

Seminar on Geoffrey Hodgson's *Conceptualizing Capitalism*

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Jovan Babić

It's been a great pleasure to hear you in person after reading your voluminous and very rich book. What you just said about property is convincing me that what I am going to say might also be relevant in a way. What I thought as putting as provocation of a kind was a projection of a possible future of capitalism in context of the growth of economy based in fast development of new technologies. But before making a few remarks on this issue, let me make just one comment regarding a detail in your book. On page 8 you have a quote from Dani Rodrick: "Markets work best not when states are weakest, but when they are strong." There is a widespread prejudice that markets and state are opposing each other contained in the narrative of (over)regulation and its justification. In a strange way this reminds me on Milton Friedman's claim that the only social responsibility of business is to increase its profit. However, Friedman has a *caveat* there (which usually would pass unnoticed): this (i. e. increasing the profit, which is the business of business) is *possible* only within a frame of what he called "the rules of the game", on condition that such rules really exist, and they exist only if they are efficiently applied. Although Friedman has a specific characterization of what the rules of the game are ("open and free competition without deception and fraud"), it is far from clear that rules are that simple. First, free competition is more a normative ideal than a reality and if markets are dependent on something which itself depend on many other conditions. The rules of the game can be very different and if they are not of a high quality the game, be it market or something which is only part of it, would be miserable. The reason why "rules of the game" are important is that they give us predictability making the whole social life, not only economy, to be different accordingly. But in the end the rules will determine which profit is legitimate and which is not. This opens a wide range of possibilities regarding the articulation of the scope of possible distributions and redistributions of wealth. Distribution presupposes that there is enough to be distributed, but the rest is the matter of those rules. If "capitalism" might be "saved" by adequate changes of these rules is the issue I will come to back shortly.

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Yesterday in your lecture you said that usage of the term "capitalism" is not very illuminating. The word "capitalism" is usually used as an *ideologem*,

not as a real concept capable to explain something in social reality. You also said, speaking on predictability, that there are many kind of social rules that are not laws but still participate in shaping what the social and economic reality would be there. I would add moral rules as well, although they do not have enforceability (as both social and legal rules do). If the “rules of the game” contain also moral rules they would be, or at least I am inclined to think so, more stable, give more predictability and more consent and enable better economy including bigger profits and wider and more efficient distribution and redistribution (e. g. through taxes). But however wide and complex the redistribution might be it might still be “capitalism” if the markets are free and open to maximization of profit accumulation.

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Another point to your lecture. Your Figure 1 is very intriguing, that's where your definition of capitalism resides. Let me just shorten it – in that Figure you take that capitalism is a historical phase in the development of the economy, becoming a reality somewhere in the 18th century. If this is so than capitalism is not equivalent to market economy as such, but is a very specific historical phase in the development of social life, and, if I understood you well, starts at a certain level of the GDP. We can raise then the following question: Does it mean that, at a certain different level of GDP, we will go out of capitalism as the specific historical phase, and what does this mean? Is that point near to us in time, are we in the process of leaving capitalism, and where are we heading?

In your mentioning slavery, you said that one of the biggest liquidations of capital was freeing of slaves in the US. But despite that, or as a consequence of that, we had a huge growth of the economy. It's clear what you mean by “slavery”. It's political slavery. But in the context of the changes we face in economy could we take another angle and, starting from something that we can take as an axiom – that sovereignty of buyers is premise of free market – we can speak of another kind of slavery. Sovereignty of buyers implies real freedom to abstain from buying, you are not enforced to buy, you buy from desire not out to need. Although a significant part of economy is still based in satisfying needs (food, shelter, basic clothing etc.), more and more of it is directed to satisfying desires. In that sense economy is becoming more and more “free” (I exclude such “enforcing powers” as prestige, fashion, all such that are subject to constant changes). Couldn't we imagine that at a certain point of economic progress and accumulation of wealth the part of economy dealing with needs was separated from the other part, the part dealing with desires, so that satisfying needs be secured independently of the market, making the market to be the place for transactions to satisfy desires? We still might be the slaves of our desires and passions, but in that case our condition to be “slaves” would be our private matter. The only condition to realize this state of affairs is to make satisfying needs secured independently from markets and their laws. In such a

scenario markets would become really and literary free: buying, and working would cease to be matter of necessity. The nature of work would change.

Would such a condition still be “capitalism”? There are still all the features that characterize capitalism now: ownership over opportunities to work, inequality, potential unemployment etc. Perhaps there wouldn’t exist “capitalists” any longer, but decision-making power would be distributed very unequally (implying the “wastefulness of inequality”, as many opportunities wouldn’t ever be realized). With satisfying all existing needs (which might be the matter of robot-based production, or just a matter of taxation-based redistribution as they are trying to do it now in Finland and Switzerland) we still might be slaves of passions and desires, and, as a kind of *lumpenproletariat*, be at the disposal for part-time work, on-call work, working thus becoming the instrument to obtain happiness without freedom which would become jus an illusion. We can wonder if such conceived lumpenproletariat will be satisfied with happiness without freedom, or perhaps they will resist if they are, e. g., unemployed, or, although they have all their needs satisfied, they don’t starve, don’t die of hunger, they still have no chance to satisfy their desires?

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Alpar Losonc

This book is dealing with a wide spectrum subject, and in the past, the most important representatives of the social sciences, like Schumpeter and Max Weber used to examine this subject. It is a misbelief that Karl Marx was determined to study capitalism, because this term, capitalism, as a substantive, can hardly be found in this work. By the end of the 80s, the great majority believed, ideologically, that this term was exhausted, and that it had to be replaced with some indicators related to the market. And it is no coincidence that, several times in this book, you warn us about the market expansion, and that private ownership should not be identified with capitalism. And your scrupulous analysis of the genesis of capitalism, and the confrontation with various interpretations of capitalism should be viewed in this respect. So with much analysis it is evident that heterodox economists find it more convenient to use substantive capitalism, at least, they use it more frequently when compared to orthodox economists who mostly avoid using the term capitalism.

And, reading your books about utopia, Marx, Sraffa, etc, it is evident that your interest in capitalism, or as you say, the understanding of capitalism, is far from conjectural, and it originates from your orientation which combines the insights of institutionalism and the theory of evolution. And you are one of the most significant representatives of the revitalization of institutionalism, especially in Europe. Which, unlike the new institutional economics, implies a criticism of heterodoxy. Let me just mention that I’ve

written a long review of your book in the journal *Panoeconomicus* in English, published a few days ago. And I would not repeat the things emphasized there. I will refer only to the phenomenon which is important for me – coercion. I would like to address this question here for the simple reason that it represents a common thread for different orientations, but is naturally opposed to heterogeneous representations, because I'm convinced that coercion belongs to the immanent structure of capitalism. Of course, this will be a very irresponsible sketch, with arbitrarily selected examples.

554 Frist, the problem of coercion plays a significant role in old American institutionalism. There's a very clear connection between the treatment of power by Thorstein Veblen and coercion, for example, in his analysis of coercion of popular habits of thought. And to keep to the theme, he demonstrates the genesis of naturality in classical economics, and displays the convergence of reality and naturality (natural prices, Ricardo's natural wage) in the perspective of coercion. As where he speaks of natural law as coercive surveillance over the course of events – I quoted him. And John Commons has clearly emphasized the distinction between the private and social coercion. If I remember, this is happening in his famous shoemaker example. And in the sociological view of sovereignty, which urges a processual view of the state and anticipates, again to quote him, the injunction of order into coercion. Moreover, he characterizes (unclear) as a matter of degree of coercion. And Commons, who has denied that he has ever been pacifist, postulates that coercion is a basic precondition for the overcoming of evil in society. But probably as a writer who has analyzed Commons' work, you know this much better than me.

I could also refer to Alfred Marshall, who is of course not strictly in the trajectory of institutionalism, but is of great importance in your book, especially concerning the incomplete market. In *Principles* he discusses the market situation of the unskilled worker, in the context of cumulative market disadvantages, and he talks about the making of this unskilled type of work scarce and therefore, as he says, 'dear'. And to make a great leap into the contemporaneity, the late Warren Samuels robustly situates the coercion deeply into the market processes, denoting the economic processes as police-mediated. But also he puts us in the perspective of mutual coercion. For, in fact, this fact of mutual coercion is deeply rooted in the market, and such categories as prices and costs are characterized by institutional distribution of scarcity through mutual coercion. This could maybe be reconnected at least partially to Hegel's social philosophy. In modernity there is the expansion of freedom, but at the same time the spreading out of the form of extreme interdependencies. In accordance with Samuels' argumentation, the price and costs are, at least to some extent, a function of institutionalized mutual coercion embedded in the

market. So there is a very simple point – it seems that institutionalisms of different sorts, different orientations have a very close connection to the articulation of coercion. And the crucial explanations are based on the theoretical evocation of coercion.

But the libertarians and pro-market liberals, who are a frequent item of your critic, are interested in the explication of coercion as well. For example, we remember that Hayek interpreted the links between individualism and order, analogously with the theorists of self-organization who take into account the market and organizations as elements of order, coercion and freedom, puts together the configuration of subjectivity, especially into the configuration of will, thoughts and plans. Only, as a matter of fact, Hayek delineates the subjective horizon of coercion, that undermines the coherent plan of the individuals, and with Hayek we have the classical problem of the relationship between voluntariness and coercion, and the problem of forcing, treats and choice, within the framework of coercion. And, to go further, Marxism, which is the other main critical moment in your argumentation, is deeply interested in the development of the meaning of coercion. Marxists make a distinction between direct and indirect coercion, concerning the reproduction of capitalism as a system of self-perpetuating contradiction. They are involved in the discussion about the appropriateness of the persistence of the extra-economic coercion, identifying the traces and forms of forced labour, human trafficking, the captive migrant labourers, child labour. They are confronted with the multi-faceted reality of neo-liberalized capitalism.

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And this revitalizes the old issues of forced labour and the old issues of coercive contracts, this strange couplet between contract and forcing. That is of course a very difficult theoretical topic. Maybe different types of forced labour may be interpreted through your account of the impure principle, for the reason that neoliberal capitalism produces multidimensional forms of impurity within capitalism. A lot of modalities of forced labour are not to be reduced to free contract and wage labour. And let us not forget the field of law, the legal-economic nexus that is of substantial importance in your book. We know the old Marxist statement, that between equal rights, the force decides. And this statement is without doubt associated with the issue of coercion, in fact it anticipates the strange couplet between equality and coercion, but maybe it could through light on the expansion of inequality today. Of course, your orientation is directed by the logic of legal institutionalism, but the Marxist trajectory is dealing with the form of law. So, coming to the end, it is clear that in your concept of legal institutionalism, enforcement plays a crucial role. But is there a non-contingent relationship between coercion and capitalism in general? What is the relationship between capitalism and the non-legal type of coercion?

Marjan Ivković

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I have two questions. One is more general, the other more specific. I'll start with the more specific one, which relates to the previous comment, and it has to do with your crucial distinction of capitalism as an objective socio-economic system on the one hand, and what you call capitalism as a set of ideas, on the other hand. The question is how distinction relates to your crucial premise that the rule of law and the system of political freedoms is the most important precondition for a successful functioning of capitalism. So, you argue that the introduction of positive law, a system that restrains arbitrary power, is important for the functioning of capitalism because capitalism is primarily a system of legally codified rules, property, markets, contracts, money. Now, the rule of law also presumes the existence of a political system based on procedures and universalist norms codified in the constitution such as a parliamentary democracy. And, in your lecture yesterday, you reiterated this point that there is good reason to believe that a system characterized by political freedoms has proven to be the most favourable setting for capitalism.

You make the distinction between capitalism as an objective socioeconomic system, whose functioning is often not completely comprehensible to social actors, on the one hand, and capitalism as a set of ideas on the other – such as neoliberal ideology – which does not capture the complexity of capitalism also as you said today in the introduction. Many people who are arguing normatively in favour of capitalism don't quite understand what they are arguing for. And you said that these two are often conflated, so that in our discussions of capitalism we conflate the objective and the subjective. However, it seems to me that in the complex empirical reality there is an intertwining of these two levels, that brings this point of political freedom into question. It seems to me that the survival of capitalism as an objective system in many historical contexts depends on the actions of social actors – let's say the political elite that is in power at a given moment – who endorse the ideology of capitalism. So, for example, imagine a situation in which there is a threat of anti-capitalist political actors coming to power through regular elections and abolishing capitalism as an objective entity, on the basis of an anti-capitalist ideology which, once again, doesn't capture the complexity of the objective system, and these actors want to replace capitalism with another kind of system, say socialism, which will once again be a very different reality from the kind of ideology they are endorsing.

So, the survival of capitalism as an objective entity in this case depends on a political elite which endorses subjective capitalism, establishing an authoritarian order to preserve objective capitalism. And there are numerous historical examples – Chile in 1973, Spain after the Civil War, Greece, but also such societies as South Korea and Taiwan where there was an external

threat of anti-capitalism. Doesn't this historical condition, which seems to me has existed throughout the 20th century and has persisted into the 21st, run counter to the general theoretical claim that democracy and the rule of law are favorable to capitalism? We can easily imagine a scenario in which this threat of the abolishment of objective capitalism becomes permanent, and requires permanent coercion by a political elite which endorses neoliberalism in order to preserve objective capitalism even though they don't quite know what they are preserving. Doesn't it seem that today much of the developed world already has a trend towards this long-term erosion of the rule of law, exemplified by the war on terror, and also of the erosion of democracy exemplified by Donald Trump in the US, while objective capitalism continues more or less unchanged?

The more general question – could you clarify a bit the relationship of your legal-institutionalist perspective in social-theoretical terms in relation to the widespread notion in social theory that capitalist economy is a sphere of social action integrated through functional rationality. For example, in Jürgen Habermas' theory, functional reason means the interweaving of unintended consequences of actions of numerous individuals into systemic patterns. This idea figures not only in social theories like Parsons' or Habermas', but in many contemporary Marxists. For example, in Nancy Fraser, who argues that capitalism must not be reduced to some kind of normative order, but that it has to be understood as a kind of system based on the a-normative systemic rationality. Since you hold the view that capitalism is a constellation of institutions such as property, markets, money and contracts, which are systems of rules and are value-rational in their essence, this means that these rules must be justified through recourse to some overarching norm. Would you be opposed to the idea of capitalism being primarily a system of social action based on functional reason?

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**Geoffrey Hodgson:
response to Jovan Babić, Alpar Losonc and Marjan Ivković**

Thank you very much for those three great contributions and stimulating questions. I'll go through them in the order of each speaker. The first speaker raised at least two important issues. One is the distinction between desires and needs. I completely accept this distinction, and underline its importance. We can see the importance of this dramatically illustrated in something like climate change. Scientists tell us that we are at risk of global warming through human induced change. There are dissenters, but there has rarely been such a strong consensus on any empirical issue in science. But there is public opposition, by people who don't understand science, and by people who say: 'well, look, I'm not going to have the state tell me how much carbon I can consume. I believe in freedom and I'm normatively against this policy'.

Now, clearly, there is a need to do something about climate change, and it conflicts with the desires of many people to consume as much as they want. And we are all to some extent guilty, because we consume too much meat, gasoline and so on. Now how do we deal with that problem?

The problem is we need science to understand needs, and science itself has an imperfect understanding of what needs are. There is a lot of discussion in the UK about obesity – the US and the UK are two countries where this problem is serious. And the standard advice by health authorities was to cut down on fat. What that led to twenty years ago is the replacement in supermarkets of yoghurt by sweetened low-fat yoghurt. That advice is wrong – sweetened low-fat yoghurt will make you fatter than full-fat yoghurt. So science can get it wrong on something as basic as what the appropriate diet is. It is likely in this case that the food industry was lobbying and affecting the research and its interpretation.

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Science is fallible, and there are limits to what it can do. There are issues like abortion, where we know the science, we know about the development of the fetus in the woman's womb, the stages of the development of consciousness and the nervous system. And we make different countries legislate on when it's illegal to have an abortion. But science is not telling us what's moral here. We have to decide ourselves what is the moral solution.

So a whole Pandora's Box of issues opens up. If we say needs are important, and we should be governed by needs, we have to face the problem that science is not generally understood by everyone, it is imperfect, and science doesn't tell us necessarily what is moral or immoral. Science will not give you a moral judgment on whether it is morally justified to abort a fetus at any particular stage. You have to make a scientifically independent decision on whether it's moral or not. So in a democracy it is difficult. There are limits to democracy on this question.

The best way of thinking about these problems, as far as I am aware, was by John Dewey. Dewey argued that we can never know the truth, and science is a social process. The entire important thing is to understand the institutions that enable this process, and to get these institutions right, so that the best job can be done in any situation, and we can learn from our mistakes. So it's an evolutionary process of institutional design. Things like public education in science become very important in this view. Matching the coexistence of democracy with the preeminence of science involves public education. By this criterion there are a lot of problems – creationism being taught in schools and similar nonsense. This creates a threat to democracy, to our well-being and the satisfaction of our needs. So, the distinction between wants and needs is a big issue, and unfortunately it is shifted to the side by the utilitarian approach to economics. We have to bring that back on the agenda.

The first speaker asked about the future of work. We cannot predict the future and we must keep an open mind. At Davos recently there were discussions about the ‘fifth industrial revolution’, which is the explosion of growth in smart machines. It is anticipated that we will have robots doing our housework. We know that we will have driverless cars fairly quickly. The growth in computing power and artificial intelligence means that a lot of judgmental tasks can now be taken over by machines. The victory of that computer against that Japanese go player is symbolic. Go is a very complicated game, it’s more complicated than chess even. The computer can actually mimic our intuition using lots of computing power and running millions and millions of scenarios.

An obvious reaction to these startling developments in artificial intelligence is that they are going to strip jobs out of the system. Many jobs may go. It is possible that in 40 or 100 years’ time, robots are doing our housework and university teaching is done by robots. None of us may have jobs anymore. There could still be a high level of consumption, driverless cars, and nice wines, because robots are running the vineyards. We have all these things but we have no stimulation from activity. That is one possible scenario.

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But it is not the only possible scenario, because the way in which the machines replace labour is quite complex. A lot of what we are doing depends on body language and interpersonal skills, and depends on fine-tuned judgment and experience. Computers are taking over some of those things, but on the other hand these kinds of jobs are getting more numerous. There is a race here between the capacity of the computers to take over judgmental tasks and the growing complexity of economies, and the growing need for fine-tuned judgment and experience. You can automate some of these activities, particularly when they are routinized, but a lot of processes and technologies are changing so fast they are not even becoming quickly routinized, because they are moving on. Such a rapidly-changing world requires adaptable people to then adapt to the new situation, work out what’s going on, test it, compete with others, see what works. These are new judgmental skills. So there’s a kind of race going on, and that race could mean that we have a different scenario, where there’s an elite of people who are highly trained and adapted, who are still in work. Their work is highly demanded and highly paid.

In outline above, this is a second scenario, where some people are working for very high wages, but there is a lumpenproletariat who are not working or doing very menial jobs for low wages. The outcome is very high inequality.

There is a third scenario, where we race against these processes, by educating the population at large in judgmental capacity. We would train people so that everyone can participate in some economic activity. With

a basic income from the state, people would also be free to be artists, novelists or entrepreneurs.

So there are various scenarios which are attractive or unattractive, all of which have dangers. But the clear thing is education is crucial in this process. There are several drivers of inequality within capitalism, but in the highly complex capitalism, as skills become more concentrated and more judgment-based, the training of judgment and skills in people is important. Every developed country has a kind of education frontier which you must push back in order to minimize one of the processes of creating inequality in the system. I suggest a universal basic income for this reason, because it is a safeguard for those who are rejected by the system, if for some reason they are unable to negotiate and climb the skills ladder. A basic income will enable people to fulfill themselves in ways they choose.

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The second series of points was about the really important issue of coercion and power. Power is a multi-faceted concept, as Steven Lukes argued in his 1974 book. The most obvious sense in which power is used by force, military force or personal force. When a robber gets a gun or a knife out and says 'hand over your wallet', that's force. But this is not the only way in which coercion occurs. These other dimensions to power have to be appreciated and it's one of the reasons why standard liberal theory is weak. For example, we can consent to being employed in a factory, simply because we have no other option to survive and feed our children. People have no alternative in many circumstances to taking a bad job simply to feed their children. It is a form of coercion which is legal, and which is problematic for human flourishing and development.

And there is a third, even more subtle form of coercion, which is where our very mindset is changed by the system in which we operate. The third contributor raised this kind of argument – our mindsets get bounded by certain possibilities and we don't envisage other possibilities because of the way we think about things. For example, in a way economists have been coerced and are coercing us by their misuse of the term capital. They are making us think in particular ways about the real world system because they are abusing the language. Abuse of categories is coercive, makes us think in certain ways, where we rule in or rule out certain options. That form of coercion is very difficult to deal with, because it is a matter of analysis and opinion about whether it occurs and to what degree.

The issue of consent is vitally important, not only with commercial contracts but also with matters such as rape. Sometimes the lack of consent is obvious, in other cases it is more problematic and difficult to adjudicate. The expectation in some cultures, as in Europe in the nineteenth century, was that a woman must submit herself to the man in marriage, in a sexual act.

Consent to the marriage itself would then have been regarded as sufficient. But the woman may have been coerced by circumstances to marry, and by cultural stereotypes to be submissive as a wife. Coercion can occur even within a framework of consent.

You ended with an important question – the role of the non-legal in the real world, and in legal institutionalism analytically. Many social rules and relations that are not laws are nevertheless extremely important. The non-legal, rules which are not codified in laws, are vital to sustain law itself. That's not the only reason they are important, but a major one. Without custom there would be no law. Without regular patterns of behavior, without beliefs in things, and people taking for granted certain things, there would be no laws. But some people make the mistake of regarding all custom as law. I follow John R. Commons on this point, who said that while custom is essential to law, but law is not reducible to custom. So, custom is essential to make law work, and it's also essential to sustain the legitimacy of law. We have many examples in underdeveloped countries where law is not recognized because legal systems are imperfectly developed. For example, in India caste discrimination is illegal. But the caste system is there in the customs, and is pervasive. The law is ignored. That's in a country where law is highly imperfect, corrupt and semi-developed.

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But even in a developed country, where legal systems are pretty well-functioning, we have examples of where the law is ignored. One example is in France – apparently there is a law which forbids women from wearing trousers. Now, this would be ridiculed by anyone in France who confronted any attempt to enforce this law. It would be laughed at, because it's not in the customs. There are also ineffective laws in British law. Law has to have some sense or rootedness in reasonable behavior, and that's related to custom. Law itself depends on custom, and, in addition, custom is important in regulating our affairs outside the law.

There are zones of behavior where the law can't operate. If we operated our personal relationships, our personal friendships, relationships with our partners by looking at law books and legal rules, then everyone would think we are a pain in the ass. We don't work that way, we work more informally, through body language, appreciation of the other person, sympathy, and generosity. We have rules of politeness. We follow them because we know they are essential, not because they are laws, but because we understand that they are important for the functioning of society, as a way of showing respect for others.

The question about the distinction between capitalism as an ideology and capitalism as a system is interesting. I think it is mistaken to treat capitalism as an ideology, partly because no-one (including me) adequately understands

what capitalism is and how it works. Instead, capitalism is a real system, which we have to try to understand.

There was a question concerning capitalism and democracy. We may wish to change society radically, but in my view we have always to preserve the rule of law and basic human rights, including the right to own private property.

Take for example Chile in 1973. Chile had the democratically elected Marxist socialist government of Salvador Allende, which proceeded to nationalize some enterprises and try to plan the economy. Then the coup occurs, Pinochet seizes power, thousands of people are tortured and imprisoned. I can remember that happening, and I was a kind of Marxist at the time. For me it was black and white – this was an attempt to build socialism, and there is an anti-democratic coup. Now I think that it is more complicated. While Pinochet's coup was barbarous and unjustified, the Allende government had gone against the Chilean constitution and had seized private property. The best statement of human rights that we have is the United United Nations Declaration of 1948. It includes the right to own private property.

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The right to private property is the right in principle to have the means of your own livelihood independent of others. It's a non-coercive right, because it means that you have a default position where you have the right to build up your own business. That doesn't mean corporation rights, or the rights to exploit people or employ people for low wages, or to interfere in the democratic process in defense of private property, and so on. But that right is there.

Pinochet's coup violated other human rights. There was torture and execution without trial. Hayek, to his disgrace, didn't protest against these violations of basic human rights. He was in Chile shortly after the coup, and he was silent. Many libertarians either didn't protest against Pinochet, or they supported the coup, because it's necessary to support private property. But the right to your own life is more important than the right to private property. On balance, I would now say that the Allende regime was undermining some rights, but the Pinochet regime was worse on more fundamental rights.

Take the question of China, and the need for democracy. There is now strong evidence that democracy is beneficial for economic progress, at medium and high-levels of development. At lower levels of development, the evidence is not so strong. Maybe at lower levels of development capitalism doesn't require democracy so much as it does at high levels of development. In China the Maoist regime was a totalitarian regime, the and post-Maoist regime is still a dictatorship, a one-party state. When economic reform began in 1978 the communist party was able to do things which would be difficult to accomplish in a more democratic system. Building an infrastructure, enhancing the education system, and other key moves were possible because of the authority of the state in China, which would be less likely

elsewhere. India is a counter-example. India is achieving some considerable development within a (corrupt) democratic framework.

Another example of authoritarian capitalism at an early stage of development is Japan. Under the military government after the Meiji restoration, Japan built up infrastructure, unified the country, and created an education system. Yet another example is South Korea, which was an authoritarian country until about 20 years ago. So we have examples of an authoritarian interventionist state being crucial at certain levels of development. On the other hand, taking China which is just about to become the biggest economy in the world, but GDP per capita is one fifth of Western levels, so it's got a long way to go to develop.

There are problems with needed reform of the political system and to do with the operation of law. Let me explain in more detail. Experts point out that there are relatively few large indigenous Chinese firms. There are many small Chinese firms, millions of them. But, the large ones are relatively few in number, and if you go through those few, you find they are either state run, and typically defense related, or they are registered overseas, in Hong Kong, Taiwan or Macao, or even in the United States. Why? By contrast, in India, there are dozens of big Indian firms, big players in the West (Tata Steel, etc.), which are registered in India. Here are many of foreign companies located in China, but relatively few mainland-registered Chinese companies. Why? The answer is: fear of sequestration, fear that the government will nationalize. Look across the border, to Russia, where there is a relatively authoritarian, semi-democratic state. Companies have been simply grabbed by the state, sequestered. And because Putin controls the political system, it's difficult to protest against that. When law becomes an instrument of politics, recourse to the law to protect your assets from potential sequestration is tricky. So they in China don't take the risk – they register overseas. Until 2004 the Chinese Constitution had no protection for private property. China needs a legal system more independent of the state. Some significant degree of autonomy of the legal system from the state is necessary for capitalist investment.

How is that going to happen in China without some form of democracy and countervailing power? A worry is that if democracy is introduced in China, there'll be a political explosion. In China, there are very high levels of protest, local protest, particularly over property, over land, and against corruption. You can look up in the government statistics, there are hundreds of protests every day in China. The Western press ignores it, because it's just a daily affair. If there are means of democratic expression, if that protest can be organized into political parties, China will have some kind of internal strife. The Chinese government might be best advised to experiment with democracy at the local level. Keep the power in Beijing, but

democratize at local level, and then you can devolve much of the legal system down to the provinces, including matters such as corporate registration, and safeguard private assets in that way.

The most important thing about democracy is to legitimate government. It's an important issue for people like me in Britain, because we still have a monarchy. The Queen can in principle block bills – very rarely used power, but can be used. Democracy is not a simple recipe, it's a complicated issue.

Mihail Arandarenko

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Well, I am an economist, and of course this is not my first encounter with your work. I have actually encountered your 1988 book and recently I produced a book on the Serbian labour market, inspired by Boeri's and Van Ours' book called *Imperfect Labour Markets*. And this is a sort of approach that I find really useful, and a sort of a nice quote from your book, praising the evolutionary power of labour market institutions, has found its place. But also, being an economist, I am a nominalist, and that means that I am less concerned with the exact meaning of things, although I recognize that this is important when trying to do the demarcation, that it is important for our understanding of some key concepts. Just a side note, it is now for practical reasons very difficult to extinguish human capital from books on labour markets, and if you speak about the returns on investment and have thousands, perhaps tens of thousands of papers and books written and doctoral dissertations written about the returns on the investment in human capital, it is very difficult.

But to turn your argument around, perhaps those more recent bizarre examples like erotic capital and others would clearly show that it is a metaphor, that the term capital is used simply as a metaphor, rather than something which is essential. Being a nominalist I am of course free from knowing the intricacies of definitional science as much as you, and so I took the liberty of asking two fundamental questions related to your definition of capitalism, which basically consists of four ingredients: private property, widespread markets, widespread employment contact and a central role of financial institutions. I am sure that you basically thought of it, and discarded, the idea that capitalism could also entail, as one of the key ingredients, its property of being an engine of growth. That's something that I would like to perhaps explore a little bit. It is clear from the start of your short concept paper, you mentioned the book of Angus Deaton on the 'Great Escape', and that book has shaped my thinking enormously, because this is something that economists, especially if they are practitioners, do not take that often into account. The fact that capitalism, over the past two centuries, plus or minus, has managed to achieve a sort of average growth rate of 2 percent per capita (taking into account the

population growth), this is one great achievement. And then, on the other hand, also, to enormously increase the longevity of the population. Something that was like 40 years of human life in the mid-19th century is now close to 80 years in the most advanced countries, and 70 years in most other countries, including China. This is something that is unprecedented in the whole human history.

And then on the other hand, you use the sort of example of why functional definitions are improper in a narrower sense. You use the example of the definition of mammals, which includes only the fact that mammals suckle their young. But there is a difference of course, because capitalism is something like other historical periods or events, something that is clearly unique, and that you basically cannot test fully by looking at billions of its forms, which is possible with mammals or with other natural things. So in that respect, I think that we need to apply a sort of thought experiment that you do in thinking what the other 'book end' of capitalism is, and what should happen or not happen with the four key ingredients of capitalism. And so I think that, perhaps, if the engine of growth is stopped, and that engine actually translates into human development – something almost Hegelian as a potential – there is that sort of force and if it is stopped, then probably (at least when looking at the functioning of the financial system or even property rights). Of course, in the context in which capitalism is sort of an achieved system, it covers the entire globe, which we can, in a thought experiment, conceive to happen, either in 50 or in 300 years, but it is possible. So this is my question – why not somehow give credit to that unique situation in human history (economic history has explored various other episodes of growth, under the Roman Empire, which wasn't able to provide really lasting growth, that is something that capitalism has achieved for the first time in history). And I'm just stating something that is now an accepted fact; it doesn't mean that you couldn't be critical of capitalism, which I am very much.

My second point relates to the question that has already been addressed somehow, and that is the necessity to include the widespread existence of employment contracts in the definition of capitalism. This is something that I consider less essential for capitalism. As a labour economist, I understand that you also are perhaps willing to relativize this as something that is really essential for the definition of capitalism. There are various, both empirical and theoretical indications that it is possible to have a sort of functioning market economy without having the domination of wage employment, or dependent employment. Of course, we, from this region of former Yugoslavia, have lived in the self-management system, and there is a theory (Ward and Vaniek and others) who explored this, which intended to prove that it could be incorporated or reconciled with capitalism, even

beyond the socialist Yugoslavia. So this is one aspect – the literature on employee ownership which basically could be extended beyond the small minority of firms. And then there is of course the other aspect that you mention, which is more actual and more typical for modern capitalism, and that is the possibility to have the expansion of service contracts instead of employment contracts. And again, in principle, I can understand the strong reasons why employment contract is essential – but in principle, we can envisage the capitalist world with most of the work being done outside of employment contracts.

Michal Sladeček

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On page 310 you quote Hayek and ask provocatively if he is a social democrat or not. Hayek said: in advanced societies the government ought to use its power in raising funds through taxation in order to provide various services which cannot be provided adequately by the market, such as sanitary and health measures. They could probably not be provided by the market for the obvious reason that it is not possible to confine benefits to those who are willing to pay for them. So from this basic premise we can see that Hayek acknowledged the ethical function of market restraint. But we can distinguish Hayek II who also saw government as providing most roads, as well as standards and measures of many kinds of information ranging from land registers, maps and statistics to the certification of the quality of some goods or services offered on the market. This is a different argument. That is an argument from market constraint which can be marked as system-functional. In my opinion those two arguments are not identical, they could collide. So a person who would defend the ethical function of the market, the restraint, can say that sanitary health measures and the regulation of pollution are more important, so they could be outside of the market. But, on the other side, other person could defend the market constraint for another reason. He could say “I don’t care whether the function of the market is beneficial for every person”. That functional argument is not far from market imperialism or absolutism, according to which everything could be explained as included in the market on the one side, and exempted from the market on the other - but which directly or indirectly serve the market. Therefore, market restraint is indispensable because it serves the market. I would like to ask you about this problem.

The second question concerns the examples of goods or services that cannot be transformed to an object of trade, which means commodified. You pointed at several items that are not reducible to commodity, such as knowledge, legal institutions, family, labour in its totality as an asset, which cannot be placed on the market. Science as well, the commercialization of science would threaten its viability. On page 14 you mentioned the so-called

impurity principle, the proposition that every socioeconomic system must rely on at least one structurally dissimilar subsystem to function. But we can distinguish different levels of those subsystems, for example non-market organizations, pre-capitalist organizations such as family, and goods such as information. Human labour also cannot be absorbed totally by the market. Second, the non-commercial public services such as job centers, state administration and courts. One of the central tenets of the book is that markets depended on institutional complements to the market. Third, the public services which could be market-competitive but need state regulation, such as public transportation and energy supply. This demarcation between public goods, public services is crucial – where is the boundary between them and commodities, and which public services cannot be transformed into commodity?

So, in Bad-Godesberg program, the German Social Democratic Party included the following criteria for those differences (it was in the 1950s when the Social Democratic Party abandoned historical materialism and the goal of the nationalization of the means of production). The Social Democratic Party said we should favor the free market whenever the competition really exists – as much competition as possible, as much planning as necessary. But there is some tension regarding that third set of subsystems, the public services which cannot be market-competitive, such as public transportation and energy supply, because they need strong state regulation which is in tension with free market principles. And the state should create competition, but in many cases such competition is missing, such as in the case of denationalizing of public transportation, particularly in the UK. Monopolies reemerged and the state-ownership is transformed to corporational monopoly. I think that's the reason why the public transportation in the UK is the most expensive in Europe. Moreover, at least in the UK, non-competitive institutions such as job centres nowadays include private companies involved in welfare. The government hired private recruitment agencies and private firms took over the training of those who were out of work. Not to mention UK visa centres, which are nowadays handled by private companies. So, what is your opinion about those market (excesses)? Is the reason that pure ideology, or are there political reasons, or is the reason an economic benefit?

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**Geoffrey Hodgson:
response to Mihail Arandarenko and Michal Sladeček**

Thank you again for those two very interesting comments, very inspiring. Again I'll go through them sequentially. You pointed out quite correctly that capital is a metaphor. You also pointed out that my task in trying to change of vocabulary is hopeless. But we can see the perniciousness or the multifacetedness of the metaphor in operation. Take the term natural capital, and

its brothers like environmental capital. There was a big debate within environmental economics when the term was pushed 10 years ago. And the debate went like this: those in favour of using the term natural capital argued that it would teach economists and others to take the environment seriously. The nature is a gift to us which we must respect, and therefore we must value it, and attaching the word capital to it would help us value it. And one of the opposing arguments against this metaphor was: oh yes, but the word capital connotes commodification and money value, and the whole issue about the natural world is that it couldn't be given a money value. They argued that that was dangerous to treat natural resources as objects to be sold on the market, which we know from experience has a bad record of despoiling the planet, of exploiting resources, against the interests of preserving biodiversity, rare species, human amenity and so on.

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So, the two connotations of the word capital – one was just wealth or usefulness, the other was as an object to be valued simply in terms of money – show how dangerous the word is. Another problem is social capital, and it's not to say the literature on social capital hasn't produced some insight, it has. Empirical studies of social networks of trust, reciprocity and so on, show that it's multi-dimensional. So one of the first conclusions is that different kinds of network, different kinds of normative principles have different kinds of effect. Consider religion for example. A religious institution can provide a welfare network, many churches offer help for the poor, and mosques likewise. These are institutionalized systems which preach care for others, and they to some extent care for others. That's one of the great positives of religious institutions. But the negatives are mumbo-jumbo, discrimination, ethnic conflict, all these other things which shape religion which are the downside. People realize that measuring social capital is multi-dimensional, where some things are positive and some negative. My argument is that the term social capital is obscuring the diversity of different things you are looking at, and preventing you from disaggregating them.

So the metaphor is doing a bad job, because what we should be doing is talking about different kinds of things – positive networks and negative networks. And we should start thinking about it in multi-dimensional terms. And precisely because capital comes from the system which does the opposite, which gives everything a money value, it countervails that.

Your point about the great escape is very much well taken. I think I do give credit in the book for what capitalism has given us. Capitalism has given us lots of things: it has created war, a downside of capitalism; it has created imperial conflict, has powered greed, etc. There's a positive side to capitalism too, and, as you say, there are two big things capitalism has given us: a huge increase in the standard of living and not just in developing

countries. Even more important, capitalism has led to a big increase in human longevity, not only in developed countries, but also globally. The outcome that as human beings we can live longer is a huge gift. Much of this has resulted from the creation within capitalism of systems of state welfare. Welfare states are very difficult to create when you don't have a legal system working properly, or you don't have a proper state administration. Try thinking about welfare state in Somalia, or Sudan – it would be impossible. But we've had welfare states as an option, as a byproduct of capitalism, and that also has helped human longevity. So I do give capitalism credit for that.

To turn to your other point about the role of the employment in the definition of capitalism, and more generally the future of employment. As you rightly say, I'm holding my options here. On balance, I prefer to keep employment in the definition of capitalism. Let's assume you persuade me the other way, that we should remove it. Instead of six points, there are five – so it's the Schumpeter definition of capitalism rather than Marx's. My point then would be that then we must distinguish between two types of capitalism. We could call one employment capitalism, where the contract is prevalent and post-employment or non-employment capitalism where it's not the case. So we would still need the terminological distinction. In any case, the issue of distinction between employment and non-employment is important. I think this is one of the agenda issues for the 21st century, for all sorts of reasons, because the nature of the employment contract will change.

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There's a forgotten classic by Shoshanna Zuboff, called *In the Age of the Smart Machine*, it's a really great book. She writes about a capitalism where intelligent machines abound. She shows how the classic relationship between the employer and the employee is undermined by this. When we were digging ditches our work was visible and could be supervised. But when workers are sitting in front of computer screens, the supervisor can have a quick look around and see whether you are playing a video game or not, but it's impossible for the supervisor to know what you are doing. You might be actually exercising judgment about a document, how it should relate to another document, etc. That's what most of the people are doing most of the time these days: looking at documents, making judgments about them. Even people in factories – they're looking at the manual of operation and the protocol for who does what job and all these things and this is all documented. We are all devolving judgment and training people to make skilled judgment, and the training is so specialized that the supervisor knows less about it than you do. You're more qualified to be able to say 'there's a problem here', and the supervisor doesn't necessarily know. So the whole idea of employment being a flexible contract where the employer delegates a supervisor who in turn regulates what you are doing is undermined.

To some extent people become their own masters. Zuboff also brilliantly sees the downside to this. Because we are exercising judgment over these things, we can't switch off. When you're exercising judgment all day, when you're processing documents, the boundaries between work and leisure are blurred. The Japanese have a term for this, 'karoshi', death by overwork, by deprivation of social and family life. These days, I have to do my e-mails on holidays. A lot of us are working a few hours a day simply to maintain information flows. And so, employment contracts are changing dramatically. There are also implications for trade unions. If everyone's a specialist, the role of 'united we stand' is more problematic. Trade unions may have remaining roles, including the provision of insurance or legal advice, but in the face of the new robotic world they will have to adapt dramatically.

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So there are upsides and downsides. Certain types of work could be transformed to service contracts – many managers work under service contracts. And I'm a great fan of worker cooperatives, but there are downsides to these too. They limit opportunities for mobility and tie people in. Keeping open the option of exit is the reason why we must be pluralist about this. We should experiment with cooperatives, a lot of empirical evidence shows that they are a very effective form of work organization. On the other hand, we have to keep other forms and experiment with them. I think this is one of the big frontiers for this century. Because the pace of change is so rapid, technologically and institutionally, and globally, one thing is certain – work is going to change radically.

What are the limits to markets? If the employment contract is part of the definition of capitalism, then capitalism cannot be a complete market system. Why? Because you can't have complete futures markets for labour. Complete futures markets for labour means we enter into contracts for the rest of our lives. The intellectual experiment of general equilibrium theory is quite illuminating in this respect. The Arrow-Debreu version of general equilibrium theory says you have markets for every commodity at every location, in every state of the world, in every point of the future time. And so, over the three dimensions, every possible market is specified. But in the real world, markets are both imperfect and incomplete. So there's a whole swathe of missing markets due to the fact that we cannot indefinitely contract future labour. We can to some degree have a pledge, a tie-in contract, that ties us in for a small horizon, 5 years, but we cannot do that indefinitely, it would be against our personal freedom and against employment law. That means, according to general equilibrium theory that we are in a second best solution.

It also means that extending markets is not necessarily an improvement, because we always have some missing markets. It has been shown in general equilibrium theory, that if some markets are missing, then the

extension of markets is not necessarily welfare-improving. So, contrary to the neoliberal rhetoric that for any problem we find a solution by creating a market for it, we know from standard economic theory that this is not necessarily the case. You can actually make it worse, because you are dealing with the world of incomplete markets. Doctrinaire neoliberalism goes out of the window, because we are living in capitalism. Capitalism implies incomplete markets.

I was asked about privatization. My answer is non-ideological; it depends on the practicalities of the case. You talked about the railway system. In Britain we have a system where one company runs the railway tracks and signalling and a number of competing private companies compete for the right to use the passenger and freight trains on that track. But the problem with that system, as you indicated, is that it's not meaningful competition. You're going to end up with only few players, and we ended up with only three or four. Some of them are actually foreign owned, and actually owned by foreign state companies. The irony is, one of the private contractors (called Arriva) on the rolling stock side of the story, running the trains, is owned by the German government, by the Deutsches Bahn. So a German public company is competing on British railways against other private companies. This is not a competitive market system.

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There are costs and benefits to competition, and there are cases like a railway system where it may be, on balance, necessary to nationalize it. State run systems have ups and downs, good sides and bad sides, you have to look at the detail, the problems of contracting, to what extent can you create genuine competition, would it work, would it benefit a customer, what's the record, compare different systems. Because these systems are very complicated, simple economic models often don't tell us very much. You need comparative examples.

This is true for health systems too. Even within the National Health Service, before Labour and Conservative governments in my country started privatizing elements of it, there were private elements at the core of the National Health Service in Britain. GPs, local doctors, were self-employed, they were their own businesses, they had a service contract with the NHS. The drug companies supplied drugs, drug companies are private corporations. The British National Health Service, even in its classical heyday, has never been purely public. So I have no doctrinaire view as to the exclusion of the private operators. Learning from the successful experience of other countries, France has a very effective health system. And the French system has a lot of private supply.

So what's important about the French system is that, like in the British system, you have compulsory insurance. Insurance is either provided free,

by the state, or it's compulsory. By some means you ensure that insurance coverage is universal. That's very important, because, if you don't make that provision, poor people will not pay insurance, and these people are penalized when they require expensive treatment like cancer. This is what Obama has been trying to fix in the US. And this is not just a tragedy for the poor, but it's also a tragedy for the whole system, because it means they can't work, their skills are not being used at work. For the capitalist system itself it's bad to have sick and uninsured people. So, the first principle is you need universal insurance. Whether the provider is public or private, again that's a secondary question. So we need comparative research on different kinds of insurance system, to see what works best. I personally would favor the state insurance system, because I see the downside of the American system of private insurance. But when it comes to the provision of services, doing the operations, running the wards, it's a still question of what works best.

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I think we should cease to be doctrinaire. Neither the state nor the market are panaceas. It's a pragmatic issue and a complex one, and we have to experiment piecemeal, move forward, see what works, compare, try different things out, incrementally adjust, and experiment with something in some region. And to do that, we have to understand institutions. We need a good set of theoretical tools to understand how institutions work, and we need to be well informed about human motivation, why do people follow rules, why do some institutions work and others don't. We need empirical case studies, we need databases, this is a way that social science can move forward to inform this debate in a non-ideological way. I'm not saying it's entirely free of ideology, but we should avoid these simplistic, tweedle dee – tweedle dum solutions to practical problems.

Aleksandar Fatić

Thanks very much. I'd like to go back to the point you made about the relationship between property and control in the introduction. You mentioned that an important aspect of property is that it facilitates control. To expand on that: in a sense, property, in the modern society, founds rights and entitlements. Those who own a large part of society somehow increasingly see themselves as being entitled to control that society, to exert political, institutional and informal control of the entire society. This is the very heart of modern corporatism, which is one of the grounds from which capitalism is most frequently criticized. The more you privatize, the more of society is in corporations' hands, and the greater social and even political role you grant to the corporations. Some modern corporations are larger, richer and politically more influential than many states, such as Google, Facebook and many other corporations. These corporations have

recently started to globally project a utopia of a caring employer, catering to the happiness of the employees, with all the alternative models of organization of the workplace, duration of the working week, conditions and things like that. So, basically, they are projecting what I'm not sure is either a utopia or a dystopia of a corporation which is really the motherly figure, which makes the employees happy, which helps the employees fulfill their full human potential, which makes them flourish.

So, the question that I guess I would have is to what extent you think this is consistent with the idea of property as a source of control. To what extent would you agree that this is a logical consequence of this idea brought to an extreme? The second question is more challenging. It is: can corporations in the future replace institutions, as in the privatization of the central registry in Britain, and, less recently, the privatization of prisons, which, you remember, caused quite some debate in Britain, Australia and other countries? There is a trend for corporations to replace institutions, and is this vision of a corporate society a utopia or a dystopia? This question is not cynical; I really do wonder whether corporations actually can perform better than institutions, and whether our leftist vision of the corporation as a potential source of danger in terms of a situation in which it takes too much control of the society is overly cynical.

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Ivan Mladenović

First of all I would like to say something about the book as a whole. I was really impressed, as I was progressing to the end of the book, how complex the argument is and how many themes were raised. It seemed as if the book was written by a team of social scientists. The whole argument consists of different parts, belonging to different social sciences, but there is also evolutionary theory and so on. It was really fascinating to see how these things hang together in this general aim to try to define and find out what would be the essence of capitalism. Second, I was also impressed with your approach. Since I'm a philosopher, it was quite interesting to see someone who is an economist doing some kind of conceptual analysis in a lot of the book. I would like to quote just from your introduction, where you say that one of the main aims of the book is to develop workable definition of capitalism and its constituent institutions: 'to do this, I must counter academic habits of a neglect concerning definitional tasks. Few social scientists these days have a solid grounding in philosophy, including the philosophy of their own discipline. Many in my opinion cannot distinguish acts of definition from those of abstraction or description. Many seem to believe that adequate definitions will emerge without reflection, during or after some process of empirical investigation. But all enquiry is theory driven, it requires conceptual guideposts, all of which depend on prior definitions'.

As I understand it, a large part of your book consists in defining what capitalism actually is. And it is interesting, your approach is interesting, because philosophers are usually interested in defining terms, finding their meaning, but they don't treat the problem of defining capitalism. You can barely find someone dealing with that problem. Then, in social sciences, you have economists, sociologists and so on, saying a lot of things about capitalism, but not trying enough to find out what would be a real definition. They usually rely on some definitions that define capitalism merely in terms of private property, markets, exchange and that's it. With your quite complex definition, with the six conditions, you try to somehow make some improvements in the whole field of thinking about capitalism, and that's really quite distinctive in the whole enterprise of thinking about capitalism. I actually have two comments, and two questions. One concerns your definition of capitalism and the other one concerns what I would call the epistemology of capitalism, the role of knowledge in the capitalist enterprise.

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My first question will be short. We heard already what your definition of capitalism is, what these six conditions are, the first three being essential, and the other three somewhat changeable. These conditions are of course a legal system that supports individual rights and liberties, market and commodity exchange, and widespread private property and means of production, that much of the production is organized apart from the house and family, that there is widespread wage labour and employment contracts and a developed financial system, banks, the selling of debts, having loans and so on. In large part of your book, you try to convince us that the state is crucially important for understanding capitalism; it is something that constitutes capitalism, something that is also essential for maintaining the whole system. But when I look at your definition, I realize that actually the state is missing from your definition. It is in a sense neutral to whether we will rely too much on the state, or rely a little bit, or not rely on the state at all. The definition of capitalism would still be neutral with respect to different interpretations. John Rawls famously made a distinction between a concept and a conception. We can have concepts, define them in quite a neutral way, but then we can fill in different parts of this definition with different conceptions. So, in this case, it could be the conception that we rely on the state more or less, different conceptions will differently fill in this part of the definition. And you actually argued in most of the book that all these notions of the legal system, banks and money are better understood when we rely on the state, than if we rely on some kind of spontaneous order, conventions and so on. So my question is: why there is no mention of the state in the definition if it is as important as you argue in your book?

My second comment concerns what I called the epistemology of capitalism. You write about that in a few places in the book. One concerns your reconstruction of the calculation debate between thinkers who were defending

some kind of central planning, and in that context you side with the critics of this central planning idea, who mostly come from the Austrian School, and you think that they have good arguments against central planning. The idea about central planning is that we can have some centralized organization, let's say we have a team of the best economists in some country. The question is: would the economy function better if we rely on a team of economists with their super abilities, or is it better just to rely on localized, contextualized knowledge that each and every person has – what Hayek calls knowledge of here and now, because those central planners cannot have every single piece of information about what is happening in different parts of some state? Their argument is that the economy would function much better if we use the information that is dispersed, localized, and one of their main defenses of the market system is that the market could somehow ensure that the system of information is fully utilized.

But, although you side with the Austrian School you also mention some problems with this view, and one problem would be that the same problem we encounter at the level of the state we also encounter at the level of a big company with different employees working on different tasks, the problem of how to control and collect all the information. And another problem that is also important is that the market actually cannot function without a lot of shared and free information. It's a kind of paradox that if we try to put a price on each and every piece of information, it would be much more inefficient than if much of the information is shared. You also added that Hayek realized that, and he insisted that the government should provide many channels of information and communication, in order for the market economy to function properly. And one other aspect that my question relates to: you are saying that today it is the case that the economy becomes so information-intense that it is unmanageable to supervise and control how all this information is processed. It's not just that we rely on computers and that it is hard to monitor whether we are working, thinking about a problem – It's impossible for managers to supervise how we are dealing with the complex information that we have.

It's impossible for a single person to control what's going on, what information is processed, how we are processing it, and, in that sense, it is not possible to supervise employees any more. But, as you explained, that is the reason for the shift of authority towards employees, because this shift of authority means that workers must become their own managers, must have organizational skills, must have administrative skills and so on. At least it's a tendency, it's not a dominant way of organizing employment relationships today, but there is a tendency, and you call this type of employment relationship quasi self-employment, because it is not self-employment but you are as autonomous as if you were self-employed. My second question is the following: why do you think that this change would be such a huge change

that we can no longer speak about capitalism? Maybe it is quite consistent with capitalism to have this kind of employment relationship.

Petar Bojanić

I had an opportunity to talk to you yesterday. I will follow Aleksandar and Ivan with their questions on the relationship between the institution and corporation, focusing on the last chapter, 'After Capitalism'. In it, you hesitate the whole time, because the accent is on that word 'beyond' in 'beyond capitalism'. What is non-capitalist in capitalism? Is it the cooperatives? How should they be used? Because I found something in an interview where you said that capitalism can survive only for as long as it is not completely capitalist. Does something exist in capitalism which is not capitalist? This could probably help your proposition, your mission? And I think that your mission, your principal question is how to make capitalism survive. Because, for example, you said: 'critics of capitalism have paid insufficient attention to the possibilities for the reform of corporate law'. That means that you know very well that the principal point of making capitalism survive is the corporation. How can we reform the corporation, or are the cooperatives the password for the survival of capitalism?

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Geoffrey Hodgson: response to Aleksandar Fatić, Ivan Mladenović and Petar Bojanić

Thank you again for that batch of great questions. There is some overlap between the first and the last question. The first speaker raised the question of the relationship between property and control, and also raised the question of corporation. I'll combine answers on that issue. The first speaker seemed to be arguing that the rise of corporations makes control the preeminent issue, and other aspects of property are eclipsed. If that is a correct interpretation, I would actually want to counter that view. I think that the issues of control are always vital to the question of property, control is very much the issue for the law and also for practice, but control is not everything. There are other property rights that also bear upon our power, and our rights within the system to act in certain ways. The rights to sell, rights to change the form, rights to rent, and rights to use the property as collateral are also highly relevant. And those other rights exist in regard to the corporate form. Control is there, but also the other aspects of property are there too, the role of shares in the financial market, the collateralization of property, the intervention of corporations in the financial markets, where they use surpluses to speculate on financial markets, along with other corporate activities. So I don't think that the corporation challenges this multi-faceted notion of property or the importance of aspects of property other than control.

It would also be wrong to say that privatization necessarily means corporations. Much discussion by advocates of markets and privatization ignores the corporation. Austrian economists like Hayek and Von Mises don't write very much about the corporation or about the employment contract, because in a libertarian system of free contracting, both the corporation and the employment contract are anomalies. Why? The employment contract involves asymmetrical authority, at least in law. The discretionary authority of the employer to direct the detailed operation of work creates asymmetric power. And that sits uneasily with a libertarian universe, where everyone is a free agent, a contractor.

The other anomaly is the corporation itself, as it creates a new individual. It is somewhat odd that we actually make corporations legal entities. That goes against libertarian individualism. It is wrong to presume that privatization means corporate activity. Other forms of privatization are self-employment, cooperatives, or partnerships.

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We take the current form of the corporation for granted, but there is a debate amongst legal scholars, not so much amongst economists, about the reform of corporate law. Making employee share ownership more prevalent is one possibility. In most European countries, including Britain, we have two major forms of corporation – shareholding and non-shareholding corporations. Charities are also corporations. This form of corporations doesn't have shares, simply has a purpose. Concerning the more conventional shareholding corporation, there's a whole debate about shareholder value, corporate social responsibility, which has been going on for decades. There has been a shift towards financialization, towards shareholder value, reflected in legislation. But that's problematic – what is shareholder value, how do we know whether someone is maximizing it, is it in the short term or in the long term? It may be in the long term interest of a company to run a loss for 15 years, so in the long run they can develop a project that makes profit. If we are running a company with losses for 15 years, we will not be maximizing shareholder value until the benefits of that, which are uncertain, come to fruit. So, the actual practice of maximizing shareholder value in an uncertain world is problematic. Legislating that is difficult. So there's a whole debate about the nature of the corporation, and different forms of corporation, which should be at the centre of policy making. We have a tweedle dum – tweedle dee politics – nationalize everything, free-market everything, but I want to look at the space in-between. This involves changing corporate law incrementally, allowing diversity, experimenting with different forms, and trying to solve some of the problems of the corporation. So, that should be explored rather than saying corporations are generically always going to do the same thing.

Turning to the second questioner, thank you for your kind words about the book. You raised two questions regarding definition. One is: why is the role of the state not in the definition of capitalism, and you also said why is employment so important? First, I would defend the exclusion of the state in the definition. Definitions identify what we are talking about. We need to have a conversation between different people about the nature of the beast we are analyzing, and agreement on what the beast is. If I wish to convince a libertarian that the state has a necessary role within capitalism, then I should not start with a definition of capitalism that highlights the state at the outset. If I did, then the libertarian would simply say that we are talking about different things. The role of the state has to be demonstrated, not presumed.

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If I define money as essentially something which is state-minted, state-created, then I lose my argument because a libertarian says that the Bitcoin is money as well. I'm not going to win the argument by definition. I need to win the argument by identifying what we are talking about, and then saying: is the state essential or not? If you put that in the definition then you preclude the argument. So, while I believe that many important structural formations in capitalism, including money, including property as well, require some state agency to facilitate, I'm not going to put that in a definition, because it's a matter of analysis. And there are interesting boundary cases where the state was not involved, which we shouldn't rule out as possibilities. It's a question of efficacy. There are systems of property where the state doesn't operate at all or very much. To rule them out at the beginning by definition is too sweeping, too dogmatic. The definition is classificatory, and because that issue is controversial, and is within the object of classification, that's an argument for keeping it out of the definition.

You rightly raised the fact that there are limits to markets, and you raised the epistemological question about knowledge and its role in the planning debate. You seem to be saying that the planning debate may involve a choice between different kinds of expert, and some experts may be able to say more than others about what's going on. So, the ordinary person in the street may have localized knowledge, but a super economist might have a much better insight. Yes, that's true, but on that point the Austrians still win the debate, because even that super economist has relatively little knowledge of what's going on. The world is so complex that we cannot gather more than a small part of information. Some of us may have a better understanding than others of certain aspects of the system, but our epistemological poverty is universal. The differences in the amount of knowledge we have, the amount of skill we have, the capacity for good judgment – there are huge differences, but we are all at a very poor level. The system is just far too complex. There are things we simply don't know about.

Epistemological impoverishment is pretty widespread, even amongst experts. You are absolutely right about free information, that's a kind of another paradox of the Austrian position. One paradox is their failure to deal adequately with employment relations and with corporations. Another one is to recognize that, while they stress the importance of information, they fail to recognize that the market system cannot operate without free information. That's the paradox - If you give a price tag to everything, it won't work. Your final point is whether capitalism without an employment relationship is still capitalism. It might still be capitalism in your view, but I put employment in the definition. It's the question of definition, and I'm more relaxed about that aspect.

The point about the need for non-market information relates to the final question about non-capitalist elements within capitalism. Information is essential to capitalism but to what extent can information be treated as a commodity? There is a case for having a market, having a price tag on some bits of information like patents. The patent has some advantages, encourages innovation and people to reap rewards, particularly in the early stages of an innovation. We need to reform the patent system. Perhaps we should reduce the lifetime of patents.

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The function of some privatization of knowledge can be beneficial, but in general, huge amounts of knowledge, particularly about the operation of the market itself, cannot be usefully traded. Lots of information has to be free. Internet has made much information freely available. Consequently, it has transformed our experience of shopping, of finding information, and doing research. Information is now much more readily available than it was 20 years ago. This is an example of capitalism being reliant on non-market and therefore non-capitalist elements. Another major area which is generic to capitalism is the original production of labour power: the production of babies. If the production of babies was done in a capitalist way, then it wouldn't be capitalism, paradoxically. The parents producing babies for sale would be engaged in a form of slavery. We do have surrogate mothers and sperm banks, so there's some commercialization going on already in this sphere, but you don't sell babies. You can buy the adoption rights, but you don't buy the baby. You can't buy people, legally. Capitalism can't have a capitalist system for the production of labour power.

So capitalism inevitably contains non-capitalist elements. I also think that given the nature of human interaction, the issue of scale is important here. Consider Elinor Ostrom's work on common pool resources like common land, fisheries. The way people manage these resources is that they don't rely on markets or central planning, but largely on customary rules which have evolved over a long period of time. If you've got a group of farmers in Vietnam running an irrigation system, there will be obligations under

customary rules, to maintain dykes, not to take too much water. It may not be written down in a contract, but the tradition and custom make the system reproduce itself. Crucially, these systems work by relatively intimate face-to-face contact, and involve social disapproval, 'you haven't done your job, maintaining your field', etc. Order in these systems arises in small groups, couple of hundred people at most, and relies on social mechanisms of scorn, shame, disapproval, reward, approval, esteem, which we've relied on for millions of years. So without the formal apparatus of law, without states, these systems can still work. The problem is if you scale this up from hundreds to thousands and then millions of people. I simply don't think it can work at that scale. So a lot of the things within capitalism are done at this social level, within small communities and particularly within the family. I made the point earlier – we don't run families according to legal rules. Capitalism can't do without that. Capitalism is impure, it is never a complete market system for all sorts of reasons. That's true for any system, all systems combine these different elements.

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Mihajlo Đukić

Thank you very much. When you're among the last speakers it is inevitable that some questions are going to be repeated. My first question is related to the role of the state. To what extent do you think it is important? Specifically, I would like to repeat also professor Babić's question, who mentioned your quotation of Roderick, who said that the markets are functioning best when the state is strong. So, in those terms, for example, we could probably argue that some socialist regimes or, maybe specifically the one in former socialist Yugoslavia, were more similar to some Western capitalist countries than the systems we can see in transition countries. For example, we have very weak states, states that are not able to satisfy some basic principles, some characteristics or conditions that you mentioned in your book when you defined capitalism. For example, states or governments that are not able to collect revenues, to collect taxes, to protect individuals when they're entering the labour market. In Serbia it is very hard to be paid legally, directly through your account. You receive the minimum salary to your account, and the rest is given directly to you. I also have two short questions regarding the future of capitalism and some modifications. How do you see the system in perspective?

The first thing I wanted to mention are the institutions functioning without people. My association is the EU elections, for example. You have a country like Croatia, which recently entered the European Union, in which the turnout for the EU elections was 44%. 60 percent of those 44 voted for entering the EU. That's a strategic decision, brought without the people. If you look at the statistics and data, in the last 30 years we have a

clearly decreasing trend in the turnouts for the EU elections, and if we look, for example, at the elections for the European Parliament it's even worse, 20-30 percent turnout. We will have some institutions, some elites who are bringing decisions on behalf of the majority, and the majority is not interested at all. I doubt that the people are happy, they actually don't care. My third question: I would like to hear your comments on recent trends and movements in Switzerland. There were movements and the referendum on limiting proportion between the lowest and the highest salary. Do you think it is realistic to expect some new referendums across Europe on that issue? What will be the potential consequences if this is accepted, if the referendum succeeds?

Aleksandar Matković

First of all, thank you for this inspiring lecture. As my colleague said, some questions have already been asked, so I'll try to reformulate the ones I wish to pose and they actually concern, on a more general level, the issues concerning the ontological claims of legal institutionalism. The second question in particular concerns the way in which we might conceptualize the political economy of fascism as a modification of capitalism. Those would be my two questions. Now, regarding the first, I wanted to start by questioning your critique or your description of the natural state model, which you make in the introduction of the book, where you criticize the conceptions that present capitalism through the natural state model. There you say that the variability within nature, understood as a deviation from what is natural is in a sense a simplification of capitalism, of its varieties. To that you contrast what you term the population thinking, where you say that multiple coexisting forms of capitalism or competing firms in an industry must be understood in population terms, as not deviating from a single model but in a sense constituting their own mutually coexistent entities. As far as I see it, legal institutionalism does approach this question by making two ontological claims. The first one is that there is a state which makes public ordering, by focusing also on individual agents which are accountable for individual ordering. Since you take the legal-institutionalist approach, how would you understand the integrating function of capitalism today?

I ask this because of various legal agreements by which different strands of contemporary capitalism are being integrated into one single economy on a global level. I see that in legal agreements such as NAFTA, TTP etc. So it is these supra-state, supra-national legal institutions that are driving contemporary capitalisms to integrate into a whole, while still being mutually opposed through the principle of competition (when we speak of nation states, for example). Within this conception, state economies and national economies both lose, or at least must undergo a transforma-

tion of their conceptual significance, especially for any analysis which claims to depart from the state and private agents as drivers of public and private ordering, which are the two main ontological claims of legal institutionalism. So, are the consequences of these simply a reiteration of the essence of capitalism, which (unclear) to its varieties, or, if not, how would you conceptualize it, and how would you reflect on the content of the nation state under these international supra-state bodies? There have been many contributions to these questions from the Marxist perspective, from Poulantzas, Bob Jessop, Ellen Meiksins Wood, etc. I won't go into detail, but in fact all of these conceptions start not from the varieties of capitalism, but from what seems to be a conception of capitalism that is independent of the nation state, and their economies which do not conceptually coincide with the varieties of capitalism today, despite what some Marxist authors may claim. For example, Michel Albert, after 1990 and the Fall of the Eastern Bloc, had the conceptions of Rhine Capitalism, German capitalism as being opposed to American capitalism, etc. I think this question is important especially for how we conceptualize the different relations between firms, labour laws, etc, within a single state. How would you conceptualize these international -national relations which are being reconsidered and transformed within these agreements, such as TTIP and NAFTA? Just to remind the audience and ourselves that these are the agreements which are being put into force this year. I think it's a very actual issue.

And the second question concerns the political economy of fascism. We talked about these six criteria, I won't repeat them, but I wanted to ask whether these criteria, even when they have been breached to a certain extent – for example, as far as I can see, the political economy of German fascism could only withstand two or three of these criteria, production being organized apart from the family, etc, the markets were present, labour contracts, private property. This is an issue debated by different authors – Sohn-Rethel, Poulantzas, Pollock, etc. – they all raise questions whether these constitutive elements of capitalism have been inexistent during the political economy of fascism for its duration. The consequence of this is that some authors, like Friedrich Pollock for example, claim that, for our way of understanding crises, trade cycles and any known cause of contemporary crisis, it's interesting how we conceptualize these as a modification of capitalism. I think this question is very interesting because there is something that supersedes these definitions in a sense. Only once we account for what drives capitalism, both liberal and neoliberal economies, towards these modifications into fascist economies, can we fully account for any viable definition itself. For example, if we do not take into account value form theories in Marxism (Michael Heinrich, Backhaus, Ingo Elbe and others), how can we describe capitalisms specific modifications?

I think it's pretty important to describe these links between capitalism and its modifications (not its varieties, but modifications) – we must in a sense think in categories which are inherent in capitalism itself, and what drives it to this expansionary modes and modifications of itself. If I wasn't clear enough here, maybe I could just mention that most of these theories do take value as a form, as the determinant form (or commodity, you also quote Marx when you speak about the commodity as not being the *differentia specifica* of capitalism because obviously we have different systems that produce commodities) of the capitalist mode of production. How do you account for this and how would you explain the reason why capitalism goes into different modifications of its own, in the sense of the political economy of fascism, or even in neoliberal capitalist economies today? Thank you.

Mark Losoncz

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I would like to pose a very brief question concerning the origins of capitalism. I would like to know what you think of historical theories that emphasize that the rise of capitalism began much before the 18th century, such as theories of the agrarian or rural origins of capitalism, and the thesis of the primitive accumulation of capital in post-feudal England. Or theories that argue that the rise of capitalism can be traced to the post-15th century world economy context, as is the case in certain world-system theories. Namely, if the rise of capitalism was possible without a developed financial system, and without developing truly extensive financial mechanisms for a significant period, wouldn't it be more precise to say that the extended financial system is merely a possible effect of the all-embracing logic of abstract labour? What is more in that case – could communist regimes be defined as state capitalist systems? Despite what you suggested yesterday, my impression is that the theory of state capitalism can be quite serious, it is a challenge which we got for the definition of capitalism as it was represented by many thinkers, from Stephen Resnick and Richard Wolff to Robert Kurz and many others.

Geoffrey Hodgson: response to Mihajlo Đukić, Aleksandar Matković and Mark Losoncz

Thanks again for the three sets of great questions. The first question was about the role of the state. I quoted Dani Rodrik: markets work best when states are strong. This doesn't imply that when states are strong, markets always work best. You can have a strong state without a market. I deliberately quoted him in the introduction and later in the book I explain the ways in which the strengths of states are important for markets, but also

can be counterproductive for markets. The sense in which I think the state is important for markets is not in the sense of state being a military force, or powerful or intervening, or restricting freedom. It's a sense in which the state has a powerful system of law, which is adhered to by a sufficient number of the population. So it means that when people make contracts, hold property and so on, then these transactions are honoured. So the basic, fundamental institutions of the market system are buttressed by an effective, well-working, sufficiently powerful legal system.

Other aspects of state power can be counterproductive for markets, can destroy markets or restrict them. I was interested in production in the Yugoslav system, I think there could be an opportunity to have a retrospective on that. The Yugoslav system was a third way, different from standard capitalism and from Soviet-style communism, one for which the worker cooperative is central. But was the Yugoslav third way inhibited by the relatively strong one-party state? Was state intervention in the economy effective or restrictive?

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As well as keeping a legal system: another reason why the state is important is that it is actually a source of moral legitimacy. I mentioned yesterday that it is underestimated. But this idea is there in Adam Smith. Some people characterize Adam Smith as a libertarian economist who celebrates the free market and talks about the invisible hand, and is therefore for a minimal state. But state was tiny at that time. If we brought Adam Smith back today, he might think differently of the minimal state. He repeatedly makes the point that the state has to dispense justice, to be seen as just. If the state is mistrusted, if it's corrupt, or administered badly, then the economic system will not work well.

The moral legitimacy of the state is extremely important. As you suggest, there are questions about that. There are questions when referendums occur with low turnouts, when democratic participation decreases. There are also questions about supra-national institutions. We have a democratic deficit within states. In regard to the European Union, we have a democratic deficit because the institutions are not fully democratic.

Concerning inequality, I think Piketty is absolutely right that one of the problems of capitalism is unequal wealth, and we have to tackle it. Within capitalism, most of the disparity of wealth is due to inheritance. Additional inequality is generated within capitalism itself. The problem of inheritance is not peculiar to capitalism, but it's a problem we have within capitalism. Inheritance taxes seem to me to be progressive, because why should someone who is born of poor parents have much less opportunity than someone with rich parents? The answer is we can't justify it. We should move towards equal opportunity, and part of that would be tackling the

problem of inheritance. A useful suggestion is found in the writings of Thomas Paine, who interests me greatly. How do you persuade people to vote for inheritance taxes? You persuade them by recycling the inheritance revenue from the inheritance tax into grants for everyone of an age of majority. So you have a double attack. You deal with one aspect of the inequality by inheritance, and you redress the inequality of opportunity by recycling that money. People of the age of majority get a grant in the order of 20 000 dollars. They can use this to acquire skills or start a business. We should consider other measures like employee share ownership schemes, where you redistribute some of the corporate wealth to employees, by share ownership. New ideas to deal with inequality need to be developed.

In the next question you raised the issue of globalization, supra-state institutions, and the natural state model. The natural state model has to do with Aristotle's concept of essence, where the essence of a kind is something that is unique in that kind and differentiates it from other kinds. Aristotle's notion of essence involves demarcating accidental features from essential features. For example, what's the essence of being human? The answer would be partly biological and partly cultural, that's the subject of anthropology. There's an essence to human culture and to human physiognomy. Having blue eyes or dark hair is an accidental feature of humans, because it can vary within that group, and is not essential to it. Essential features of humanity, like having a brain, being able to reflect on things, having moral dispositions, those are all essential and not accidental features.

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So that's the Aristotelian concept of essence. But Aristotle adds something else to that story, and that's the natural state model. According to this view, the variation in every class, there's always a tendency to move towards one ideal type. I accept Aristotle's notion of essence but not his natural state model. In the context of capitalism we don't have to assume that all capitalisms are gravitating towards one type to have a notion of the essence of capitalism. It's a real empirical and analytical question whether capitalism is converging or not. It may be that capitalism is converging, but that wouldn't alter the critique of the natural state model. So we throw out the natural state model because it's unnecessary for the concept of essence. It's an ontological leap to understand things in terms of population rather than ideal singular types. This is one of Darwin's philosophical innovations. To understand Darwin you have to understand that difference. But it may be true there is convergence within capitalism. That is partly an analytical question, and partly an empirical one. My answer to it would be there are strong elements of convergence within capitalism, which operate by a number of mechanisms. One is supra-national institutions, the other one is things like global corporations, yet another is the diffusion of best practices. Diffusion is underestimated, it's very important.

I agree there are elements of convergence, but there are also elements of divergence, and there are elements of lock-in which make convergence difficult if not impossible. There is a literature on institutional complementarities. The argument goes something like this: take Japan. The Japanese system, like other systems, depends on an interlocking set of institutions. If you try and change one without changing the others, you may make things worse rather than better. There are complementarities within the Japanese systems which have some benefits which exceed some arrangements in the US and vice versa. There are elements of the American system which have benefits which exceed the Japanese system. In any case, because of the locked-in nature of these institutions it's very difficult, politically and practically, to change one without changing the others simultaneously, and simultaneous change is virtually impossible, except by invasion from the outside. You're going to have divergence for that reason. Another major reason for divergence is the global division of labour. Consider the fact that China and a few other countries have become the manufacturers of the world. Even in a situation when convergence occurs between China and the West, they would still be different because all the manufacturing will be in China. So globalization doesn't necessarily mean uniformity. The very fact we have a global division of labour means you have differences in different countries. Britain becomes a service economy, China becomes a manufacturing economy, maybe with similar institutions but still very different. The logic of globalization is to create a global division of labour, which means divergence as well as convergence.

You asked whether one can understand capitalism without taking on board the questions about the value form and so on. Again it is important not to conflate definition with analysis. To have a conversation about the nature of capitalism, we have to agree on a definition of it. Once we agree about a definition we can argue about the use of different theories to help us understand the system. Personally I rejected the Marxist theory of value a long time ago. We can modify definitions. Throughout science, definitions are provisional, but they are doing a different job from analysis.

How and why does capitalism evolve? Well, there's no general theory of that. I do actually address the question towards the end of the book. What I do is classify different kinds of process, but I don't think in detail about how capitalism modifies. One thing I talk about in detail is external and internal processes. Lot of writers emphasizes processes from within, Marx and Schumpeter do. My criticism is that a lot of fundamental change in institutions happens from the outside. How did Japan become capitalist? Because American warships arrived in Tokyo Bay, and at the point of the gun said "Trade, or we invade". And then Japanese had an internal political revolution, and Japan became a capitalist country. Why did Britain

become capitalist? The shortest answer – war. Conflict, raising revenues to help transform Britain to a capitalist country. The bias in Marx is the focus on change from within. Another mechanism apart from external shock and internal development is diffusion. Japanese work practices became organizationally popular in the Western world 30 years ago, still are in some quarters. A lot of political innovation gets copied within countries, this is the advantage of the European Union, it facilitates the transfer of best practice and experimentation. Lot of legal forms get transplanted and copied. The World Trade Organizations forces China to conform to a certain kind of commercial law.

So there is no general theory, but we have a way of classifying different processes. The fact that capitalism modifies is very important, but I don't think there is a general theory of capitalist modification. Finally, you raised the issue whether capitalism is possible without a financial system. Well, a market system is possible without a financial system, and we've had markets for quite a long time. But, again, it depends on the definition. If you define capitalism as having one of the necessary features the financial system, then no, by definition you can't have a capitalist system. I suggest we use a different term for this other system. The financial system is centrally important for capitalism, we simply cannot understand it without that. It rules the whole system, it's the lifeblood of the system, it generates sources of finance for innovation, enables people to borrow money, creates competition in the market between different innovations, dynamizes it in a way, creates uncertainty, creates crises. The boom and bust cycle we see under capitalism is unique to capitalism. Markets before did have fluctuations, but not with the severity of financial capital markets.

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On the issue of state capitalism, some people classify former planned economies (The Soviet Union, Mao's China) as state capitalism. And there are different arguments to justify that position. One is to put the employment contract as central to the definition of capitalism. Then the only difference is that you have the state employers, as in North Korea or Soviet Union, or you have the private employers. But if you define it that way, then we've had capitalism for much longer in Britain, where employment relationships became commonplace from the 14th century. Again this downplays the role of finance. Whatever terms we use, if you say that's capitalism, we would need to subdivide that category, and say that the financial capitalism is a very different beast from planned economies. In that respect the transition process in recent years is very illustrative, particularly the European cases and the Soviet cases. Western advisers came in who believed in the spontaneity of capitalist institutions. They said 'markets will spring up when central bureaucracies are dismantled'. But you can't have markets without the state which is sufficiently strong to safeguard property, and

without a legal system that protects property, and that doesn't spring up like weeds, it has to be built. Just as importantly, you have to build up financial systems and get the investors to participate in them. And that didn't happen overnight, it took a decade to get the system to work.

So the transition process really underlines the importance of effective state administration in that transition, and in building a capitalist system as opposed to a centrally planned system. Part of the success of China's transition toward capitalism is due to its retention of a strong state. Now the problem for China is to develop an independent legal system. I think that the point here, to sum up, is that there is a huge difference between these two types of system – the Soviet-style centrally planned system, and Western-style capitalist system based on finance. Most people would not say that the Soviet Union was capitalist. I agree with them that it creates terminological havoc to insist that the Soviet Union was capitalist.