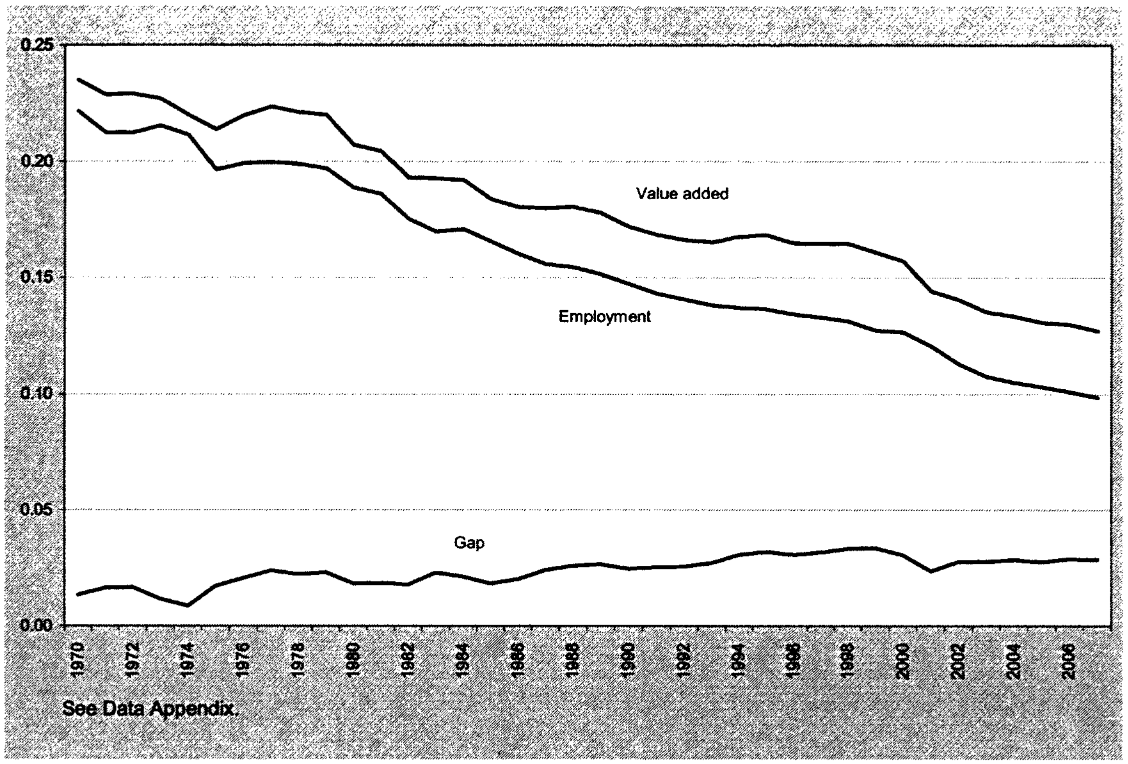
One caveat to this interpretation of the investment data is warranted, however. Manufacturing value added as a share of value added in the total US economy has been in steady decline since the 1970s, if not before. To the extent that investment tracks output, the observed level of investment has not been sufficient to stymie, let alone reverse, the relative decline of manufacturing in the US. Graph 9.4 (below) clearly bears this out. In the graph, US manufacturing value added and employment is plotted as a percent of total value added and total employment respectively. Clearly, by both measures, US manufacturing has been in relative decline since the 1970s.[136] Manufacturing value added dropped from 23.5 percent or nearly a quarter of total value added in 1970 to 12.7 percent in 2007. Although more negative owing to productivity increases, employment

[135] Of course if profits are trending toward zero for a protracted period then investment will be retarded. Determinate in this sense means then within the bounds of some average level of profitability it is not the quantity of profits that determines investment rates.

[136] In terms of employment the decline is absolute.

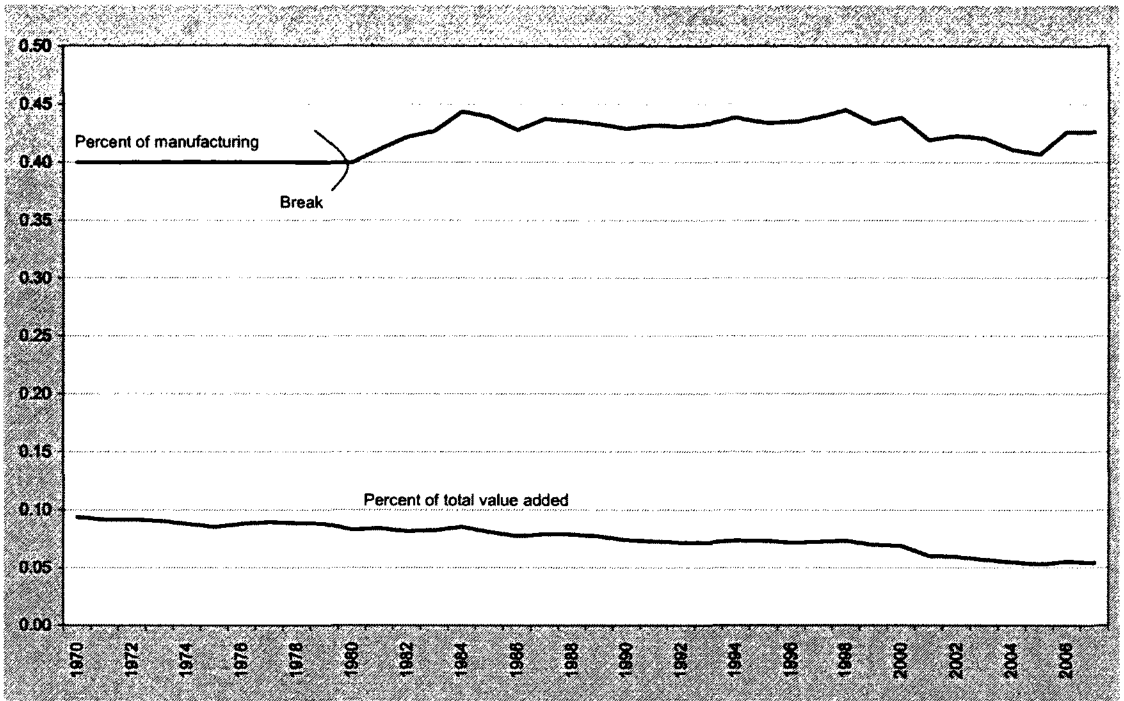
shares tracked a similar trajectory, with manufacturing employment in 1970 at around 20.5 percent of total employment declining to just under 10 percent by 2007.

Graph 9.4 US manufacturing employment and VA as a percent of total economy



From the perspective of the debate on the VoC typology, one of the central claims by its practitioners is that the US, as the paradigmatic LME, is supposed to be a more dynamic and innovative economy which, unlike its CME counterparts, is capable of making rapid adjustment to new opportunities as it suffers from less institutional overhang and more flexible labour markets. Thus we should see some evidence of this in the composition of the manufacturing sector with high and medium tech sectors retaining, if not increasing, their share of value added. The evidence is less than compelling. At first glance, it would seem as though medium and high technology manufactures increased their share of manufacturing value added. Graph 9.5 indicates this to be the case save for the fact that this increasing share was driven by a faster rate of decline in the overall manufacturing sector and not by a growth in medium and hi tech manufacturing. This is confirmed by the line labelled "percent of total value added" in Graph 9.5 below. What this metric does is filter out the general decline of the manufacturing sector to reveal the actual trend in the growth of medium and high tech manufacturing in the US. Viewed from this angle, medium and high tech manufacturing has declined from just under 10 percent of total value added to just over 5 percent. Thus the reason medium and high tech manufacturing increased as a share of manufacturing value added is because overall manufacturing value added shares were falling faster. For whatever dynamism the US economy may have shown from the 1980s through to the start of the first decade of the new millennium, manufacturing clearly was not at its center. The implication being that if the US was indeed a radical innovator such innovation was happening *outside* of the manufacturing sector. The empirical evidence suggests strongly that, although neoliberal policies have been successful at raising the profit margins for US manufacturers, this was purchased at the cost of manufacturing workers' compensation and employment with no appreciable increases in investment or rates of innovation in the manufacturing sector.

Graph 9.5 US high and medium technology manufacturing as a percent of total manufacturing and total economy (value added)



See Data Appendix.

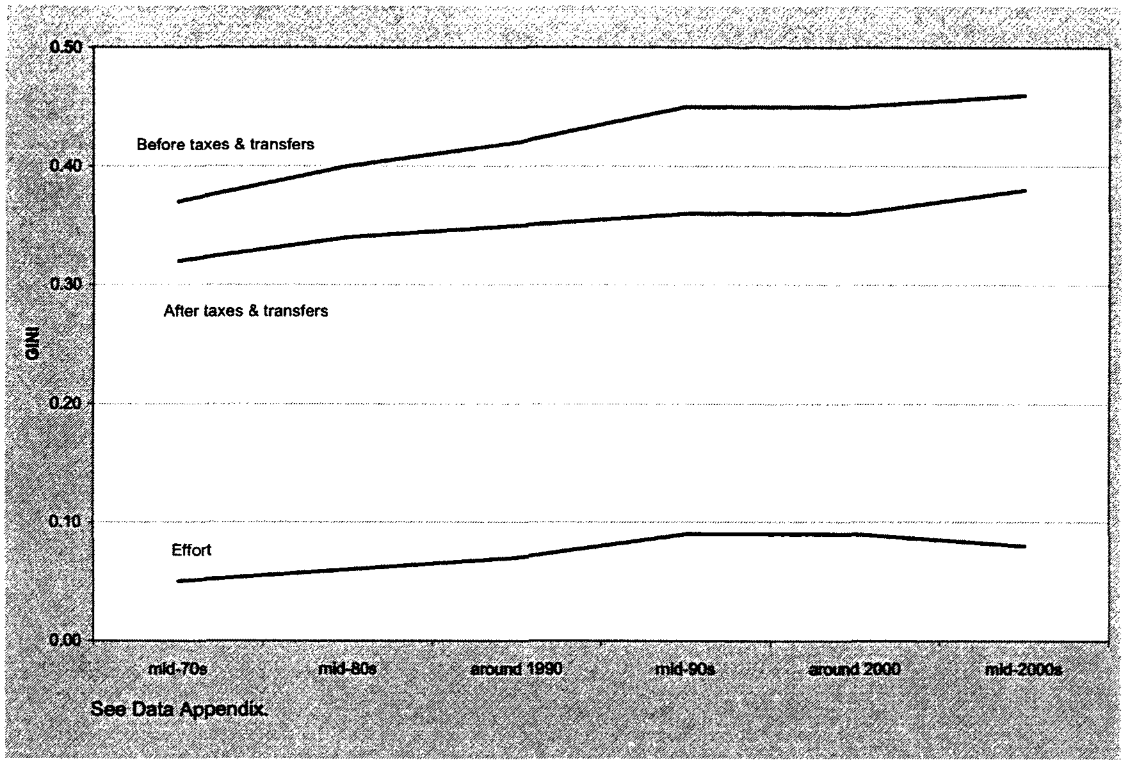
When the frame of analysis is shifted away from manufacturing and the division of income between profits and wages to an analysis of the distribution of wages and salaries (income inequality), it becomes apparent that neoliberalism has not only involved a shift from wages to profits but a shift in income distribution from workers in general to professionals and managers.[137] In Graph 9.6, both the before and after taxes and transfers Gini coefficients are plotted (henceforth, BT&T and AT&T respectively).[138] The third line at the bottom of Graph 9.6 labelled 'effort' is a simple plot of the difference between the first two (BT&T and AT&T) which provides an indication of the degree of

[137] For a confirmation of the shift in income towards managers and professionals see Fligstein and Shin (2004); Duménil and Lévy (2004a, 2004b); Kopczuk and Saez (2004).

[138] The higher the Gini value, the higher the level of income inequality.

redistributional effort made by the state. As we shall see, the US makes the least effort in terms of redistribution of the six cases studied here.

Graph 9.6 Gini coefficients for the US



Equally interesting is the evolution of the redistributive effort over time. At the start of the series, the US state was making a relatively low effort of about 0.05 percent during the middle of the 1970s. By the mid-1990s, however, this effort increased 80 percent to 0.09 percent. Yet, the increase in the *before taxes and transfers* Gini coefficient (an indication the initial distribution of market incomes) meant that the relative increase in redistribution effort was swamped by the more fundamental processes of economic and institutional restructuring in the US. The new plateau in both before and after taxes and transfers Gini coefficients remained stable until the turn of millennium.

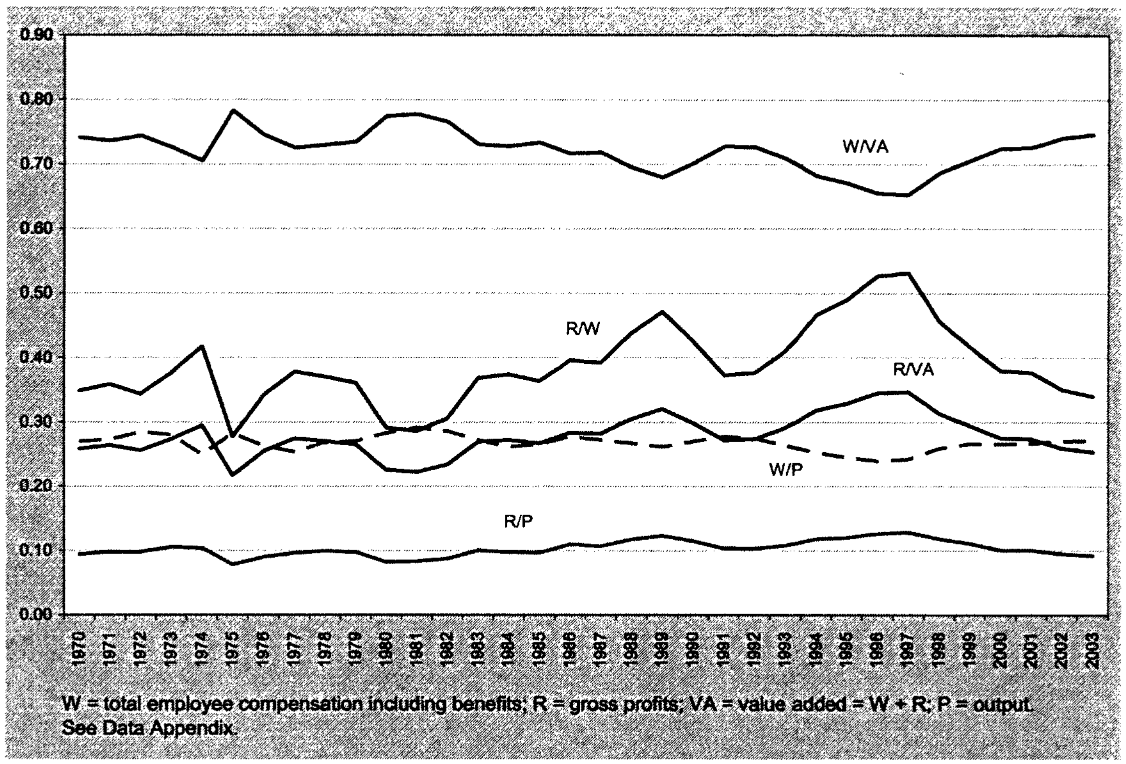
From there both headed north again aided and abetted by a declining effort on the part of the state with respect to redistribution.

The idea of the regressive nature of neoliberal restructuring in the US thus finds broad support across a number of economic metrics. When the analysis of the US manufacturing sector is combined with the data on income distribution on an economy wide basis, it becomes clear, in the case of the US at least, that neoliberal policies produced an outcome quite different than that presented by both its more abstract and policy minded protagonists.

THE UNITED KINGDOM

The case of the UK is particularly interesting. The UK follows the typical pattern in terms of redistribution from workers to capital and an increasing trend rate in the growth of gross profits from the beginning of the 1980s until the latter half of the 1990s. The twist is that after 1997, it would seem as though labour actually managed to make inroads in terms of gaining a greater share of output and value-added (see the plot line for R/W in Graph 8.7 below). The series on profits for the UK manufacturing helps clarify the picture somewhat. UK manufacturers experienced a dramatic decline in profits starting in 1997 (see Graph 9.8). The mild increase in labours' share of output, and the more impressive increase in their share of value-added, both represents an increase in labour costs and a decline in the profit rates of UK manufactures. Importantly, from 1997 through to 2003 manufacturing output declined, if modestly, in each year. This last factor, is perhaps, most responsible for the declining profit shares of UK manufactures as they were not capable of unwinding their labour compensation obligations at the same rate as their output was declining, thus biting into both their share of output and their profit rates.[139]

Graph 9.7 UK measures of gross wage and profit shares (manufacturing)

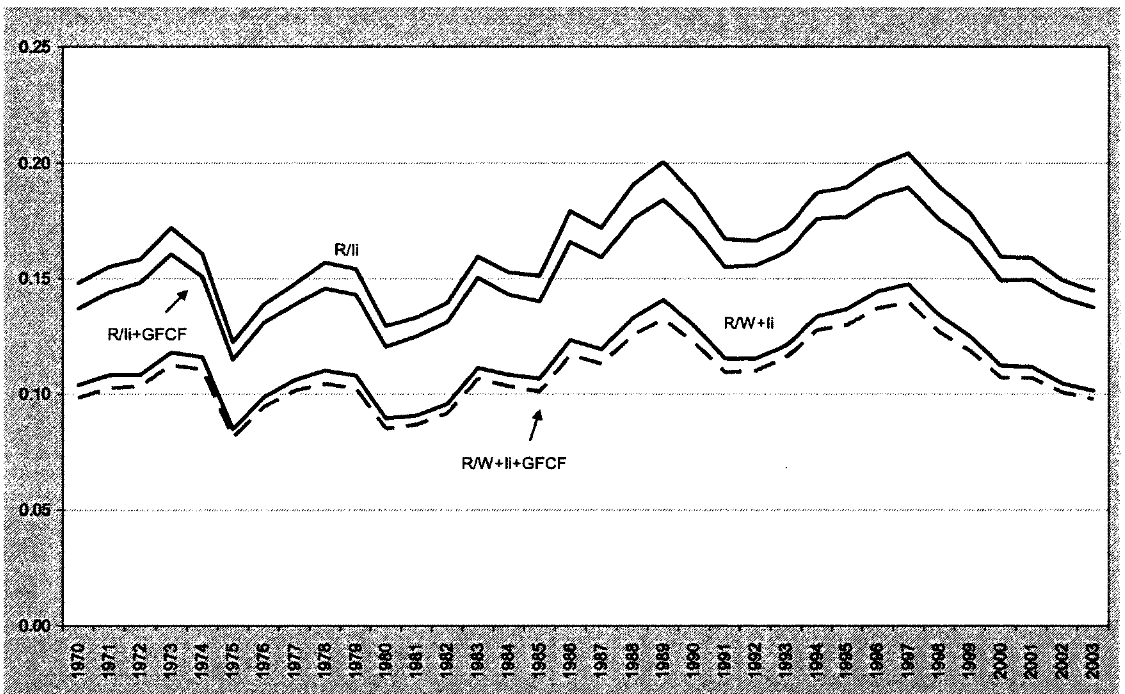


The series on investment provides an additional clue into the plight of UK manufactures with respect to profits. Notice that in Graph 9.9, despite low profits during the 1970s and beginning of the 1980s, investment in the manufacturing sector stayed relatively stable tracking around 4-5 percent of output. Moreover, even though investment as a percent of profits (I/R) is quite volatile, it is evident that it was higher

[139] For confirmation of the decline in manufacturing output see the relevant series in the OECD, *STAN Industry*, Volume 2005. Note, if the series on output were deflated, the real magnitude of the decline in the value of output would be around 2 percent per year.

during the declining profit era of the 1970s than from 1997 onwards. Simply put, the response of UK manufactures with respect to declining profits from 1997 onwards was to pull back from investment which was the opposite of their reaction during the profit declines of the 1970s. The irony here, of course, is that much of Thatcher's and later Blair's supply side logic was based on the promise of increasing investment and productivity.

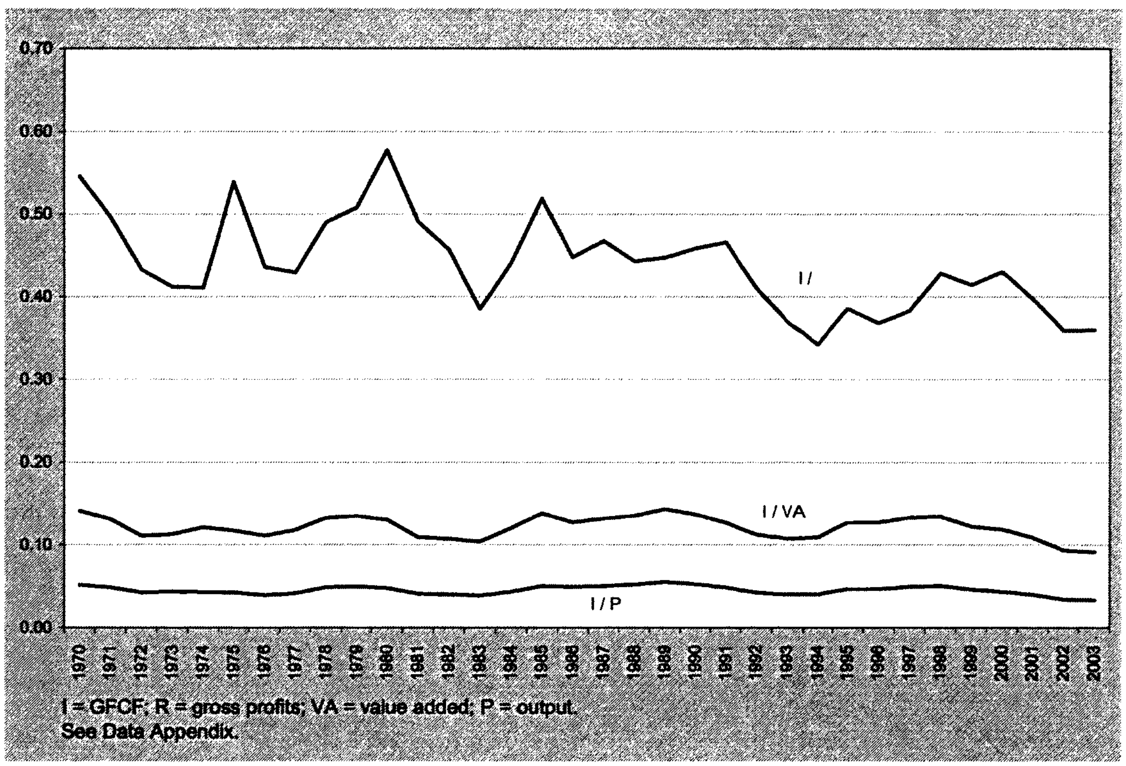
Graph 9.8 UK rates of profit in turnover (manufacturing)



W = total employee compensation including benefits; R = gross profits; Ii = intermediate inputs; GFCF = gross fixed capital formation. See Data Appendix.

Indeed, the most recently available data (through to the end of 2007) confirm the above trend with investment as a share of output at a historic low of around 3 percent. Further investigation would need to be made, but such data suggest that despite a mild recovery in output UK manufacturers continued to hold back on investment. This, in turn, suggests that from 1997 onwards, UK manufactures resumed in earnest the processes of hollowing out capacity, quitting lines altogether and off-shoring production.[140] The consequence is that manufacturing continued to shrink vis-à-vis other sectors of the economy.[141] Graph 9.10 confirms the above analysis. In 1970, manufacturing value added accounted for approximately 32.5 percent of total value added and by 2007 only 12.5 percent.

Graph 9.9 UK manufacturing investment ratios



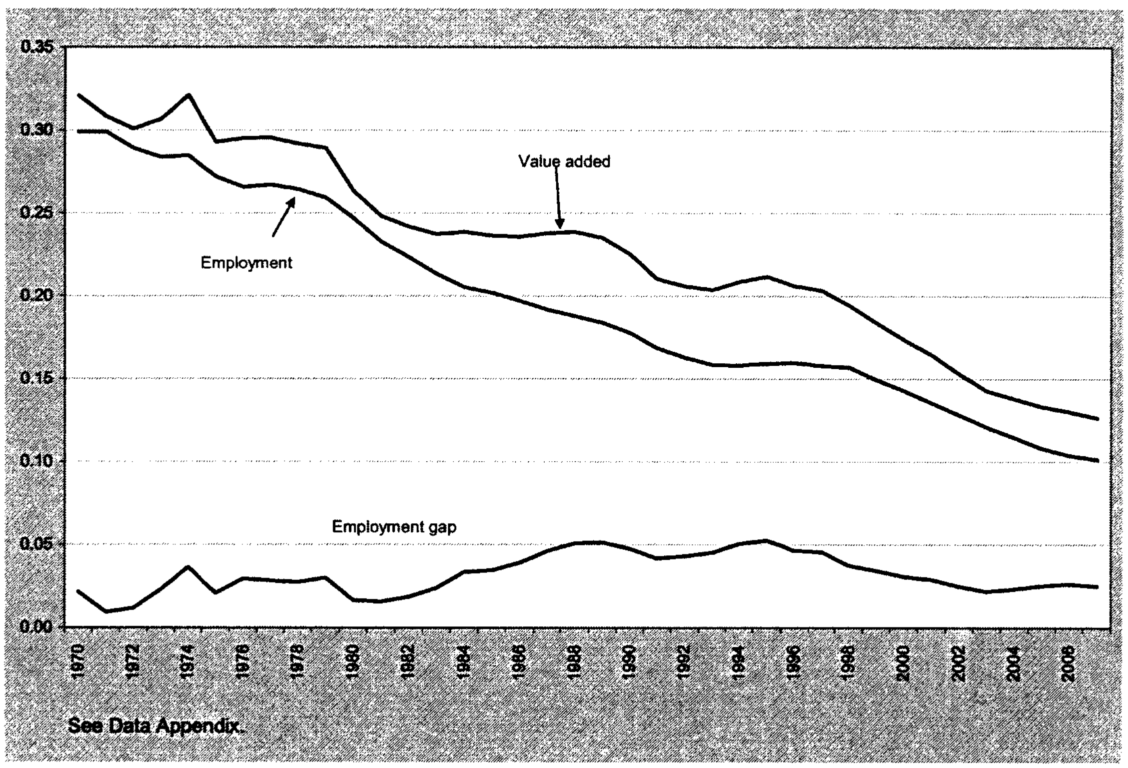
Manufacturing employment tells nearly the same story moving from 30 percent of total employment to 10 percent of total employment by the end of 2007. In Graph 8.10, I have

[140] For the latest data see OECD, *STAN Analysis,* 2009 edition.

[141] In addition to the stagnant output numbers there is also the global trend of an increase service sector employment as a percent of total employment across the advanced capitalist zone.

also plotted what I call the 'employment gap', which is simply the difference between value added shares and employment shares for manufacturing. All things being equal, the larger the gap the higher capitals' share of value added. The restoration of manufacturing profits during the 1980s, through to the latter half of the 1990s, was characterized by rationalizations in which labour was shed at a faster rate than declines in manufacturing value added.

Graph 9.10 UK manufacturing employment and value added as a percent of total economy

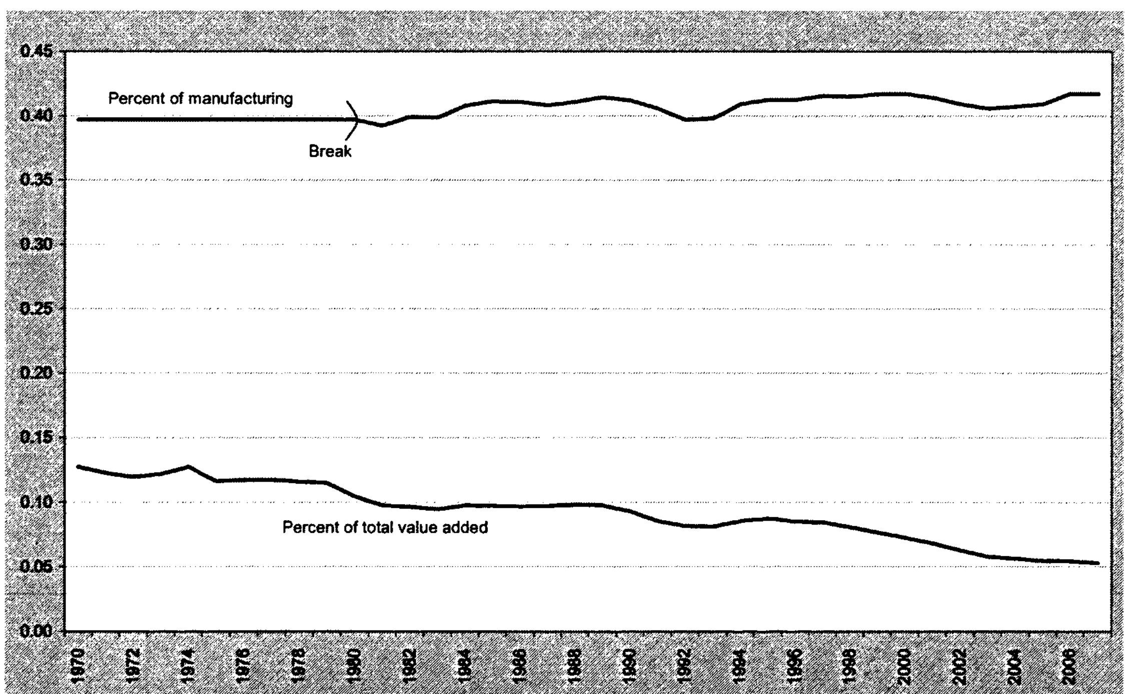


As we have already seen, British manufacturers responded to the profit slowdown of the late 1990s by cutting back on investment. However, after the two bouts of rationalizations it would appear that after 1997 British manufactures were incapable of further squeezing relative surplus value out of their labour force. In sum, after 1997

British manufacturing investment rates began declining from their previous peak and the labour share output began increasing suggesting that profit weakness was caused by a slowdown in manufacturing productivity and a program of relative disinvestment.

The above observations are given some support in the data presented in Graph 9.11. As the graph illustrates (below), there was little in the way of evidence for the argument that although traditional manufacturing had declined that high and medium technology manufacturing nonetheless stepped in to the fill the gap. As with high and medium technology manufactures in the US, UK high and medium technology manufactures (as measured as a percent of total manufacturing value added) for the most part declined along with the rest of the British manufacturing sector.

Graph 9.11 British high and medium technology manufacturing as a percent of total manufacturing and total economy (value added)



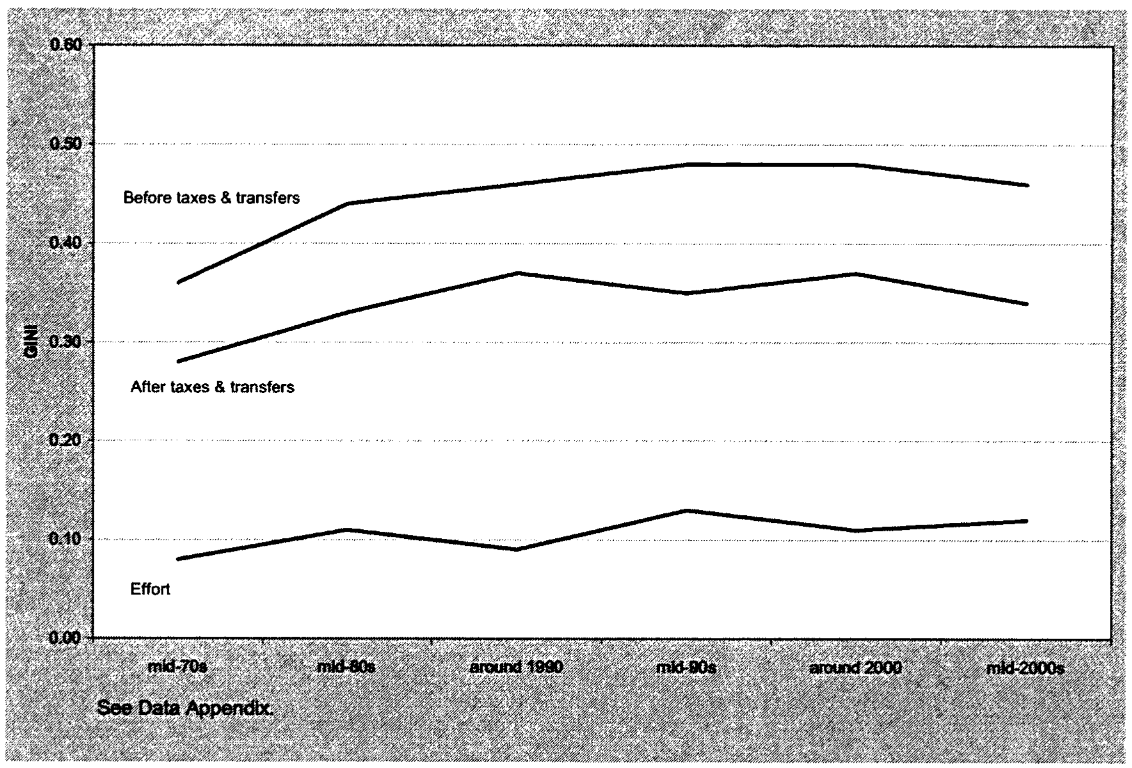
See Data Appendix.

Indeed, if we take the beginning of the 1970s as the benchmark British high and medium tech manufacturing declined more so than in the US dropping from just over 13 percent to just over 5 percent by 2007. Needless to say, and like the US, whatever radical innovation that may have been taking place in the UK economy, it was not taking place in the manufacturing sector.

If we now turn to economy wide considerations, it is clear that in the UK, apart from the mid-1990s, both the BT&T and AT&T Gini coefficients moved in lock-step. Nevertheless, what is also clear is the relative rebound in manufacturing wage shares as a percent of value added was not isolated to the manufacturing sector. As Graph 9.12 makes clear, the resurgence in manufacturing wage shares was in fact a bell-weather metric (as with the US) for economy wide measures of income distribution. As with wage shares in the manufacturing data, income inequality (BT&T) in the UK began declining from the beginning of the new millennium with a mild uptick in the state's redistributive effort. Enough, in fact, that after taxes and transfers, income inequality declined somewhat from the high levels reached at the turn of the new millennium in the UK. Nonetheless, income inequality increased (AT&T) from a Gini value of 0.28 in the mid-1970s to 0.34 in the middle decade of the new millennium. Moreover, it is also evident from Graph 9.12 that the driver of income inequality was more about market forces (e.g. tighter labour markets, investment and profit rates) than the redistributional effort of the British state. As with the US, the mild increase in the state's redistribution effort was overwhelmed by the strong surge in the inequality of pre-tax and transfer distribution of income. The difference between the two national cases being that the

BT&T distribution began moving in workers' favour in the UK during the new millennium whereas the opposite was the case in the US. In both cases, moreover income inequality was higher in the middle of the first decade of the 2000s than it was during the 1970s.

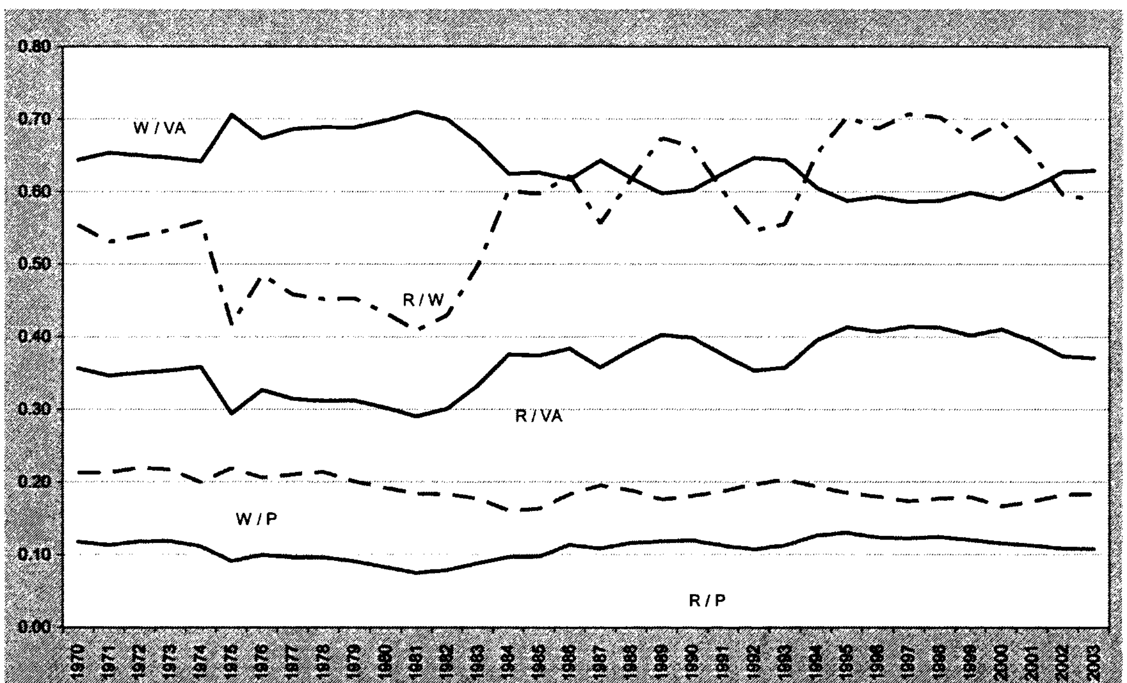
Graph 9.12 Gini coefficients for the UK



NETHERLANDS

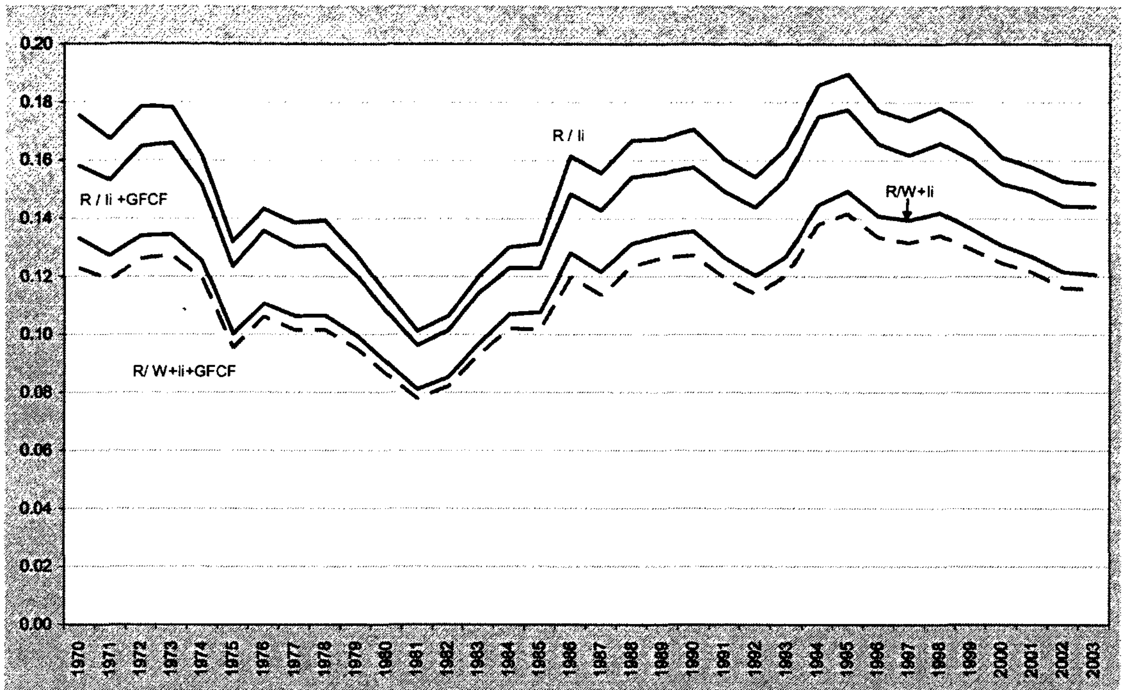
In many respects the Netherlands follows a trajectory between the UK and US experiences. As with the Anglo cases, Dutch manufactures witnessed a deterioration of their share of output and value added to the beginning of the 1980s, which then saw a dramatic reversal in trend from the mid 1980s onwards. Like their British counterparts, Dutch manufactures did not manage to parlay the traction they had gained in the 1980s and 1990s through into the 2000s. As Graph 9.14 illustrates, much like their British counterparts, the weakening share of output and value-added translated, by the mid 1990s, into a rather pronounced period of profit declines for Dutch manufactures. It should, however, be added that although the trend line of growth in profits as share of output and value-added began deteriorating in the late 1990s, they were still above the lows registered at the beginning of the 1980s. Moreover, as the series on total labour compensation as a percent of total value added and output (W/VA and W/P respectively) presented in Graph 9.13 makes clear, manufacturing workers compensatory gains were not sufficient to restore them to the level of the 1980s, let alone the levels of the 1970s.

Graph 9.13 Netherlands, measures of gross wage and profit shares (manufacturing)



W = total employee compensation including benefits; R = gross profits; VA = value added = W + R; P = output.
See Data Appendix.

Graph 9.14 Netherlands rates of profit in turnover (manufacturing)

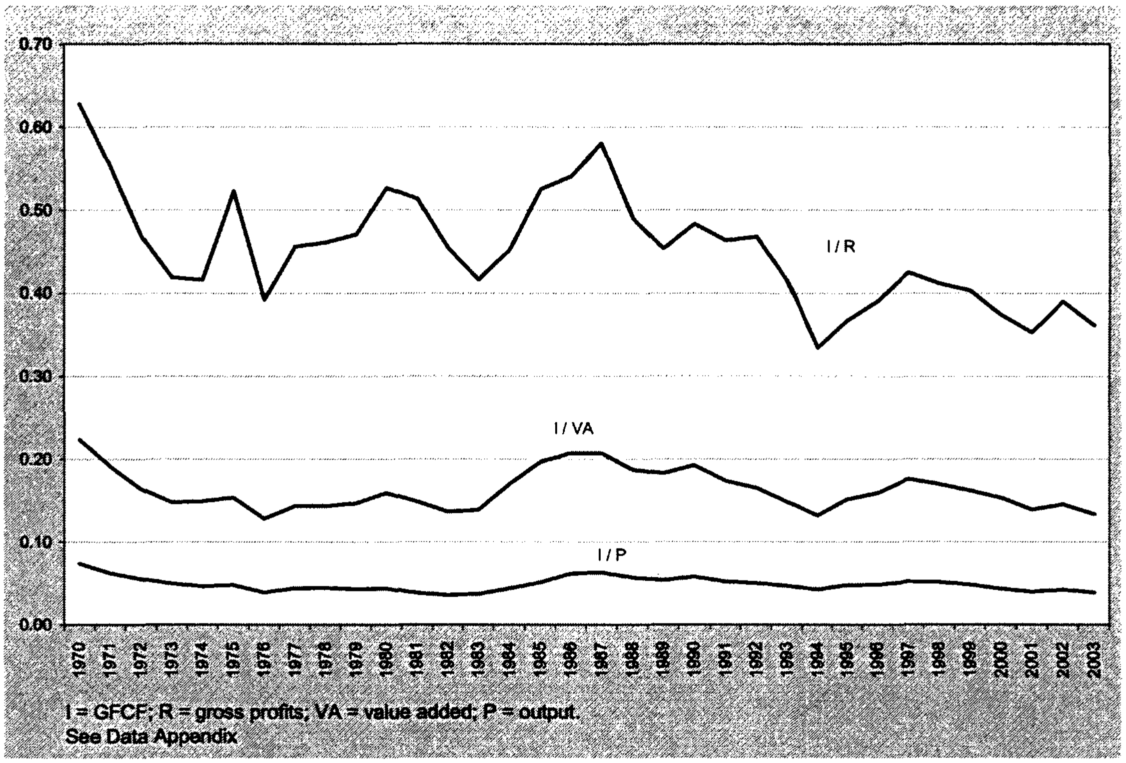


W = total employee compensation including benefits; R = gross profits; Ii = intermediate inputs; GFCF = gross fixed capital formation. See Data Appendix.

Taking a look at Dutch levels of investment in the manufacturing sector helps to clarify the picture somewhat with respect to the health of the sector. As with the other cases, although investment levels as a percent of output and value-added either remained stable or increased after the restoration of profits in the early 1980s, Dutch manufactures began scaling back investment by the mid to late 1980s. Hence, from the late 1980s onwards investment trended downward at a faster rate than the trend rate of the sector. As Graph 9.15 indicates, both as a function of output and value added, Dutch manufactures scaled back investment so that by the beginning of the new millennium investment rates were well below their mid-1980s values despite comparable profit rates.

The Dutch case thus followed the pattern identified in the other two cases: namely, a slow protracted hollowing out of Dutch manufacturing.

Graph 9.15 Netherlands, manufacturing investment ratios

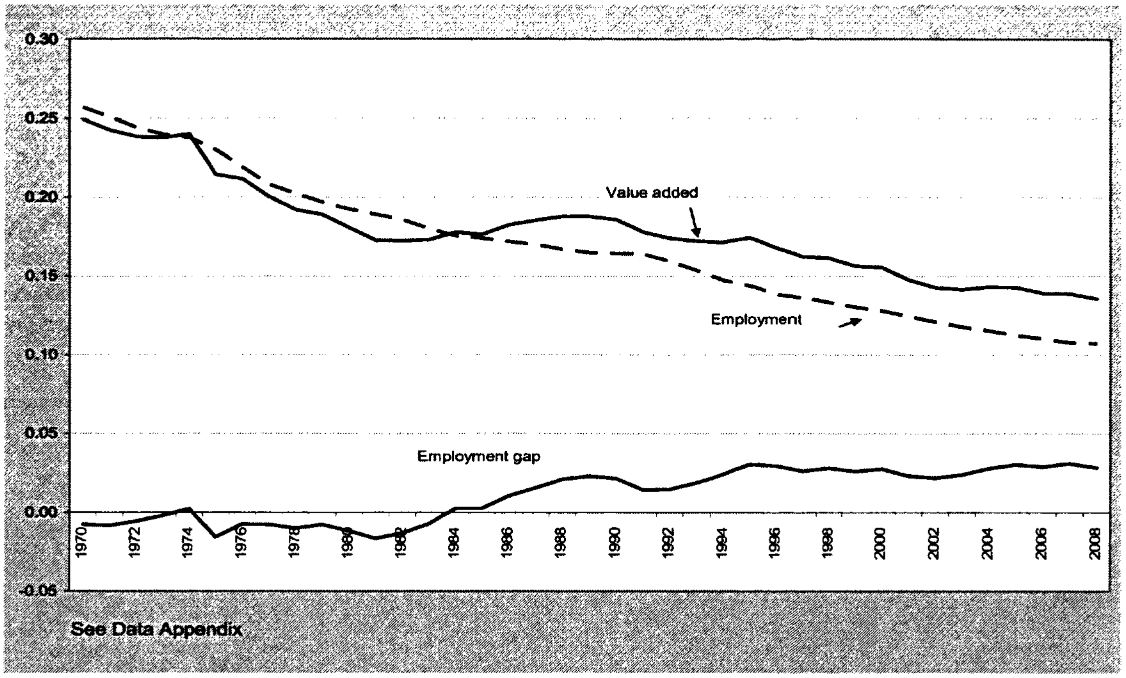


The above interpretation is lent further credence when Dutch manufacturing value added and employment as a share of total value added and employment are consulted. Once again the Dutch case tracks that of its Anglo American counterparts. Dutch manufacturing dropped from roughly 25 percent of total value added and employment in 1970 to under 15 percent of value added and just above 10 percent of employment by 2008. The restructuring capacities of Dutch manufactures are illustrated well by the employment gap plotted in Graph 9.16. At the start of the 1970s, Dutch manufactures actually had a higher employment share than value added shares in the total economy.

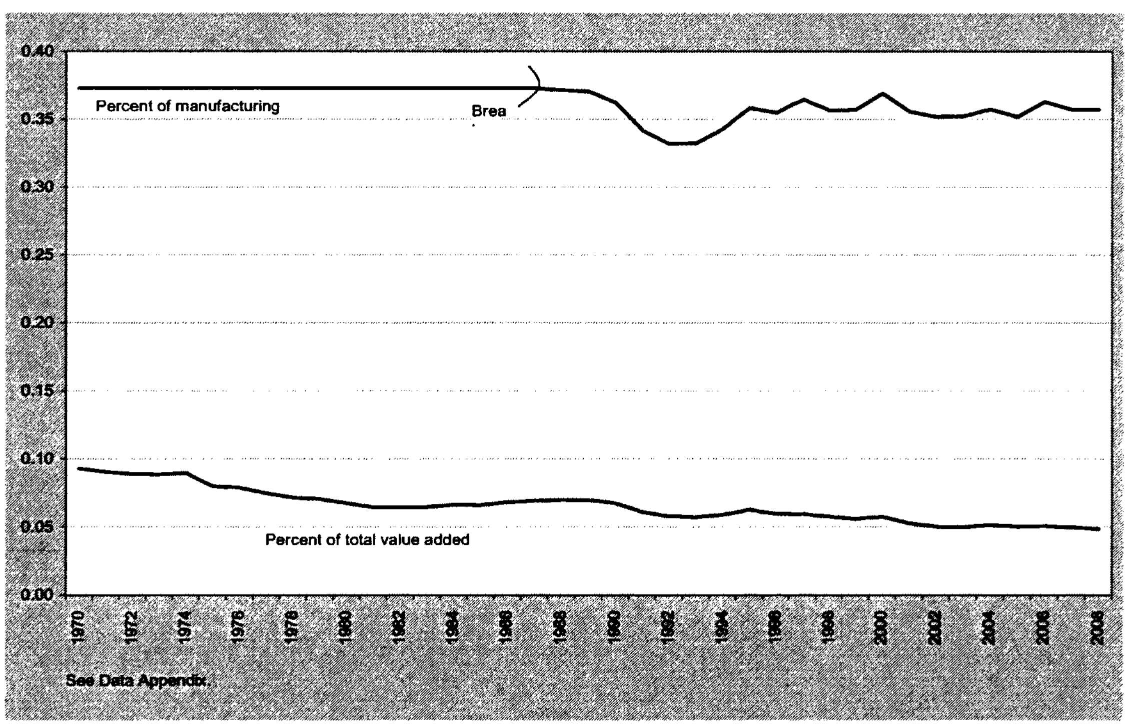
That is to say, Dutch manufacturing was relatively employment intensive. However, from the early 1980s through into the new millennium, it appears as though Dutch manufactures embarked on ambitious rationalization programs such that value added was outstripping employment by over 3 percent. This creates a puzzle of sorts: what accounts for the declining profit rates of Dutch manufacturing profits despite moderate wage growth and implied productivity increases? Although Graph 9.16 does show a 'healthy' gap between employment and value added in manufacturing it nonetheless shows that investment levels were not sufficient to increase this gap. Alternatively stated, Dutch manufactures failed *to permanently increase the trend rate of growth* of relative surplus value extraction thus with the result that by the mid 1990s profits began to slip. The reaction of Dutch manufactures was to cut back on investment thus sealing the decline of manufacturing relative to the total economy (stagnation).

Graph 9.17 adds another dimension to the story of the stagnation of the Dutch manufacturing sector. From the late 1980s through to the early 1990s, Dutch medium and high tech manufacturing declined at a faster rate (in value added terms) then the broader sector. Yet, from the mid 1990s on, high and medium technology manufactures reversed that decline to the point that by the new millennium they stabilized their share of economy wide value added. This suggests that part of the story of Dutch manufacturing stagnation was a relative change in the composition of manufacturing towards high and medium tech products. Nonetheless, this compositional restructuring was neither sufficient to halt the relative decline of manufacturing nor to restore workers' shares of value added.

Graph 9.16 Netherlands, manufacturing employment and value added as a percent of total economy

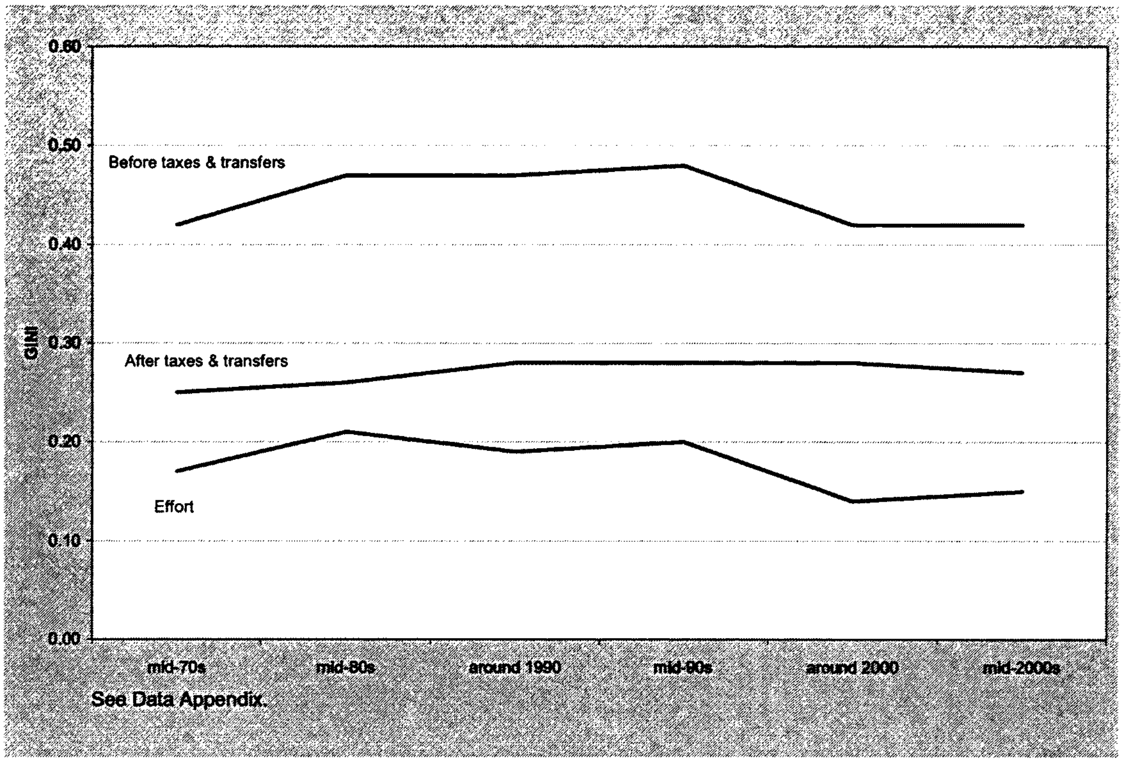


Graph 9.17 Dutch high and medium technology manufacturing as a percent of total manufacturing and total economy (value added)



In keeping with the pattern established in the case of the US and the UK, the manufacturing data on wage and profit shares predict the evolution of income inequality for the entire Dutch economy. As was already presented, the relative decline of Dutch manufacturing from the mid 1990s onwards was accompanied by a fall in manufacturing profit rates and as would be expected a decline in the share of profits in output and value added. These facts track the general evolution of BT&T Gini coefficients. The large run-up in Dutch manufacturing profits up to the mid 1990s was accompanied by an economy wide increase in income inequality in Holland (Graph 9.18). Similarly the decrease in Dutch manufacturing profit rates was matched by a decrease in economy wide income inequality (BT&T). What is most interesting with respect to this thesis is the AT&T Gini coefficients and the corresponding metric of state redistribution effort. It is clear from the evidence presented in Graph 9.18 that from the mid 1980s onwards the Dutch state began parsing back is redistributional effort. When by the mid 1990s the dynamics in the Dutch macro-economy shifted such that BT&T income inequality was declining the response of the Dutch state was to parse back its redistributional efforts substantially such that AT&T income inequality essentially remained flat.

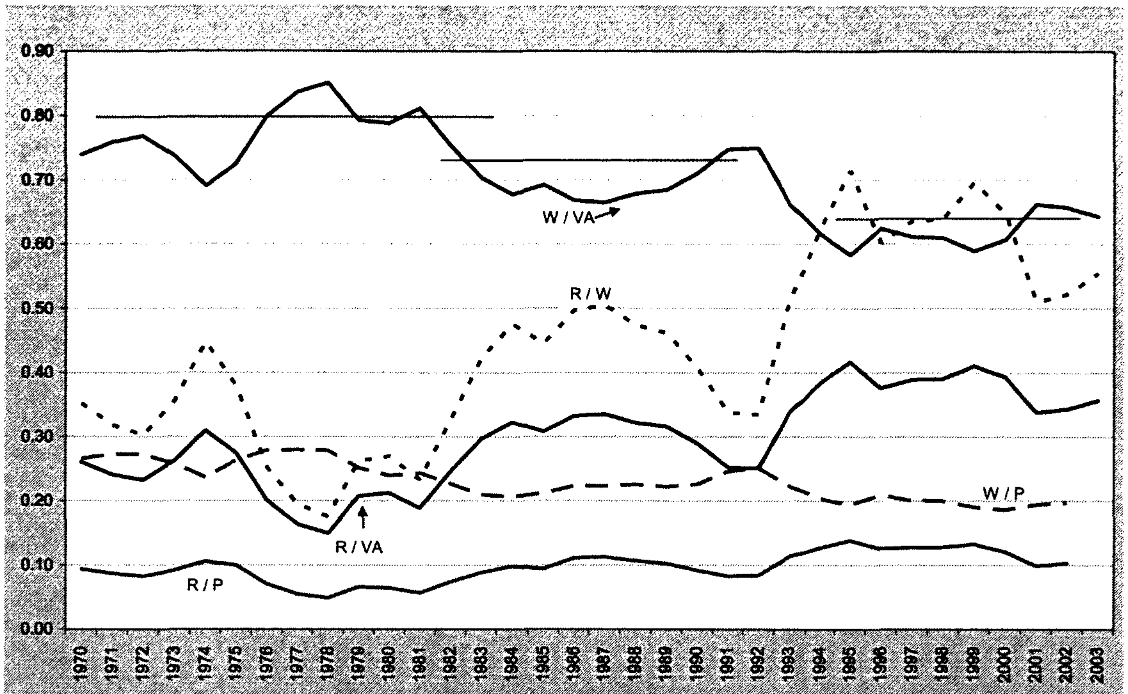
Graph 9.18 Gini coefficients for the Netherlands



SWEDEN

Sweden represents a very interesting case because, as we shall see below, interpreting the trends in Swedish manufacturing do not lend to easy generalizations. Although Swedish manufacturing shares of output and value added track a similar pattern to the cases reviewed above, i.e., a steady increase in capital's share of value added and output, they are nonetheless interesting because of just how clearly they demonstrate the role recessions have played in industrial restructuring. Taking a look at total labour compensation as a percent of value added (W/VA in Graph 9.19), it is evident that in wake of each of the major recessions Swedish manufactures were able, in an almost lock-step fashion, to gain an increasing share of value added (R/VA is the inverse of W/VA). To put things into perspective, in 1970 the group average of total labour compensation as a percent of GDP was 64.5 percent whereas the relevant Swedish value was 74 percent. This is the highest among the 7 cases. Yet, by the start of the 2000s Swedish manufacturing workers share of value added fell inline with the 7 group average. An alternate way for understanding the relative change in the distribution between Swedish manufacturers and their labour force is by tracking gross profits as a percent of total labour compensation. In the Graph 9.19 below, this is represented by the plot line R/W. This metric tells much the same story. Each downturn in the business cycle was met by a sharp and short period of a decline in the ratio R/W only to be followed by a dramatic and prolonged increase in the ratio of profits to compensation. That is to say, each cycle was characterized by a higher than the previous cycle's ratio of profits to workers' compensation.

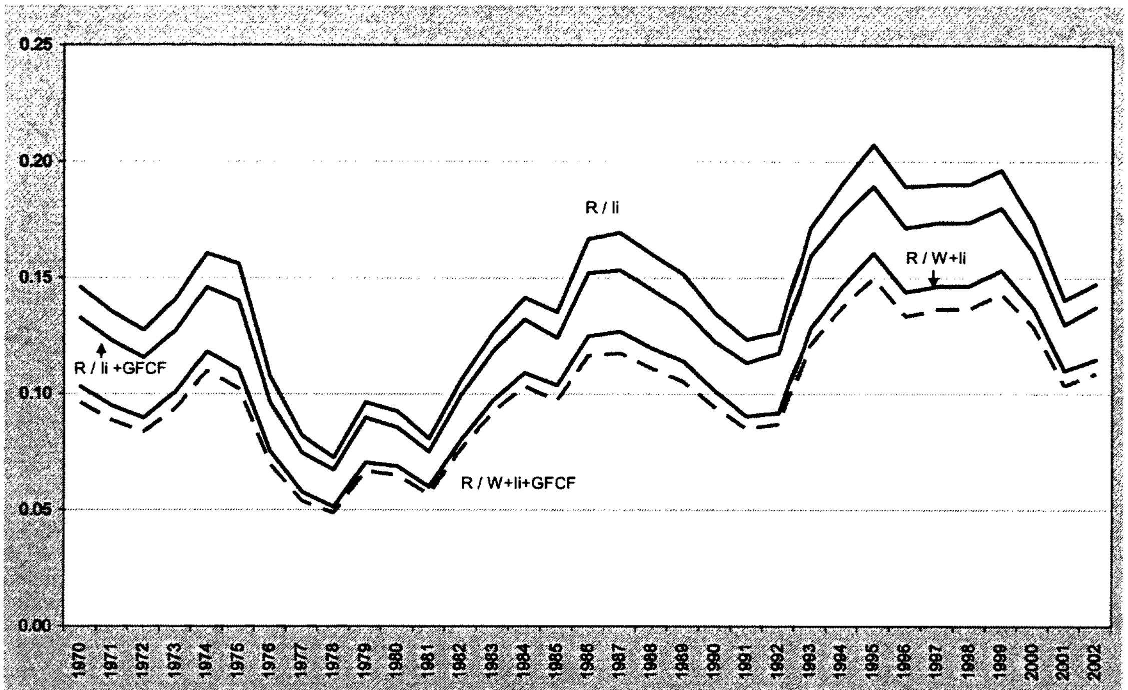
Graph 9.19 Sweden, measures of gross wage and profit shares (manufacturing)



W = total employee compensation including benefits; R = gross profits; VA = value added = W + R; P = output.
See Data Appendix.

As with the other cases reviewed above, four metrics of gross profits in turn-over are presented in Graph 9.20. As one would expect given the analysis on distributional shares presented above, the series on Swedish manufacturing profit rates tells much the same story. The same pattern emerges with each downturn met by a lock-step increase in the profit rate which is higher than in the previous cycle.

Graph 9.20 Swedish rates of profit in turnover (manufacturing)



W = total employee compensation including benefits; R = gross profits; Ii = intermediate inputs; GFCF = gross fixed capital formation. See Data Appendix.

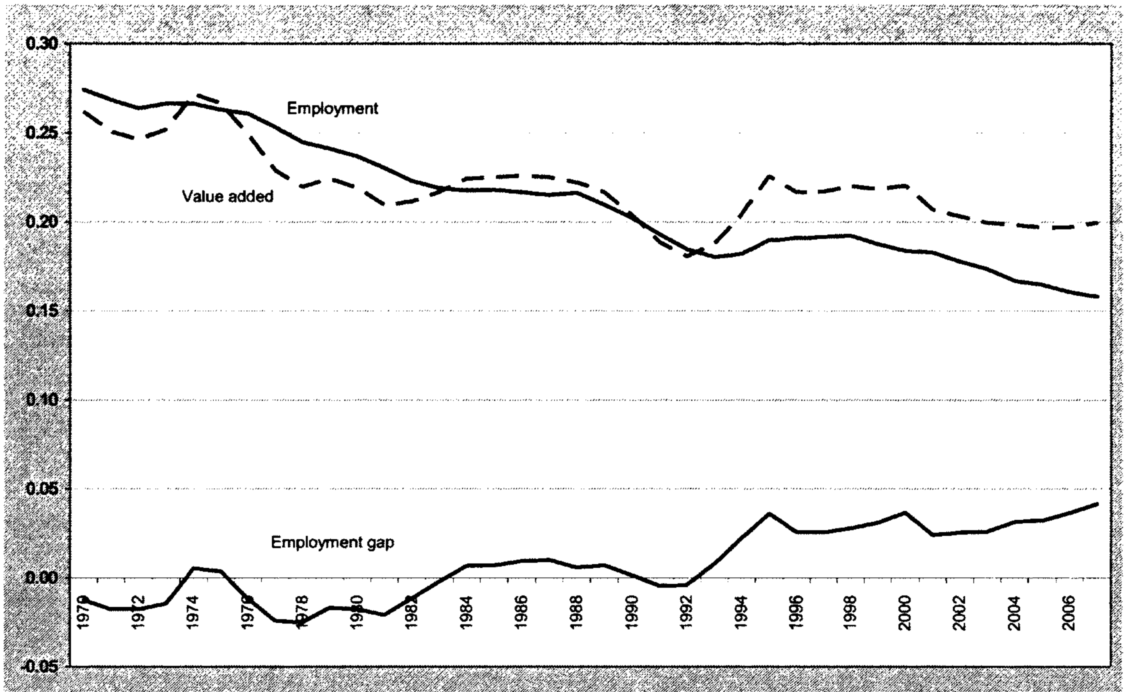
As we shall see, this tendency towards convergence in labour shares of value added is robust as those countries with high relative shares (e.g. Sweden) have witnessed an erosion in their distributive shares. Whereas countries with low relative shares, such as Japan, have been witness to an increase in the distributive shares going to workers. The factors driving this convergence are undoubtedly complicated and no complete account can be given here. One of the most salient facts about the increase in Swedish manufacturing profit rates and distributive share over the economic cycle is that it was not a function of decreased investment as with the other three cases reviewed above. As Graph 9.21 illustrates, Swedish manufactures continued to invest at above average rates for the group of cases.

Graph 9.21 Swedish manufacturing investment ratios

The most relevant metric in the above Graph is investment as a percent of value added.[142] Swedish manufactures maintained investment rates in a narrow band between 16 and 20 percent of value added with a 30 year average of 18.5 percent. This level compares to a group average level, over the same period of time, of +/- 12.5 percent. The result of which is that not only did Swedish manufactures manage to increase their profit rates (and shares) but they did so without suffering the same magnitude of decline/stagnation as their counterparts vis-à-vis the total economy.

[142] The reason for this is fairly straightforward. Value-added tracks the augmentation in value produced when intermediate inputs are combined. The value of the intermediate inputs is thus not included in value added estimates. This means that investment as a percent of value added tracks (issues of transfer pricing to the side) the amount of funds retained from real output increases for the purposes of investment. Simply stated, it tracks the quantity of investment made in order realize the final product but not previously produced inputs.

Graph 9.22 Swedish manufacturing employment and value added as a percent of total economy

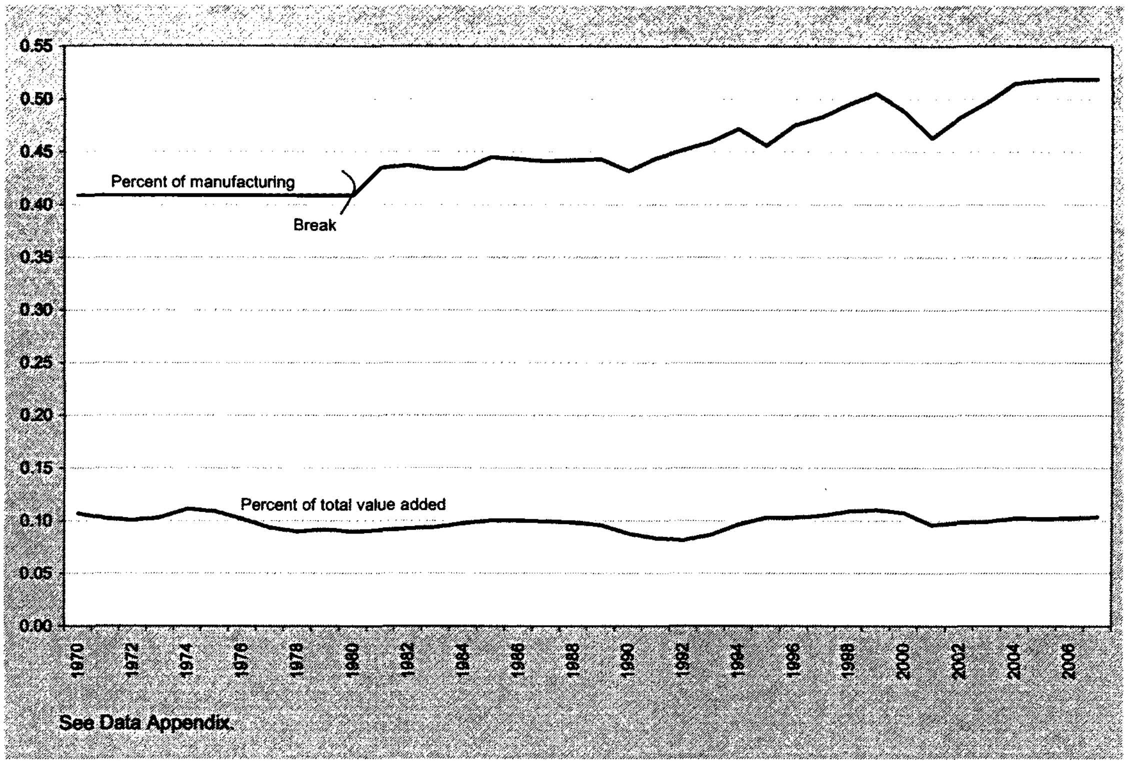


See Data Appendix.

In the above sense, the series on Swedish manufacturing value added and employment shares are particularly revealing (Graph 9.22 above). By the early 1990s, Swedish manufactures managed to stymie and then stabilize their share of total value added. Notwithstanding the relative reversal in the fortunes of Swedish manufactures, manufacturing workers share of total economy value added more or less maintained its trend rate of decline since the 1970s. This last point seems to be the key to understanding both the profit rate and share of Swedish manufactures: from the early 1990s, Swedish manufactures were successful in generating increasing rates of relative surplus value. Graph 9.22 thus provides the answer as to how it was that Swedish manufactures were able to both increase their distributive share of value added and profit rates, while both maintaining above group average levels of investment and below group average declines in national shares of value added.

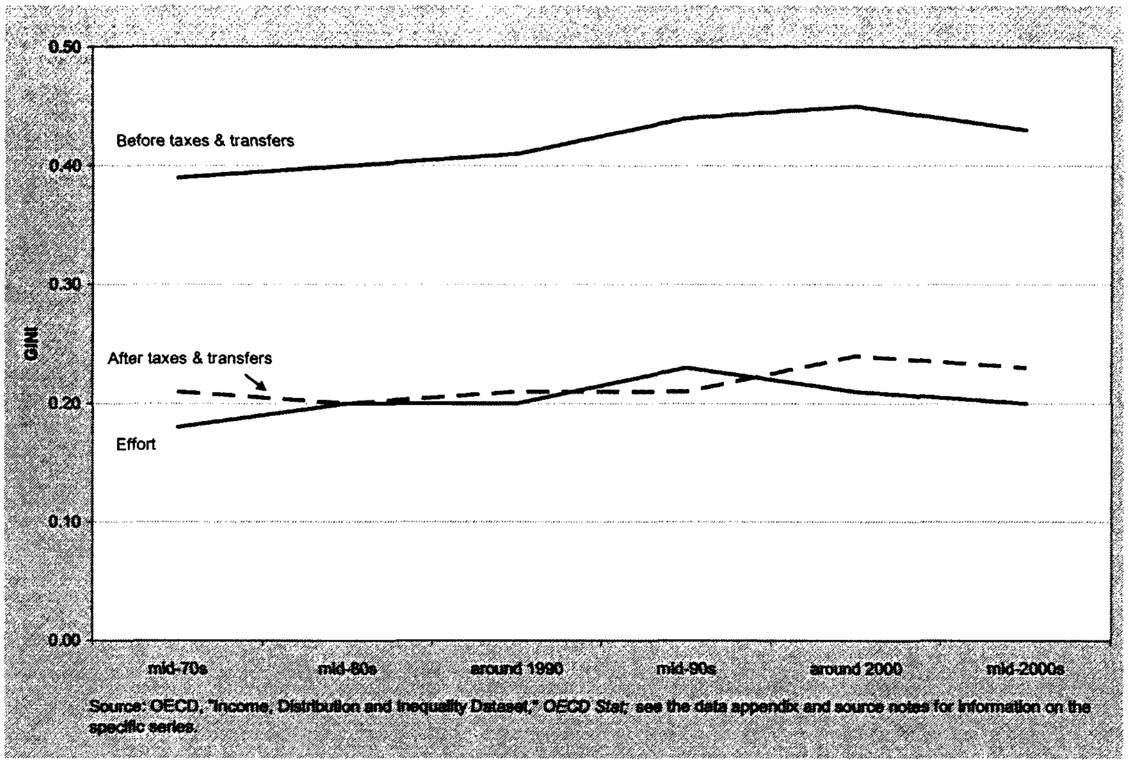
This analysis is further enhanced by the evidence presented in Graph 9.23 where high and medium technology manufacturing is expressed as percent of total manufacturing value added. High and medium tech manufacturing accounted for around 43 percent of value added throughout the 1980s. Then beginning in the 1990s, they began an ascendant trend such that by mid way through the 2000s high and medium technology manufactures accounted for 52 percent of total Swedish manufacturing value added. If this observation is coupled with the data presented in Graph 9.23 this suggests that Swedish manufacturing went through a period of both rationalization and compositional restructuring. Stated differently, Swedish manufacturers both slashed labour inputs and changed product lines in order to *garner higher profit rates and maintain the viability of the Swedish manufacturing export sector.* This analysis is confirmed by the second line plotted in Graph 9.23 as it shows that high and medium tech manufactures retained their overall share of value added over the three and half decades examined. The Swedish case represents, above all else, the degree to which Swedish capital, the state and labour remained, by-and-large, committed to the Swedish accumulation strategy: namely, high value added, export led growth. To this general observation, one caveat needs to be appended: as the initial graphic on Sweden demonstrated, although rationalization and compositional restructuring shifted Swedish manufacturing higher-up the value-added chain, it was accomplished at the cost of manufacturing workers' share of output and value-added.

Graph 9.23 Swedish high and medium technology manufacturing as a percent of total manufacturing and total economy (value added)



The dramatic run-up in Swedish manufacturing profit rates and shares at the start of the 1980s was not initially paired with a dramatic increase in BT&T income inequality. Indeed, as Graph 9.24 shows, the dramatic rise in market-based income inequality did not begin in earnest until the start of the 1990s. This trend continued for the next ten years until the turn of the new millennia, at which point it began to moderate. A couple of points are worth bearing in mind with respect to the Swedish case vis-à-vis both BT&T and AT&T income inequality levels. The first is that by the turn of the millennium, Sweden had a comparable BT&T Gini score to that of the US of around 0.45. The difference between the two is with respect to the Swedish state's redistributional effort which, although having waned in the mid 1990s, nevertheless remained the most aggressive of all the cases studies *inter alia.*

Graph 9.24 Gini coefficients for Sweden



From the mid 1990s the Swedish state, like its Dutch counterpart, allowed the AT&T level of income inequality to drift up and took advantage of the decrease in BT&T income inequality from the 2000 onwards to reduce further its redistributional effort from its mid 1990s high. The mild reduction in Swedish income inequality was thus not driven by state sponsored redistribution but rather by a changing dynamic in market income distribution.[143]

[143] This mirrors the experience in the Netherlands and to some extent the UK. The most likely explanation for this is tighter labour markets combined with strong unions. This would help make sense of the

GERMANY

The German manufacturing experience widely diverges from the patterns of the other cases reviewed above. Quite contrary to the experience of manufacturing workers reviewed in the other cases German workers actually managed to increase their share of output and value added over the first two and half decades of the period between 1970 and 1993 (Graph 9.25). At its zenith in 1993, compensation of German manufacturing workers was over 75 percent of value-added and nearly 30 percent of output. Post incorporation Germany,[144] however, has proved to be a less favourable environment for wage bargaining as German manufacturing workers saw a steady decline in their shares of output and value added.[145] The latest OECD (2010) data confirm that this is a new structural and not a cyclical trend.[146]

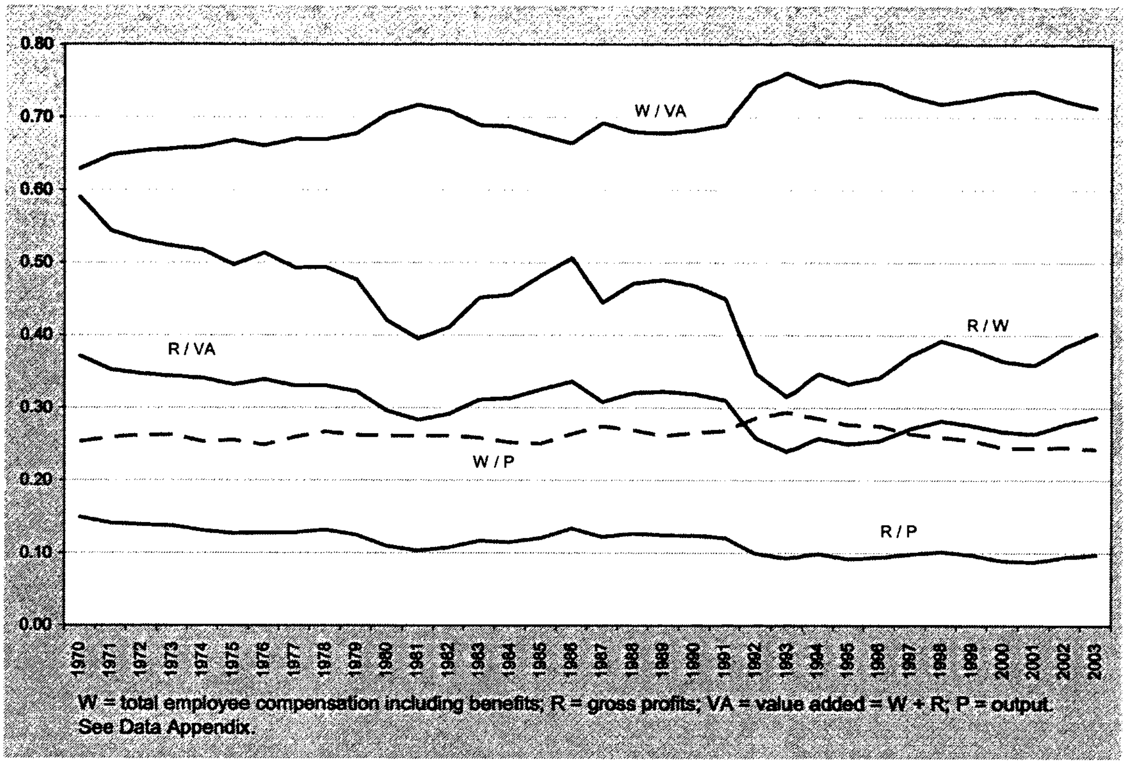
American case; namely, that despite tighter labour markets the growth in BT&T income inequality continued apace.

[144] The common reference is to German re-unification but legally speaking the west incorporated the east under the continuing national identity of the Federal Republic of Germany.

[145] This may reflect a certain averaging-up of east German manufacturing workers' share and an averaging down of west German workers' share. This, however, cannot be directly verified as East German statistics are not readily available. All that can be claimed, and all that is being claimed here, is that the post integration data show declining wage shares. Moreover, as we shall see below, the restructuring of German manufacturing was accompanied by a significant gap between manufacturing value added shares and employment shares thus suggesting that the integration of the two workforces was not itself responsible.

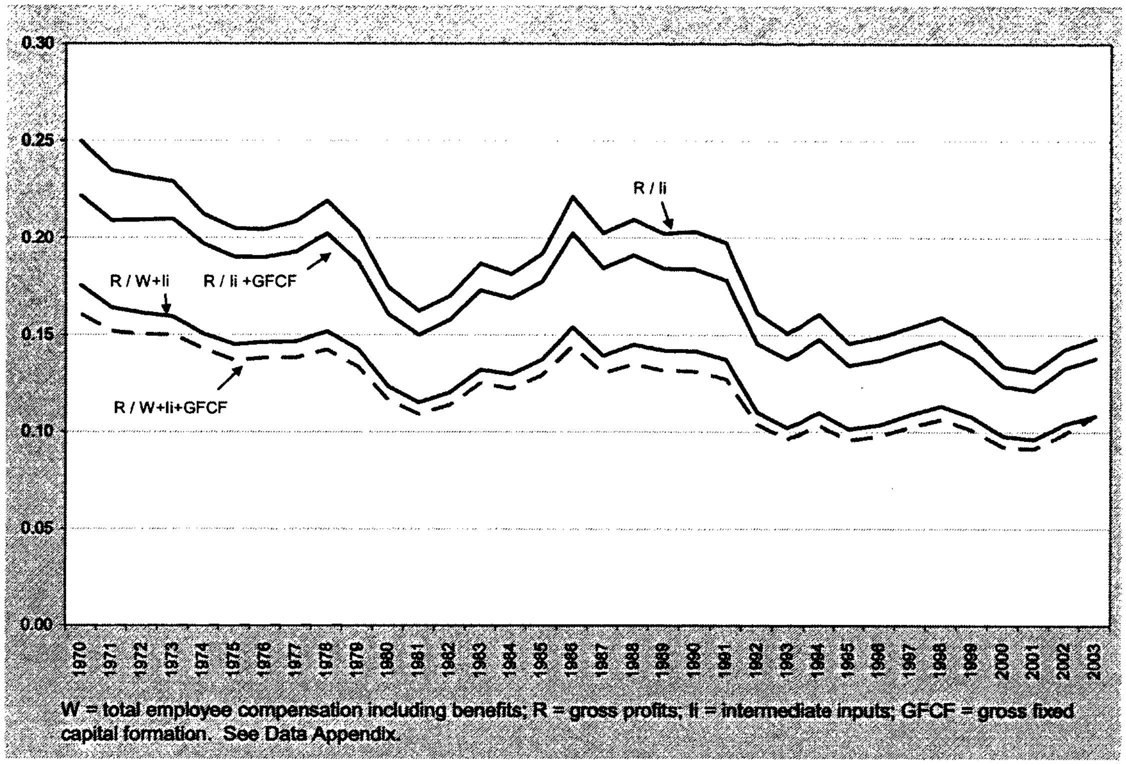
[146] Based on calculations from the OECD (2010), "STAN Industry 2008" data set, wages (total compensation) as a share of manufacturing value added declined to 63 percent in 2007 down from its above 70 percent average of the 1990s.

Graph 9.25 Germany: measures of gross wage and profit shares (manufacturing)



Naturally the flip side of this is that German manufacturing profits as a share of output and value added has been witness to a mild steady recovery. Although, the profit data (Graph 9.26) show a more muted recovery of profit rates, the most up to date OECD (2010) data however confirm that the rather strong uptick after 2001 was sustained through 2007 with gross profits as a share of total compensation reaching 54 percent. Whereas wages as a share of value added declined to 60 percent (1970 levels), gross profits as a share of value added recovered to over 34 percent (again a level not seen since the 1970s). The rather strong post integration surge in the fortunes of manufacturing workers was a rather temporary affair in that by mid-millennia German workers' share of value added had reverted towards its historical mean.

Graph 9.26 German rates of profit in turnover (manufacturing)

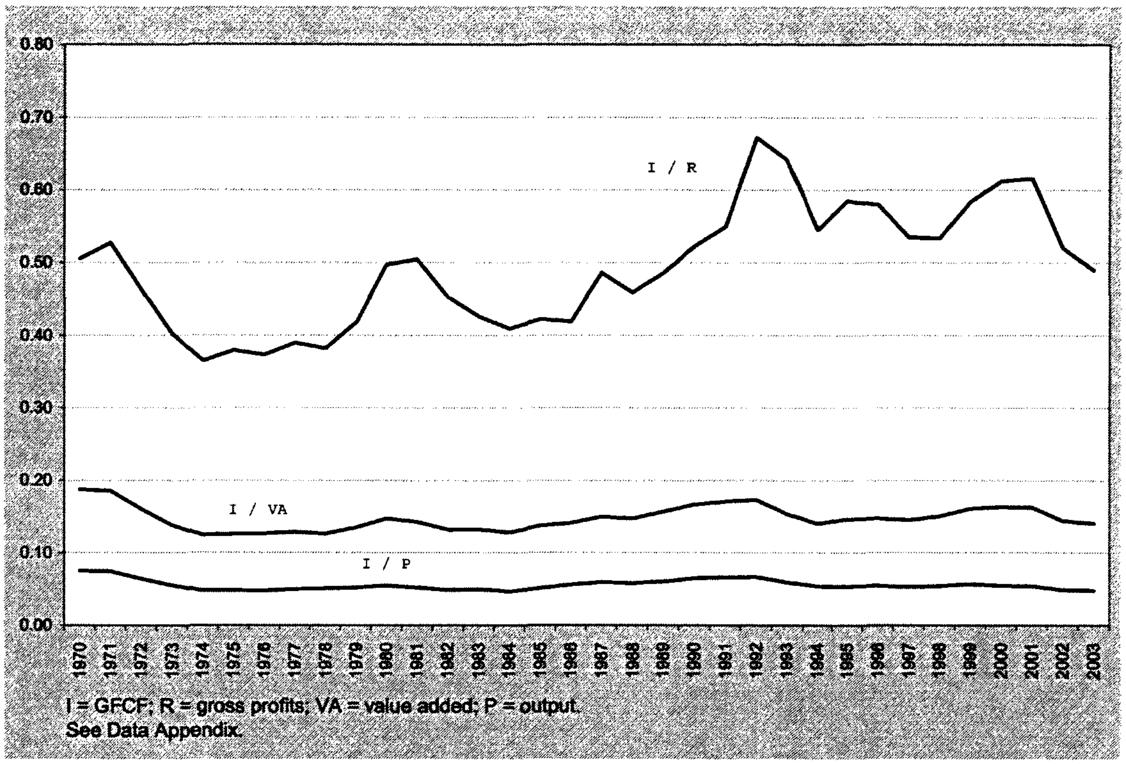


German investment rate data is particularly interesting in the above regard. One of the stylized features of the CME typology is that they have investment functions which are said to be more 'patient' than their LME counterparts (Hall & Soskice, 2001; Vitols, 2001; Wood, 2001). Although this general claim is hard to assess with respect to Sweden, the German case makes for a potentially much more robust 'test'.[147] In the face of a secular decrease in profits until the new millennium, German manufactures actually increased investment as a share of their profits (Graph 9.27) in order to maintain investment levels as a percent of output and value added. Moreover, the decrease in investment (as a percent of profits) since the new millennium has been a function of

[147] It is hard to assess because, as was shown, Swedish manufacturing profits began a secular increase from the beginning of the 1980s

increased profits *not* decreased investment. On this score, it would indeed seem reasonable to suggest that German manufacturing capital enjoyed access to more long term orientated financing facilities.

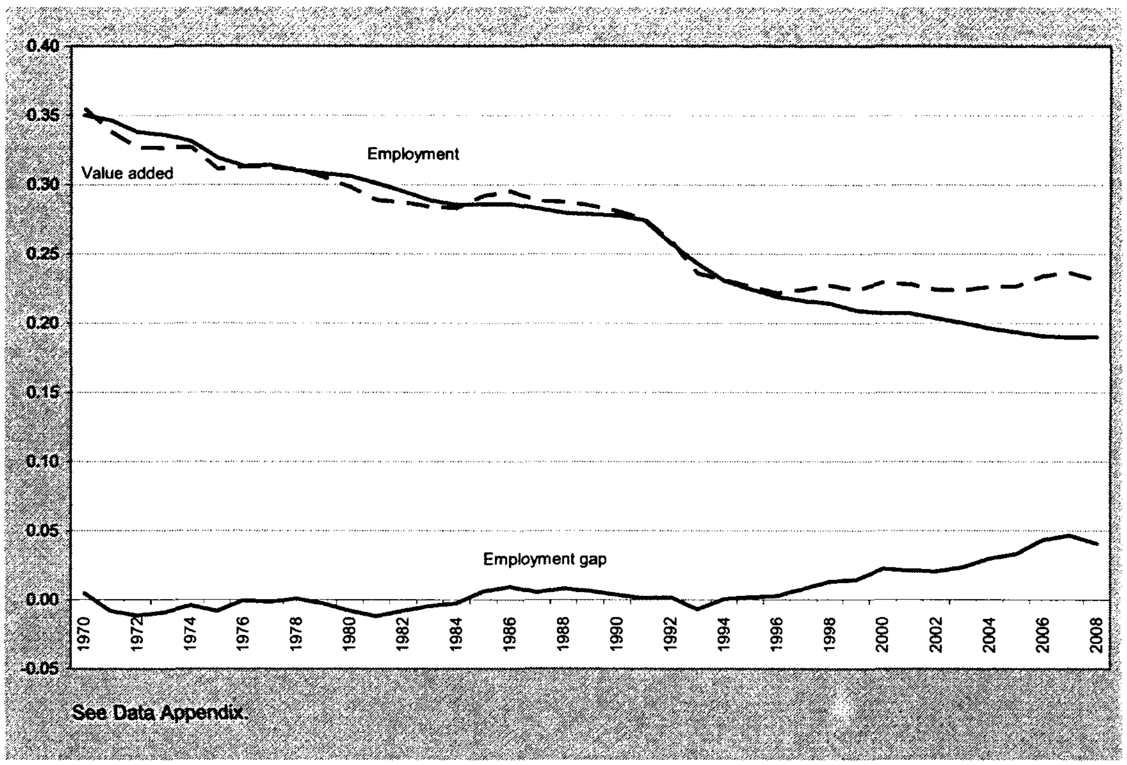
Graph 9.27 German manufacturing investment ratios



On the other hand, the levels of German investment have not been sufficient to maintain the weight of German manufacturing in the overall German economy. As Graph 9.28 suggests, on a value added basis German manufacturing has declined from roughly 35 percent of German economic activity at the beginning of the 1970s to less than 25 percent by the new millennium. Nonetheless, this level (+/- 24 percent) has been stable since the early 1990s, indicating that German manufacturers maintained investment levels (despite decreasing profits) sufficient to stymie the sectors' decline.

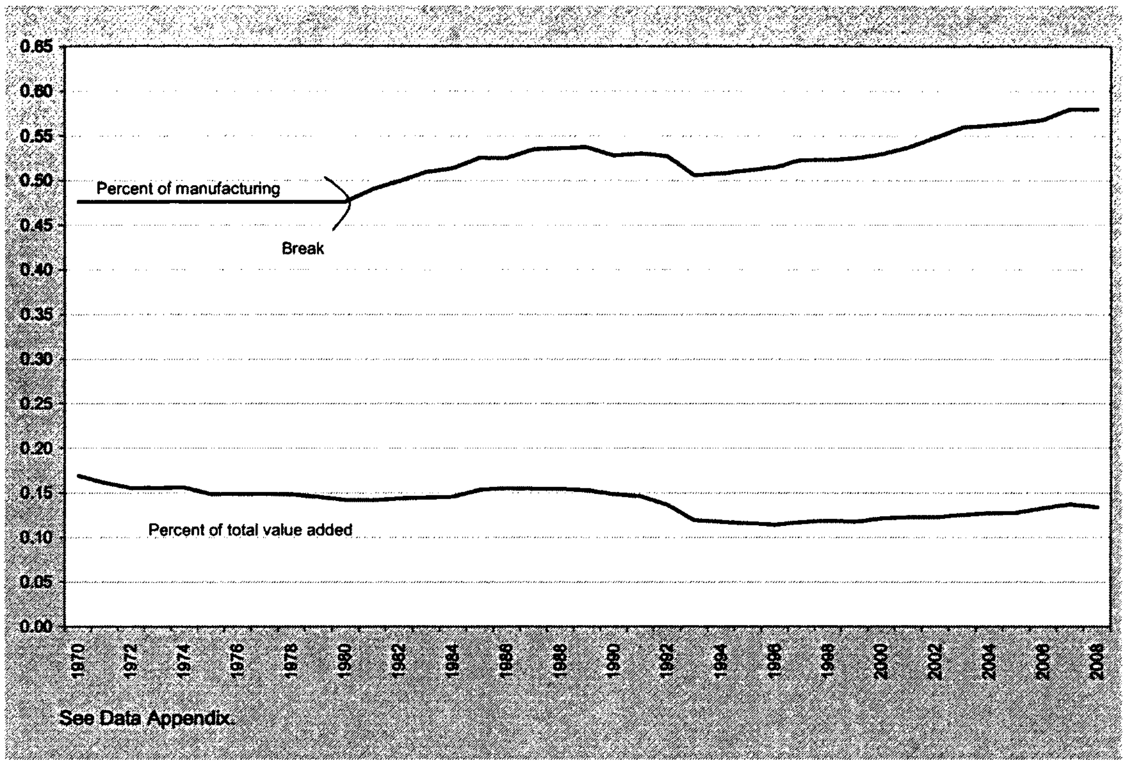
Moreover, the evolution of the employment gap indicates that investment since the early 1990s has been significantly in the form of labour saving means of production.

Graph 9.28 German manufacturing employment and value added as a percent of total economy



Further, consulting the data on the composition of German manufacturing, like their Swedish counterparts German manufactures not only moved to rationalize their operations but have also shifted into higher value added lines since the 1990s. From the start of the 1980s, medium and high technology production increased from just fewer than 50 percent to just less than 60 percent of total manufacturing output, with the bulk of the gains coming since the early 1990s (see Graph 9.29).

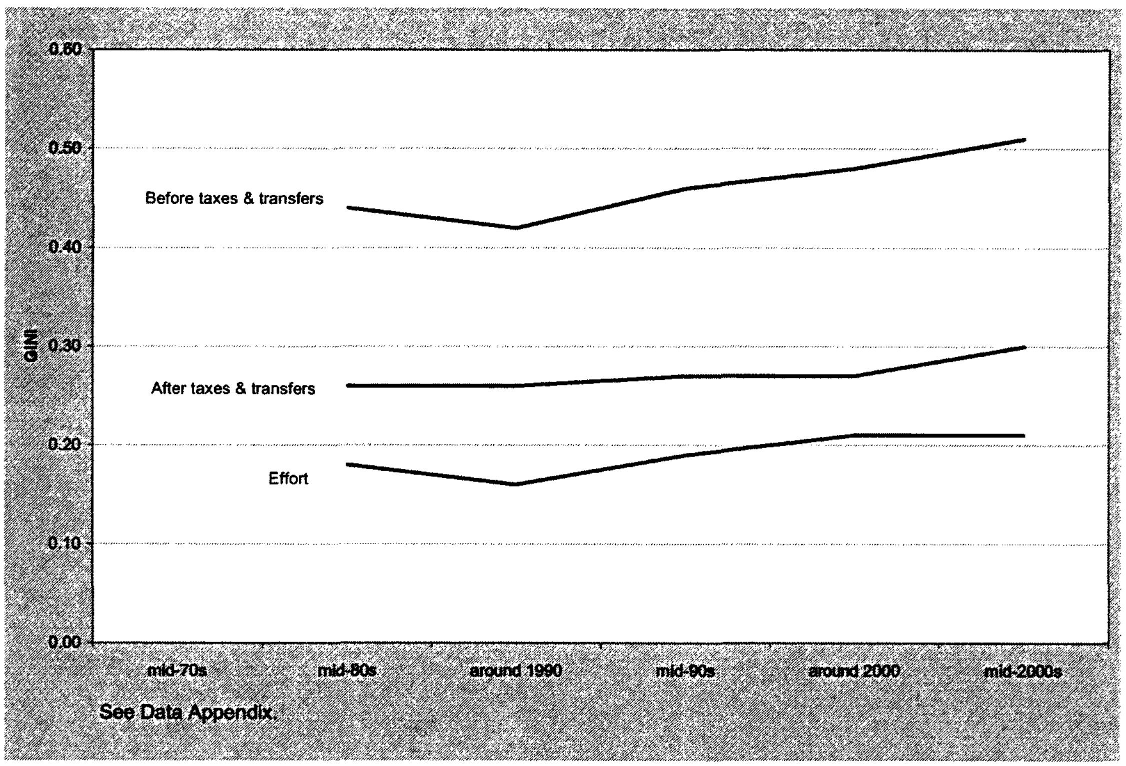
Graph 9.29 German high and medium technology manufacturing as a percent of total manufacturing and total economy (value added)



For the German case these results are strong in that even in the case of an overall declining manufacturing sector, medium and high tech production reversed its downward trend by the beginning of the 1990s and began increasing its share of *economy wide value added* (percent total value added, Graph 9.29).

The data on German levels of income inequality is quite revealing. In Graph 9.30, it is quite clear that from the early 1990s onwards BT&T income inequality began to increase at a decent pace. The increase in market based income inequality was initially met by an increase in the redistributional effort by the German state. Thus, until the 2000s, although edging up slightly, AT&T income inequality remained more or less stable. The renewed surge (above trend) in market based income inequality was essentially allowed to grow unchecked as the German state did not meet the growth in market income inequality with an increased effort in terms of redistribution. The consequence of which was that the surge in BT&T inequality was matched by a surge in AT&T income inequality.

Graph 9.30 Gini coefficients for Germany



Like the Swedish case, the German case indicates that whatever degree of coordination and cooperation involved between workers, capital and the state, the more powerful forces of the accumulation process were evident. Namely, an increasing rate of relative surplus extraction was critical. In the Swedish and German cases, the increasing productivity and compositional restructuring which led to higher value added lines of production were not met by either matching employment or compensation levels. That is to say, although German and Swedish manufacturing sectors both halted their declines and in some measure, via the diversification of product lines, became stronger, manufacturing workers did not see their declining share of employment offset by higher compensation. In economy wide terms, both Germany and Sweden saw a significant increase in BT&T income inequality levels from their mid 1970s levels to such an extent that, despite the initial increase in redistributional efforts by the mid 2000s, AT&T income inequality had also risen.

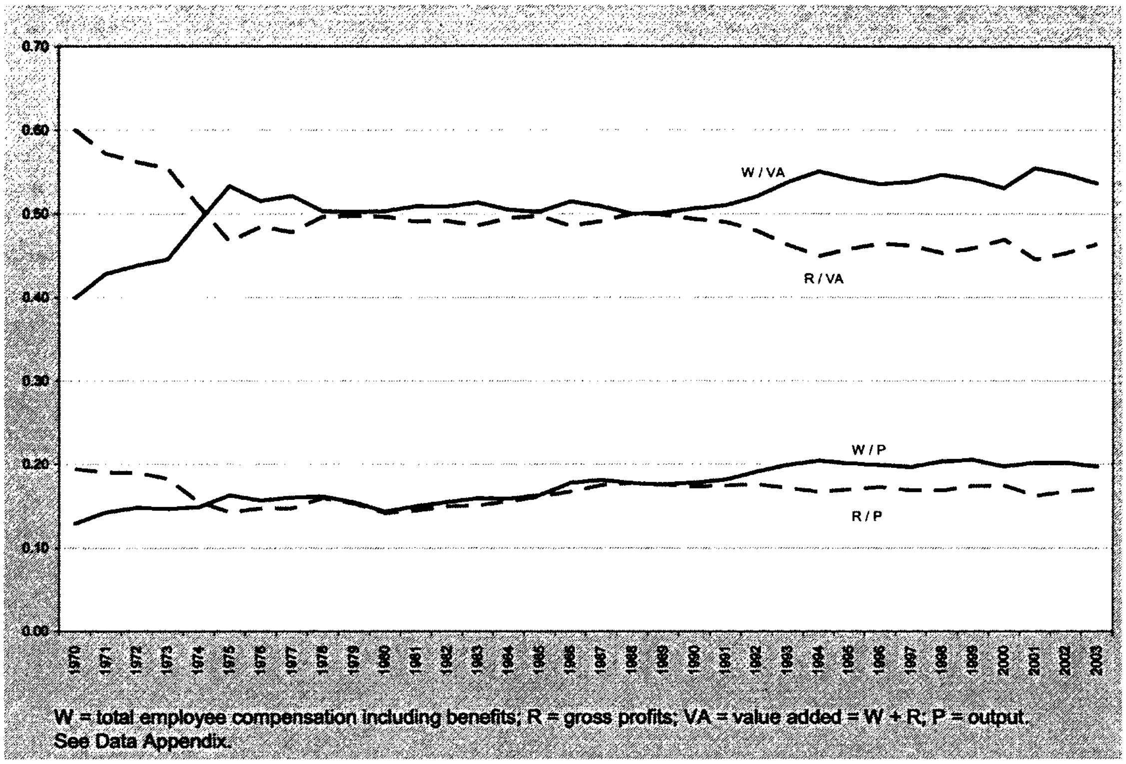
The implication of both these cases is that in that existing social democratic practice has been neoliberalized. Hence, even where social democratic countries (as CMEs) have successfully implemented high road, value added strategies they do not necessarily lead to increasing employment and higher compensation of workers or greater income equality between surplus producing labour (workers) and surplus maximizing labour (managers). This points to an important contradiction in neoliberal social democratic practice: the very logic of supply side social democracy was to increase market determination of relative prices including labour via liberalization. The result of which was considerably higher levels of BT&T of income inequality. But those very same supply side policies limited the capacity of social democratic countries to check the rise in market income inequality with increasingly higher levels of income redistribution. Those countries that have significant redistributive programs like Sweden and Germany have thus been forced to (relatively) scale back their redistributive efforts and allow liberalised labour markets greater scope to set the redistributive agenda. More precisely put, it represents a policy shift to allow the primary distribution of income and economic security to be determined by liberalized markets and only secondarily by increasingly restrained *ex post* amelioration via taxes and transfers.[148]

JAPAN

Japanese manufacturing is, perhaps, the most interesting of the cases in terms of wage and profit shares. In 1980, the group average (excluding Japan) for gross wages as a percent of value added was 74 percent while in Japan it was 50 percent. By 2003, the group average had declined to 67 percent while increasing to 54 percent in Japan. Hence interpretation of the increasing compensation shares of Japanese workers must be cautious because even with significant increases those shares were still well below advanced capitalist norms. Graph 9.31 shows that the bulk of wage share gains for Japanese manufacturing workers occurred between the late 1980s and mid 1990s, and from there remained stable. Given the relatively low wage shares of Japanese manufacturing workers, it is not surprising to discover that, despite the gains during the late 1980s, Japanese manufacturing profit rates remained relatively high and stable. For example, in 1970 the group average (excluding Japan) was 12 percent whereas Japanese manufactures' profits were 24 percent. By the turn of the millennia, the group average was 15 percent with Japanese profit rates at 21 percent. Indeed, the robustness of Japanese manufacturing profit rates are quite remarkable given, as Graph 9.32 indicates, they remained high and stable throughout the lost decades of accumulation in Japan.

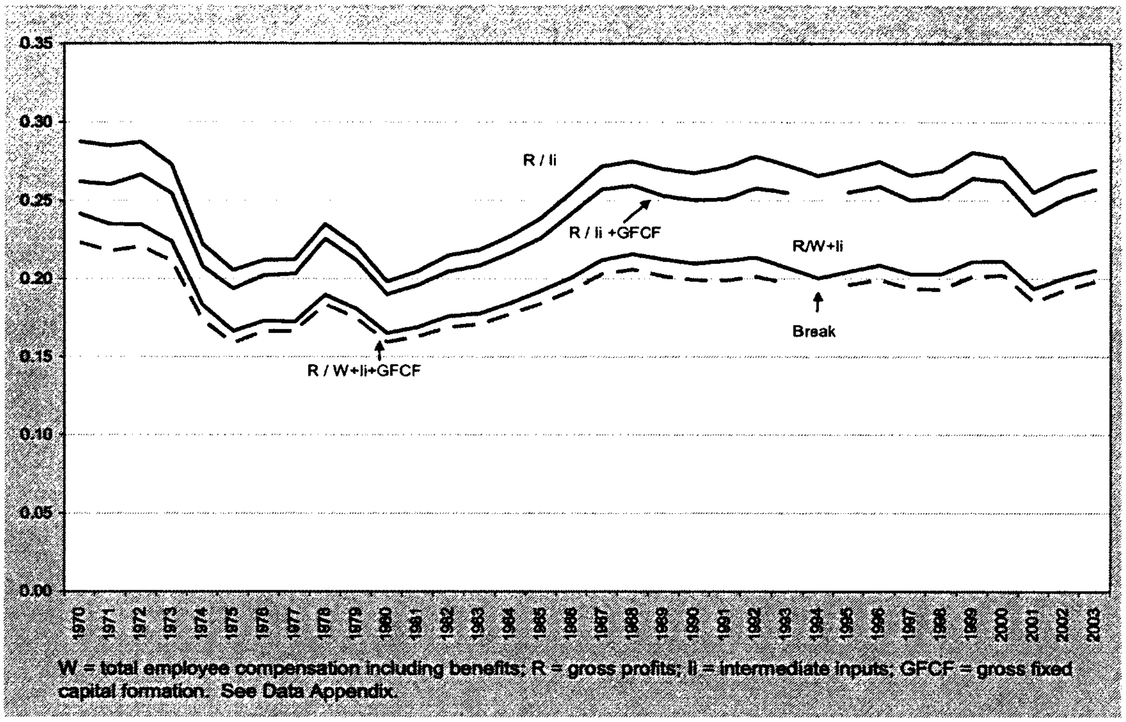
[148] I will come back to this point in the conclusion to this chapter.

Graph 9.31 Japanese measures of gross wage and profit shares (manufacturing)

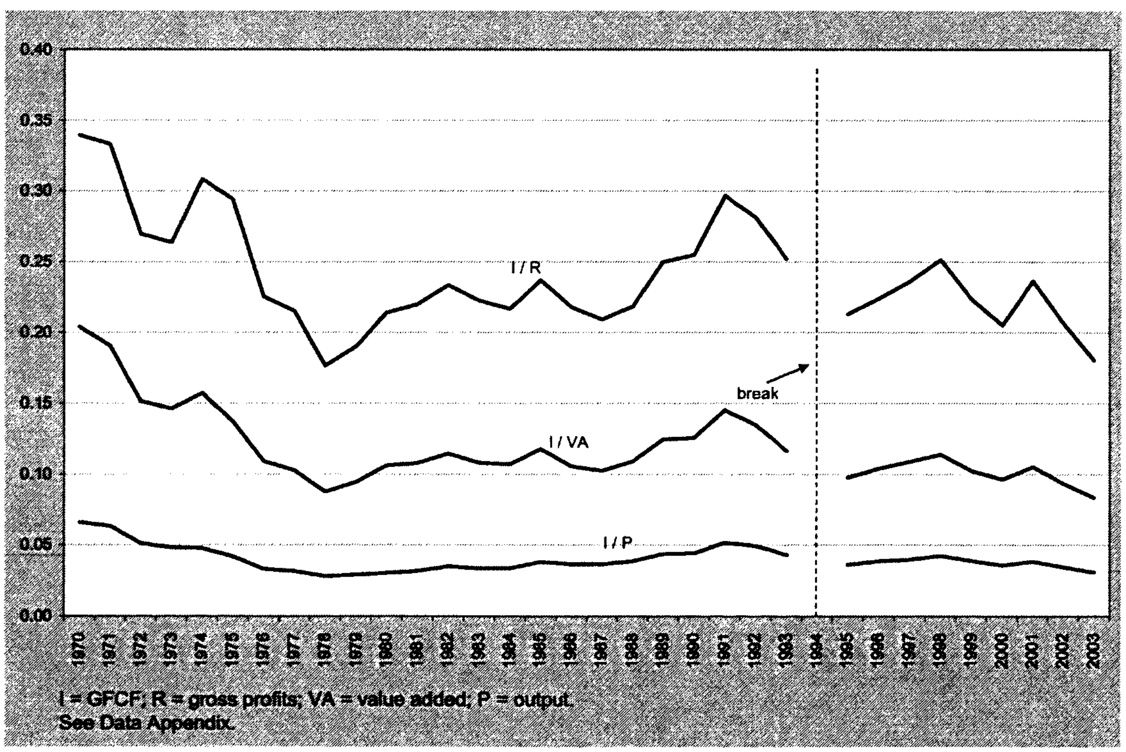


One downside of the strong Japanese manufacturing profit rates is that they seem to have been buttressed in part by lower than average investment rates. As Graph 9.33 on investment rates shows, from the beginning of the 1990s onwards investment as a share of profits and value-added declined precipitously with the result that they fell faster than output growth. Japan's experience with respect to a shrinking share of manufacturing in economy wide value added tracks the declines in the other cases examined. From the beginning of the 1970s until 2003, Japanese manufacturing declined from near 35 percent to just over 20 percent of economy wide value added (Graph 9.34).

Graph 9.32 Japanese rates of profit in turnover (manufacturing)

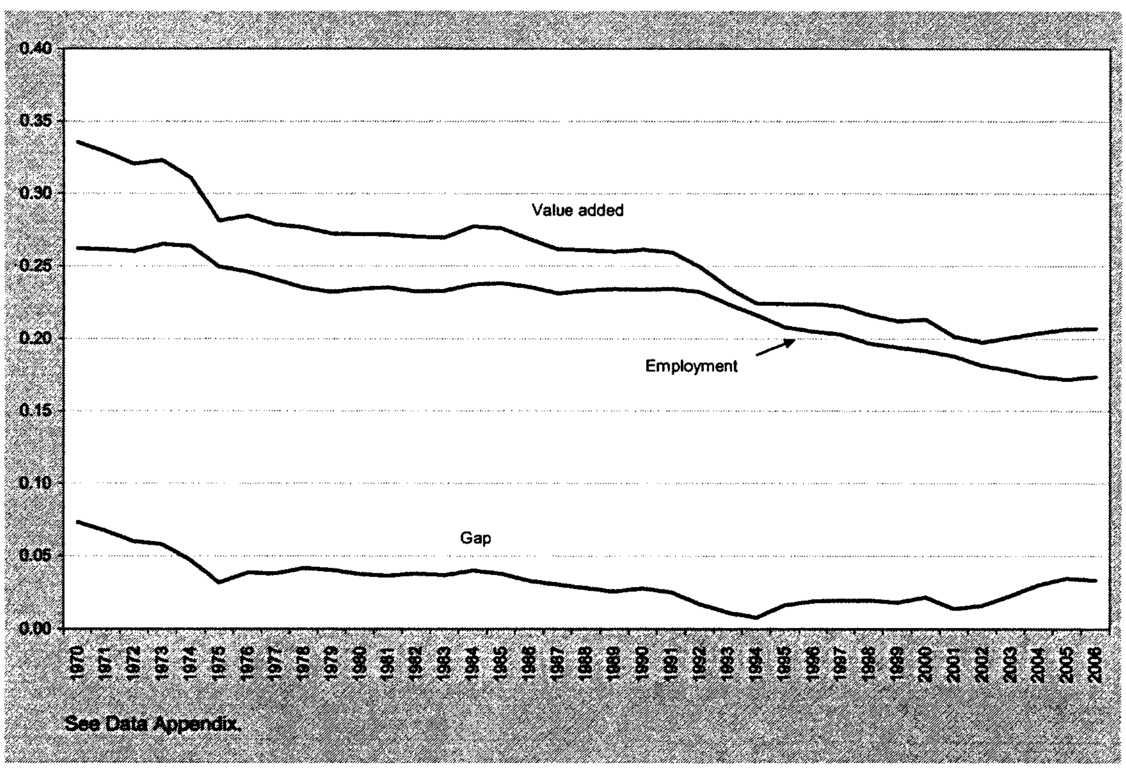


Graph 9.33 Japanese manufacturing investment ratios



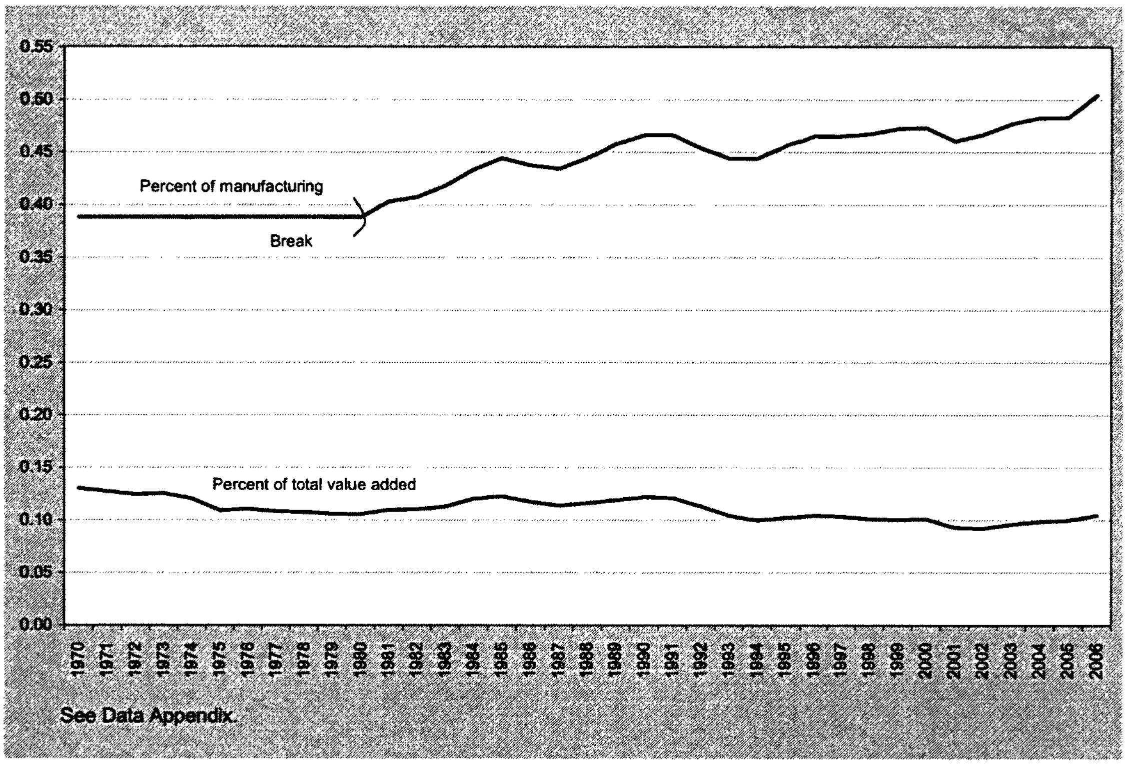
Graph 9.34 allows for another equally interesting observation. Namely, that the gap between employment shares and manufacturing value added shares began shrinking in the latter-half of the 1980s, declining to near zero by the mid 1990s and then reversing tack somewhat. This helps explain why manufacturing wage shares initially increased in earnest and then stalled over the same time period. By 2001 Japanese manufactures seem to have regained their capacity to rationalize operations via an increase in relative surplus value extraction. As with the Swedish and German cases part of this rationalization involved compositional changes in the sector.

Graph 9.34 Japanese manufacturing employment and value added as a percent of total economy



As Graph 9.35 illustrates, the remarkable increase in medium and high tech production was both a function of declining traditional manufacturing operations and as a result of growth in medium and high technology manufacturing operations (as indicated by the more or less stable, yet declining share of high and medium tech in total value added).

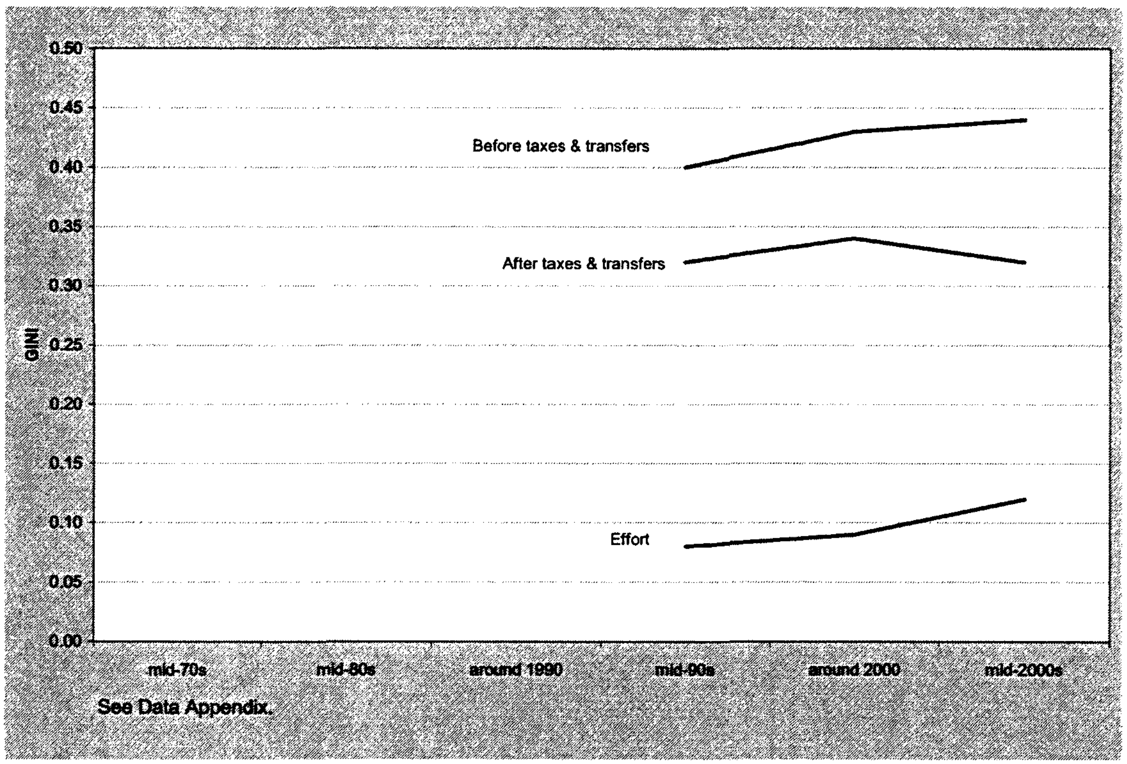
Graph 9.35 Japanese high and medium technology manufacturing as a percent of total manufacturing and total economy (value added)



Although Japanese data on income inequality is limited to the 1990s onwards, some interesting observations can still be made. Like Germany, the dramatic increase in BT&T income inequality was *not* accompanied by a decrease in wages as a percent of total value added and output in the manufacturing sector. Stated differently, despite increasing wage shares in manufacturing, market based income inequality on an economy wide basis nonetheless rose significantly between the middle of the 1990s and the mid

2000s.[149] Unlike Germany, however, the Japanese state dramatically (50%) increased its redistributive effort at the turn of millennium such that the initial rise in BT&T income inequality was effectively cancelled out by the mid-2000s. In terms of AT&T income inequality levels, Japan's Gini coefficient of 0.32 in the mid 2000s placed it between the CME and LME averages.

Graph 9.36 Gini coefficients for Japan

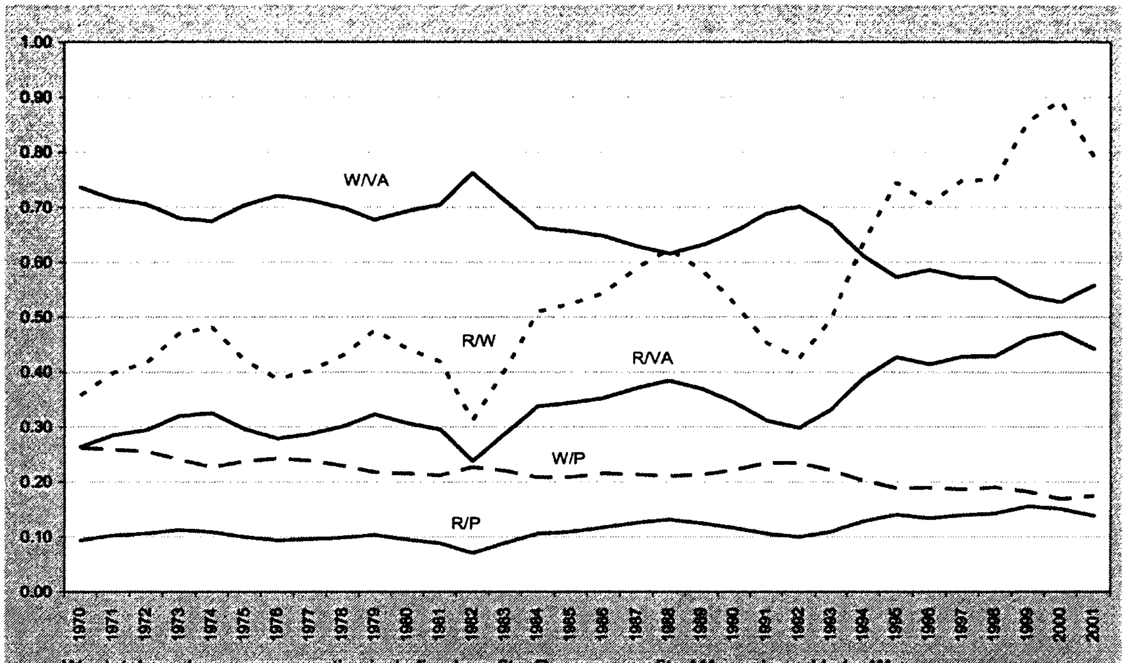


[149] Conceptually, the increased inequality in the distribution between capital and labour is separate from the distribution of income between types of labour (surplus producing as opposed to surplus maximizing labour, for example).

CANADA

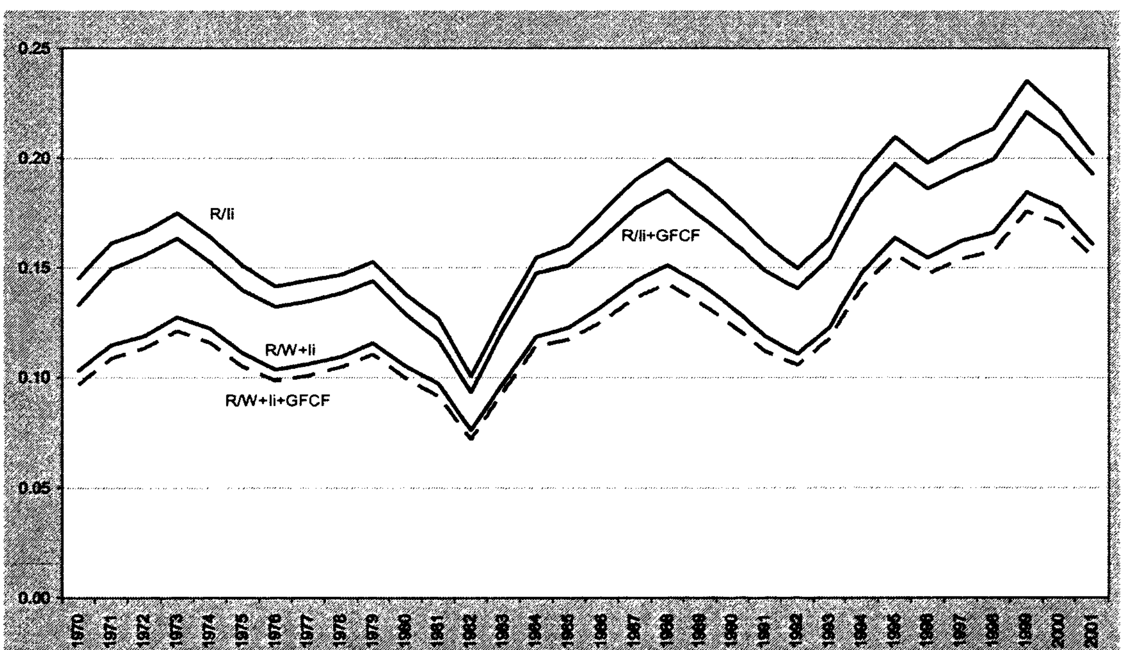
Canada has, in general, followed a similar trajectory to the US with respect to its manufacturing sector. Although, as we shall see, on some metrics it would appear as though neoliberal restructuring and rationalization has been more exaggerated than in the US. Taking a look at the broadest indicator of income distribution between capital and labour it is evident that high water mark for labour was the 1970s. Even though workers share of output was already declining (W/P), their share of value added was nonetheless on average high and stable at the time. Quite remarkably 1982 stands out as a clear switch point for all but one of the metrics represented in Graph 9.37. In 1982, workers' share of value added began a secular decline and profits as a percent of wages (R/W) began a secular ascent only taking brief respites during recessions. The same can also be said for profits as a share of output and value added. If we switch from trend to a comparative level of analysis, it becomes apparent the degree to which Canadian manufactures were more successful than their American counterparts. In the US, profits as a share of wages peaked around the 60 percent level during the late 1990s, whereas in Canada profits as a share of wages for the same time period were over 70 percent peaking to high of near 90 percent (near parity) at the turn of the millennia and before falling back to the 80 percent level. Simply put, Canadian manufactures were, in fact, the most successful of all the national manufactures in terms of raising their profit shares. Unsurprisingly, this trend is equally evident in Canadian manufactures rates of profit in turnover (Graph 9.38). This is consistent with the fact that since 1982 profits began a secular ascent.

Graph 9.37 Canadian measures of gross wage and profit shares (manufacturing)



W = total employee compensation including benefits; R = gross profits; VA = value added = W + R; P = output. See Data Appendix.

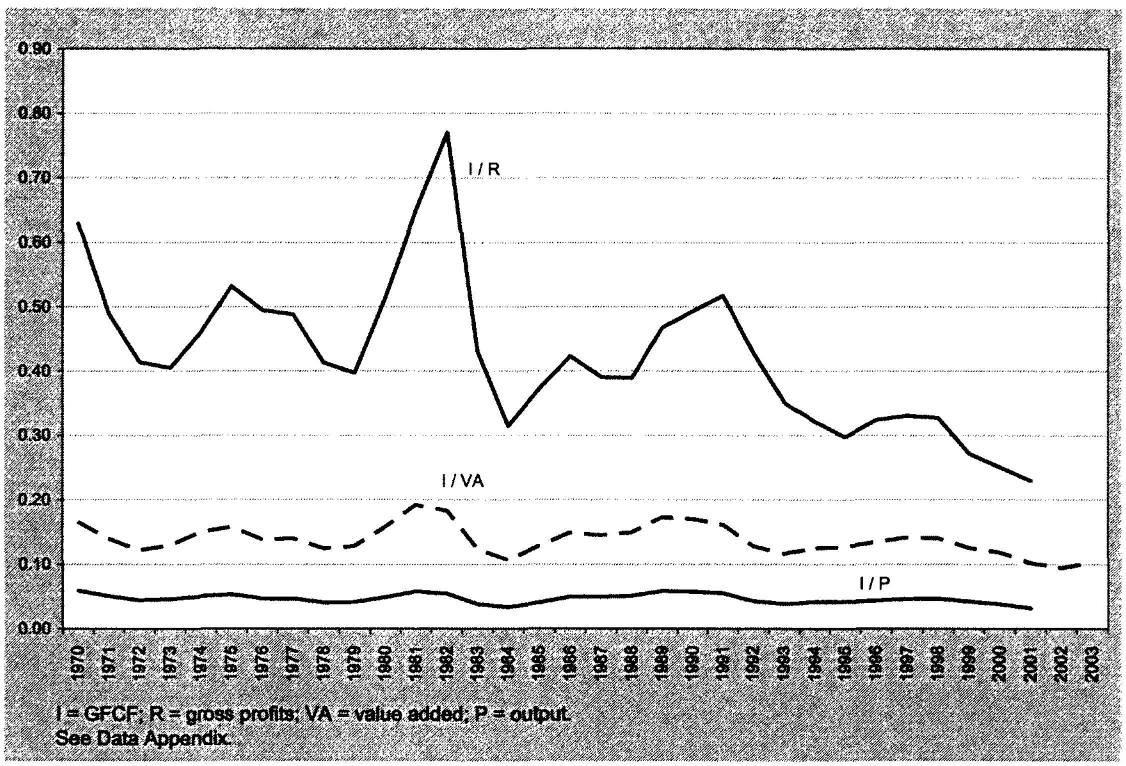
Graph 9.38 Canadian rates of profit in turnover (manufacturing)



W = total employee compensation including benefits; R = gross profits; Ii = intermediate inputs; GFCF = gross fixed capital formation. See Data Appendix.

Despite the increasing fortunes of Canadian manufacturing capital, investment continued its secular decline as measured by the three metrics plotted in Graph 9.39. Indeed, it is quite striking that in each decade since the 1970s average investment rates have declined, with the 2000s no exception.

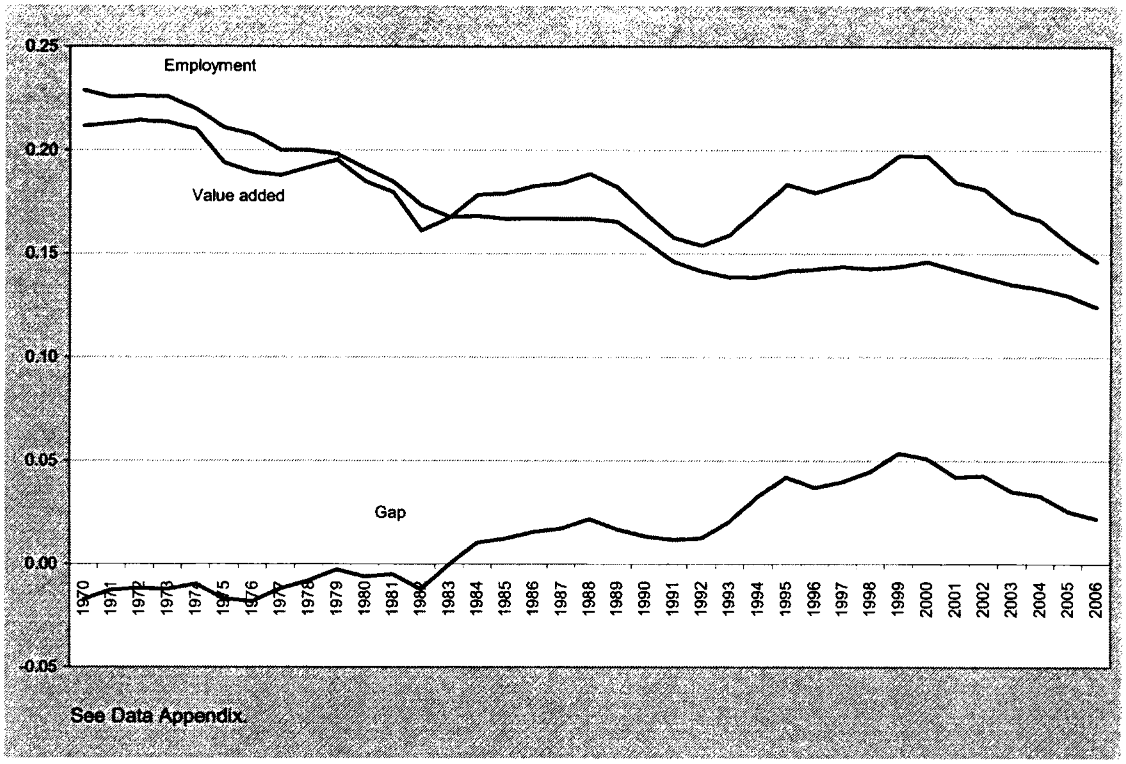
Graph 9.39 Canadian manufacturing investment ratios



Graph 9.40 helps clarify the story somewhat. If we look at manufacturing value added as a percent of economy wide value added it is evident that Canadian manufactures managed to stymie the sectors' decline, with the 1990s representing somewhat of a mini boom. However, as the data from 2000 onwards demonstrate, the boom did not last as by

2006 manufacturing value added shares were down 25 percent, which left them below their 1990s recession levels.[150]

Graph 9.40 Canadian manufacturing employment and value added as a percent of total economy

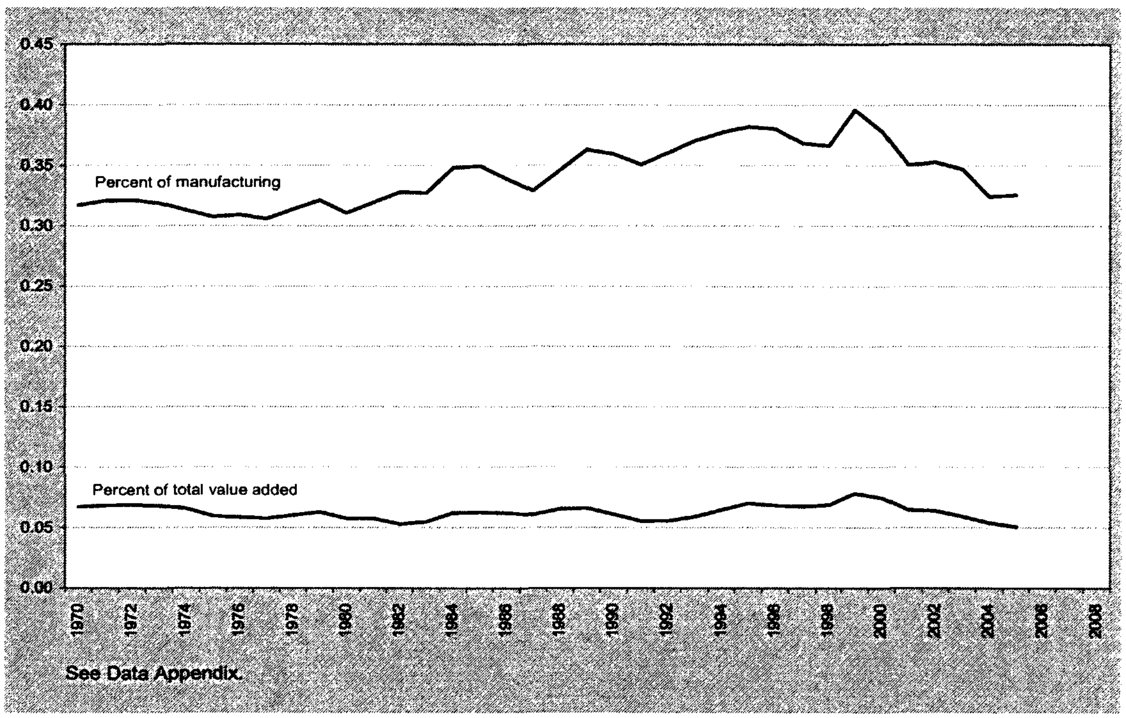


Interestingly, despite declining investment levels, it would appear that over the 1980s and 1990s, Canadian manufactures managed a significant amount of rationalization as the gap between manufacturing employment shares and value added shares began a two decade long period of widening. The other significant and somewhat counter-intuitive trend in Canadian manufacturing is that despite decreased investment

[150] The boom of the 1990s and the decline since 2000 is not a mystery. On the one hand, the low Canadian dollar made Canadian manufacturing exports quite competitive. The subsequent appreciation of the dollar undermined this competitive advantage. According to Polushin and Moore (2008, pp. 2-3), between 2002 and 2007, the Canadian dollar appreciated by 60 percent whereas employment in manufacturing declined by nearly *half a million between 2005and 2008.* On the other hand, the increase in commodity prices meant that the resource sector began adding more to economy wide value added.

rates it appears as though not only were Canadian manufactures capable of considerable rationalization from the beginning of the 1980s to the end of the 1990s, this was accompanied by significant amounts of compositional restructuring. Graph 9.41 shows the increasing share of medium and high technology manufacturing for the sector as whole since the start of the 1980s.

Graph 9.41 Canadian high and medium technology manufacturing as a percent of total manufacturing and total economy (value added)



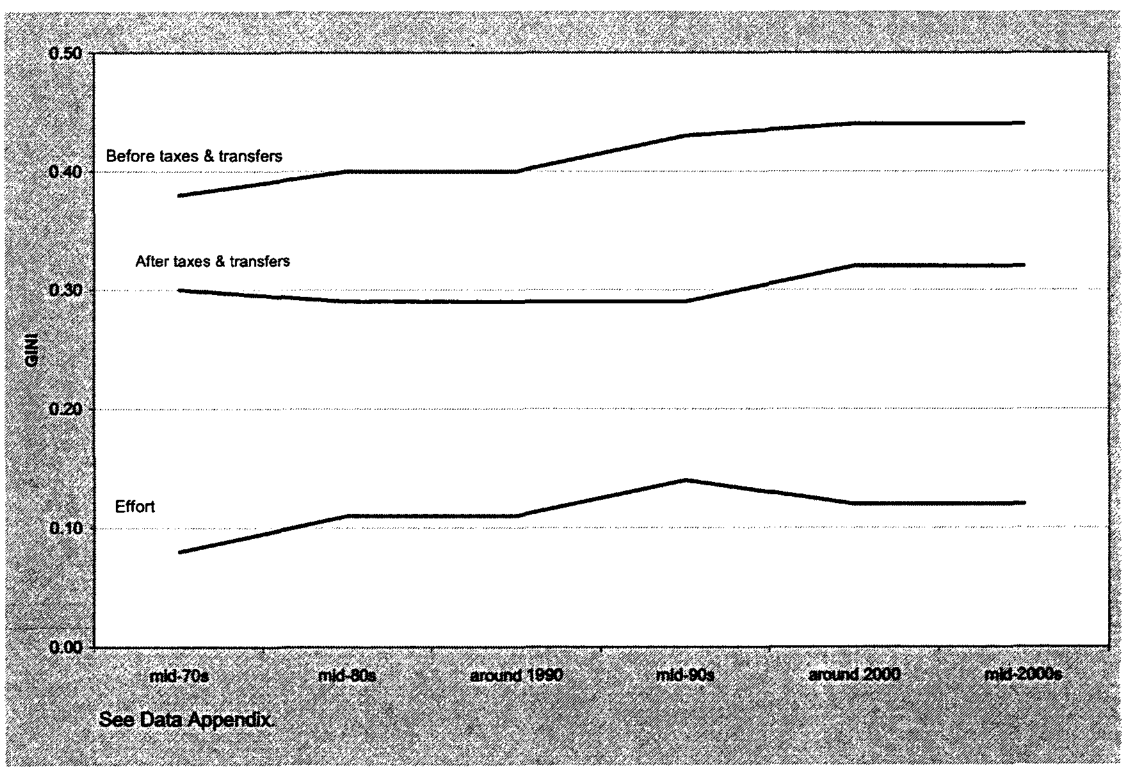
Yet more telling, since the start of the 2000s medium and high technology manufactures have suffered a disproportionate decline to the point where they were back at their mid 1980s levels after a mere 6 years.[151] Whatever claims can be made for neoliberal labour market restructuring and the liberalization of trade for Canada it would seem as though

[151] This is quite counterintuitive in the sense that one would assume that it would be the lower value added, and less capital intensive manufactures that would be most adversely affected by an appreciating dollar. A more detailed investigation needs to be made in order to make sense of this observation.

the initial claims of success (outside of profit rates) were exaggerated. Indeed, the enthusiasm generated by the boom in the manufacturing sector in the 1990s was seemingly more the result of a low Canadian dollar than it was of neoliberal restructuring (see note 150).

Gini coefficients for Canada since the 1970s illustrate that the changing fortunes of manufacturing capital (and surplus maximizing labour) vis-à-vis workers was in fact part of a broader economy wide trend. The secular increase in the inequality of BT&T income distribution is unmistakable. Equally stark is the degree to which the Canadian state's effort with respect to redistribution peaked in the mid 1990s thereby allowing for increasing AT&T inequality since then to grow.

Graph 9.42 Gini coefficients for Canada



CONCLUSION

Above all, what the empirics on the seven national cases demonstrate is the degree to which all seven manufacturing sectors managed, albeit by different means, to restore profit rates and thereby the share of value added of manufacturing capital. In the case of Japan, manufacturing workers did manage to increase their share of value added. However, this was within the context of having the lowest — by a wide margin — share of value added of the cases reviewed. The data on investment and profits run counter to several neoliberal claims. Perhaps most significantly the data does not support any simple linear connection between profit rates and investments rates. For the most part, those countries with high investment rates maintained those rates quite apart from the path of profits. The UK is the exception. At first, the response of UK manufactures to decreased profit rates towards the end of the 1970s was to maintain their investment levels. When, at the start of the 1990s and the 2000s, profit rates declined so too did investment levels. By 2003, UK investment levels were lower both in value added and output terms then at anytime since the 1970s. The examination of BT&T and AT&T data on income inequality illustrates the other salient aspect of neoliberal public policy. Not only has capital managed to restore its shares in national income but this also has been matched by increasing inequality in the distribution of market income since the 1970s. There has been a double movement in the inequality of income: on the one hand, from wages to profits; and on the other, from surplus producing to surplus maximizing labour.[152]

[152] See Glyn (2006, Ch. 5). I will come back to the question of the origins of this income inequality in the next chapter.

None of these observations should be surprising or controversial. The basic supply side logic of neoliberal policies — from liberalized trade to the liberalization of finance and investment, through to a narrow focus on price stability and flexible labour markets — entailed a shift in the balance of class forces. Capital became more mobile and production increasingly internationalised with the consequence of a massive increase in global labour supplies which in turn forced workers in the advanced capitalist zone and their collective institutions — from trade unions to the welfare state — to become increasingly focussed on accommodating and attracting capital accumulation.

Chapter 10: Comparing The Varieties of Neoliberalism

In this chapter, a radical framework for conducting a comparative analysis of the political economy of neoliberalism (understood as an ideology, a public policy paradigm, and a strategy of accumulation) is developed. In Part I, two central arguments were made. First, it was argued that before theorizing about the origins and purpose of the capitalist firm it was necessary to undertake an examination of the origins and nature of capitalism as a mode of production. It was argued that the historical alienation of subordinate classes from their means of (re)production was a Janus-faced process. While subordinate classes within capitalism, unlike other economic systems, have formal political freedom in the labour market, this formal freedom is, however, matched by substantive economic coercion because workers must both find paid employment via the labour contract and then submit to the authority and direction of capital during the labour process. Second, it was further argued that when querying as to the origins and purpose of the capitalist firm that it was necessary to deconstruct theoretically the firm, its capital, and its management down to their irreducible foundations: namely, private property and the capital-labour social relation. It was demonstrated that management is a consequence of the capitalist production process in which workers have no essential relation to the goods and services they are producing. That is to say, management arises as a consequence of the alienation of workers from their means of production. In this chapter, a similar exercise will be undertaken with respect to developing a framework of analysis for undertaking comparisons between and within advanced capitalist formations.

If, as was argued in Part I, the fundamental test for the prevalence of capitalism as a dominant mode of production is the extent of free labour markets, i.e., when the vast majority of citizens have as their only means of reproduction the sale of their labour power, then it is reasonable to employ a series of related concepts in the construction of a comparative framework of analysis. The construction of the framework of analysis will be undertaken in two parts. In the first part I shall make use of the Marxian distinctions between abstract and concrete labour and the distinction between necessary and surplus labour to provide micro-foundations for the comparative framework developed here. I will further use the distinction between abstract and concrete labour to create a heuristic model which indentifies the key public and private components of what I will refer to as a hegemonic accumulation strategy. I will then conclude the chapter with an analysis of neoliberalism as a hegemonic accumulation strategy (HAS).

The Micro Foundations of Hegemonic Accumulation Strategies (HAS)

Free labour markets are the fundamental, non-reducible, institution that is *the condition of possibility for capitalism as an economic system.* Although labour market policy is often viewed through an exceedingly narrow lens (from the vantage point of unemployment and training most commonly), labour market policy encompasses a broad range of public institutions: from education, immigration, contract law, industrial relations and minimum standards legislation through to the social wage. Each of these institutions, programs and pieces of legislation has a more or less subtle constitutive impact on both the qualitative and quantitative dimensions of the labour contract and the relevant actor's bargaining power. Each actor's bargaining power, in turn, has implications for wage, profit and investment rates, productivity growth and ultimately unemployment. In this section the micro implications of the capital-labour social relation as it directly relates to the production of surplus value (profit) is mapped-out. I will then proceed to link those micro-level dynamics to broader class strategies as they relate to accumulation and macro-economic public policy, particularly with respect to labour markets.

In Part I, Chapter 4, a distinction was made between surplus producing labour, labour which increases the magnitude of capital institutionalized in the firm, and surplus maximizing labour which attempts to maximize the amount of work performed by surplus producing workers. It was further argued that the relationship between capital, its agents (management) and its labour force is a necessarily antagonistic relationship which requires both subtle and not so subtle forms of supervisory control in order to maximize labour effort. Partly this antagonism is explained by the fact that within capitalist social relations, and unlike other commodities for sale on the market, labour is not a commodity which can be directly bought and sold. What in fact capitalists buy when they or their agents' contract with labour is the workers' *capacity* to work: the *abstract labour power* of workers. The amount of actual (useful) *concrete labour* performed during the work day (or any unit of time) is determined by the motivations and bargaining capacity of workers and management, within (or outside of) the legal framework governing labour contracts. While it is fashionable in the orthodox literature to subsume the difference between the activity of labour, i.e., *concrete*, useful, profit producing labour, and labour-power i.e., the potential capacity to work, under the general heading of incomplete contracting, the problem is rather more complex. Enforcement of the labour contract is not simply the problem of incomplete specificity in the labour contract or shirking; it is a social phenomenon which arises when those who perform the specific tasks of work have no essential relationship to the work they are actually performing.[153] Alienated labour is one of the central hallmarks of the capitalist production process and, therefore, entails the employment of managers to engage in surveillance, control and to generally regulate the labour process precisely because those performing the specific labour tasks are merely engaged in the sale of their labour-power.

As Marx long ago pointed out, under any set of exploitative socio-economic relations, including capitalism, the surplus producing classes have a direct interest in metering both the length and intensity of the working-day, if only in the interest of preserving their capacity to work anew the following day. In a classic passage from *Capital* Marx (*Capital*, vol. 1, pp. 234-5) astutely summarizes the situation:

> The capitalist maintains his rights as a purchaser when he tries to make the working-day as long as possible, and to make, whenever possible, two working-days out of one. On the other hand, the peculiar nature of the commodity sold [labour] implies a limit to its consumption by the purchaser, and the labourer maintains his right as seller when he wishes to reduce the working-day to one of definite normal duration. There is here, therefore, an antinomy, right against right, both equally bearing the seal of the law of exchanges. Between equal rights force decides. Hence is it that in the history of capitalist production, the determination of what is a working-day, presents itself as the result of a struggle, a

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[153] Essential is meant here in the sense that the product of the labourer does not belong to the worker but rather the firm as capitalist agent and ultimately its owners (see Marx, *Capital,* vol. 1, p. 185). Workers can and do take an interest in their work. Indeed, much of the contemporary literature on human resource management and policy innovation with respect to productivity growth are preoccupied by the prospects of increasing the identification on the part of the worker with, at the very least, the economic health of the firm if not with the specific work tasks being performed. There is equally a sense in which workers may take more than a strictly pecuniary interest in their work regime. The point here is that although this identification may be advantageous to both the worker and the firm it is not necessary. With respect to capitalism, it is only necessary that the worker need sell her labour power on the labour market.

> struggle between collective capital. *i.e.*, the class of capitalists, and collective labour, *i.e.*, the working class).

This antagonism in large measure arises owing to the difference between *necessary* and *surplus* work time. Marx made great use of this distinction to make clear that in any given period of work time only part of that time is spent by workers covering the cost of their wages.[154] The remaining time (surplus labour time) workers spend preserving and increasing the magnitude of the capital institutionalized in the firm. For illustrative purposes, this can be diagrammatically illustrated via an example of a 10 hour workday. In Table 10.1, the working day is arbitrarily divided into two parts between the time workers spend producing an output sufficient to reproduce themselves, the means of production used-up producing those outputs and the time they spend reproducing and expanding the firm's capital. In the example given in Table 10.1, the workday is 10 hours long with 5 hours required to remunerate workers (necessary labour) and the other 5 hours are spent reproducing and expanding the capital of the firm (surplus labour). Immediately it becomes apparent the degree to which the capacity of any individual firm to expand its capital is contingent on management's capacity to monitor, enforce and expand the amount of time workers dedicate towards the enhancement of the firm's capital. Thus, from the point of view of the managers of the firm, the goal is to increase

[154] These wages include both wages of the immediate labour and (in the classical Marxist lexicon) dead labour used during production. Dead labour in the Marxian scheme refers to the labour embodied in the means of production (raw material and machinery) that are used-up during the production process. Within the Marxian paradigm, the portion of socially necessary labour time (the average time it takes to produce commodities with the average level of productivity) includes the means of production used up because under any economic system, exploitative or not, both raw materials and machinery are necessary in order to produce goods or services. From the capitalists' point of view profit is also necessary. But given this profit is not necessary, in the intransitive sense, it is deemed to be socially unnecessary. Phrased alternatively, it is only under transitive capitalist social relations that profit appears as necessary (see Marx, 1887: pp. 187-8).

the ratio of surplus to necessary labour time and thus the profit produced by the firm (S/N). Yet, it is also immediately clear that, save for managerial strategies which seek both to increase output and wages without increasing the duration of work or its intensity, workers have an immediate interest in resisting management's attempts to increase surplus labour-time (or its valorized equivalent surplus value). The capacity of capitalists and workers to regulate both the length of the working day and its intensity are historically determined by the collective capacities of both to mobilize at the level of the firm and at the level of public policy via legislated minimum standards and the depth and breadth of industrial relations legislation.

Table 10.1 Necessary and surplus labour

Length of Working day (10 hours)				
	Necessary (N)	Surplus (S)	Output (U)	Ratio (S/N)
Work time (wt)	5 h	5 h	10	1 : 1
Distribution	Reproduction of workers (wages)	Reproduction of capital (profits)	10	1 : 1

From this perspective two general classifications of strategies open to capitalist firms can be readily identified: *absolute* and *relative.* What Marx identified as absolute strategies involve increases in the amount of the surplus labour time without diminishing the worker's wage (see Marx, *Capital*: vol. 1, Sec. III). Marx further divided absolute strategies into one of two kinds. On the one hand, extensive forms involve an increase in the absolute amount goods being produced which can be achieved either through increases in the length of the working day, or by increases in the size of the labour force. In the example given in Table 10.2, the original ratio of S/N was 1:1 with the workday fixed at 10 hours. If managers can succeed in increasing the workday by, for example, 2 hours and with productivity remaining the same, then they will have increased the ratio of S/N to 1.4:1. On the other hand, managers can implement *intensive* strategies which increase the firms output while holding constant the level of technology, the size of the workforce and the length of the working day, examples of which involve an intensification of the production process via a classic speed-up in the production process. In the second example, the increased output (representing 2 average hours of concrete labour) is obtained by intensifying the labour process and thus within the same 10 hour day nonetheless augmenting the ratio of S/N to 1.4.[155]

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[155] Glyn (2006, Ch. 6) makes the patient case that much of the productivity boom in the US after 2000 was driven by labour intensification as firms did not rehire after the end of the recession. Glyn (p. 55 and pp. 167-70) also notes that the change in executive remuneration (stock options) gave management a huge incentive to increase the intensity of the labour process.

Table 10.2 Absolute surplus value

Extensification via an increase in the workday				
Wt	N	S	U	S/N
12h	5h	7h	12	1.4 : 1
Intensification via speedup				
Wt	N	S	U	S/N
10h	5h	5h (+2h)	12	1.4 : 1

Advanced capitalist economies are, for the most part, characterized by some form of minimum standards legislation governing the length of the working day and legal regulations with respect to overtime. Nonetheless, struggles over the length of the working day are a persistent feature even of advanced capitalist countries. As both the recent history of Spain with respect to the *siesta* and in Canada during the early 2000s with respect to the legal length of the workday attest, struggles over the length of the workday are perpetually open to contestation.[156] Moreover, in the grey segment of advanced capitalist economies where labour markets are poorly monitored and minimum standards rarely enforced, a perpetual struggle over the duration and intensity of the working day is a persistent feature. In terms of increasing the size of the labour force, three central processes have characterized capitalism. In the classical Marxian lexicon

[156] In Ontario, the Employment Standards Act was changed to allow for, among other things, an increase in the maximum work week from 48 to 60 hours. In the consultation paper, *Time for a Change*, published by the Ontario Ministry of Labour (July, 2000), this change was subsumed under the general heading of "Flexible Work Arrangements." In British Columbia, *Bill 48* (2002) amended the minimum standards legislation to effectively allow for a 60 hour work week without a legal requirement to pay overtime. As with the Ontario legislation, such an extension was enabled via 'voluntary' agreements signed by the employer and the employee. In BC, the legislation went further and allowed for child labour (less than 15 years of age), if there was a consent form signed via the legal guardian of the child.

primitive accumulation is the name given to the process whereby peasants are turned into proletarians. Historically, this has involved many socio-economic processes from conscious policies such as the enclosures to *de facto* processes whereby peasant and artisanal production are outcompeted by capitalist industries. In advanced capitalist countries, three main sources of additional labour supply have played a prominent role in the contemporary period. The first is immigration, which has played a particularly pronounced role in the new-world advanced capitalisms and increasingly so in Europe. The second is the increasing participation of women and youth in the paid sections of the labour market.[157] The last, and perhaps most contemporary, has been via changes to the retirement age. The key observation to make from the point of view of political economy, however, is that while some forms of increasing absolute surplus can be pursued by capital at the level of the individual firm by its private agents (managers), other forms such as a legal extension of the workday, legislation surrounding immigration and particular policies with respect to the mobilization of women in labour markets need to be pursued at the level of public policy. That is to say, capital has collective needs which cannot simply be met by the activities of the private managers of capital: they must be pursued at the level of public policy. This implies the need for coordination on the part of capital independent of the types of networks which characterize the business relationships between firms. Thus labour market policy must

[157] The increasing participation of women in the paid labour is relatively complex socio-economic phenomenon entailing both changes in the sociology of capitalism and patriarchy.

be viewed as an aspect of macro-economic policy as an essential aspect of conscious industrial policy in the furtherance of capital accumulation strategies.[158]

Whether pursued at the level of the individual firm via speed-up or onerous demands for unpaid overtime, workers eventually, individually or collectively, respond as the policies being pursued by management are not only transparent but also finite. There are other strategies of increasing the ratio of S/N which involve less confrontational stance with the existing workforce and involve less need for coordination among capitalists at the level of public policy. The second major type of strategies identified by Marx involve a decrease in the *relative* amount of necessary labour time workers spend producing to cover their wages. Here, both the workday and the intensity of work are fixed, but the output of the firm is expanded: this is technological innovation proper. It goes without saying that productivity growth via technological change or increasing capital intensity is one of the most salient characteristics of expanded capitalist accumulation. There are several reasons for this which range from considerations of competition to the political economy of class struggle and compromise. From the point of view of workers and politicians, productivity growth makes possible both an increase in the rate of accumulation and wages (or a decrease in work-hours as in example B_1 in the table below) thus potentially allowing for the partial amelioration of distributional conflicts.

[158] As was demonstrated in Part II, labour market policy, particularly with respect to unemployment, plays a key regulatory role in macro-economic stabilisation. That is to say within the neoliberal policy paradigm unemployment, via the theoretical construct of non accelerating inflationary rate of unemployment (NAIRU), is a policy objective vis-à-vis price stability.

Table 10.3 Relative surplus value

Productivity Growth					
Technique	Wt	N	S	U	S/N
A	10h	5h	5h	10	1:1
B_1	8h	3h	5h	10	1.7:1
B_2	10h	3h	7h	10	2.3:1

However, from the point view of capital, productivity growth also offers the prospect of increasing the rate of accumulation *at the same time as decreasing the real wage.* In example B_2 in Table 10.3, the length of the workday remains fixed at 10 hours but owing to the implementation of productivity increasing means of production the partition between necessary and surplus labour time is altered to a ratio of 2.3: 1. In so far as the substitution of more productive means of production does not involve a significant increase in the intensity of work, it is clear that productivity based increases in output are superior for two central reasons. First, the firm has been defined, *inter alia,* as an institution for producing profit which requires the hiring of labour which thus entails the contracting of managers to monitor employees. And in so far as the substitution of machines for labour allows for the contacting of fewer workers and thus fewer managers to monitor the remaining employees, investment in productivity may offer the potential of a double savings: the wages of workers and the salaries of managers. Second, productivity derived growth also has the advantage of creating less collective animosity from the existing workforce, vis-à-vis absolute strategies, thus reducing the likelihood of collective resistance on the part of workers. [159]

Mention must also be made that the effects of productivity induced growth in the ratio of S to N have different affects when aggregated to the economy as whole. At the level of the single firm, productivity innovation will have similar affects on the ratio of surplus to necessary labour time as absolute strategies save for the fact that the intensity of work remains the same.[160] These individual increases at the level of the individual firm will give the innovating firm a relative competitive advantage over their rivals.[161] However, where technological innovation is widely diffused throughout the economy, the effect will be a relative decrease in the amount of necessary labour time required to cover workers' wages at the level of the economy as a whole. This may imply a shift in the aggregate income shares between capital and labour. For this to be the case, however,

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[159] There is a marked difference between absolute strategies which simply involve speedup or an extension of the workday to relative strategies which impact specific classes of employees. In the former case, all workers are affected equally. In the latter case, only some workers are made redundant or have their work-tasks significantly redefined. Thus the former, *ceteris paribus*, is more likely to provoke` collective action than the latter.

[160] Although, it must be mentioned that capital intensive techniques of production are often designed to provide enhancements to managements' capacity to monitor and regulate the intensity of the labour process. Ford's use of the conveyor belt springs to mind, along with modern CNC technology.

[161] The public policy implications of technological innovation are, however, not at all clear. On the one hand, individual capitalists seemingly have little interest in public policies which promote general technological diffusion of their innovations. As such, public policies if not correctly designed will prematurely terminate the competitive advantages given to the innovating firm. On the other hand, individual capitalists do have an interest in laying-off the costs and risks associated with research and development to the public sector via universities and publicly subsidised research institutes. However, from a distributional point of view, productivity enhancing growth retains a strong position within public policy debates precisely because it holds-out the possibility for what can be dubbed a 'win-win-win' distributional coalition. That is, productivity led growth may allow for all three principle actors in the political economy of capitalism to gain: increasing profits for enterprises, increasing wages for employees and increasing tax receipts from both for the state. How this distribution actually occurs is, of course, an empirical question which is determined by a complex interplay of political struggles both inside and outside formal political institutions and the organizing capacity of the relevant actors.

workers would have to be incapable of productivity bargaining. Thus, if capital is to be in a position to appropriate a disproportional share of productivity growth, workers must be collectively made disproportionately weaker with respect to bargaining. As we shall see below, public policy is a key variable in the relative bargaining strength of each class of actors.

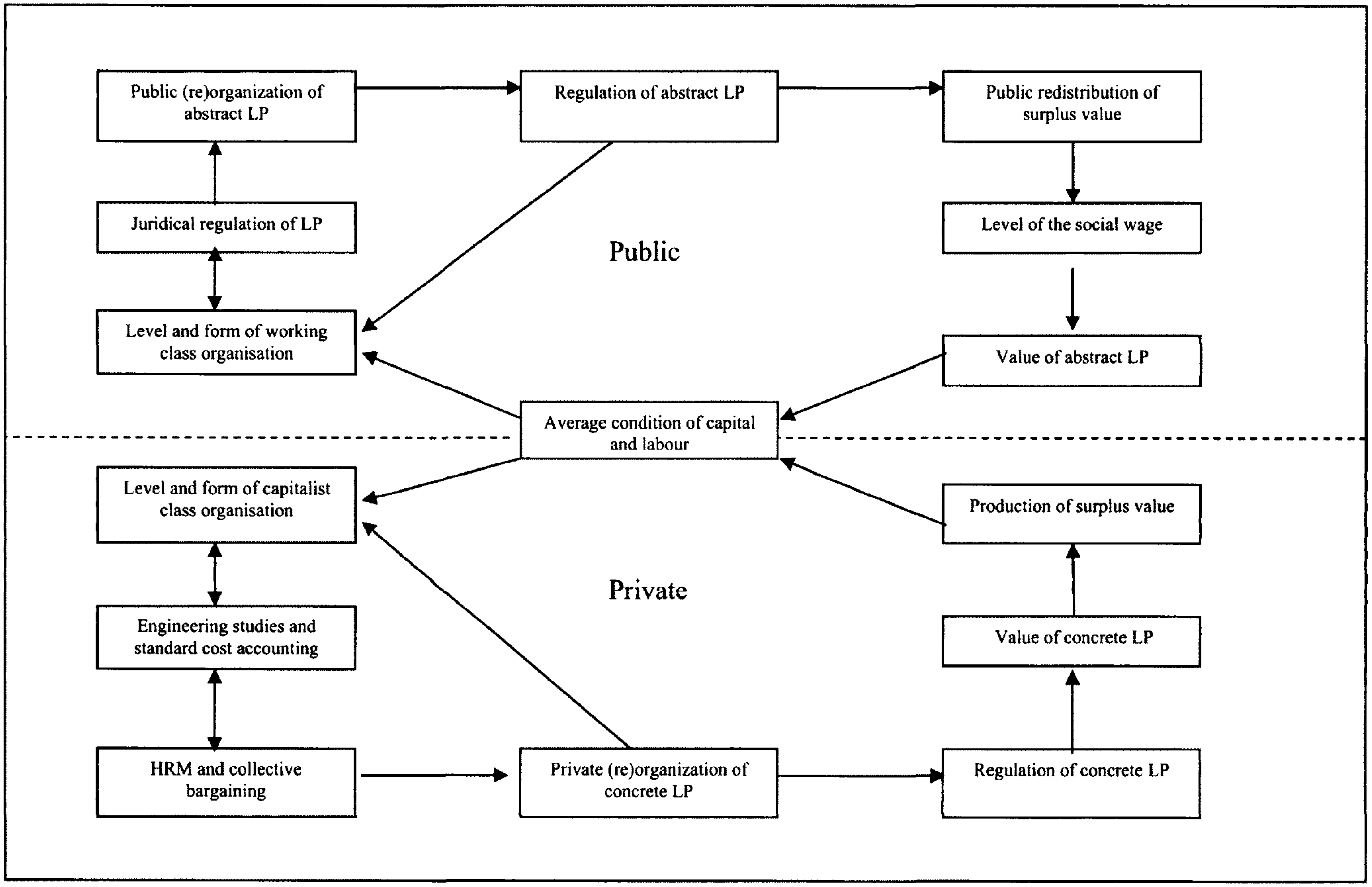
The regulation of abstract labour power via public legislation, programs and institutions is intimately tied to the private regulation of concrete labour-power at the level of the firm. Private accumulation depends on conditions established at the more abstract, general level of public policy (understood as an amalgam of legislation programs and institutions). The character and quality of labour markets and accumulation are, therefore, akin to dance partners, albeit awkward in movement, and always involving a complex amalgam of public and private components.[162] The heuristic model presented in Figure 10.1 maps out the basis for a comparative political economy of capitalism in general and its neoliberal phase in particular. The phrase *hegemonic accumulation strategy* is deliberate. *Hegemonic* refers to a system which enjoys broad acceptance by the public, policy makers, private firms and academics. *Accumulation* simply means that ultimately macroeconomic policy is about increasing the economic surplus generated by private firms. *Strategy* refers to the fact that no system is complete, nor is the outcome ever guaranteed.[163] The model developed *inter alia* makes use of the distinction between abstract and concrete labour in order to identify what I have called

[162] For a thorough examination of this point see Simon Clarke's (1996) work on the transition to capitalist labour markets in Russia.

[163] In this sense neoliberalism can be fairly understood as hegemonic accumulation strategy, of which more will be said below.

here the public and private components of a hegemonic accumulation strategy. Public policy most clearly is implicated in the regulation of abstract labour power in the sense that it deals with the abstract quality of labour power — *the potential that it embodies* — from education, skills and training to the more general parametric conditions of the labour contract such as minimum standards legislation and industrial relations law through to access to governmental incomes programs (such as, employment insurance, disability, welfare and pensions). All of these programs play a role in regulating the supply, quality and price of abstract labour. These programs and policies can then be directly related to the components of private labour market regulation.

Figure 10.1 Public and private components of a hegemonic accumulation strategy



Private labour market regulation here refers to the specific conditions of employment and level of remuneration at the level of the enterprise where workers' abstract labour is transformed into concrete labour, i.e., the actual production of new goods and services (the transformation C…P…C'). When managers contract labour they do so within the existing background conditions which regulate abstract labour. From here the transformation of abstract into concrete labour requires a series of more or less formal private regulatory institutions: chiefly standard cost accounting and engineering studies combined with a human relations management and or collective bargaining regimes which determine the means and intensity of the labour process.

In Richard Edwards' (1979: p. 178) analysis of labour markets, the type of private labour regime was the central criteria for determining labour market segmentation. Edwards identified three basic systems of control: a secondary labour market organized around systems of simple direct control; a subordinate primary segment involving a "mixed system of technical control and unions"; and an independent primary segment dominated by bureaucratically controlled labour processes. While Edwards does not dismiss the notion that the skill profile of labour has a connection to the existence of segmented labour markets he argues that it is of secondary importance. The foundation for this observation is that in any line of production there is a degree of choice that firms can make with regards to the productive technique chosen. That is, firms can choose techniques that use high skill or low skill labour or are highly capital intensive or highly labour intensive. As such, Edwards argues it is the choice of productive technique that occurs prior to the selection of qualities and quantities of labour. Moreover, Edwards argues that the choice of technique made by firms is in part determined by the profitability of the industry in which the firm is located because the conversion of high skill to low skill, or from highly labour intensive to a low labour intensive technique is a costly choice that is not available to those firms in low margin industries (pp. 178-9).

The essential point is this: the necessity of labour control plays a determinate role in the construction of labour markets. In the independent primary sector, job ladders play a crucial role in the technology of control because they regulate movement up the pay scale via a system of performance evaluations which can only be conducted over time and through surveillance. Internal labour markets are, therefore, even among the highly skilled segment of the labour force, systems for controlling the labour process in the attempt to regulate productivity (p. 182). Edwards' argument stands in sharp contrast to neoclassical accounts of internal labour markets which exist, they ultimately argue, to reward skilled labour or ensure high work-effort. Equally important is that in Edwards' account, and keeping with the general tenor of Marxist political economy, unemployment is largely understood as a demand side phenomenon which is determined by the pace and composition of accumulation. That is, whatever the sociological makeup of the employed, underemployed and unemployed may be, their relative magnitudes are determined by the level and quality of employment on offer and not by the general skill composition of these groups.[164] Workers can neither buy themselves into a job or hire a capitalist as with the new classical view, or can they skill themselves into work (and produce new products) as in the VoC position.

[164] This last point will be revisited below.

Nonetheless, with respect to the private regulation of concrete labour it is important to point out that each of these individual private labour regimes (aka the firm) must be validated in their respective markets when the outputs are sold in order to realize a profit. *Realization* thus entails a social validation of each individual firm's productive regime and, in turn, determines the absolute limits to the initial distribution of profits between workers, managers and owners. This distribution in turn hinges on the relative bargaining strength of each class of actors. Should the firm be involved in sectors where international competition is a prominent characteristic of service and product markets, these private productive regimes will then be validated not only against regional and national norms, but also international norms. Aggregating, we can say that localities, regions and nations, depending on their relative exposure to competition from other regions and scales, are thus spatially articulated via the processes of accumulation (See Harvey, 2006: Ch. 12). The implication being that a regionally or nationally orchestrated hegemonic accumulation strategy is not simply endogenously determined. Rather, they are in part a response to competition from other jurisdictions via the processes of trade and investment. This implies that it is not just particular capitalist enterprises that are drawn into competition but entire socio-economic formations (this point is revisited below in the section on neoliberalism).

At this stage mention has only been made of the role formal institutions play in the regulation of labour. Almost all schools of political economy would agree that the general perception workers have about labour market conditions can and do play a role in their perception of their relative bargaining power vis-à-vis employers. Indeed, as we have seen in Part II, the "new consensus" on monetary policy in general, and inflation in particular, hinges on workers responding in a particular way to increased economic insecurity owing to increasing levels of unemployment. Similarly, radical political economists have also tended to posit a connection between economic insecurity and the relative bargaining power of labour and capital. Where debate persists is over the relationship between capitalist accumulation and unemployment. Radical political economists and some post Keynesians tend to view unemployment as typical and involuntary (although for different reasons); whereas new classical economists view unemployment as atypical and voluntary.[165] The issues here are complex and involve theoretical considerations touching on competition and equilibrium. In what follows, I will briefly map-out the classical Marxian view.

Both absolute and relative strategies for increasing surplus value seemingly entail ambiguous consequences on the demand for labour and thus unemployment. Certain strategies (e.g., speed-up) for augmenting absolute surplus value entail decreasing the demand for labour. Yet other strategies, like increasing the size of the labour force to satisfy (or create) an extensification of markets, via immigration for example, imply an increasing demand for labour. In contrast, the tendency towards augmenting surplus value through relative strategies implies a tendency towards an ever increasing augmentation in the average level of capital intensity. The replacement of labour via automation while decreasing the demand for labour in the sector where automation is

[165] This simplifies the issue perhaps a little too much. As has already been demonstrated, new classical economics does not really have a theory of unemployment *per se*. What it has is a theory of markets and choices with respect to the level of employment.

being intensified also implies an increase in the demand for labour in the sectors of the economy producing automated means of production. Most orthodox economists would view the situation as a 'wash' with deficits in some sectors met by surpluses in others.[166] In the classical Marxian model, unemployment (what Marx calls the reserve army of labour or relative surplus population) is however, a persistent feature of capitalist economies with periods of 'full'employment being the exception and not the rule. The possibility of, and tendency towards, substituting machines for living labour, given its relationship to the wage rate, means that capitalism as a system has a built-in tendency to maintain unemployment at a certain level in normal economic circumstances. Periods of severely high and low unemployment are thus more typical of exceptional circumstances in accumulation: severe economic booms followed by severe economic busts.[167] The central point being that neither full nor near full employment is a characteristic of capitalist economies. There is an inherent need for one social class to be always available for exploitation by another class as accumulation changes pace and sectoral composition and aggregate volume.

Unemployment represents the complex interplay of the supply and demand for labour which, in turn, is dependent on the rapidity of accumulation, the cost and ease of credit, the rate of technological innovation, the prevailing wage rate and the rate of

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[166] This in no doubt stems from the habit of viewing of the market in constant state of equilibrium or near equilibrium as shown earlier.

[167] The implications for public policy are not nearly as sanguine as old school Keynesians and social democrats would like. State intervention which props up workers' wages in hard economic times may indeed cause distortions in the relationship between accumulation, and the form new investment takes. As Michael Kalecki showed some time ago, state intervention in labour markets implies an ambitious form of macro-economic planning and institution building which is, at best, politically precarious requiring high degrees of discipline from politicians, capitalists, managers and workers.

capacity utilization.[168] Shaikh (1983: pp. 422-3) summarizes the mechanics of the Marxian model:

> The accumulation of capital means its growth. But it also means new, larger scale, more mechanized methods of production which competition obliges capitalists to introduce. The growth of capital increases the demand for labour, but mechanization substitutes machinery for workers and thus reduces the demand for labour. The net demand for labour therefore depends on the relative strength of these two effects, and it is precisely these relative strengths which vary so as to maintain the reserve army of labour. When the employment affect is stronger than the displacement effect for long enough to dry up the reserve army, the resulting shortages of labour and acceleration in wages will automatically strengthen displacement relative to employment; a rise in wages slows down the growth of capital and hence of employment, and together with the shortages of labour speeds up the pace of mechanization and hence of displacement. In this way the generation of capital automatically replenishes the reserve army.
>
> ...Whatever its [unemployment's] historical boundaries, the capitalist system has always created and maintained a reserve army. Modern capitalism spans the whole globe, and so does its reserve army. The starving masses of the third world, the importation and subsequent expulsion of 'guest workers' by the industrialized countries, and the flight of capital to low wage regions, are simply manifestations of this fact.

The implications of the Marxian analysis thus stretch beyond national boundaries to concerns of economic development and underdevelopment implicating a whole range of public policies not normally considered a part of labour market policy. From the Marxian vantage point, immigration, trade and investment policies are directly implicated in both the demand for, and supply of, labour in advanced capitalist countries and the

[168] For a formalization of the classical Marxian model see Anwar Shaikh (1999; 2003).

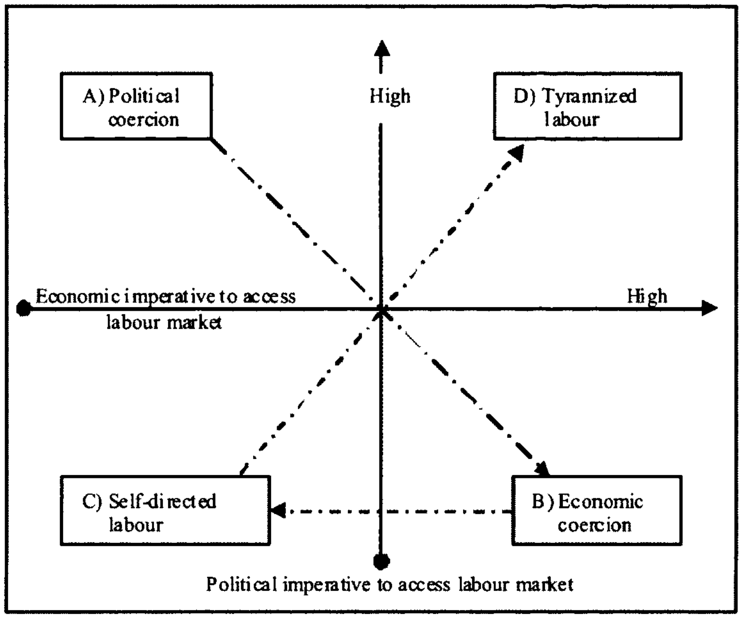
global south are matters of substantive labour market policy as they directly affect the composition of the relative surplus population.

The relative surplus population can be thought of as composed of three different strata of labour reserves. The *floating* labour reserves, which has its referent in the conventional definition of unemployment and in the neoclassical concept of frictional unemployment, consists of "workers who move from job to job, attracted and repelled…by the movements of technology and capital, and suffering a certain amount of unemployment in the course of this motion" (Braverman, 1974: p. 386). To this we could also add workers moving between jobs in search of better pay or conditions of employment or both. Hence, the size of floating labour reserves and its skill profile is, in large part, determined by the ebb and flow of accumulation and mechanization, the types of skills being made redundant, the new skills being demanded and the differential wage rates between firms and sectors of the economy. *Latent* reserves make up the second component of the relative surplus population. In its classic form the composition of this reserve is primarily composed of agricultural labour which is decreased via continual advances in agricultural productivity. More contemporarily, the most important segments of latent labour reserves over the post-war era have been from declining economic sectors, females, immigrants, the underemployed and the self-employed. The *stagnant* portion of the relative surplus population, which is only tangentially attached to the labour market, consists primarily of the permanently de-skilled, i.e. older workers whose skills have been made redundant, and those sections of the population who have been reduced to poverty (pp. 386-8). The concept of the relative surplus population therefore provides for a richer basis upon which to analyse unemployment than the standard twofold distinction between the unemployed and the employed on the one hand, and on the other between primary and secondary labour markets.

Most importantly the three categories of labour reserves also provide a basis upon which to make some determination about overall labour market conditions via an assessment of the relative size of each segment of the reserve army. Intuitively, the size of each segment will have an affect on the perception of those occupying position within each strata. Should, for example, the size of the floating reserve diminish it should have the effect of drawing in more workers from the latent strata. Similarly should the latent strata diminish in size through increasing labour force participation rates or a decrease in part-time and self-employment then activation of the stagnant strata should be made easier. Should the reverse situation be the case, then the degree of economic security perceived by members in each strata should decline.

Government policy has a role to play not just through monetary policy (the price of credit) and fiscal policy (the level of aggregate demand), but also through immigration and trade policies and more generally through the behavioural incentives built into formal labour market institutions. Given that formally freed labour is the essence of capital-labour relation, it will be used as the analytical starting point for evaluating neoliberalism as a hegemonic accumulation strategy. Recall from Chapter 4 that 'formally free' in this sense refers to a workforce that is free from political coercion, and free from their own means of (re)production. The latter implies that although workers are free from *formal* political coercion they are nonetheless subject to *substantive* economic coercion as the workers' capacity to reproduce themselves relies on their ability to contract with a capitalist firm. Coercion under capitalism is, then, for the most part an economic phenomenon which is politically tempered (accentuated or attenuated) via the public regulation of abstract labour. Figure 10.2 depicts four extreme labour market positions using two variables. The first axis maps the degree in the economic imperative for subordinate classes to access capitalist labour markets. The second maps the degree in the political imperative for subordinate classes to work. Position A on the diagram indicates a situation in which subordinate classes have no particular economic need to engage in surplus production for dominant classes, but they nonetheless must work for others owing to the political relations of production. We can think here, albeit crudely, of feudal social relations or better, command economies of the USSR type. Position B demarcates the classical liberal vision of labour markets where subordinate classes have been 'freed' from their means of subsistence and thus must contract with capital but are not formally compelled at the political level. Position C indicates a position where subordinate classes have direct access to their means production and do not suffer under onerous political demands to perform surplus production for others. Finally, position D indicates, from the point of view of subordinate classes, the most arduous of situations: severed from their means of (re)production and politically compelled to work thereby giving managers tyrannical control over their labour force.

Figure 10.2 Public and private determinants of labour market coercion



It is evident that these four positions flirt with being violent abstractions if they are taken to represent any particular society at any particular point in time. However, they nonetheless provide an evaluative guide by which particular hegemonic accumulation strategies can be qualitatively evaluated according to the degree of coercion characterizing labour markets. The state has a role to play, and the liberal democratic state has played a role, in tempering the naked economic coercion of the capital-labour relation. To the extent that programs such as unemployment insurance, public pensions and welfare programs act as non-market sources of income and thus as a substitute for the labour contract, welfare state programs will diminish the coercive element of the capital-labour relation having both an impact on the price of labour and its capacity to resist the arbitrary exercise of managerial prerogatives. Managerial prerogatives can be further constrained by minimum standards and industrial relations legislation. But public policy in these areas need not necessarily drive in the direction of attenuating the substantive economic coercion of capitalist labour markets it may equally work to reinforce the logic of economic coercion. That is to say, legislators can either restructure existing institutions so as to limit access, enforce work norms (workfare for example), or scrap public programs altogether thereby restoring the imperative to work. As we have seen in Chapter 7, by focussing solely on supply side measures the *OECD Jobs Study*'s recommendations were premised on restructuring labour market institutions in order to 'restore' labour market imperatives. We can thus evaluate neoliberalism via both the public changes in the regulation of abstract labour and the change in the nature of private accumulation and its implications for the regulation of concrete labour. To the extent that neoliberal restructuring has driven in the direction of increasing either the economic or political compulsion for subordinate classes to access paid labour markets, neoliberalism is a coercive hegemonic accumulation strategy.

NEOLIBERALISM

It is useful to survey two seminal, pre-neoliberal, contributions to the political economy of welfare state and labour relations regimes. Both the work of Ian Gough (1979) and Michael Burawoy (1985) deal with welfare state, labour market restructuring and accumulation, albeit from different angles. Ian Gough's *The Political Economy of the Welfare State* stands out as an exemplary contribution to political economic analyses because he not only took up what were at the time the standard themes of political economy, class, conflict and distribution, but also integrated considerations of accumulation vis-à-vis the political economy of welfare state design and economic theory. Further, he made a very salient argument with respect to welfare state retrenchment versus restructuring. Partially extending and modifying the framework set out by James O'Connor (1973), Gough presented a more subtle account of the relationship between the welfare state and accumulation. Taking some distance from the latent functionalism of O'Connor's derivation of the role of the welfare state and some distance from the peculiarities of postwar US capitalism — the apparent dominance of oligopolistic firms and a large industrial-military complex — Gough established at once a more abstract and historical account of the welfare sate. Arguing that, at least in the case of the UK, the fiscal crisis was a consequence and not the cause of economic decline in Britain, Gough maintained, contra O'Connor, that there was not a built in tendency for the fiduciary obligations of the welfare state to outstrip revenue. Rather, Gough viewed the limits to the crisis of the welfare state as residing in the class conflict that inevitably arises between capital and labour, on the one hand, and the contradictory nature of accumulation, on the other.

In Gough's 'double flow model', the key to determining the relationship between the welfare state, accumulation and distribution hinges on the distinction between what he terms *economically reproductive* spending and *economically non-reproductive* spending. Economically reproductive spending is any welfare state expenditure that cheapens the cost of the reproduction of labour power such as education, housing and health care. The central questions that arise over this form of spending are who pays for this spending and which class receives the benefit from the cheapening of labour power? By examining the flows of taxes and spending Gough demonstrated that in the case of the

UK, the working class not only paid for economically reproductive spending, but the state received more from the working class in tax receipts and payroll taxes than it paid out.[169] As to the question of who receives the benefit of the reduced cost of the reproduction of labour power, Gough argued that theoretically it can be appropriated by labour in the form of higher total real wages, or appropriated by capital through the erosion of real money wages, or shared between the two classes. The issue of distribution cannot, however, in Gough's estimation be theoretically decided *a priori* as it is decided by the balance of class forces (p. 123). In any case, both labour and capital have a material interest in state spending. Where they diverge, however, is over which class should pay for the social wage and what form that spending should take.[170]

Key to Gough's argument is the observation that the central failing of Keynesian macro-economic theory is that it is one-sidedly concerned with the question of aggregate demand. Such a focus serves to concentrate the theoretical problem of the welfare state on the problem of the *realization* of surplus value, but not on the problem of the *production* of surplus value. While capitalists may have an interest in state spending that augments the level of aggregate demand they remains cautious over the form that welfare state spending takes. The central concern of capital in this regard is that the social wage

[169]See Anwar Shaikh (2003) for an updated analysis.

[170]One of the problems with both O'Connor's and Gough's accounts of class dynamics is the degree of homogeneity in the immediate material interests of the working classes vis-à-vis capital. That is, as the democratic politics of the 1980s and 1990s well attest, at least in Anglo American capitalisms, a large part of the political changes can be accounted for by the cleavages within the working classes. None of these cleavages break neatly between primary and secondary workers or between blue collar and white collar workers. The failure to develop such a theory is not really a criticism, and certainly not the criticism being made, for how is such a theory possible? However, their reliance on a simple two class interest model is problematic in the analysis of the political economy of interest formation within advanced capitalist welfare states. A similar point could be made of Shaikh's contributions noted in the footnote above, and the general tendency of economists to leave history and the concrete to the side.

does not become a means through which workers can make the rational choice to exit the paid labour market. As Gough (p. 138) argues, such a situation "will slowly sap the 'work ethic' on which a capitalist economy depends". As such, Gough suggested that we should "expect to find not so much a dismantling of the welfare state, but its *restructuring*".

This is an important insight. As was argued earlier with respect to Figure 10.2, the form that state intervention in labour markets takes need not diminish economic coercion: it can in fact be a complement. For example, workfare may be more costly than simple cash transfers to welfare recipients and thus will show up *as increased government spending on welfare not less.* What is important with respect to evaluating welfare state restructuring and labour market policy is not necessarily captured well by a focus on state expenditures. What matters, most centrally, are the behavioural conditions embedded in access to labour market institutions. The political economy of labour market policy drives beyond narrow institutional considerations. As I argued in Part II, labour market policy in both its narrow and broader dimensions is the key to comprehending neoliberalism as an ideology, a policy paradigm and a hegemonic accumulation strategy.

Michael Burawoy's *The Politics of Production* (1985) stands out as an important contribution to political economy in general, and analyses of the dynamic interaction between welfare state institutions, and in particular the juridical regulation of industrial relations, and the labour process. Burawoy (p. 122) sets himself the task of developing an analysis of the "politics of production which aim to undo the compartmentalization of production and politics by linking the organization of work to the state. Burawoy used the dynamic interaction between labour market, welfare state, and managerial regimes to generate a typology of labour relations regimes. Specifically he argued that "the process of production is not confined to the *labour process*...It also includes *political apparatuses* which reproduce those relations of the labour process through the regulation of struggles. I call these struggles the politics of production or simply *production politics*."

Burawoy argued that for classical Marxist political economy it was simply assumed that the naked coercion of the labour-capital relation was sufficient to ensure workers deference to management. That is, it was assumed that the dependence of workers on wages for their existence and reproduction through time, was sufficient to bind workers to capital and by extension to the arbitrary authority of management. It is the latter which Burawoy labels as market despotism, wherein "the anarchy of the labour market is replaced by despotism in the factory." This neatly corresponds to the right bottom quadrant in Figure 10.2. While Burawoy argues this characterization of labour relations regimes was historically correct for sectors such as the New England mills after the 1860s and in the contemporary agricultural sector of the US, it did not capture the essential dynamics of postwar labour relations regimes in much of the advanced capitalist zone.

For Burawoy (p. 125), two kinds of state intervention caused a decisive break with "the ties binding the reproduction of labour power to productive activity in the workplace." The first of which being the development of the welfare state and its associative institutions which put an implicit floor on wages and the second being state intervention directly in the relations of production via industrial and labour relations laws which restricted the arbitrary exercise of authority by management. Burawoy (p. 126) concluded from the above that:

> ...management [could] no longer rely entirely on the economic whip of the market...Workers must be persuaded to cooperate with management...The *generic* character of the factory regime is therefore determined independently of the form of the labour process and competitive pressures among firms. It is determined by the dependence of workers' livelihood on wage employment and the tying of the latter to performance in the workplace. State social insurance reduces the first dependence, while labour legislation reduces the second.

It was this dynamic of negotiated internal consent (hegemony) over the labour process and the incomplete external alienation of labour from the means of subsistence owing to the provision of social minimum wage by the state that Burawoy designated as a 'hegemonic regime'. The key point here is that through the aegis of the liberal democratic state, workers and reformers, across much of the advanced capitalist zone, had managed during the postwar period to diminish substantive economic coercion via formal public policy.

Yet by the early 1980s, Burawoy began to see a new emergent dynamic arising in the advanced capitalist zone which he described (p. 150) as hegemonic despotism.

> The new despotism is founded on the basis of the hegemonic regime it is replacing. It is in fact *hegemonic despotism.* The interests of capital and labour continue to be concretely coordinated, but where labour used to be *granted* concessions on the basis of the expansion of profits, it now *makes* concessions on the basis of the relative profitability of one capitalist vis-à-vis another – that is, the opportunity costs of capital. *The primary point of reference is no longer the firm's success from one year to the next; instead it is the rate of profit that can be earned elsewhere.*

Here Burawoy, without the benefit hindsight and without calling it as such, was describing one of the central characteristics of neoliberalism: namely, the increasing international competition between capitals, the increased mobility of capital relative to wage-labour and the diminished capacity of workers to engage in productivity bargaining. Rather, bargaining started to become about concessions in the hopes of making the existing labour force more attractive to firms. In short, by the early 1980s it was already apparent to keen observers that both the price and conditions of labour power were being brought back more fully under the sway of substantive economic coercion. Moreover, Burawoy identified a key explanatory variable: a shift in the norms of accumulation. The relative failure or successes of capitalist firms were beginning to be evaluated according to the opportunity costs of capital. Public policies which thus seek to foster greater international trade and particularly investment flows have the effect of not only globally integrating productive regimes but also of pitting regionally and nationally articulated economies against each other.

Partly following Burawoy's lead, Jamie Peck's contributions to the comparative political economy of neoliberalism are important because they provide a useful corrective to the sanguine accounts of post-Fordism on offer by 'supply side' social democratic theorists (such as, Boyer, 1988; Lipietz, 2001). Further, his contributions provide more empirically grounded theory which is less ensconced in neo-Weberian ideal typical abstractions.[171] Although Peck (1996) follows the general tenor of Regulationist political

[171] For the sanguine account of post-Fordist possibilities and a defence of flexible specialization as a potentially progressive policy paradigm see the various contributions to the (1999) 'Symposium on Post-Fordism and the Nature of Work Introduction.'

economy, particularly that of Bob Jessop (2002), when assessing the crisis of advanced capitalism during the latter half of the 1970s, he nonetheless pays close attention to the spatial dynamics of the post-Fordist, post-Keynesian epoch. Peck argued that when the increased spatial mobility of capital is combined with the relatively spatially fixed reality of labour a decisive shift occurs in the balance of class forces between capital and labour. Specifically, Peck (1996: p. 237) notes the degree to which labour during the 1990s had been forced into competition against itself in terms of direct competition within labour markets and in terms of the political economy of competition at the community level.

> The institutionalized, national accommodation between labor and capital of the Fordist-Keynesian era has been broken, and the new despotism is associated with a double movement in the regulation of labor-capital relations. On the one hand, there is an upward swing as globalizing capital is able to use its actual and potential mobility both to extract concessions from labor in production and evade the costs of social reproduction. On the other hand, there is a downward swing as labor is defensively localized, locality is pitched against locality, labor costs are forced down, and regulatory standards and structures of social reproduction are eroded.

Significantly, Peck (1996; 2001) views neoliberalism as more than merely the institutional form that capitalist development has taken in Anglo-Saxon social formations. Peck (1996: p. 243) astutely recognizes that intensive regulatory and social competition between national jurisdictions works in favour of the putatively neoliberal capitalist countries and forms the basis for the implicit hegemony of the neoliberal policy paradigm.

> The continuing global hegemony of neoliberalism — which, even if not the dominant strand of thinking *within* all the advanced industrial nations, defines key relations *between* them — is fostering an environment in which regulatory undercutting is becoming endemic. In competition among labour regimes, the least-cost, more socially regressive options tend to win out.

> Pushing the ratchet of labor standards downward represents a neoliberal process of regime competition between labor systems.

Clearly in Peck's assessment even if neoliberalism is not universally hegemonic as a policy paradigm, it is nonetheless the dynamics implied by competition between national, regional, and local spaces which underpins the hegemony of neoliberalism outside of the putatively neoliberal countries.

Marxian Accounts of Neoliberalism

Buroway and Peck are not alone in making the connection between state, labour market restructuring, and accumulation. More explicitly Marxist contributions which have dealt with the political economy of neoliberalism (Clarke 1987; 1988; 1999; Bonefeld and Holloway 1995) attempted to locate the crisis of advanced capitalism in the internal contradiction of the capital-labour relation that manifested itself as a crisis of over-accumulation. While structuralist in their pedigree, these contributions had the advantage of directing researchers' attention to the way in which the crisis of advanced capitalism was reproduced in and through the institutions of liberal governance. State restructuring is understood, therefore, as a class based struggle over what form adjustment to the crisis would take. Consequently, the analytic focus is on which class and groups within the major classes would shoulder the costs of adjustment. According to Clarke, monetarism was an early move to restore the discipline of money via induced austerity delivered up by formally de-politicized central banks. The induced austerity then set the new structural constraints on the range of forms restructuring could take and did so via undermining the basis of working class strength: full-employment, unionization and the social wage.

Later Marxian contributions to the political economy of neoliberalism find their affinity in a preoccupation with attempting to describe and explain the forces responsible for the dynamics of neoliberalism in the more abstract processes of international capitalist development. The key organizing *problematiques* of this strand of Marxist political economy are concerns over providing a periodisation and analysis of the phases of international accumulation; the associated causes of the growth, the solidification and break-down of each phase; and the implied re-ordering of relations among national economies in each phase. Despite taking different forms in different national economies and, therefore, having an uneven impact on different national spaces and sectors the increase in international competition (Brenner, 1988); the explosion of credit and finance (Duminel and Levy, 2004); the flexibilization of work relations (Harvey, 1999) and the asset stripping of public institutions (Clarke, 2001) failed to restore growth rates to their golden age levels.[172] Although each has their own particular take on the 'Golden Age' and the causes of its demise, all the contributions assert that neoliberalism, understood as a strategy for the restoration of accumulation in the advanced capitalist economies, has not solved the underlying crisis.[173] Neoliberalism, on this read, is a defensive and

[172] There is some debate within this group about the restoration of corporate profits. Given the evidence presented in Chapter 9, this dissertation is in accord with those stressing the success of neoliberalism for restoring profit rates.

[173] The processes of capitalist accumulation are never without contradictions. There seems to be a perpetual mistaking of a 'contradiction' for a crisis. In the rich countries, productivity has averaged between 1 and 2.5 percent growth per year since 1870. As Glyn (p. 151) notes, present productivity growth rates are well within this range and as such do not deserve the descriptor 'crisis'.

punitive form of austerity that accentuates rather than attenuates the crisis of advanced capitalism (Harvey, 2005).

If the above contributions serve to focus attention on the broad and general dynamics of accumulation and the imperatives which emanate from the changing dynamics of international markets, and hence the interrelation between national economies, they do so at a relatively abstract level of theorization which (the earlier contributions are a partial exception) tend to read-off institutional adjustment from the change in the relationship among abstract concepts of economic analysis. This formal, structural rendering of the dynamics of advanced capitalist accumulation has found an important counterpoint in Marxist analyses which are no less concerned with structural imperatives. Yet, they are equally interested in the agents and indeed the agencies associated with the institutional responses to the 'crisis' of advanced capitalism and neoliberalism's capacity to resolve the recurring crises of capitalist accumulation.

Panitch and Gindin (2004) pose the problem not so much in terms of adjustment to the structurally determinate dynamics of international accumulation, but rather as an investigation into the ways in which the significant institutions of advanced capitalism have been both the subject and object of these dynamics. Taking specific issue with the implied economism (Gindin, 2001) of the orthodox crisis school, Panitch and Gindin have consistently argued that the crisis was the unintended consequence of postwar institutional arrangements that served to empower *both labour and capital.* In their view the crisis was the result of a declining capacity to control labour at the level of state policy and at the point of production. The consequence was that capital was highly constrained both domestically and internationally in its capacity to force subordinate classes and states to bear the costs of adjustment in the face of declining profit rates and increased competition. Among other things, this relative stasis in the balance of class forces manifested, on the one hand, as a decline in the leadership of the American state and on the other, as a crisis in the capacity of advanced capitalist states more generally to regulate accumulation. The way out of the crisis was ultimately achieved by the ascendancy of international finance, the restructuring of the remaining Bretton Woods institutions and an assault on working class institutions. This allowed for the reassertion of US hegemony which ultimately "compelled the emulation of the American model in the world market, on terms favourable to [America's] 'informal empire'" (Albo, 2005).

The conclusion that neoliberalism represents a temporary, but, nevertheless, successful resolution of the crisis in advanced capitalist countries — from the point of view of capital — has also found support in some comparative studies on neoliberalism (Coates 2000; Albo and Fast 2003; Fast 2005: Glyn, 2006). The central point of these contributions has been to insist that, although institutional differences remain and can be expected to remain between the putative 'models of capitalism' as adduced in the VoC literature, it is the substantive outcomes being generated by these formally different institutional arrangements that need to be examined. On this reading, neoliberalism is understood as a pole of structural adjustment which is both a consequence and cause of the political and economic adjustments made by national states and capital to the crisis of advanced capitalism during the 1970s. As such, and equally important, neoliberalism is understood as a political project in which its central protagonists have sought a resolution to the crisis of advanced capitalism on terms favourable to capital and has since attempted to lock-in those gains as permanent class advantages.

CONCLUSION

In this dissertation I attempted to partially account for the profound hegemony of neoliberalism and its consequences for labour markets and accumulation. Describing neoliberalism as a hegemonic accumulation strategy allows for a synthetic conceptualisation of the different facets of neoliberalism. Just as Keynesianism described not a singular set of macro-economic public policies or a singular form of private accumulation strategies, neither does neoliberalism. Both need to be understood as hegemonic projects enjoying broad based consent, displaying a variety of institutionalised forms.

In Parts I and II of this dissertation I examined what I consider to be the key theoretical innovations within mainstream political economy which led to this new consensus. *Inter alia*, I argued that neoliberalism, as an ideology and policy paradigm, is better understood as an amalgam of intellectual currents taken not only from within neoclassical political economy but also from what I have referred to here as neo-Weberian political economy. This consensus was demonstrated, on the one hand, by the capitulation of new Keynesians to the supply side logic embedded in new classical micro economics and, on the other, by the neo-Weberian incorporation of the neoclassical firm into the heart of its comparative enterprise.

The placement of the firm at the center of the VoC approach to comparative political economy has two consequences. First, the firm centric nature of the varieties approach has meant that traditional concerns over class, conflict and distribution has been replaced by considerations of compromise, cooperation and growth. Second, by conceptualizing the firm as an *ex post facto* institution for managing unforeseen change, they have further hollowed-out the socio-economic content of the comparative enterprise in that capitalist social relations play little to no explanatory role. Indeed, the firm is conceptualised at such an abstract level that it is indistinguishable from other intuitions across time and space. That is to say, any institution, including the individual, can be theorised as an institutionalised entity for managing *ex post facto change*.

In the wake of the capitalist crisis of the 1970s, Keynesian economic theory itself came under attack from both the left and the right. In Part II, I illustrated that although the initial reaction of Keynesians to the new classical and monetarism insurgency was scepticism. That scepticism eventually gave way to capitulation. Not only did new Keynesians succumb to a supply side diagnosis of the crisis with an emphasis on labour market rigidities, pace Barry Bosworth, but they also accepted that price stability was the ultimate goal of monetary and fiscal authorities. This new consensus necessarily entailed accepting unemployment and economic insecurity – flexibility — as the necessary policy evil of price stability. By using the OECD as a case study, I was able to track the decline of the postwar Keynesian consensus during the 1970s and the hegemony of neoliberalism by the mid 1990s.

In Part III of the dissertation, I provided a quantitative description of neoliberalism across a broad range of metrics. The central message to emerge from this descriptive exercise was that while neoliberalism, as an accumulation strategy, has been more or less successful in raising and maintaining profit rates and price stability, it has not been successful in terms of other macro-economic indicators. In particular, there has been an increase in employment insecurity, precariousness and market based income inequality. Further, in the Anglo American countries, while neoliberalism has been successful in restoring profit rates in manufacturing, these self same policies have not been successful in arresting the overall decline of manufacturing. Lastly, and perhaps most devastatingly for the protagonists of neoliberalism, these policies have not been successful in restoring GDP per capita growth rates to their Golden Age levels (see note 173). And even if those levels were exceptional, they were held out as the ultimate goal of early neoliberal innovation and restructuring.

The implications of this dissertation for policy-makers are sobering. First, to the extent that neoliberal policies have been responsible for reinforcing the basic logic of the capital-labour relation, then they have also been responsible for the '*Return of the Very Cruel Economic System*.' A system in which the working class is subject to increasingly higher levels of economic insecurity and income inequality with little prospect of a more secure and egalitarian future. This should not be surprising. For once public policy is pressed into the service of private accumulation, economic insecurity and income inequality become integral to the logic of competition. For those of the reformist persuasion, this dissertation has mixed implications. On the one hand, it lends empirical support for the argument that supply side policies have not been able to deliver on their initial promises – price stability in the context of increasing economic growth and decreasing unemployment. In the wake of the global financial crisis of 2007, there is even less evidence to support the idea that neoliberalism can be pressed into the service of the full development of human creative capacity. On the other hand, if neoliberalism is predicated on price stability and flexible labour markets it is also predicated on the liberalisation of trade and investment flows. In practical terms this means that a serious progressive program of reform would require deliberate structural reform. This, in turn, will first require that reformists and social democrats revisit their commitments to the logic of capitalist accumulation.

Appendix A: Data Appendix

Graph 8.1 Decadal comparisons of real GDP per capita relative to the US

All real GDP per capita figures are in constant 2009 US dollars, not seasonally adjusted.

Source: Author's calculations from Federal Reserve Economic Data. "International Comparisons of GDP per Capita and per Hour: Real GDP per Capita [RGDPPC]." FRED (Federal Reserve Economic Data) database: Federal Reserve Bank of St. Louis and U.S. Department of Labor: Bureau of Labor Statistics, 2010.

Graph 8.2 Decadal comparisons of real GDP per capita growth rates

Decadal averages calculated from RGDPPC series on a 0-9 basis with the exception of the averages for the 1960s which run from 1961-1969. The underlying FRED data was not seasonally adjusted.

Source: Author's calculation from Federal Reserve Economic Data. "International Comparisons of GDP per Capita and per Hour: Real GDP per Capita [RGDPPC]." FRED (Federal Reserve Economic Data) database: Federal Reserve Bank of St. Louis and U.S. Department of Labor: Bureau of Labor Statistics, 2010.

Graph 8.3 Decadal productivity comparisons

Each of the national averages was cyclically adjusted (by the author) on a trough to trough basis based on the FRED RGDPPC series (see above). The following table indicates the dating for each cycle of each country. The dating matrix was then applied (by this author) to the OECD series on "Labour productivity annual growth rate." The Underlying OECD data was calculated (by the OECD) on a constant national currency basis indexed to 2000.

	CAN	DEU	JPN	NLD	SWE	GBR	USA
1970s	71—82	71–82	71—80	72–82	71–81	71–80	70-82
1980s	82—91	82–93	80—93	82–92	81–92	80–91	82–91
1990s	91—01	93–03	93—01	92–02	92–01	91–02	91–01
2000s	01—09	03–09	01—09	02–09	01–09	02–09	01–09

Source: Author's calculations from OECD. "Labour Productivity Growth." OECD Productivity Statistics (database), 2010.

Graph 8.4 Decadal comparisons of the Misery Index (MI)

Misery Index is the unemployment rate plus CPI. Decadal averages were cyclically adjusted (by the author) on a trough to trough basis.

Sources: Author's own calculations from the CPI series from the Federal Reserve Bank of St. Louis, FRED (Federal Reserve Economic Data) database; the unemployment series from OECD, "Labour productivity growth", OECD Productivity Statistics (database).

Graph 8.5 Decadal comparisons of international merchandise export shares

Trade shares are total merchandise exports (in US dollar at current prices) of the reporting country expressed as a percent of world exports.

Source: Author's own calculation from WTO, "Total Merchandise Trade", WTO Time Series on International Trade.

Graph 8.6 Decadal comparisons of exports as a percent of GDP

Total merchandise exports as a percent of GDP.

Source: Author's calculation from World Bank, World Data Bank: World development indicators (WDI) and Global Development Finance (GDF).

Graph 8.7 Decadal comparisons of current account balances as a percent of GDP

The 1970s average for Sweden is 1975-79.

Source: OECD, "OECD Economic Outlook No. 88", OECD Economic Outlook: Statistics and Projections (database).

Graph 8.8 Decadal comparisons of unemployment rates

OECD common definition of unemployment.

Source: author's calculation from OECD, "Labour Force Statistics: Summary tables", OECD Employment and Labour Market Statistics (database).

Graph 8.9 Decadal comparisons of employment to population ratios

Source: Author's OECD, "Labour Force Statistics: Summary tables", OECD Employment and Labour Market Statistics (database).

Graph 8.10 Decadal comparisons of labour demand and labour supply growth

Source: OECD, "Labour Force Statistics: Summary tables", OECD Employment and Labour Market Statistics (database); see the data appendix and source notes for information on the specific series.

Graph 8.11 Decadal comparisons of part time employment as a percent of total employment

Source: Author's calculation from OECD, "Labour Force Statistics: Summary tables", OECD Employment and Labour Market Statistics (database).

Graph 8.12 Decadal comparisons of the youth unemployment gap

Source: Author's calculation from OECD, "Labour Market Statistics: Labour force statistics by sex and age: indicators" OECD Employment and Labour Market Statistics (database).

Graph 8.13 Decadal comparisons of incidence of youth part time employment

Source: Author's calculation from OECD, "Labour Market Statistics: Full-time part-time employment- common definition: incidence" OECD Employment and Labour Market Statistics (database).

Graph 8.14 Decadal comparisons of the female share of part time employment

Source: Author's calculation from OECD, "Labour Market Statistics: Full-time part-time employment - common definition: incidence" OECD Employment and Labour Market Statistics (database).

Graph 9.1 US measures of gross wage and profit shares (manufacturing)

W = total employee compensation including benefits; R = gross profits; VA = value added = W + R; P = output.

Source: Author's calculation from OECD, STAN Database 2005 edition.

Graph 9.2 US rates of profit in turn-over

W = total employee compensation including benefits; R = gross profits; Ii = intermediate inputs; GFCF = gross fixed capital formation.

Source: Author's calculation from OECD, STAN Database 2005 edition.

Graph 9.3 US manufacturing investment ratios

I = GFCF; R = gross profits; VA = value added; P = output.

Source: Author's calculation from OECD, STAN Database 2005 edition.

Graph 9.4 US manufacturing employment and VA as a percent of total economy

The gap is the difference between the two percentages.

Source: Author's calculation from OECD, STAN Database 2005 edition.

Graph 9.5 US high and medium technology manufacturing as a percent of total manufacturing and total economy (value added)

Source: Author's calculation from OECD, STAN Database 2005 edition.

Graph 9.6 Gini coefficients for the US

Source: OECD, "Income, Distribution and Inequality Dataset," OECD Stat.

Graph 9.7 UK measures of gross wage and profit shares (manufacturing)

W = total employee compensation including benefits; R = gross profits; VA = value added = W + R; P = output.

Source: Author's calculation from OECD, STAN Database 2005 edition.

Graph 9.8 UK rates of profit in turnover

W = total employee compensation including benefits; R = gross profits; Ii = intermediate inputs; GFCF = gross fixed capital formation.

Source: Author's calculation from OECD, STAN Database 2005 edition.

Graph 9.9 UK manufacturing investment ratios

I = GFCF; R = gross profits; VA = value added; P = output.

Source: Author's calculation from OECD, STAN Database 2005 edition.

Graph 9.10 UK manufacturing employment and value added as a percent of total economy

The gap is the difference between the two percentages.

Source: Author's calculation from OECD, STAN Database 2005 edition.

Graph 9.11 British high and medium technology manufacturing as a percent of total manufacturing and total economy (value added)

Source: Author's calculation from OECD, STAN Database 2005 edition.

Graph 9.12 Gini coefficients for the UK

Source: OECD, "Income, Distribution and Inequality Dataset," OECD Stat.

Graph 9.13 Netherlands, measures of gross wage and profit shares (manufacturing)

W = total employee compensation including benefits; R = gross profits; VA = value added = W + R; P = output.

Source: Author's calculation from OECD, STAN Database 2005 edition.

Graph 9.14 Netherlands rates of profit in turnover

W = total employee compensation including benefits; R = gross profits; Ii = intermediate inputs; GFCF = gross fixed capital formation.

Source: Author's calculation from OECD, STAN Database 2005 edition.

Graph 9.15 Netherlands, manufacturing investment ratios

I = GFCF; R = gross profits; VA = value added; P = output.

Source: Author's calculation from OECD, STAN Database 2005 edition.

Graph 9.16 Netherlands, manufacturing employment and value added as a percent of total economy

The gap is the difference between the two percentages.

Source: Author's calculation from OECD, STAN Database 2005 edition.

Graph 9.17 Dutch high and medium technology manufacturing as a percent of total manufacturing and total economy (value added)

Source: Author's calculation from OECD, STAN Database 2005 edition.

Graph 9.18 Gini coefficients for the Netherlands

Source: OECD, "Income, Distribution and Inequality Dataset," OECD Stat.

Graph 9.19 Sweden, measures of gross wage and profit shares (percent manufacturing)

W = total employee compensation including benefits; R = gross profits; VA = value added = W + R; P = output.

Source: Author's calculation from OECD, STAN Database 2005 edition.

Graph 9.20 Swedish rates of profit in turnover (manufacturing)

W = total employee compensation including benefits; R = gross profits; Ii = intermediate inputs; GFCF = gross fixed capital formation.

Source: Author's calculation from OECD, STAN Database 2005 edition.

Graph 9.21 Swedish manufacturing investment ratios

I = GFCF; R = gross profits; VA = value added; P = output.

Source: Author's calculation from OECD, STAN Database 2005 edition.

Graph 9.22 Swedish manufacturing employment and value added as a percent of total economy

The gap is the difference between the two percentages.

Source: Author's calculation from OECD, STAN Database 2005 edition.

Graph 9.23 Swedish high and medium technology manufacturing as a percent of total manufacturing and total economy (value added)

Source: Author's calculation from OECD, STAN Database 2005 edition.

Graph 9.24 Gini coefficients for Sweden

Source: OECD, "Income, Distribution and Inequality Dataset," OECD Stat.

Graph 9.25 Germany: measures of gross wage and profit shares (manufacturing)

W = total employee compensation including benefits; R = gross profits; VA = value added = W + R; P = output.

Source: Author's calculation from OECD, STAN Database 2005 edition.

Graph 9.26 German rates of profit in turnover (manufacturing)

W = total employee compensation including benefits; R = gross profits; Ii = intermediate inputs; GFCF = gross fixed capital formation.

Source: Author's calculation from OECD, STAN Database 2005 edition.

Graph 9.27 German manufacturing investment ratios

I = GFCF; R = gross profits; VA = value added; P = output.

Source: Author's calculation from OECD, STAN Database 2005 edition.

Graph 9.28 German manufacturing employment and value added as a percent of total economy

The gap is the difference between the two percentages.

Source: Author's calculation from OECD, STAN Database 2005 edition.

Graph 9.29 German high and medium technology manufacturing as a percent of total manufacturing and total economy (value added)

Source: Author's calculation from OECD, STAN Database 2005 edition.

Graph 9.30 Gini coefficients for Germany

Source: OECD, "Income, Distribution and Inequality Dataset," OECD Stat.

Graph 9.31 Japanese measures of gross wage and profit shares (manufacturing)

W = total employee compensation including benefits; R = gross profits; VA = value added = W + R; P = output.

Source: Author's calculation from OECD, STAN Database 2005 edition.

Graph 9.32 Japanese rates of profit in turnover (manufacturing)

W = total employee compensation including benefits; R = gross profits; Ii = intermediate inputs; GFCF = gross fixed capital formation.

Source: Author's calculation from OECD, STAN Database 2005 edition.

Graph 9.33 Japanese manufacturing investment ratios

I = GFCF; R = gross profits; VA = value added; P = output.

Source: Author's calculation from OECD, STAN Database 2005 edition.

Graph 9.34 Japanese manufacturing employment and value added as a percent of total economy

The gap is the difference between the two percentages.

Source: Author's calculation from OECD, STAN Database 2005 edition.

Graph 9.35 Japanese high and medium technology manufacturing as a percent of total manufacturing and total economy (value added)

Source: Author's calculation from OECD, STAN Database 2005 edition.

Graph 9.36 Gini coefficients for Japan

Source: OECD, "Income, Distribution and Inequality Dataset," OECD Stat.

Graph 9.37 Canadian measures of gross wage and profit shares (manufacturing)

W = total employee compensation including benefits; R = gross profits; VA = value added = W + R; P = output.

Source: Author's calculation from OECD, STAN Database 2005 edition.

Graph 9.38 Canadian rates of profit in turnover (manufacturing)

W = total employee compensation including benefits; R = gross profits; Ii = intermediate inputs; GFCF = gross fixed capital formation.

Source: Author's calculation from OECD, STAN Database 2005 edition.

Graph 9.39 Canadian manufacturing investment ratios

I = GFCF; R = gross profits; VA = value added; P = output.

Source: Author's calculation from OECD, STAN Database 2005 edition.

Graph 9.40 Canadian manufacturing employment and value added as a percent of total economy

The gap is the difference between the two percentages.

Source: Author's calculation from OECD, STAN Database 2005 edition.

Graph 9.41 Canadian high and medium technology manufacturing as a percent of total manufacturing and total economy (value added)

Source: Author's calculation from OECD, STAN Database 2005 edition.

Graph 9.42 Gini coefficients for Canada

Source: OECD, "Income, Distribution and Inequality Dataset," OECD Stat.

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