

# Remarks on theorizing neo-capitalism

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## **I The allocation and the object of political economy**

There is a relationship between the object of political economy and the answer to the question, through which available means the needs within a given society can be satisfied. As is known, this approach is based on the use of the scarcity concept. In 'The nature and significance of economic science' (1932) Lionel Robbins circumscribed the object of political economy as the study of human action, connected with the relation between the scarce means and ends. In this article we try, considering the difficulties in defining the object, to reconsider the problems regarding the description of the evolution of the facts of the economic system.

When a given person has to make a choice between different means, he will, according to the theorists of political economy, act in such a way as to enlarge the satisfaction of his individual needs. The person acts in function of his own needs and according to an individualized principle of rational behaviour. As we limit ourselves to the field of economic decisions we move within the reaches of economical rationalism. The individual profit principle is a motive for action. The economist obtains from research into the choice of an hierarchy of needs as well as from research into the choice of means. He only voices an opinion on the most rational decisions if both needs and means are given, in other words, he only gives his opinion upon the most efficient allocation of means within a given set of needs. Political economy is represented as a quantifying science. 'Economic scarcity refers to the basic fact of life that there exists only a finite amount of human and non-human resources, which the best technical knowledge is capable of using to produce only a limited maximum amount of each and every good'. (Samuelson, Economics, 1964, p. 21).

The choice of needs and the ensuing allocation of means, are determined by the existing processes of social interaction (between men or groups of men). Does the problem of allocation as well as the hierarchy of needs and means remain unchanged whatever the social system under discussion and whatever the determinants of the human processes of interaction?

Can we reach a conclusion taking the actual evolution of socio-economical systems into consideration?

To provide an answer to this question we shall base ourselves on the history of political economy itself. A. Smith did believe that the problem of allocation could be solved by a natural, harmonized regulation through price mechanisms. In a significant way the economic acts of the individual can be derived from these price mechanisms shown within market conditions. 'Voluntary action arising from the play of interests' as Max Weber summarized it (*The Theory of Economic and Social Organization*, 1947, 1968, p. 183). Smith, and the classics after him preconceived a perfect economic order resulting from individual and divided economic decision. Moreover, they supposed that no element whatsoever in the regulation of the market would be able to influence the mechanism itself. As known it did take some time, before political economy could overcome this presupposition. At the same time the classical conception implied the view that any person could dispose of a limited quantity of arbitrary goods. According to the interpretation it is possible to decide whether this condition is fulfilled in capitalism. At any rate the opinion is contrary to the fact that one social group on the 'market' acts as sole supplier of labour and at the same time as demander for all other commodities. Weber explains this situation in general terms: 'This type of regulation tends to develop when certain participants in the market are, by virtue of their totally or approximately exclusive control of the possession of or opportunities to acquire certain utilities — that is, of their monopolistic powers — in a position to influence the market situation in such a way as actually abolish the market freedom of others'. (loc. cit.) Weber considered the mechanism of regulation under market conditions and derived herefrom he described the restrictions. Considering the period he wrote this, his proposition is almost evident.

In his wellknown 'Einleitung' (*Grundrisse*, 1857, 1858, 1953) Karl Marx gives alongside interesting indications on his method, explicit data on the object of political economy. Interpreting Smith and Ricardo he isolates labour as a 'category' (general categories or concepts, the difference is not always clear, permit, according to Marx, to understand the 'multitude' of the concrete reality). He gives this category the characteristics which he generally imputes to the categories. Firstly, they have to express, in their simplicity, the complex, momentary not yet existing in its complicated shape. Secondly, in their complexity they still have to leave place to include the most simple as it exists.

Labour, according to the not so very precise meaning of the category, allows us to describe the structure of capitalism, to analyse the relations of production and to understand the old shapes of production from the

actual ones. 'Die bürgerliche Gesellschaft ist die entwickelte und mannigfaltigste historische Organisation der Produktion. Die Kategorien die ihre Verhältnisse ausdrücken, das Verständnis ihrer Gliederung, gewähren daher zugleich Einsicht in die Gliederung und die Produktionsverhältnisse aller der untergangnen Gesellschaftsformen'. (o.c., p. 25-26). The most important justification for isolating the concept 'Labour' can be found in the connexion between the 'evolution of categories' and the 'history of the human production' itself. The justification of this point of view however does not give satisfaction. 'Wie überhaupt bei jeder historischen, sozialen Wissenschaft, ist bei den Gang der ökonomischen Kategorien immer festzuhalten, dass, wie in der Wirklichkeit, so im Kopf, das Subjekt, hier die moderne bürgerliche Gesellschaft, gegeben ist, und dass die Kategorien daher Daseinsformen, Existenzbestimmungen, oft nur einzelne Seiten dieser bestimmten Gesellschaft, diese Subjekts ausdrücken und dass sie daher auch wissenschaftlich keineswegs da erst anfängt, wo nun von ihr als solcher die Rede ist'. (o.s., p. 26-27). But when basing on which features, do we have the certainty that a society 'as such' does exist? To get an answer to this question we do have to appeal to the categories, which in their turn however, are the result of an historical evolution. Scientific knowledge only commences when the society 'as such' does exist and in order to decide this, we must a fortiori base on scientific knowledge itself. Marx tries to escape here from supposing that there does exist a 'pre-history of science', or a 'pre-scientific knowledge'. But what does this supposition solve of the problem of definition of the proper scientific knowledge, that means, which criteriums of selection have to be maintained hereto! We know that there exists a correlation between these questions and the problem of the 'post-science' (cf. the so called Vulgarökonomie). The category, argues Marx, does possess a 'potential' meaning before it enters into the actuality as a category, as a result of the historical evolution. The category obtains its 'actual' meaning during and as a consequence of this evolution. The concept 'general labour' responds, according to Marx, to this differentiation. He thus only illustrates the difference by using it in his theory of the laws of capitalist method of production. But, he did not ask himself sufficiently, whether it was justified, to conclude from the classics that labour was indeed that general category. We mean that we must answer this question in a negative and at the same time in a positive way. The political economists were basing on the wealth of the nation. The mercantilists considered a favourable balance of payment and a goldreserve as the origin of wealth. The Fysiocrats considered the agrarian labour as the origin of the social wealth. And Smith generalized the explanation, rightly, to all kinds of labour. This, D. Ricardo worked out to 'general labour'. But the origin of natio-

nal wealth was only one of the themes of the political economists. Even Ricardo mentioned the deviations to the labour theory of value he had developed and he confirmed that the prices of the goods constantly fluctuated around the value (cost of production) without being identic however. The latter was continued by Marx in the theory of the price of production, theory which was called upon by the marginalists in order to prove the failure of the labour theory of value. It is right to state that Marx referred to another theme of the 'bourgeois-economics', namely to the mechanisms of regulation which caused the determination of prices of the goods and the here on depending allocation of means, in order to realize given ends (needs). Summarized: Marx isolated only one of the concerns of political economy. He treated this concern basing on the concept of 'general labour', concept which contains value of explanation for all earlier human stages of production and allows significant and praxis-orientated prognosis for the further evolution of production. Finally, he developed a theory of the mechanism of regulation from a point of view of technological innovation and increase of fysical production, an increase allowing the most rentable firm (industry sector) to influence the market structure in a radical way. He constantly relied on the 'social necessary labour time' and had the intention to understand the lines of evolution of capitalism in its developed stage. When dealing with J. M. Keynes we shall notice that this was not exclusively the case for Marx only, but generally also for the other schools of 'macro'-economics. With a great deal of imagination we could suppose 'that capitalism certainly would have ruined itself if Marx would not have told so beforehand'.

A. Cournot (1838) investigated on his turn (c.f. K. Marx) the deviations on perfect competition. He concluded that this perfect competition was incompatible with the circumstances of increasing productivity. The consequences of these circumstances, give the greater units of production a start in competition. Cournot did not take an interest in the movement and the evolution of a determined system of production, but was interested in its internal working. For the knowledge of the laws of this working allows to describe the totality of the system and to explain it. In his 'Recherches' (1838) Cournot did not take an interest in the problem of value, it was the position of competition of the individual enterprise that interested him, what in a way did lead him to the same conclusion as this of Marx. His concept is static due to his interest in the relations between the quantative variables. In relation to Cournot we can say that, as a political economist, he wanted to describe the laws of the system to understand the working of it in function of itself. We doubt whether we must interpret the latter invariable as 'apologetic', as he was unmistakable thinking from a scientific limited (and limiting) point of view.

W. S. Jevons (Theory of Political Economy, 1871) gives an ambiguous definition of the object of political economy. On the one side he defines his theory as a kind of mechanics of the human interests and on the other side he relapses into the old problem of the origin of social wealth. 'To attain correct and clear notions of the nature of value and capital, is indeed, the first essential of a knowledge of Political Economy' (o.c., introduction, p. 25). With the neo-classics occurs a systematic (Walras) confusion between these two problems. This confusion is connected with the confusion of the historical ('einmalige') theoretical knowledge and the historical generalized theoretical knowledge. Jevons correlates the general theory (the mechanics) of the rational interest minded action with a concept of value based on utility. Both can be expressed in historical generalized theoretical knowledge. But, because of the social specification, it does not necessary have to be thus in the formulated theory. When f.i. Jevons only isolated from wealth utility as an explanation of the origin of value, he exaggerated the connection between rational utilitarian-action and value-utility-relation. Only in a determined human interaction system the utility concept can be applied as a ground of explanation in the actualization of value. The explanation for the potential basis of value and wealth still has to be sought in one or another form of labour theory of value. 'I sympathize, therefore, with the preclassical doctrine that everything is *produced* by *labour* (underlining of the cited author), aided by what used to be called art and is now called technique, by natural resources which are free or cost a rent according to their scarcity or abundance, and by the results of past labour, embodied in assets, which also command a price according to their scarcity or abundance. It is preferable to regard labour, including, of course, the personal services of the entrepreneur and his assistants, as the sole factor of production operating in a given environment of technique, natural resources, capital equipment and effective demand'. This point of view of J. M. Keynes (General Theory, 1964, pp. 214-215) is based on the old differentiation stating that what is produced by human labour does not necessary possess value. The concept of scarcity, ascribed to Galiani, enables Keynes to make such a difference. Under the capitalistic production-distribution and consumption processes the actualization of value occurs on the basis of the mechanism of demand and supply, relying in an idealistic way, on the concept of utility.

Making abstraction of the institutional conditions, the problem of political economy only persists in the most effective allocation of the means in function of the individual and social needs. Jevons, and in general the neo-classics, substitute this last formal problem to the special and concrete (historical and socially determined) occurring problem of allocation.

The general equilibrium, in the idea of perfect competition, and only then when the adjective is also perfectly connected with the supervision of the factors of production, is an ideal solution of a part of the general formal problem to produce, to distribute, and to consume as efficient and rational as possible. The input of the individual is hereby at the same time minimal, because he cannot influence the other decisions, and maximal as the other decisions do not trouble him. Under these ideal circumstances the allocation is a technical (or technological) problem that can be solved within the described model or as Jevons notices, it means mechanics of the human action based on the individual interests. But the political economy 'is a historical discipline in the specific sense of the word, emerging at a certain moment (...) bound to be absorbed into a more comprehensive and complex structure of social science as a system of free enterprise is itself transformed and absorbed into a more comprehensive and complex structure of social science as a system of free enterprise is itself transformed and absorbed into a more centralized structure of economic society . . .' (E. Heimann, *History of Economic Doctrines*, 1945, 1946). We amend this, relying on the fact that the evolution of knowledge concerning the satisfaction of needs with the means available in society, irrespective the society we are talking of, must be based on the laws as they are formulated for any thinkable society, because the general conditions of the allocation hid under specific circumstances are implicated in their laws. The political economy itself takes part in the determination of the absorption in a more extensive knowledge of the economical and the social system. We return to this subject in chapter II.

'Allein die politische Oekonomie ist nicht Technologie. Das Verhältnis der allgemeinen Bestimmungen der Produktion auf einer gegebenen gesellschaftlichen Stufe zu den besondern Produktionsformen anderswo zu entwickeln'. (K. Marx, o.c., pp. 7-8).

As known, the marxist tradition returned often to this difference between political economy and social technology. They mostly suggested that the 'history' would demonstrate the triumph of the latter over the former, whereby, in our opinion, the same mistake as made by 'bourgeois-economics' to-day, is projected in the future. In the difference between 'the general conditions' and the historical shapes of production however, Marx does not deny the interest of the political economy in the former. He confirms the point of view that we find in all former and actual forms of production common characteristics, which can be understood by human spirit as general conditions. When political economy, as a science of a specific system of production, formulates its object exclusively in 'general laws' (cf. production possibility curves, utility function, etc.), its contents

is reduced to a technical level, a level on which the political economical specifications are incomprehensible, but on which the elements of a general theory of the human finalistic action from an economical point of view can be understood. Consequently in the economic policy, derived from political economy, the return to the political options must constantly be realized. The researcher should have an interest in this transaction, inspiring himself once more on the history of economical doctrines. With this paper we only give some indications on the matter. It is not our intention to give theoretical fundated replies, as we are basing on insufficient systematized elements of theorizing neo-capitalism, systematization to which we, ourselves do not contribute. In our conviction any scientific knowledge, forced by its abstractions, will substitute the technical-economical problem to the political-economical problem. Any criticism of the scientific knowledge must be engaged in the unjust reduction to both. This opinion leaves no place for the following two points of view: primo, that after Ricardo, the political economy tended to apologetic and 'vulgar economy'; secundo, that, historically, the political economy should be the loosing factor in the whole of scientific reflection.

When we accept that the classic, the neo-classic and the post-classic authors (the classification is rather difficult) have developed a not identified whole of technical and political-economical problems, we have to take an interest in the most important adaptations realized. In the second chapter we skip the traditional anomalies of political economy. We aim at stipulating which theoretical and factual evolutions confirm our point of view concerning the interpretation of and the criticism on political economy. It is evident that a real verification only can be given on a basis of continued research of what was cited above. The most important anomalies are connected with the conception of equilibrium, developed in the neo-classic theories.

In the first place: the general balance and the shapes of imperfect competition. Cantillon and after him Smith were relying on the following opinion. The price mechanism assured as stated, the regulation of the totality of means and needs.\* The situation of equilibrium determines the 'effectual demand' in case of correspondence of the supplied and the demanded quantities and the realization of the 'natural price'. D. Ricardo evaluated equally this natural price to the cost of production.

\*Summarized: 1) all goods are allocated in the decentralized imperfect competition on their 'right' place;

2) no demander or supplier whatsoever has an influence on the mechanism of distribution (of the 'market') so that;

3) the factual distribution may be considered as the result of collective action of the individual competition between demanders and suppliers.

Both authors, Smith and Ricardo, considered exceptional cases and circumstances, which induce price fluctuations. Consequently both are treating the imperfect competition as an accidental situation. With the evolution of capitalist production such an approach becomes more and more unacceptable (cf. Cournot). During the 20th century especially E. Chamberlin (1933) and Joan Robinson (1934) have included in their theoretical reformulations of value theory the criticism on perfect competition. The marxian exposition of the theory on the cost of production and the theory on accumulation of capital ended in a synthesis of W. Lenin (1917), based on the works of R. Hilferding (1912) and N. Boekarin (1915).

In the second place: The static equilibrium and the reality of the economic cycle. The inventorization of the evolution on this level, considering the period between the two wars, is a hopeless task. It is however of importance to point out what led to the theories of the economic cycle: the processes considered as harmonious are relativated as stages in the whole of the up and down going economic activity (we refer in this respect to the attempts made by the school of W. Mitchell). Moreover, the research concerning the cycle, is more and more considered in connection to State regulation (cf. A. Hansen, a.o.). Thus, the idea of autonomy of the economic activity is conceived as stripped out.

## **II Theoretical elements in theorizing neo-capitalism**

We talk of the elements of theorizing, because, as we stated, the synthesis, which should be the result of the integration of sociologic and economic research, is missing. We talk of theorizing, because there exists an attempt in this direction, attempt which however, facing the possibilities of integration of the material of the different partial disciplines, has not been terminated.

The 'Welfare-economics' try, relying on the neo-classics (cf. Pareto, Pigou) to make pronouncements on the distribution of income. This implicates that they check under which ideal circumstances a more equitable distribution of income can be realized starting from the unquestioned factual data, political economy is working with. By the nature of the problem, the Welfare-economics descend to the normative field, which they keep sociologically in an embryonic state. Moreover the theorists touch in another way the questions concerning the justification of the significance of state regulation. (cf. external effects, a.o.).

The starting points of Jan Tinbergen's theory of convergence are in conformity with those of the Welfare-economics. We mention Tinbergen, because his theory is connected with the increasing public intervention in a decentralized economy, and because of the consciousness to proceed



to a more systematic classification of the existing economic systems. Due to the second reason the factual foundations of his theory are interesting. We thought it of importance to recall the Keynesian justification of the role of the State. The here-after following rough summary of the practical elements of theorizing have a connection with the Keynesian theoretical classifications.

### *The Welfare-economics*

*a The distribution of income* — Basing on the marginal theorem of utility the Welfare-economics consider the different imaginary conditions of an equitable distribution of the produced means in order to obtain the social optimum. They seek the ideal optimum situation, accepting that the individual decisions do not disturb the decisions of the other agents. W. Baumwol (Welfare Economics and the theory of the State, 1952, 1969, p. 161) states such an ideal situation as the State whereby a change in the individual action cannot increase the efficiency of the relation of the needs and means (cf. the Pareto-optimum). In order to be able to discuss this matter the Welfare economics pass on to the formulation of the criterions, aware of A. Marshall's criticism 'The doctrine (of maximum satisfaction) (...) is not universally true. In the first place it assumes that all differences in wealth between the different parties may be neglected . . . .' (Principles, 1962, p. 390). Of which state of distribution of satisfaction has to be started? In Smith's tradition this State is determined by the perfect competition between economic agents (cf. our remark on the unequal division of 'stocks'). After the different re-formulations of the Pareto-optimum the problem, cited by Marshall, seemed insoluble. We could expect that the Welfare-economics would maximally relate the discussion to the politic-economical problems. As it formulates itself however as (economics), unquestioning the existing institutionalized distribution of means to the satisfaction of needs, it limits the political foundations of its discussion. Indeed, we meet with an interesting analogy of the restriction in the debates on the policy of income within the frame of the economic policy to be pursued: the discussions in connection with the urgent correlation between the increase of productivity and the rise in wages and the increase of the other sources of income. We think it important to develop the coherence between the socio-economic reality and the chances of optimalization of the social function of welfare. We do not go further into the subject of the existing disagreement concerning the preferences, the comparison of utility with satisfaction and the hereupon depending mechanism of choice. In our opinion these discussions lead too biased to a formal treatment, based on a minimal number of conditions, so that abstraction is made of the essential social, political implications. In the

second place, the preference-utility discussion could have a substantial influence outside the discipline of economics, because welfare-economics suggests in its theoretical statements general propositions, related to decision-mechanisms in social organizations and processes.

*b The external economic effect* — The individual welfare-function includes the totality of individual utilities. The 'character of independence' of this individual welfare-function is not in accordance with the factual satisfaction of needs. For there exist cases in which the welfare of a person A has an influence on the welfare of a person B. This means that the inter-dependence between the different individual functions of welfare must be checked. Reckoning herewith the function of welfare of a person A is a function of the individual utilities of A and of at least one of the utilities of a person B\*. We do not deal with the problems respecting the calculations of the role of the external factors (cf. the account of compensation).\*\*

We draw the attention to the fact that the selection of the external effects clarifies which fields of the economic activity were hidden from the automatic allocation during the evolution of the capitalistic way of production. There is a strong tendency to consider education as an external instead of as an internal factor of the economic process. Besides we must ask ourselves to the benefit of which social group these opinions of selection will turn out. In function of the continuity of the socio-economic policy the tendency exists to proceed to a globalization of the knowledge respecting the different interventions of the controlling social groups. In that case the 'economic ratio' of the autonomous mechanism of demand and supply must be understood as part of a more including economic, social and political ratio.

*c The ends of the economic policy, the optimalization of welfare and the convergency of the economic systems* — When researching the tendencies of the economic policy in the Western and Eastern countries, we could conclude, that the industrial high developed systems grow together in accordance following lines of convergence. This is at least the conclusion

\* This is one of the cases in which on a speculative level is made clear that the result of the market relations of the individual maximalization of satisfaction, are insufficient to include all modalities of the economic action. The pollution of the milieu is one of the examples.

\*\*Cases of a complex connection of the individual and social welfare function. Note in relation herewith the suggestions to replace the traditional individual supply of goods and services by social supply of goods and services, to the conditions of optimalization of welfare.

of Jan Tinbergen (Selected Papers, 1959. Do communist and free economics show a converging pattern, 1961).

When approaching the economic-politic society he relies on the point of view of 'Welfare-economics, and he uses a collection of abstractions which enable him, to combine with each other the development of economic systems. He centralizes the question of the optimalization of the ends of the economic systems, on the ground of which he can make the comparison between the economic systems. He doesn't evaluate the normative character of these ends (he considers them as such, relying on Welfare economics and neo-classical economics in general). Whatever may be the ends of the system, we may suppose that for their realization the same means will be used. In this opinion, also, all ends are practically equal, which leads him to the concluding suggestion that the structures, in which the optimalization is realized, do converge.

On account of the concentration of the economic activities characterized by a fall in cost per unit, of the external effects and of the role of the State, in this concentration, Tinbergen thinks that the evolution of the examined economic systems may be understood as converging. By premising the correlation between the two criterions (cost and external effects) and the role of State, he made an important contribution to the description and theory of capitalism, in development as one among the industrial developing systems.

By the way we call the attention to the fact that Tinbergen's theory is connected with the problem of the classification of the economic systems. This means the theoretical as well as the factual, social systems. We stated Tinbergen's criterions above. They result in relating regulation of State with the automatic (autonomous) regulation of the economic activity.

In this work 'Une théorie des systèmes économiques', 1969, L. Duquesne de la Vinelle has suggested a possibility of classification which, taking everything into consideration, corresponds closely with the traditional differentiation between demand and supply. He makes a difference between 'systems of reference' at one side and 'systems of organizations' at the other side. The first refer to the needs to be satisfied, the last mentioned to the means which must be used. Both are divided in correspondence to the degree of centralization. The joining together of the systems of reference and the systems of organization in a matrix allows to situate the theoretical and the factual economic systems. The system of free market is a part of this total picture of the matrix of the possible systems. Another socio-theoretical more important classification is connected to the sociological theory of action (a.o. Parsons and Shiles eds, 1951, especially Parsons and Smelser, Economy and Society, 1956). In general these theorists try to represent a social system on the basis of the functio-

nal units, adaptation, satisfaction of the end, integration and conservation of value. Under these units, the economic system of distribution takes a specific part, and can on its turn, be divided according to its units. 'We should be able to relate the general theory of social interaction, not only to frames of reference and concepts of economic theory, but especially to some central dynamic propositions of economic theory'. (Parsons and Smelser, o.c., p. 40).

### *The Keynesian analysis*

J. M. Keynes founded his 'General Theory' on the economic activity of the whole society and the total economic system. His analysis is situated on the level of National Product (Income), the total supply and the total demand and employment. In contrast with the neo-classics (he calls them classics) he starts his research with the collection of individual, or sectional data of the economic system. 'This book, on the other hand, has evolved into what is primarily a study of the forces which determine changes in the scale of output and employment as a whole'. (The General Theory, 1964, p. VII). The Keynesian analysis is an analysis of the forces that determine the fluctuation and/or stability of the National Income and the total employment. The data which may be considered as constant or variable are fixed. The possibility to control the variables which, within the appointed constants, determine the scale of the National Income and employment, can be examined by a central authority. But how can this intervention of the State justify the neo-classics' option on 'free-market'? Keynes considers as unchangeable the technical realizations and stocks, the quantity of labour power, the degree of competition, the preference of spending and the social organization in which the economic activity and the patterns of distribution of the National Income are realized. The independent unchangeable factors are, as known, the propensity to consume, the rate of interest and the marginal efficiency of capital (or respectively the liquidity preference and the inducement of investment). Variable and depending hereupon are naturally the level of employment and the National Income. On the ground of this Keynes groups the economic fact of the separated economic entities. His theory is thus based on a surveyable generalized vision of the determinants of the economic activity and the fluctuations of this activity. This analysis will be the foundation of the hereupon depending political practice (a.o. Keynes' references to the mercantilists and to Malthus. Malthus was the first who made a systematic difference between savings, investments and consumption of a society).

The possibilities of State intervention can be derivated from Keynes' criticism on the neo-classic authors formulating the situation of equili-

brium of the total demand and the total supply and those possibilities are on the level of the mentioned 'tendency to consumption', the liquidity preference' and the 'inducement of investment'. The demand-, monetary-, budgetary- and investment policy of the State have an influence on the variables, formulated in psychological terms. In this way the independent variables are made dependent on the intervention of State. For the independent action on the action of variables results in the achievement of the general equilibrium between demand and supply, in which case the total employment has not been realized. The effective demand is that point on the graph where the total demand and the total supply are equal. But, as stressed Keynes, it is not necessary that the effective demand is a sufficient effective demand from the point of view of socio-political and economical growth. The intervention of the State can contribute to this.

Consequently the Keynesian analysis links up with the welfare economics as for making social significant choices. The welfare economics stress the agents of choice (individual and public) and their mutual relations, while Keynes based himself on the psychological motives he described and which underlie and justify the mechanisms of choice.

In the next and last chapter we shall give more details on the elements of intervention of State as they can be concluded from the facts.

### **III Practical elements in theorizing neo-capitalism**

To conclude our summary, and as parallelisms with the former chapter do occur, it is necessary to explain some factual elements of the intervention of the State. The development of political economy in the 17th and 18th century could a.o. be explained from political and administrative activities and the reflections on this subject (cf. J. Schumpeter, *History of Economic Analysis*, 1963). In the same way we notice that in the 20th century, out of the practice of political and administrative action, reflections on management of economic activities arise. We meet in this contemplations the formulation of the need of a coherent and adapted formation of theory of the 'economic reality'. We can question of which elements such a twentieth century theory could consist. Two difficulties are worth to be mentioned. At first: the facts are always connected with already existing systems of knowledge which rely on those suppositions which have progressively lost their validity in the facts. At second: it is not always possible to derive automatically a sound whole of suppositions and stringent deductions from political and administrative management.

In this chapter we shall only enumerate in an insufficient systematized way, the factual data. We draw the attention to the fact that a whole series of authors already has made a beginning with this 'inventorization' of the

elements of description of neo-capitalism. This counts especially for the marxist theorists (See however the interesting account of Nicolas Kaldor, *The Economic Journal*, March, 1971, pp 1-16, *Conflicts in National Economic Objectives*). A second remark concerns the historical approach of neo-capitalism: once more we must go into the subject of 'phasing', the classification in phases and stages of development.

We make a difference between the shapes of State intervention, supposing that they are *grosso modo* in connection with the great depression of the thirties and the shapes of intervention of the State, which can be esteemed as characteristic for the factors of expansion and instability, as they occur after World War II. It is not always possible to make this tracing. For it is clear that the total (applicable on the complete economic activity) intervention of the State is only one of the modi of intervention. Repeatedly one speaks of a selective and differentiated intervention, adapted to the specific economic realities.

We reckon among the total State interventions the monetary and budgetary policy. The means are as well used to the internal mechanism as to the relations abroad. The traditional classification contents the policy of free market, the policy of credit and the policy of interest. When we make abstraction of the mutual differences we can define the ends as the regulation of the monetary means available in function of the decisions concerning investment. The exclusively monetary mechanisms of intervention are flanked by the budgetary means of the State, State which due to the policy of fiscality and budget, has a brought influence on investments and employment.

In the differentiated intervention of public authority we made a difference between the regulation of demand and the regulation of investment (cf. Keynes).

*The regulation of demand and the system of social security* — The original development of the social security can be explained by the initiatives of the most defavoured social groups of the economic system (cf. the 19th century situation in Great Britain and on the continent; in the United States under the circumstances of the depression, a system was developed, organized by the State). The social security (social insurance) has a dual meaning.

1 — It is a system on collective or on cooperative basis, in which is tried to protect the affiliated person against a number of accidents and risks which must be precised more closely (the role of the labour movement in Western Europe). Under the impuls of legal actions of the representatives of the labour movement are made legal determinations.

2 — 'The term social security is used (...) to denote the securing of an

income to take the place of earnings when they are interrupted by unemployment, sickness or accident, to provide for retirement (...). Primarily social security means security to income up to a minimum, but the provision of an income should be associated with treatment designed to bring interruption of earnings to an end as soon as possible'. (W. Beveridge, *Social Insurance and Allied Services*, p. 120). The social security includes in this definition, next to unemployment benefit, the family allowance and the compensation for health service. The connection with the unemployment became however essential.

'In the last 30 years we have built up an elaborate system of unemployment compensation. Soon after men are laid off, they begin to receive payments from the unemployment compensation fund. When they go back to work, the payments cease; and the taxes collected to finance unemployment compensation rise when employment is high. During boom years, therefore, the unemployment reserve funds grow and exert stabilizing pressure against too great spending; conversely, during years of slack employment, the reserve funds are used to play out income to sustain consumption and moderate the decline'. (P. Samuelson, *Economics*, 1964, p. 349). In other words Samuelson lines out the anticyclical role of the service system and explicitly refers to its possibility to support or to slacken the means of consumption.

In the frame of the automatic mechanisms of regulations which result in the allocation of needs and means, 'gifts' mechanisms were introduced in function of economic growth (cf. K. Polanyi). These mechanisms have on their turn an influence on the mechanisms of the economic activity, although, from a point of view of automatic regulation of the free market, they need not to be considered thus.

*Regulation of investment* — The scale of employment and the volume of the National product can be determined by the influence on the total level of investment, by way of a) public expenditure (cf. deficit spending) and b) public works. These interventions can take differentiated forms. Problems arise concerning the distribution of the public expenditure over the different industrial activities. The choice between the building of stations to purify water, or military outfit is of immediate importance for the whole economic life. Nevertheless, it is possible that the relevant expenditures have the same results for the level of employment and for putting goods into circulation, etc.

The regulation of demand is based on the given distribution of productive means. Once, the technical and financial means are expended, the State tries to stimulate or to slacken the demand. However, the regulation of investments has a direct influence on the technical, labour and financial

means. The State intervenes in accordance to the expansion or the contraction of the economic activities in the sectors, in order to invest more or less. Concerning the public works, Beveridge mentioned in his well known report 'Full Employment in a Free Society', that measures had to be taken on the level of public works, in the periods of slacking activity. (He mentioned next to public works also town-planning, accommodation and common transport. He may be characterized as an advocate of the transfer of these economic activities to the public sector. He did believe that, should the transfer take place, nothing would be changed in the functioning of the capitalist system). Any endeavour in order to realize these measures can result in a temporary or permanent absorption of the industrial activities which arose formerly due to private initiative. The potential area of accumulation of capital would narrow in proportion. Therefore discussions were held on the contradiction between the private accumulation system, based on the profit motive, and the interventions of the State, which affect the survival of the accumulation and are separated from the individual profit motive.

The total public expenditures, as a support of the employment and industrial activity, ask extensive financial proceeds. When the States does not have the disposal of the required financial means, deficit spending must be made (cf. Beveridge). This situation of disequilibrium between the public expenditures and the income, characterizes almost the complete history of capitalism, and since then, it could only take expansion (mention hereinafter some implications on deficit-spending). Once the possibility of deficient demand exists, the State, when it pursues the realization of total employment (in the frame of international competition between capitalist and communist systems this end possesses an urgent character) has to be ready to spend more than the amount of its income.

The demand as well as the regulation of investment have, as we mentioned, an anticyclical influence. It is known, that Samuelson spoke in this connection of 'built-in stabilizers' of the economic system. The built-in stabilizers assure a constant reproduction of the productive means and guarantee the profit realization, the economic growth, the rise of the National Product and the total employment. The regulation of free market makes this centralized regulation necessary.\*

\*On the basis of an imaginary curve of the economic cycle with periods of boom and depression, Samuelson explained the meaning of the built-in stabilizers in the allocation. He added to this graph the also cyclical curve of the public compensation and designed, in conclusion, the weakened economic cycle (with booms and recessions) (cf. countercyclical compensation).



*The unstability-causing implications of the stabilizing factors. The correlation between the expansion of the working field of the State, and the contents of the object of political economy* — We can consider the interventions of the State in the mechanisms of the market as a new whole of relations, by which other laws concerning economic activity have to be formulated (cf. 'division in phases'). Since 1960 the economic evolution has been characterized by a number of difficulties which can be considered as the problematic relations between the regular growth and a high employment at the one side, and the maintenance of the monetary stability at the other side.

An excessive demand, high prices, stagnating production and increasing unemployment are noticed (especially since 1969 - 1970 - 1971). The economic policy of the capitalist countries must be adapted in order to cope with the evolution. Such an adaptation can include that new elements in economic theorizing must be placed at the disposal.

Momentary the economic policy includes the means to slacken the excessive demand (consumption, investment and public expenditures) and at the same time to strive for high employment. The constant price rise, the inflation, the devaluation of currency, the evolution of the balance of payment and the public debt, are the unstability causing elements. Hereafter we treat these elements in a short summary.

(a) *The inflation.* J. M. Keynes preferred in the General Theory . . . . a moderate but permanent situation of inflation to a deflation, although he stressed the necessity of an economic policy of directed inflation. For Great Britain he concluded (before the beginning of World War II) that 6.000 million £ of Income were paid out, so that after reduction of taxes still 4.600 million £ were left. The State expenditures amounted to 2.750 million £. There were still 3.250 million left for private-consumption. There would not have been any talk of inflation (gap of inflation on the graph) if the savings would have amounted to 1.350 £. Only on these conditions we could talk of an equilibrium. Keynes calculated however that savings only amounted to 700 £. Consequently the gap of inflation amounted to 650 million £. In the next phase as a consequence of this gap of inflation, prices would rise about 650 £. Keynes' example is derived from the war economy. One of the implications of war was inflation. The economic activity implied the production of goods which were not intended to be sold such as other goods. The production led to wages and Income, which caused on their turn a supplementary demand for means of production, by which in the next phase higher prices should be realized. (In the later theories on inflation, cost-push, demand-push or sellers'-inflation were alternately stressed).

The inflationary tendencies slackened the competitionary position of the

country 'Reconnaissant qu'il n'existe pas de mécanisme économique automatique grâce auquel le souci de maintenir l'emploi à un niveau élevé puisse se concilier à long terme, avec celui de préserver la stabilité des prix, de nombreux gouvernements se sont efforcés d'élaborer des politiques qui leur permettaient d'influer directement sur le rythme d'accroissement des revenus nominaux et donc de maîtriser l'inflation des coûts à sa source'. (la croissance de la production 1960-1980, OCDE, déc. 1970). Elsewhere was stated that the stability of prices was rather a political than a technical problem. The expansion of State intervention made other forms of management necessary. This State responsibility requires a political and economical justification (cf. policy of Income) of the economic policy to be pursued.

(b) *The balance of payment.* During the period after World War II the economic policy has manifested an international character. We must correlate this evolution with the always continuing centralization of capital, the origin of the multinational firms and the origin of conglomerates (this tendency to centralization was already noticed before World War I). Within these circumstances a growing interest must be attached to the international traffic of capital. The interdependence of the national economies do not permit a specific national policy. The difficulties of demand and the inflationary tensions have via the balance of payment influenced the stability of the other countries and contributed to the restructuring of the economic power relationship.

(c) *Public debt.* We have already drawn the attention to the excess of the public debt. There was noticed that capitalism of the 20th century is characterized by an extending unstability between expenditures and income. The coercive measures the State must foresee are, as cited, of an economical, social and political nature. The re-distribution of the National Income, the problem of control of the public expenditures and the control of management, leads to the accentuation of the social role of the other groups (cf. J. K. Galbraith, *The New Industrial State* 1967). In the whole of socio-political and economical factors the State has to play the 'opposite number'. It is precisely the strengthening of its position that gives new social groups political and economical possibilities and may lead to new social relation patterns.

*The regulation of investment (2)* — In order to slacken the excessive demand, when intervening to influence the decisions on investments, is suggested that the State should subsidize the most rentable firm. By this way the national and international competition can be influenced in a positive way. In connexion with the policy of the labour market, the State can stimulate investment in these areas where labour power is chea-

per (c.f. regional policy). For that purpose the State must control the unequitable evolution of the economic activity and expansion. The State must examine the connection between the structural and the conjunctural defects and, on account of its statement, provide better measures in its management. (cf. Inflation, le problème actuel, report of the Secret. General of O.E.S.O., 1971).

*The regulation of demand (4)* — It is obvious that from a political point of view, it is impossible to change the complete system of social security. For the rest this measure would not be rentable. However, the regulation of the demand can lead to controlling and managing the 'excessive' social expenditures and social provisions, which belong to welfare policy. The savings have a dual consequence: a) the decrease of the total demand and b) a transfer of the traditional provisions towards the private expenditures. We must locate in the margin of the problem of excessive demand the difficulties of choice of the elements of the demand, as stipulated by Welfare economics. The constant rise of prices led to the discussion (cf. supra) on sense and nonsense of the consumptions-expenditures. But up to now the individual decisions in the field of consumptions have been maintained in the rationality conception of political economy. We can observe the consequences of individual consumption in the increasing 'expenses' to which the entire economic system must contribute in an indirect way. More and more the economical management of 'labour' and 'nature' (the so-called first factors of production) has to face these consequences. Relying hereupon a change in the decision patterns of rational production and consumption can be suggested. From a social and political viewpoint it seems rather difficult to realize such a transformation.

*Wage policy as an element of demand-regulation and of social organization* — The long period of full employment, accompanied by low national percentages of unemployment, had an influence on the supply of labour forces. As the automatic mechanisms, determining the price of labour force are in accordance to the market circumstances, they consequently turn out in favour of the suppliers. Such conditions justify an intervention of the State, intending to influence the market position in favour of the demander. Therefore the goal of the precise correlation between wages and productivity, was formulated. These circumstances only should be cost-compensating and should be able to prevent the fall of the profit-rate.

As far as wage-policy is connected with inflationary tendencies (cost-push) and monetary instability there exists an inclination towards applying a total wage-policy. However, in the reverse case, when the wage-policy

is correlated with selective programming in the economic system, a differentiated wage policy is applied. For that purpose the wage-increase in the specific firms and sectors is brought into agreement with the prevalent occurring production of these firms, sectors, etc. As we know both wage-policy-forms imply socio political problems (wage-drift, uncontrolled strike, discrediting of the trade union authority, alternative, coercive and cooperative wage-policies).

Some have already suggested that the forms of economic policy (mentioned in this summary) joined more and more with the social policy. This appears also from the market policy of labour, consisting in regulating the supply of labour in an indirect way. The State policy of the labour-market permits the system to stimulate the demand for supply of labour in the most rentable sectors of the system. In that case, investments regional- and labour-market-policy do coincide. We can consider the policy of the labour-market as a defensive policy trying to catch (ex ante and ex post) the deficiencies of the different forms of wage policy.

#### **IV Conclusion**

In the former chapters we have touched a problem related to the elaboration of political economy as a science of economic relations between agents during production-, consumption and distribution-processes.

Therefore we have referred to the explicit goals of political economy (cf. Robbins a.o.). In accordance with Heimann we think this must necessarily be related with the described mechanism of regulation of political economy, namely market-regulation. We saw that the 'models' of that regulation merely possessed a limited value of explanation for the economic processes characterizing developed capitalism.

Theorists of political economy, as we demonstrated, accredited these deficiencies. Constantly relying upon market-regulation they adapted the working condition of the rational and efficient behaviour in production, distribution and consumption, in view of new realities of the social and economic system. Especially in connection with the post war capitalism (World War II) there was a need of a factual founded theory on economic behaviour, a theory which allowed stringent and leading deduction from practical action of economic agents. We agreed a.o. on the fact that such a theory implicates precise sociological observations, allowing to decide which hierarchies of social decision become important for the system. It was the increasing function of the State which inspired us.

Viewed in that light, we gave a summary of the State-interventions and we showed the historical character of these interventions. We followed up the historical dispute of 'phasing' relying on the evolutions of the public role. We agreed with the existence of the connexion between the

concept neo-capitalism and the development of the State-intervention. Theorizing neo-capitalism is important for the historical identification of the social system, the further development of political economy and, as we recently became conscious of, for the relation between the imaginary laws (formal viewpoint) of rational and efficient behaviour and the from facts derived laws of that behaviour (intentional viewpoint). These three areas of human knowledge are essential for the knowledge of political action, as far as they contain social implications for practical behaviour. A further exposition of the mentioned items must be founded on these areas and their reciprocal relations.