

DEFENDING CAPITALISM AGAINST RENTIERS

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Abstract

Globalization creates fractures but the alternative of rejecting market regulations does not command large majorities, especially amongst the poor. Embedding capitalism is required. Capitalist profit depends on investment spending at the macroeconomic level and not primarily on productivity increases. Rising mass incomes had been a condition for capitalist growth. Capitalist expansion does not transfer its social structure to countries; it opens up through trade and investment on the basis of those economies' comparative advantage. Even today's manufactured exports of the South rarely create labour markets, which the poor are empowered on, due to their scarcity. The tendencies are rather for disempowering labour in the South and in the North. Both sides have the options of maintaining the conditions for increasing mass demand and stabilizing profit or for relying on rents. Political appropriation and limited mass demand will weaken profit and strengthen hierarchical power structures. It is, therefore, worthwhile to enquire whether at the global level forces with very different worldviews can come together on pragmatic cooperation for embedding capitalism. Such cooperation would benefit from a universal acceptance of states to follow their enlightened interests instead of having to be transformed by constructivist idealism.

Key Words: *globalization, capitalism, constructivist idealism, macroeconomic level, market regulations.*

Introduction

Probably the greatest achievement of the actual supporters of a basically power-driven model of globalization consists in gaining acceptance of its capitalist character by those who suffer from it. Capitalists claim that the actual form of globalization reflects the textbook qualities of capitalism, the discipline and controls imposed on entrepreneurs of the real economy by perfect or nearly perfect markets. The anger against actual globalization appears as lacking any practical dimension. It remains moral and is failing because it cannot mobilize large

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majorities. No large support is to be expected for those who reject in principle markets and private property.

The critiques of globalization insist on serious and really existing problems: concentration of property rights, power on markets which destroy competition, politically defined power of those in control of the means of production. The issue is, however, whether these deviations from textbook capitalism are necessary for maintaining capitalism or not. If not, they can be corrected or even have to be corrected by whatever means.

There are two positions: capitalism has to be destroyed because it cannot be corrected, and, alternatively, capitalism has to be embedded, because the separation of political power and economic property rights, including the private disposition over major parts of the economic surplus of the society, are achievements to be maintained. This implies preserving capitalism, especially with its efficiency creating mechanisms which also contribute to disempowering the haughty.

This recalls the old controversy between liberals and socialists. Liberals believed that the system would maintain itself if largely left free from state intervention. Socialists believed that state intervention basically leads to failure because economic power will carry the day against the democratic power of political majorities as long as these political majorities would not remove property rights from private hands.

This controversy has ultimately blocked any understanding of the political and social implications of the Keynesian critique on the self-maintaining role of decentralized market systems. In taking account of both critiques, liberals and socialists, the following contribution focuses, in extending Keynes, on the basic conditions of maintaining capitalism: embeddedness into socio-economic structures with empowerment of labour.

The privileged are rarely committed to empowering labour. The real conditions of capitalist growth appear to the mainstream as completely erroneous: namely, capitalism requires a limitation of surplus appropriation, in order to allow aggregate profits to grow. These conditions were realized because the powerful could not keep the underprivileged from behaving in an unruly and often seditious manner. I will select three arguments to demonstrate this theory:

1. Capitalist profit depends on rising mass incomes C
2. The mere introduction of market relations will not lead to self-sustained capitalist growth, and T
3. The actual globalisation can lead to the generalization of rent, but also to a world economy "safe for capitalism". T

The contribution will not deal with other major challenges, especially the environmental challenges, which are difficult to manage in a

market economy. The paper concentrates on its analysis of how capitalism works under perfect competition. It does not consider deviations from keeping capitalism going as ineluctable developments, as the theory of state monopolist capitalism does.¹ According to the model, such tendencies are the expression of a weakness of labour which is unable to reduce available or potential surplus to the level of investment spending required to expand demand. The weakness of labour allows surplus which neither labour nor capital — in the form of profit — can appropriate. As capital is interested in surplus, whatever its form, it will develop non-market mechanisms, among other limits to market access, in order to appropriate surplus as rent. Therefore, the precondition for assessing capitalist structures with less perfect markets should be based on the analysis of how capitalism with perfect markets can work. This reflects the decision to keep market regulations as an achievement in the struggle against privilege and unaccountable power wherever markets operate.

1. Capitalist Profit Depends on Rising Mass Incomes

Capitalist profit is one form of economic surplus. Long before capitalism emerged, there was surplus appropriation. The glorious civilizations of Asia are examples of surplus transformed into beauty. Surplus is appropriated here openly by political means, taxes, in order to present symbols for the unity of exploiters and exploited ones. Where there is no state representing this superior unity, and the exploiting class appears as private, we speak of rent. Rent is surplus appropriated by nonmarket mechanisms, market failure, like differential rents (for example, differences in the productivity of oil wells), or open political power like land rent (and tax) which the monopolistic owner of land can extract from his tenants.

Profit is appropriated on competitive markets without political means or coercion. Profit accrues to enterprises on the basis of prices for products on perfect markets. If the owner of the factory would be expropriated, capitalist profit would still be appropriated as long as the economy is managed by markets where private enterprises compete.

Let us suppose an economy composed of a department for the production of consumption goods and their inputs and owned by entrepreneurs. All households buy consumption goods. The entrepreneurs also buy consumption goods. There is no incentive to enlarge the production and hence nobody buys additional machinery (no net investment). Total demand for consumption goods corresponds to total wages handed out to the workers (including management compensation for the owners of the enterprises). There may be conflict on distribution of

¹ Horst Hemberger, Lutz Maier, Heinz Petrak, *Imperialismus heute. Der staatsmonopolistische Kapitalismus in Westdeutschland* (Berlin: Dietz, 1965); 823 S.

how much the manager-owner should get in relation to different workers according to their skills or the work effort but there is no profit appropriated on an anonymous market.

Now let us suppose that some people innovate. They want to escape tedious work or increase their production. They order investment goods in order to realize the innovation. As long as the investment goods have not gone on-stream, their production creates employment for workers, who buy consumption goods in order to survive with their families, but during this time do not contribute to the availability of consumption goods. The consumption goods available will be sold to more workers who together have more money for buying the same amount of consumption goods as before. The total sale proceeds of the producers of consumption goods increase by the amount of income households earn through investment goods production (including their inputs).

If there is a constant flow of innovation, which leads to investment goods production, investment goods producers also have to earn a surplus above their costs of wages. As they are familiar with the technologies applied in consumption goods production, they would produce consumption goods, if market prices do not allow such a surplus. As profit in consumption goods production equals the wages paid in investment goods production, total profit in the two departments corresponds to the value added consumption goods production and investment goods production.

We have left out possible contributions of government and the rest of the world. But the rest of the world cannot buy more than it sells, as indebtedness has to be avoided. Additionally, the government can increase demand only for some time by accepting high indebtedness.

Where can the additional demand come from which induces entrepreneurs to buy additional machinery in order to produce more or to produce with lower costs? We have already excluded government and foreign trade as long-term solutions to this problem. Lenin² like bankers argue that the capitalist process of growth creates its own demand, as entrepreneurs invest the money they earn, not having other possibilities of using their money. Already in 1907, Bortkiewicz³ showed that under conditions of capitalist regulation a new technology can be introduced only if it reduces unit costs. Costs are the incomes of the workers at all levels of production, so that the reduction of unit costs means that the quantity produced increases in relation to the incomes. Hence there will be overproduction if no income category increases in real terms.

If the innovation serves the introduction of totally new products, which do not substitute other products, then this new product can be sold

² Wladimir Iljitsch Lenin, *Die Entwicklung des Kapitalismus in Rußland* [1899]. Lenin Werke 3 (Berlin: Dietz, 1972).

³ Ladislaus von Bortkiewicz, "Wertrechnung und Preisrechnung im Marxschen System (3)," *Archiv für Sozialwissenschaft und Sozialpolitik*, 25, 2 (1907): 445-489, esp. 456.

only if wages or profits increase.

Innovations are dependent on increasing demand. As entrepreneurs are under competition and kept from luxury consumption with the threat of losing their competitiveness and going bankrupt, increases in demand on the basis of entrepreneurs' incomes increases are possible only if the entrepreneurs can use additional incomes for investment goods which allow productivity or production increases in relation to demand on their markets. If all increases go to entrepreneurs who invest them totally, the capacity of production grows with exponentially growing rates of growth of these capacities (accelerating from period of reporting to the next period) implying rates of growth far beyond the possibilities of the real economy.⁴

The contemporary supporters of financialization of capitalism have argued that the increase in wealth of the wealthy would lead to increases in their consumption. Rosa Luxemburg,⁵ not a very staunch supporter of capitalism, earlier insisted on the progressive character of capitalist competition which threatened capitalists with bankruptcy if they indulged in wasteful luxury consumption. An increase of demand through increases in the consumption of the rich implies a decline of competition (barriers in the education system, relations as a condition for access to some careers), as otherwise higher incomes attract other people who develop the necessary skills for acceding to the respective jobs. The massive rise of people from relatively poor origins to middle class positions in Western capitalist countries during the 20th century and the decline of income advances of middle classes in relation to average incomes show that Luxemburg was right, as do the new tendencies to inequality based on relations.

The only solution for increasing demand in line with productivity lies in increasing mass incomes. Capitalism requires for its growth rising mass incomes. Mass incomes are earned on the basis of employment. In the transition to capitalism people accept to give up pre-capitalist bonds, like the protection by a landlord, if they are reasonably sure that they will survive on the basis of their work time. The expulsion of the rural folks through enclosure did not occur in the heartland of the industrial

⁴ Indeed, such processes become unstable, if the relation between the value of capital invested and production does not decrease, because in that case explosive growth has to occur until the share of consumption in total income tends to zero. If a decline in the efficiency of capital (relation between stock of capital and production) is admitted, the consequence is a slowly decreasing relation between value of capital and profit which leads to the famous tendential fall of the rate of profit of Marx. See more detailed presentation of the argument in Hartmut Elsenhans, "Rent, State and the Market: The Political Economy of the Transition to Self-sustained Capitalism," *Pakistan Development Review*, 33, 4 (December 1994): 393-428, esp. 401-405.

⁵ Rosa Luxemburg, *Die Akkumulation des Kapitals [1912]* (Berlin: Vereinigung internationaler Verlagsanstalten, 1923), chap. 6.

revolution.⁶ Many societies where wage labour existed demonstrate that poor people prefer to return to relations of legal dependency from lords if there are no reasonable employment perspectives. The doubly free proletariat of Marx becomes possible when employment expectations are relatively good.

The mechanism of capitalist growth can hence be characterized as follows: rising mass incomes trigger off investment. Incremental technical learning brings initially only imagined products in the range of realization (sewing machine, plus bicycle, plus motor = car). High demand leads to high employment, so that innovative enterprises can hire workers for new productions only by offering higher wages which they are able to pay because the newness of their products allows them to charge high prices. Old branches have to reduce production and shed labour, but some of the older branches can retain workers because at lower levels of production they can charge higher prices. Without any productivity increases, incomes of these workers increase (e.g. income increases over the past centuries in the last 500 years for hair cutters). This leads to relatively homogeneous situations of the mass of the population. It is the basis for the emergence of a working class and its social and political organizations.

The rise in mass incomes in both innovative and non-innovative branches reduces the potentially available surplus, so that among the many innovations only those promising high rates of return are realized. In a tit-for-tat process, which the critiques of capitalism call its 'crises,' accumulation and consumption increases are kept in balance. Neoclassical economists call this the golden rule of growth, where the capital stock and real wages grow in line with each other.⁷

Rising mass incomes are, therefore, not a concession of the powerful to the poor, as they may have been in pre-capitalist or bureaucratically managed economies, but they are a necessary condition for capitalist growth.⁸ It is realized by the selfish behaviour of the two main social classes, capital and labour, however not without temporary imbalances which may topple into a major crisis if not properly addressed.

This fragile arrangement is the result of "accidental" power relations and not of a politically arrived at master plan. When power relations change, it is threatened. The entry of new societies into the international division of labour may change the power relations if this

⁶ Only some authors: Mark Overton, *Agricultural Revolution in England: The Transformation of the Agrarian Economy, 1500-1850* (Cambridge et al.: Cambridge University Press, 1996), 204; James D. Chambers, "Enclosures and Labour Supply in the Industrial Revolution," *Economic History Review*, 27, 3 (1953): 319-343, esp. 328; Arthur Redford, *Labour Migration in England 1800-1850* (Manchester: Manchester University Press, 1964), 189.

⁷ J. von Neumann, "A Model of General Economic Equilibrium," *Review of Economic Studies*, 13, 34 (1945): 1-9, esp. 8.

⁸ Hartmut Elsenhans, "Rising Mass Incomes as a Condition of Capitalist Growth: Implications for the World Economy," *International Organization*, 37, 1 (1983): 1-38.

entry is not accompanied by the transformation of the new participants into equally capitalist ones.

2. Capitalism is Expansive, but not Contagious

If market relations were sufficient to characterise capitalism, then capitalism had to exist since millennia. There were exchange, money, internal and foreign trade, all without capitalism. After monopolistic long-distance trade in rare products, trade followed the rule of comparative advantage. The exporting country specialized on those products where its expense on scarce labour is lowest in relation to the price it can fetch abroad. Ricardo's⁹ innovation consists in showing that such specialization is also in the interest of a leading country. Assume that Germany can buy 100 computers from East Asia for one Mercedes car costing 4,000 hours of work or the equivalent of the German labour input for 80 computers. Germany will specialize on Mercedes cars, even if East Asia is less productive in computers and in cars. It is sufficient that the degree of lesser efficiency is different: East Asia uses 100 hours of work per computer and 10,000 hours for the 100 computers, but 12,000 hours for the home production of the equivalent of a Mercedes car. Already small groups like hunters will specialize according to what advantages different members relatively, even if not better than other members of the group who may be totally occupied in activities where their superiority is even greater.

Historically, the rich civilizations of the South got specialized initially on their highly refined artisanal products, like cottons or china. Europe copied these products and introduced massive protectionism. The process of industrial growth in the West led to the cumulative discovery of innovations with totally new products like the railway, the car, the aeroplane, consumer durables for the household etc. These were initially luxuries which partially replaced the sophisticated luxuries of Asia, not only on the world market but also in Asia.

Asia was reduced to the same pattern of specialization as the technically much less developed societies of sub-Saharan Africa, South America and Oceania. They acquired comparative advantage only in natural products i.e. raw materials.

Europe and North America were well-endowed with mineral raw materials. Inevitably, European industrialists exploited first the rich deposits near their industrial centres, so that the rich deposits were gradually depleted. Facing the alternative of exploiting mineral deposits such as ores with lower mineral content or coal in greater depth on the one side, or searching for still rich deposits abroad, the cheaper solution was often not exploitation abroad, and it was on this basis that technology developed in the struggle against the deteriorating qualities of the deposits

⁹ David Ricardo, *On the Principles of Political Economy and Taxation* [1817] (Cambridge et al.: Cambridge University Press, 1951), 135 ff.

at home. The South got comparative advantage in minerals, but not in the related technologies. Its minerals were exploited with imported technology. Jobs were created only for a relatively small number of often relatively privileged workers.

The number of jobs was higher in agricultural raw materials which European industry (cotton, fats), or increasingly better-off customers in the West (coffee, tea, cocoa), demanded in increasing quantities.

The rise in raw material demand, however, is always lower than the increase in total income because consumption becomes more sophisticated requiring more labour and competition forces capitalists to save on raw materials. This leads to pressures for lower prices of raw materials. The complaint of the South about its deteriorating terms of trade as the basic cause of its underdevelopment remains one of the most controversial issues in the West-South debates. It was on this basis attempts were made to unite the South after political decolonisation in an alliance of "the wretched of the Earth."¹⁰ It was the core argument in the attempts to introduce a "New World Economic Order." At least in the case of oil, 1960-founded OPEC was able to reverse the deterioration of the terms of trade decisively, providing enormous financial resources. The subsequent failure to achieve self-sustained industrial growth in the oil countries once more demonstrated development did not depend on the availability of financial resources, as assumed when capital accumulation was identified as the cause of development. Nevertheless, the debate revealed rents were available in the form of factor incomes in the export branches as factor incomes were much higher here than in the rest of the economy, so that any shift from export dependent to internal market-oriented development implied the possibility of diminishing financial resources.

Continued underdevelopment in most countries of the South can be explained by the dependence of profit on mass incomes, and ultimately, the empowerment of labour. Neither specialization on capital-intensively produced mineral raw materials nor the increasing export of labour-intensively produced agricultural raw material led to levels of employment where labour became empowered. Where social structures limited the supply of labour, smaller segments of the mass of the population were achieving relatively high incomes without constituting a large internal market. Where labour scarcity became a real obstacle, the West did not hesitate to employ violence: the Atlantic slave trade and slave labour in the Americas, forced labour, and arbitrary taxing in the second wave of European colonialism especially in sub-Saharan Africa, show that those in power in Europe had no interest in transferring capitalist forms of regulation of labour when they wanted to increase exploitation. In some places they could dispense with violence, as the local societies offered surplus labour.

¹⁰ Frantz Fanon, *The Wretched of the Earth* (New York: Grove Press, 1965).

In pre-capitalist societies with limited technical development, agriculture dominates as poor people's consumption is more than 50 per cent spent on food. The large majority of the populations of the South had lived until colonialism in highly hierarchical political systems which some call 'tributary modes of production,' others the 'old agrarian empires.' Whenever population increases, the emergence of such empires is nearly inevitable. People have a larger number of children than required for simple reproduction of the community, certainly for many reasons, but one overriding motive: parents cannot know how many children will survive, and need their children to look after them in old age. When population increases, the complementary resource of agriculture becomes scarce. Groups fight for increasing their shares. Regardless the mechanisms to maintain equality, land distribution tends to become unequal as some families acquire special reputation and special functions, such as judges who distribute scarce resources (the lords of the land, the lords of the water).

Groups with lower shares have more limited land and fall earlier into the trap of diminishing returns: if they increase the input of labour time into their land, production increases but at increasingly lower rates. The total amount of production per head decreases. Additional production per additional worker decreases and may become lower than the needs of subsistence per person. Some households have no other choice than offering their services to the better off. As they don't have material resources they can offer only political support (including muscle power).

The process of rising inequality may imply many supplementary processes like conquest of resident populations by invaders, the submission of arriving migrant populations to previous incumbents who claim that the land had been given to them by God or their ancestors, and many more. With the onset of such inequality, the deepening of inequality is inevitable. Those who have resources will use them in order to increase their dependents by conquest, by persuasion, and also by imposing their ritual power.

The surfacing of tributary modes of production is inevitable. Their basic characteristics are a surplus of resources and dense population, which tends to grow, so that the marginal product becomes lower than the cost of an additional worker. There is a surplus of resources (for luxury and public works) but also a surplus of labour which becomes visible when those in command of land try to maximize surplus. In the anti-colonialist literature, this is described as the destruction of the ancient social networks of solidarity by the invading capitalist patterns of behaviour, especially capitalist surplus maximization.

Development economics, which emerged in the 1950s, can be described as the discipline which deals with the mobilization of a surplus of resources, appropriated by political means, taxes or rent collecting, and the use of these resources for investment which is intended to increase

employment and subsequently improve the economic situation of the mass of the population.¹¹

Today's situation has been created by the failure of the secular elites. They had led the anti-colonialist liberation movements, won independence, and developed a model of economic and social restructuring where the newly erected states played a central role. They had been able to take power, because the withdrawing colonial powers preferred secular nationalists with ties, even when indulging in a Marxist discourse, to the cultural nationalists who were already present and whose heritage is claimed today by the new cultural-identitarian movements (the Islamists, the Hindu nationalists, etc.¹²).

The secular nationalists took hold of the state and became state classes, based on the appropriation of surplus by means of the centralized state.¹³ Their development project failed basically because of their inefficiency as state classes with increasingly wasteful behaviour (including corruption). In this development model, high international prices for one's own labour were the result of the goal of having an exchange rate as favourable as possible in order to buy abroad a maximum of technology. The richer the economy, it allowed more technology and more sophisticated technology to be imported. The basic mechanism of development, namely the learning of how to produce technology for initially relatively simple and standardized products by using growing markets and increasingly the cost savings from large-scale production (economies of scale), was neglected.

Even if there was a discourse which stressed the necessity of improving the lot of the poor, the decreasing availability of resources because of privileges for the state classes and inefficiency of the newly built industries, ultimately led to impoverishment of the majority and limited mass markets. The capitalist mechanism of growth could not be transferred. Talk that capitalism existed because there was undeniably exploitation demonstrates the ideological resistance against understanding how capitalism works where it succeeded.

The pre-Keynesian theory of capitalism, whether liberal or Marxist, was proven wrong: resources and accumulation of resources mattered less than social organisation, ultimately egalitarian distribution of chances and opportunities. The theory of imperialist exploitation did not explain the persistence of underdevelopment and became an excuse for those among

¹¹ P.N. Rosenstein-Rodan, "Problems of Industrialization of Eastern and South Eastern Europe," *Economic Journal*, 53, 210/2011 (1943): 202-211; William Arthur Lewis, "Economic Development with Unlimited Supply of Labour," *Manchester School of Economic and Social Studies*, 22, 4 (May 1954): 139-191.

¹² Hartmut Elsenhans, Rachid Ouaiassa, Sebastian Schwecke, Mary Ann Tetreault, *The Transformation of Politised Religion: Zealots Turned into Leaders* (Aldershot: Ashgate, 2014).

¹³ Hartmut Elsenhans, *State, Class and Development* (New Delhi: Radiant, 1996).

the local “elites” who indulged in exploitation whether by inefficiency or simply by greed.

The capitalist West could deal rather easily with two important consequences of this configuration: firstly, the state classes showed success in some areas to increase the rents they could take from raw material exports, the brightest example being OPEC; secondly, the West also had no problem to absorb the loss of its credits to the state classes which had been handed out lavishly in a period where even the capitalist West expected success of rent-financed industrialization in the South. The debts were ultimately paid by the Western taxpayers.¹⁴

The South becomes a problem for the West, however, when by changes in its development strategy, the South becomes economically efficient and competitive on the world market without becoming capitalist via empowerment of its own labour.

3. Globalization Threatens Capitalism in the Centre and in the Periphery

The roaming around of large financial masses has nothing to do with capitalism, but as will be shown, is just one manifestation of the weakening of capitalism. These financial masses result from reactions to the core process of globalization: a new competitiveness of production sites in the South which leads to inappropriate adjustment strategies in the West and in the South.

Dealing with the challenges of globalization has to start with the issue of the causes of the new competitiveness of production sites in the South: there is a new pattern of comparative cost advantages and a new capacity to transform comparative cost advantages into competitiveness.¹⁵

Even if capitalism starts only in a small area of the world, productivity increases are higher in some branches than in others. Comparative advantage changes in relation to any region, even areas where no technical progress has taken place at all. Changing comparative advantage does not need productivity increases in the areas which become newly competitive.

The new pattern of comparative advantage of the South is probably less due to improvements in skills and infrastructure. There have certainly been improvements due to education and training, particularly some investments in import substituting industrialization. Such improvements occurred, however, in many places where we did not observe a new

¹⁴ Hartmut Elsenhans, “Les contribuables ont payé, les banques sont sauvées et le tiers monde s’engouffre dans la dette. Comment on gère une crise en gestation,” Pierangelo Catalano, Abdelkader Sid Ahmed (eds.), *La dette contre le développement* (Paris: Published, 2003), 323-343.

¹⁵ Hartmut Elsenhans, “Macroeconomics in Globalization: Productivity, Wages, Profits, and Exchange Rates in an Era of Globalization,” *Brazilian Journal of Political Economy*, 22, 85 (January-March 2002): 53-78.

competitiveness. All successful export-oriented industrialization occurred in countries which did not dispose of rent earned from rich raw material exports. Deteriorating terms-of-trade for raw materials removed a major obstacle to comparative advantage in manufactured exports, and the West was quite successful in reducing raw material rents of the South outside of world oil.

Transforming comparative advantage into cost competitiveness requires adjusting the prices of one's own factors of production, i.e. lowering the international price of the relevant factors of production, especially labour. Low international labour costs are not necessarily the result of low real wages. The poor of the world are not in China, South Korea, Taiwan, or Vietnam, but concentrated in sub-Saharan Africa, as well as in South Asia. Low international labour costs are the result of the capacity to devalue, and in the case of the successful exporters of manufactures, to devalue below purchasing power parity (recently with special reference to Pakistan.¹⁶)

Devaluing the currency below purchasing parity and increasing employment in export-oriented manufacturing because of cost competitiveness, implies that there is an increase in the number of salaried workers in the export industry, income which can be used for buying wage goods for these workers from abroad. Devaluation below purchasing parity means that the international purchasing power of incomes is lower than their purchasing power in their home market. The demand in real terms of these additional incomes on the local market is higher than the additional supply in goods received from the world market. In the 1990s, a Chinese household could buy four times as much in a Chinese supermarket than in a Canadian supermarket after conversion of its income into Canadian dollars (not considering non-tradables like housing.¹⁷)

The basket of goods the workers in an export branch can buy locally, in relation to what can be imported for them, has to be produced by somebody inside the economy. The composition of household demand of the lower income groups indicates the supply requirements: 50 per cent of the income is spent on food, and until a doubling of these incomes the additional income is also used at 50 per cent for food. The rest goes in an equal share to textiles, furniture, simple household equipment, different items of local origin, and the last 10 per cent to relatively high technology products. But also here the local share can be high, as most of these consumer durables (refrigerator, TV set, bicycle and probably motorcycle, cell phone) are produced in most of these countries. Their local production ultimately depends on the surplus local agriculture can generate and the capacity of the local small-scale and often informal sector to transform

¹⁶ Meekal Ahmed, "An Export-led Growth Strategy," *Criterion Quarterly*, 5, 4 (2010): 97-106.

¹⁷ Haichun Chen, M.J. Gordon, Yan Zhiming, "The Real Income and Consumption of an Urban Chinese Family," *Journal of Development Studies*, 31, 1 (1994): 201-213.

food into labour power which initially produces basic industrial products for mass consumption. The condition for devaluation and subsequent export-oriented manufacturing is the same as the condition for self-centred, so-called 'alternative development'.

Self-centred development required costly planning because of the social (not technical or managerial) inefficiency of the managing personnel. Devaluing the currency in order to grow through export demand works as if the country had accepted low export prices (exploitation) in exchange for a (imported) mechanism of regulation which renders better results than its own middle classes. This holds as long as these middle classes are bureaucratic and cannot be forced to accept the constraints and disciplines which perfect markets would impose on them.

There are two constraints on devaluation: the availability of an agricultural surplus and the availability of a labour surplus.

The agricultural surplus is a result of the Green Revolution. With the exception of the two city states (Hong Kong and Singapore), no country is among the successful exporters of manufactures where the Green Revolution did not succeed (sub-Saharan Africa). Nobody will turn back to the low yields of Asian agriculture before the 1950s. Only massive population increases, or an ecological catastrophe can remove the possibilities of devaluation-driven industrialization.

When high levels of employment are achieved, export enterprises luring away workers by offering higher wages will increase wages, also in the rest of the economy. The economy reaches a turning point.¹⁸ Scarcity of workers leads to inflationary pressures as in West Germany in the late 1950s. China is now entering a similar phase and tries to cope with it by mobilizing labour in its Western provinces and by appreciating its currency in a controlled manner.

The challenges of actual globalization can be described, therefore, as follows: allow the catching-up economies to become truly capitalist by shortening the process of transition until high levels of employment are reached. This requires markets in the industrialized countries to remain open and expanding. The leading economies refrain from wage repression and accept, like Britain in the 19th century, balance of trade deficits. They solve their employment problems by expanding their home demand, accepting rising wages as wage repression is useless for maintaining competitiveness. The competitiveness of the catching-up economies depends on their exchange rates. The catching up economies maximize multiplier effects of their exports especially by increasing the real incomes of the poor. Income increases of the poor do not harm competitiveness as competitiveness depends on the exchange rate. Income increases for the poor allow them to direct local factors of production to the production of

¹⁸ Moo-Ki Bai, "The Turning Point in the Korean Economy," *Developing Economies*, 20, 2 (1982): 117-140.

goods for their own needs and withdraw them either from unemployment or the production for the rich.

4. Converging Tendencies for a Possibly Unintended Weakening of Capitalism

The example with cars and computers shows that specialisation according comparative advantage does not necessarily allocate the branches which provide the highest learning effect to economically leading countries. A leader may enjoy productivity advances in innovative products on the basis of experience in production (learning by doing). The past experience may convey to the leading economy an advance in productivity. It is, however, doubtful that this advance in a branch, where both economies have not yet any experience, is as high as in the previously leading branch where the leading economy has more experience than the catching up economy. The leading economies not only fear losses of jobs, but also being overtaken in high-technology specialization by the catching-up economies. The Vernon¹⁹ product cycle model is a special case, not the norm.

The reaction of the industrially leading countries to the new competitiveness of the South consists in attempts to increase competitiveness, especially by fighting wage increases and subsidies for improving their technical innovation systems. This leads to job losses because productivity increases more rapidly than production. Because of a lack of demand and wage pressure, only those innovations are realized which are cost-cutting to such a degree that they reduce production costs, even its wages do not increase. Defensive investment characterized by high spending on investment goods against rising labour costs is not undertaken.

Investment is low because of slow wage increases and sluggish demand. As surplus has increased however, there are financial resources which do not find outlets for profitable investment in the real economy. They have to turn to the financial markets. As in the late 1920s in the United States, the disproportionate growth of the financial markets is the consequence of under-consumption due to an increasingly unequal distribution of income. The increasing inequality can be for some time protected from the destruction of high incomes by an economic downturn if income appropriation on financial markets is defended by political means. The saving of the banks in the actual financial crisis is a government rescue through which fake money created by the credit system is transformed and protected and has become now a real asset, in the form of a liability of the taxpayers. This is basically a rent channelled to fake capitalists who do not earn money because of their competitiveness on anonymous markets of the

¹⁹ Raymond Vernon, "Comprehensive Model-Building in the Planning Process: The Case of the Less Developed Countries," *Economic Journal*, 76, 301 (1966): 57-69.

real economy.

Tendencies to increased rent appropriation are also important in the catching up economies. Devaluation is costly and state financed improvements in technical competencies can limit rates of devaluation. In the 1970s, Korea forbade the further import of textile machinery when its textile exports had become very competitive. Korean textile exporters had to turn to local suppliers of spare parts who provided textile machinery at a higher cost. The economic effect is not different from an oil country taxing already cost competitive oil exports and using this income for subsidizing industrial diversification. However, the administrative management of the Korean method is much more efficient as the customers are the machine producers who are better extension agents than bureaucrats for their machinery suppliers.

The alternative is either to accept the turn of governments to rent appropriation and then enact political and administrative regulation, or to counter the tendencies to disembed capitalism in a period of transitional weakness of labour. I do not exclude that this process of re-embedding capitalism will lead to lasting reductions of the sphere regulated by the market in the societies of the West and of the South, which I cannot discuss here.²⁰

The global political situation is not favourable for such an endeavour. It is characterized by heterogeneity and fragmentation, even polarization of the political forces which oppose the strategies of business and finance capital. They do not even dispose of common discussion arenas at a global level. These forces comprise of a much larger spectrum than the reanimated traditional critiques of capitalism who want to abolish it on grounds of their understanding of humanitarianism, Marxism, environmentalism, or other rejections of the market.

It is difficult to numerate the forces which could engage in such an alliance for embedding the world economy in order to keep it capitalist and therefore to reduce financialization and rent. There is no doubt that from the Western perspective, the critical centre-left, often social democratic or Christian Democratic forces, should play a role. In the South, some of the secular nationalist movements have coped with the crisis of the state classes and their import substituting industrialization. There is a re-emergence of the left in Latin America side-by-side with rising populist and indigenous movements. In Asia, the successors to communist parties have engaged in economic opening, rejected political liberalization (democratization) but used their political monopoly increasingly for shifting to policies for rising internal mass incomes. Despite a strong nationalism, the rise of China is managed with a clear acceptance of the

²⁰ I think of the increasing importance of the environment, the growing importance of needs which do not lead to immediate spending, like old age provisions, but may lead to demand reducing savings in the actual period, Hartmut Elsenhans, *Saving Capitalism from the Capitalists* (New Delhi: Sage, 2014).

necessity of international cooperation. It looks like China has carefully studied the mistakes of the previous challenger of Anglo-Saxon hegemony: Germany.

In North Africa, West, South, and South East Asia, the secular nationalists have not been entirely unsuccessful but nevertheless unable to keep their old political dominance because of promises which were not kept. Despite their achievements, especially in the area of education, they have to contend with the rising cultural nationalists who have gained large audiences.²¹ Where they have become powerful, they succeeded in adding to the topic of cultural identity the demands of the private business sector and the rising salaried middle class (created by the extension of education). Increasingly, electoral success depends on the capacity to promote equitable growth: the AKP in Turkey, the recent new tendencies in the Islamic Republic of Iran, and the electoral victory of Narendra Modi in India are linked to the commitment for a mixed economy which pragmatically combines market and state.

The main arguments of Keynesians and the new cultural-identitarian movements are close: the market at the service of the people, limits may be necessary, even in property rights, and state responsibility in removing market failure, especially with respect to the integration of the most disfavoured groups into production and social life, are all themes they share.

There is no doubt that these are different forces that cannot come together if they do not limit their commitments to the question of the management of the international economy. Ambitions would have to be limited. Taking the balance of power as the appropriate instrument for protecting peace would reduce claims partners in the international system have on each other, respecting more the level of political struggle which is the state: This would lead to acceptance that states and political cultures are different and not to pretend that peace requires remodelling the culture and the civil societies following one's own order.²² The actual state of international relations is not really favourable for such an endeavour. Political realism in international relations is not liked in the Western centre left public. Its philosophy is that the world is safe and peaceful if the Western concepts of human rights and democracy are universally accepted.²³

²¹ Hartmut Elsenhans, "The Rise of New Cultural Identitarian Movements in Africa and Asia in the Emerging Multipolar System," *Comparative Studies of South Asia, Africa and the Middle East*, 32, 3 (2012): 642-661.

²² Zahra Nergis, "The Realist State and Deglobalization," *Policy Perspectives*, 8, 2 (2011): 33-52.

²³ Better: 21st century limited democracy, where democracy is no longer used for correcting property rights like in the 19th and early 20th centuries: Mario Sznajder, "Transition in South America: Models of Limited Democracy," *Democratization*, 3, 3 (1996): 360-377; Atilio A. Boron, "The Truth about Capitalist Democracy," *Socialist*

As long as this agenda is maintained and the economic basis of the transnational NGO world depends, to a large extent, on this agenda, then a meaningful debate between forces of totally different cultural backgrounds on their convergences in economic praxis is difficult to achieve. The absence of international labour, so different from this other phase of globalisation at the end of the 19th century, adds to this problématique.²⁴

There are various battlefields from which confidence-building behaviour can be expected. Those who are in favour of embedding capitalism will closely look at the European Union's capacity to complete its relative success in the management of the financial crisis by having the banks paying for the received support, in order to reduce the weight of financial capital and the degree of financialization. In the Arab world, Islamists can create confidence of Western publics by showing that they have a respectable role internationally and domestically and a reasonable concept for economic policy. The Mursi experience has shown at least that the respectable role could exist. In the Mediterranean region, bold initiatives by the European Union could allow the Arab world to engage in export-led manufacturing on the basis of neutralizing the oil rent in its impact on the exchange rate. This would demonstrate significantly the possibility of mass demand led growth.²⁵

For the public in the West, all strategies have to demonstrate that by correcting the market they have no wish to abolish capitalism but simply to make it work. I suppose that for large segments of public opinion in the South, especially in the post-dictatorial societies, the same applies. Alliances which include the bulk of the middle classes will not be possible without such a commitment. The vocal critiques of those who use the crisis for the argument that the time is ripe for abolishing capitalism scare these moderate opinions. It is therefore urgent that those who want change make clear that their only aim is not just to save capitalism from the capitalists, but also that their concepts are applicable for succeeding in this endeavour. One important goal is therefore to deconstruct the claim of the monopolists, the financial speculators, and the other rentiers, that they somehow represent capitalism or that their power-based rent economy resembles capitalism.

Register, 42 (2006): 28-58; David Collier, Steven Levitsky, "Democracy with Adjectives. Conceptual Innovation in Comparative Research," *World Politics*, 49, 3 (1997): 430-51.

²⁴ Michael Huberman, Christopher Meissner, "Riding the Wave of Trade: The Rise of Labor Regulations in the Golden Age of Globalisation," *Journal of Economic History*, 70, 3 (2010): 657-685.

²⁵ Hartmut Elsenhans, "Comment approfondir la coopération entre rive nord et rive sud de la Méditerranée : Un renouveau économique tenant compte des effets de la rente sur le Sud de la Méditerranée," *L'Année au Maghreb*, 9 (2013).19-38.

