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A Thought on Recent Trends in the World Economyⁱ

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The Uno Newsletter: Rejuvenating Marxian Economics through Uno Theory
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Of the many errors of Marxism the most crippling one derives from its failure to clearly define the concept of “capitalism”. Marx, despite his frequent reference to "the capitalist mode of production", hardly ever used the term "capitalism" as such.¹ He instead talked of "modern society", of which the “economic law of motion" he sought to “lay bare” in his major work, *Capital*. Yet we all feel to have been sufficiently informed by Marx what capitalism is all about and profusely repeat the term, without seriously reflecting on what exact meaning we, in fact, wish to invest on it. Traditionally, however, the word *capitalism* has been used in two different senses. First, it simply means "being, or acting like, a capitalist ", i.e., the capitalist behaviour (which I shall refer to in this paper as *capitalism-I*); then it also means a social system, or a regime, which the capitalist behaviour may generate in one way or another, i.e., a capitalist society (which I shall call *capitalism-II*). These two are by no means the same². Yet, the conventional wisdom tends to assume that, if *capitalism-I* is practised sufficiently extensively, *capitalism-II* will automatically follow. If this were so, Marx, as an economist, must have wasted most of his time. For, such a light-hearted assumption need make no serious use of his effort to "lay bare the economic law of motion" of capitalist society.

The Unoists believe that economic theory is nothing other than a “definition of *capitalism-II* by capital itself”, and that Marx's magnum opus, *Capital*, is the first decisive contribution to it³. Working on it further, Kôzô Uno (1897-1977) has produced a more defensible system of economic theory (*genriron* as he himself called it, or the *dialectic of capital* ⁴ as I would prefer to call it), which amounts essentially to capitalism's inner programme or logic, and which may nowadays be expressed more familiarly as its "software" or "scenario". Only when this scenario is successfully played out, or enacted, in the context of a *use-value space* (i.e., the concrete-specific, historical

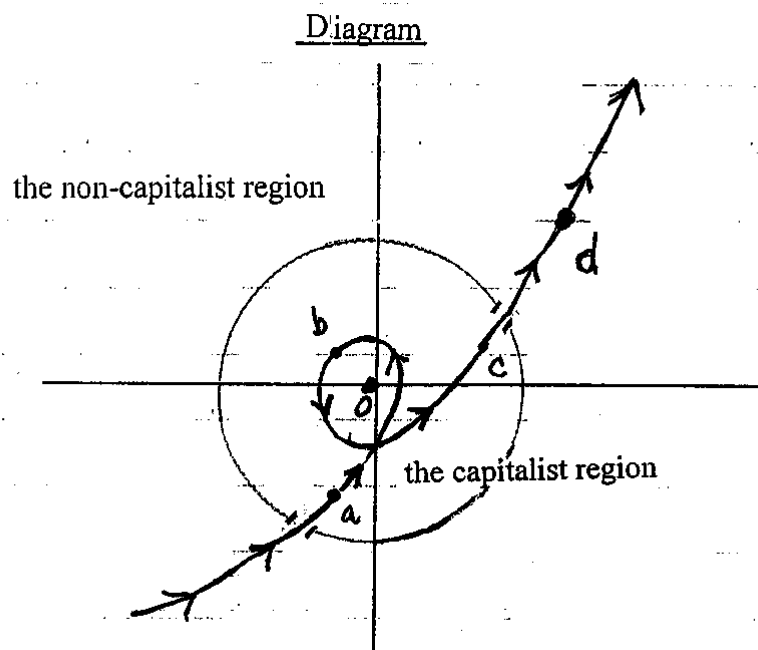
context within which the real economic life of society evolves) do we have a genuine capitalist society. In other words, not all use-value spaces necessarily permit that to happen. It is, as a matter of fact, this reservation that distinguishes Marxian⁵ economics from bourgeois economics. For, the latter stands out for its blind presumption that all use-value spaces are capitalistically operable, that is to say, that there exists no gap, tension, incongruity or "contradiction" between the (real) use-value space and the (commodity-economic) logic of capital.

Imagine a rectangular coordinate system, in which all points represent a conceivable use-value space. Let the origin refer to "pure capitalism", or the ideal use-value space which is considered perfectly "commodifiable", i.e., in which the economic life is completely "subsumable" under the logic of capital. Arrange all use-value spaces in such a way that those nearer the origin are more readily "commodifiable". Then draw a circle around the origin, and say that the points falling inside the circle, being sufficiently near the origin, can form a capitalist society, whereas those falling outside it, being too far away from the origin, cannot. This division of the coordinates into the two parts, those belonging to *the capitalist region* and those not, indicates a typically Marxian approach. For the bourgeois view would be that all use-value spaces belong, at least potentially, to the capitalist region. I now interpret the evolution of human societies by an arrow-marked path which, at one point in history, enters the capitalist region, approaches the origin, and then departs from it at another point in history. (See the diagram.)

In the diagram, a point such as **a** close to the entry-gate into the circle represents a capitalist society at the stage of *mercantilism*, a point such as **b** in the neighbourhood of the origin one at the stage of *liberalism*, and a point such as **c** near the exit-gate from the circle one at the stage of *imperialism*. Uno's approach is known for its stages-theory of capitalist development.⁶ The three different *stages* are distinguished by

the type of use-values, such as wool, cotton and steel, which are dominant in the economic life at each of the three stages, in the sense of shaping its predominant industrial technology. The technological parameters also determine the mode of accumulation of capital peculiar to the stage. Thus, the modes of accumulation of *merchant capital*, *industrial capital* and *finance-capital*, respectively, characterize the stages of mercantilism, liberalism and imperialism. But each of those modes of accumulation presupposes the *economic policies of the bourgeois state*, which are also typical to the stage, although the policies of the bourgeois state are always limited to ensuring the *internalization of externalities*, in the sense that they are meant only to extend the scope of "commodification" of society's economic life, so as to assist capital's further control of it.⁷ (Thus, for example, at or around point *c*, we find ourselves in the imperialist stage of capitalist development, in which the iron-and-steel industry, run by finance-capital and assisted by the "imperialist" bourgeois-state, determines the shape of society's economic life. Monopoly and protection, rather than competition and free trade, characterize this stage of development of capitalism.)

For the interpretation of recent trends in the world economy, the first important decision to make is where on the arrow-marked path of society's evolution we ought to locate or situate ourselves. For, this is the point that is left



distressingly ambiguous by most commentators, Marxist and other. Often we are told that “capitalism has changed”; but, in most cases, it simply means that "economic life has changed". For, in keeping with the bourgeois presupposition, they believe that capitalism and economic life are one and the same thing. The Unoists must, however, make it clear whether we find ourselves today at a point like *c* inside the capitalist region or at a point like *d* outside it instead. Since 1974, I have opted for the latter position and have affirmed that the world economy after WWI is in the process of "ex-capitalist transition".⁸ Since it is rather blatantly “unconventional”, however, this view has so far found few supporters. Yet, my own observations in the past twenty years or so makes me even more convinced of the appropriateness of this outlook, which I wish to explain below in broad outlines.

WWI put an end to the capitalist order, which had prevailed before it. The return to “normalcy” which was piously sought during the 1920s proved elusive until, in the end, the world economy plunged into the Depression Decade of the 1930s. At this point, the bourgeois state, which was unable to "protect society" while maintaining “the self-regulating market”⁹, found itself besieged by the collectivisms of both the right (fascism) and of the left (bolshevism), and its destiny was sealed. It then chose partial survival rather than outright demise, transforming itself into a welfare (social-democratic) state, which mediates a cease-fire in the class war between the workers and the capitalists. Only social-democratic states could ally themselves with bolshevism with a view to overcoming fascism and to eventually bringing it down to its knees. This indeed was what happened in WWII. Yet no sooner had the hostilities ended than the East-West conflict began, taking the form of the Cold War. It would be much too naïve to regard this as a confrontation of socialism against capitalism. The latter cannot exist without a bourgeois state, and

its restoration in the West would have been suicidal, under the aggravating cold war. The West had to avoid militant working-class movements at all cost, and to promote the ideology of class harmony between the workers and the capitalists. That, politically, required a consolidation of the welfare state. Thus, after WWII, the West definitively embraced social democracy (under the welfare state), and never rehabilitated capitalism (under the bourgeois state). In other words, the West has since entered the phase of "ex-capitalist transition".

The social-democratic state does not leave the integration of the use-value space exclusively to *the market principle of capital*. Since the latter fails to achieve an efficient utilization of society's resources, the state itself embarks on partial management of the economy, applying *its planning principle*.¹⁰ Under this principle the state may aim at ends not necessarily consistent with the teleology of capital. Such intervention of the state in the economy implies that the externalities have become far too extensive, at this point, to be routinely "internalized" by the types of economic policies belonging to the bourgeois state. The social-democratic state, informed by Keynesian economics, must directly manage at least the currency and the aggregate demand of the nation. The Employment Act of 1946 in the United States officially proclaimed the state's responsibility for maintaining full employment and price stability, thus symbolically inaugurating the welfare state. But, what made the unprecedented prosperity of subsequent years under the *Pax Americana* possible was not the New Deal and Keynesian economics alone. It was oil (petroleum) instead. The maturation of petro-technology (referring to the whole array of oil-based technologies) entailed in its wake the affluent society, Fordism,¹¹ rapid economic growth, macro-economic fine-tuning, industrial peace and all else that clinched the success of the social-democratic regime in the West in the 1950s

and 60s.

Coal and oil are both fossil fuel, but their economic effects are entirely different. While coal mining represents the hardships of muscular labour associated with the macho image of the sturdy collier, oil is pumped out of the ground almost automatically once the well is bored. Not only can oil, unlike coal, run internal combustion engines, but it also, unlike coal, replaces many natural raw materials with synthetic ones. It, therefore, causes power revolutions in both production and transportation, while also pushing to the limit the "disembedding"¹² of industry from agriculture. With oil, human beings are finally liberated from the toil and pains of productive labour, so that its mobilization and deployment no longer determines the basic structure of society.¹³ Petro-technology, however, has two outstanding properties: on one hand, it is radically labour-saving, and on the other it is environmentally devastating.

In the first phase of the petro-civilization which established itself after WWII, the first property predominated, since, even while the demand for newly produced commodities was intense, unit labour costs could be maintained low. At that time, people who had lived through the privation and shortages of the 1930s and 40s craved for material amenities. Anything newly produced was valuable and welcome to them. Since the vastly productive petro-technology became available to them at such a moment, they blindly let themselves loose in the production of things, necessary and not-so-necessary. That enabled production to expand far more rapidly than the labour-output ratio fell, which resulted in the unprecedented economic growth of the 1950s and 60s. With the outpouring of mass-produced goods from the Fordist factories, the living standard of the populace improved markedly in the highly urbanized mass-consumption society, dubbed "affluent". The material

foundation of the welfare state, which sought the placation of class struggles, was thereby laid. Yet the obverse of this benefit was an extensive devastation of the natural environment, the limit to which was reached in the 1970s in the form of the oil crises.

The oil crises, which could be broadly interpreted as crises of both resources and the environment, were a sudden reminder that society had to pay, even if industry did not, for the devastations that productive activities of humans had wreaked directly or indirectly. The moment the industry was forced to bear part of the burden, it was paralyzed. During the heyday of Fordism following WWII, value-added productivity was believed to be high in the sense that the proportion of the output representing capital or stock consumption (c) was small relative to that representing value added ($v + s$). It was this fact that undergirded industrial peace and the welfare state. Thus, for instance, if society currently produced 100 (in whatever units), of which it allowed only 20 for stock consumption, 80 could be amicably divided up between labour and capital,¹⁴ with the blessing of Keynes, Galbraith, Rawls, and the whole lot of "liberal" (the American term for "munificent" or "social-democratic") thinkers. However, if we are suddenly told that the capital-consumption allowance should at least be doubled if not more, only 60 or less will remain for distribution between labour and capital. Regardless of how the 60 are divided, both parties would feel cheated. The shrinkage of the pie is bound to cause animosity, former magnanimity giving way to present enviousness. Thus, stagflation, the fall from grace of Keynesian economics, the mal-functioning of Fordism, the upsurge of neo-conservatism and all the other depressing signs of change followed close on the heels of the oil crises, foreshadowing the end of the era of social democracy.

Industry too had to make a radical departure in order to survive. It, therefore, shut down old smokestack factories and took a decisive step towards "advanced manufacturing" which stands on high-level technology making use of micro-electronics, new carbon materials and genetic engineering. Industry has thus become more "knowledge-intensive", increasingly dispensing with traditional manual labour. The 15 to 16 percent of the manufacturing jobs which still require such labour¹⁵ are largely shifted to the *maquiladora* type districts of newly industrializing economies. With this "restructuring", value-added productivity in developed nations did rise once again, presumably at the expense of the Third World. But even that did not solve the problem. Professor Y. Miyazaki has analyzed the unit price of a typical integrated circuit (IC) and found that it consisted of the following: the direct materials cost of 3%, the direct labour cost of 12%, the "indirect cost" of 80% and the profit of 5%.¹⁶ Most of the "indirect cost" is believed to be made up of "knowledge cost" including the cost of research and development. Thus if we allow, say, 5% of the price for depreciation etc., we may roughly claim that the constant-capital component (c) of the output accounts for 8%, the variable-capital component (v) for 12% and the surplus-value component (s) for 80%. Of this surplus value, however, 75% are from the outset earmarked for payment for the knowledge-intensive services of unproductive workers in developing new commodities, leaving only 5% at the disposal of the firm.

Needless to say, this cost analysis applies only to a particular commodity, and not to the whole productive activity of the economy. Yet it has several important implications. First, as industry becomes more knowledge-intensive, the proportion of indirect cost becomes quite large. The question of allotting "indirect cost" to individual commodities has always caused difficulties to accountants. The

larger the proportion of indirect cost, the more ambiguous the concept of production-price, which means that many high-tech commodities which we purchase today in the market are "strategically", rather than objectively, priced. But, if commodity prices are arbitrary, so also must be the allocation of resources. That would mean that *the law of value fails to be enforced*, which further means that *capitalism-II* cannot really be said to exist.¹⁷ Thus, at the micro level, the bastardization of commodity pricing, which obstructs the self-regulation of the market and renders it an undependable allocator of resources, seems to me to evidence the on-going process of ex-capitalist transition, i.e., of *the disintegration of capitalism*.

The problem is even more striking at the macro level. In 1990, 72.0% of those at work in the United States were employed in the tertiary industries, and the rest in the primary and secondary industries. (In 1890, the situation was roughly the reverse, the non-tertiary industries employing 70.2%.¹⁸) Undoubtedly many are employed in the primary and secondary industries, but they are not all engaged in "productive" labour strictly speaking. It is, therefore, probably fair to estimate that, in most advanced countries, the proportion of strictly "productive" workers in the labour force is not much more than 20%. Since the size of the labour force is typically about half of the population in those countries, we may speculate that the surplus value produced by roughly 10% of the population supports the rest. The rate of surplus value must, therefore, be enormous. All of that suggests that, for any advanced economy, the crucial factor in its proper management lies in the distribution, rather than production, of surplus value. For instance, if too much of it accrues to rent at the expense of profit, the economy will soon become stagnant and eventually stationary, as Ricardo once feared. Now, is our present situation remote

enough from his nightmare? It seems that too much of surplus value is being siphoned off to international "casino" speculators, high-tech gadget inventors, fashion designers of startling tastes and many other not-so-useful "unproductive" workers, leaving only a trifle to genuinely deserving businesses as profit. If that is what the global market dictates, surely we must conclude that *capitalism-II* is not functioning today as it should be?

It may be useful to divide the post-WWII period into the Fordist phase up to the 1970s and the post-Fordist phase since then. Both belong to the age of petroleum which fundamentally characterizes the process of disintegration of capitalism. As mentioned before, petro-technology is both radically labour-saving and environmentally unfriendly, and, in the Fordist phase, the first aspect predominated. But, in the post-Fordist phase, it is the second aspect that asserts itself. Since, after the 1970s, the consumers are increasingly satiated with ordinary goods, manufacturers cannot just mass-produce ordinary goods and expect the market to absorb them. They must seek to sell novelties and accept rapid obsolescence of their plants and equipment, which imposes on them costly investment in research and development as well as short-lived new equipment. The pressure on them to supply innovative goods for narrow and fleeting markets becomes intense. Thus they inevitably owe much to the gadget inventors, while making little net profit for themselves. Clearly, they cannot afford to be good employers. In consequence "jobless growth" will become the rule, even when they do relatively well. In the meantime, the high-consumption society continues to spew out many noxious substances into the environment far more rapidly and massively than the self-cleansing capacity of nature can handle, inexorably suffocating the earth, the matrix of our own existence.

Even the neo-conservatives admit that *capitalism-II* is not working well. But, true to their conventional wisdom, they think that it is because *capitalism-I* is not "deregulated" enough. If only the capitalist behaviour is given a freer hand, they argue, a more cheerful capitalist society will materialize. Marxists think that to be rubbish. For their part, they feel that *capitalism-I* has already been sufficiently "liberalized", and hence (again following their own conventional wisdom) that a genuine capitalist society, after recanting social democracy, has already been restored and reinforced. Precisely that, they believe, is the reason why economic life today is a shambles. Thus they hope to vindicate their old persuasion that the abolition of capitalism (whether *capitalism-I* or *capitalism-II*) is the first condition of the liberation of mankind. But have we not seen enough of stark realities in which the abolition of capitalism reversed the clock of human liberation instead of advancing it? In the present paper, I have tried to outline, for what it is worth, an outlook which differs from either of the above. Among other things I have claimed that genuine *capitalism-II* has already been abolished, if not by the red flag, by petro-technology. I have also suggested that great many tragedies in the world economy today stems from the impotence of the modern state to keep under its control *capitalism-I*, which has then become a super-active and borderless juggernaut of the age.

1. Sumio Shigeta, *Shihonshugi no Hakken (Discovery of Capitalism)*, Ochanomizu Shobô, Tokyo, 1983.
2. Peter F. Drucker, *Post-Capitalist Society*, Harper-Collins, New York, 1993, pp. 20-21, also makes a similar distinction in the usage of the word "capitalism".
3. For further elaboration on this point, see the "Introduction" to: Thomas T. Sekine, *An Outline of the Dialectic of Capital*, Macmillan, London, 1997. Part of this essay overlaps the content of that "Introduction".
4. Kôzô Uno, *Principles of Political Economy, Theory of a Purely Capitalist Society*,

Harvester Press, Sussex, 1980.

5. I use the term *Marxian* to mean "being in the intellectual tradition of Marx" and the term *Marxist* to mean "being politically and ideologically motivated by Marx". This is my private distinction.

6. Robert Albritton, *A Japanese Approach to Stages of Capitalist Development*, Macmillan, London, 1991.

7. From the claim, in the 3rd paragraph above, that the Marxian approach recognizes the gap, tension, cleavage or "contradiction" between the *use-value space* and the logic of capital, it follows that the "subsumption" of the former under the latter is never perfect even in capitalism properly so-called, and hence that various aspects of economic life escape the control of capital, forming "externalities". If these externalities can be "internalized", i.e., brought back under the control of capital, by the economic policies of the bourgeois state, we have a capitalist society. If not, we have a non-capitalist society.

8. Tomohiko Sekine, "Gendai-keizai ni okeru Datsu-shihonshugi-ka Keikô (The Present Economy in the Phase of Ex-Capitalist Transition)", *Keizai Seminâ*, no. 227, 1974, pp.22-34.

9. The concepts such as the "protection of society" and "the self-regulating market" here derive from Karl Polanyi, *The Great Transformation, the Political and Economic Origins of Our Time*, Beacon Press, Boston, 1944.

10. Karl Polanyi distinguished three types of integration of the economy: reciprocity, redistribution and exchange (*op. cit.*). In parallel, I distinguish between the cooperative principle of people, which the latter applies to the organization of the communal economy; the planning principle of the state, which the latter employs for its management of the national economy; and, the market principle of capital whereby the latter regulates the commodity-economy.

11. I use the term "Fordism" only in reference to the method of production, i.e., Taylorism plus automatic production lines, as typically practiced in the American automobile industry, during the 1950s and 60s (See J.P. Womak, D.T. Jones, D. Ross, *The Machine that Changed the World*, Rawson Associates, New York, 1990). My definition of the term is not the same as that employed by the Regulation School.

12. This concept also comes from Polanyi. He talked of "the disembedding of economy from society" in modern times, which parallels the contention of historical materialism that the economic base determines ideological superstructure of society. But the most fundamental "disembedding" occurs, in my view, when manufacturing ceases to be part of agriculture. That is what I call "the disembedding of industry from agriculture". From that follows a whole series of other "disembeddings" as of technology from ecology, of science from wisdom, of man from nature, of economy from society, etc.

13. Capitalism, which essentially belonged to the age of coal, may be the last human society, the economic base of which depended crucially on the specific manner in which productive labour was mobilized and deployed socially. The importance of

mobilizing and deploying productive labour may be less crucial in post-capitalist societies because of the unprecedented rise in its productivity due to the use of petroleum and other new forms of energy which it entails.

14. It seems that, around the time of Charlemagne, the grain productivity was such that 1 bushel of seed sown yielded 2 bushels of crop to be harvested. In that case, if 100 bushels are produced this year, half must be kept as seed for the next year, i.e., as capital or stock consumption allowance, and only 50 bushels, which represented value added, could be eaten. If more is eaten, a contractive reproduction will have to begin. Under such circumstances, a poor harvest due to bad weather or an insect plague could easily lead to a famine. Today, in most advanced countries, capital consumption allowance is less than 15% of GDP, although this may underestimate the real depletion of the pre-existing stock which production requires.

15. This information derives from Peter F. Drucker, "The Changed World Economy", *Foreign Affairs*, 64/4, 1986 (Spring), 768-791.

16. Yoshikazu Miyazaki, *Kawari yuku Sekai-Keizai, Transnational Civil Society e no Michi (The Changing World Economy, Towards a Transnational Civil Society)*, Yûhikaku, Tokyo, 1990, p. 31. Miyazaki owes much to Peter Drucker's article quoted in the previous footnote.

17. The law of value which, through the price mechanism, realizes a rational (or optimal) allocation of society's resources, while ensuring the reproduction of labour-power, proves the viability of capitalist society as a historical society. See Sekine, *op. cit.*, Vol. I., pp. 129-141. If this law fails to operate, capitalist society cannot be said to exist.

18. Stanley Labergott, "Labour Force and Employment, 1800-1960" in NBER, *Output, Employment, and Productivity in the United States after 1800*, Columbia UP, 1966, p.118.

ⁱ **Post-script** (October 2012)

This paper was written more than ten years ago. In retrospect, I see that I did not then fully grasp the trend in the world economy which was occurring. It is true that the word *financialization* was not yet commonly employed, although its French version *financiarisation* was more frequently heard. Yet, as it turns out, this concept was crucial. It implies that there was a shift of power over the control of the economy from Main Street to Wall Street, from the industrial interest to the financial interest, so that the world economy has since been entirely dictated by the

U.S. financial sector, and not by its industrial one. That is why the world economy is now more deflation-prone than inflation-prone. The age of the New Deal and Keynes is now irrevocably supplanted by that of *casino capital* (a variant of money-lending capital) which seeks to enrich itself by way of massive money games rather than of investment in the production of real wealth which involves greater risks. For casino capital, it is far more lucrative to directly speculate on the huge stock of idle money under its control (especially as it is assisted by sophisticated devices of “financial engineering”) than to endeavour at transforming it into real capital, e.g., by investing what has been saved out of incomes in the form of money, with a view to contributing to the growth of society’s reproduction-process. Casino capital, therefore, does not uphold or cherish “entrepreneurial spirit” much touted by Schumpeter. Neither did the “euthanasia of the *rentiers*” which Keynes piously hoped to see materialize. They came back with a vengeance and big bang, as they successfully managed the recycling of petro-dollars after the Oil Crises, reviving first internationally then domestically, and recuperated their power over the national economy in much the same way as they had had on the eve of the Great Depression of the 30s.

This essay was written so as to reassert my thesis of *ex-capitalist transition* or of *capitalism in the process of disintegration*, with a view to elaborating on Uno’s view that capitalism ceased to mark a new “stage” of its development after WWI. At the time of writing this essay, however, my argument was still ambivalent because I failed then to relate the concept of Fordism with Minsky’s view on the ubiquity of “durable capital-assets” in the American mode of commodity-production. It is this fact that prevents the prices of the leading industrial products from falling after the

crisis (i.e., in the face of a sudden contraction of aggregate demand). The dumping of coal, pig iron and steel products is familiar; but we have never heard of a dumping of cars, boats and combine-harvesters. The outputs of these goods fall, not their prices, when the demand for them collapses. But if so, an industrial crisis under Fordism cannot be “self-healing”, as periodic crises under capitalism should be. That amounts to saying, however, that, under Fordism, the working of *both* the law of relative surplus population *and* the law of value are blocked and must be deemed inoperative. With this knowledge (i.e., since this conclusion is theoretically compelling), I can now claim with full confidence that Fordism signals the disintegration, i.e., the beginning of the end, of capitalism. Together with the fact that the centre of commodity production shifted from Europe to America after WWI, I can now whole-heartedly endorse Uno’s thesis that capitalism ceased to operate integrally, and entered the phase of its disintegration after WWI.