

New Deals of New Social Entities

Evolution of old friends: workers - firms – classes - states

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Abstract

This paper sets out to discuss the major building blocks for new deals in the global political economy. It starts with a discussion of the major changes experienced since the end of World War II and derives some ideas concerning the bargaining partners of potential future New Deals. It then shows how some classic concepts of political economy have recently evolved. Finally some reasons why possible deals will be so complicated are presented.

Introduction

Traditionally economics has considered its set of relevant social entities to be rather stable, even in the long-run. On the other hand scholars from different schools of thought laid different emphasis on the importance of certain of these concepts: While *classical economists* evidently thought that individual human decisions are logically dependent on the social role the individual is embedded in, economists propagating the marginalist revolution in the late 19th century preferred to turn the main direction of determination around. Class membership was considered to be co-determined by individual predisposition. A special case was *Schumpeter's approach*, emphasizing that entrepreneurs were thought to be a very special breed whose innate properties lay at the roots of the class of capitalists. Another, formally extremely appealing approach happened to assume representative individuals that exhibit features of all classes in a unified manner. Class relations thus were modelled to be resolved within the structure of each human individual, the relations between individuals therefore might be formulated without them, could be freewheeling, i.e. being solely dependent on preference driven market forces. The roots of *today's mainstream economics* still can be traced back to this variant of the marginalist school.

Only with the dawn of the world economic crisis in the thirties of the last century emphasis of economic theories did shift back towards larger social entities. With *Keynes' work* a surrogate of the *old working class* – now called '*effective demand*' – entered the scene again. And, to be sure not to miss important players in a world profoundly changed by the interference of the labour movement, Keynes also *re-introduced the state*, a regulating institution reflecting the prevailing results of class compromise - as well as the *class of rentiers*, a far cry from the old feudal class. With this new regulating instance, the state, *temporarily stable relations* between relevant social entities assumed the character of a deal, i.e. an agreement of conflicting parties that specifies the rules of behaviour of all players. If the dynamics of the political economy develop in a way that endangers the survival of the old players, then it needs a *new deal*.

This paper puts forward the rather daring hypothesis that *in the last decades* the global political economy has been entering a stage that starts to *dissolve the set of old relevant social entities*. In particular such central concepts as 'worker', 'firm', 'class' and 'state' have to re-defined or substituted, or amended by more adequate concepts. In the body of the paper a more detailed criticism of these concepts will be provided. Implicitly it is assumed that adequacy also means that concepts are apt to be understood as instruments to change social evolution, they have to be potential instruments for groups in society that want to take their fate in their own hands. For that reason it is also important to take a look at empirically observed dynamics in the global economy. Economic theory in the new millennium surely needs a sharp methodological turn from iconoclastic introspection towards empirically oriented and theoretically sound socio-economic and political investigation and design. What is provided in this paper, are just some outlines hinting at necessary future research directions.

In the final part of the paper it is discussed in which way the *concept of a deal has to be transformed* if the change of the set of players proposed above is taken serious. In the old, Keynesian setting it was very clear that the arena where a deal was struck by a set of players was the nation state. With continental economic players, a changed physiognomy of production units and globally extremely diverse household and working structures (to name only a few difficulties) the environment for deals has changed dramatically. Again we try to contribute some innovative ideas to these problems, and conclude with a confession that this paper hopefully contributes to the progress of the work of other researchers while it will certainly remain work in progress for a longer time period.

The landslide of the global political economy after World War II

After sixty years a look back at the dramatic changes that took place in this comparatively short span of time since World War II reveals that many of the traditional ways economists are trained to use when describing their subject of investigation are not adequate any more. While prospects for a revival of the type of capitalism experienced in the two centuries before seemed to be doomed immediately after the war, a new type of the capitalist mode of production seized hold of the world economy – first disguised behind a veil of adaptive corrections, the so-called ‘social market economy’, forced by socialist and social-democratic policy interventions, later, (in the early eighties) followed by a clearly conservative policy stance. During these decades the most advanced economies not only experienced a continuous and unprecedented growth boom, they also became extremely interdependent.

As a consequence the nation state, the prime political unit of theoretical considerations of economists up to Keynes, changed its physiognomy. Internal intervention was more and more bound to convene to international relations, today the major institutional players in political economy rather are continental units. This change, already anticipated in Bretton Woods, had a deep impact on the abilities of nation states to use certain policy instruments; e.g. exchange rate regimes are arrangements between nations, where size, economic and military power evidently translates into bargaining power. In that sense any consideration of national economic policies immediately has to be considered in the light of the overall political setting. Macroeconomics is even stronger to be understood as political economy dynamics in recent decades. There is no room any more for innocent questions like “Why is one nation wealthier than another one?” (Adam Smith), or “Can a nation state compensate for cyclical recessions of private business activity by using temporary public deficits?” (J.M. Keynes). To be operationally useful each such question must be embedded in a well-defined global political situation from the outset.

But it is not only the structure and the more interwoven character of political units that makes analysis more difficult. The second major change that occurred concerns production units, in vulgar economic theory often called firms. While the assumption of a model of a representative firm never really made sense – even a concise reading of Schumpeter reporting 19th century structures implies essential differences between firms – the divergence of types

of production units really exploded in the last sixty years¹. Given the common basic characteristic that a capitalist production unit is bound to make profits to survive, there still are worlds in between the working modes - that is how this goal is achieved. Indeed large parts of profits today are made by transnational enterprises using deteriorating exchange rates of low-income countries. These profits clearly are politically enforced and mediated by international currency markets. On the other hand an increasing share of the small and medium sized enterprises, SMEs, in Europe has to receive parts of their profits as payments from public institutions to be profitable at all². Again this turn to a more politically oriented profit source has diverted economic activities of SMEs away from the traditional goals of revenue maximization and cost minimization, and considerable time nowadays is devoted to political lobbying. With this new types of diverse behaviour of production units new institutions representing agents with similar goals gained power: Formal organizations (unions, chambers of commerce and the like), but in particular also informal networks of associations that escaped any systematic recording of national or international agencies are combining forces in changing coalitions that to a large part determine global economic policy.

To understand the working of the supply side of the economy in the new millennium thus involves a thorough analysis of institutional dynamics, at least on a continental basis. The ancient notion of entrepreneurship fails completely to enhance our knowledge about R&D developments, not to speak about education, invention and knowledge dynamics in general. As a closer look at the classic contributions of evolutionary economists reveals, the concept of entrepreneurship was never meant to explain the emergence of knowledge at all³. Capitalism was characterized as the process of unintentional productivity gains (in the long-run socially beneficial for all) that occur due to the side-effects of capital allocation of profit-seeking capital owners. Capitalists as a political class among many other things implement political regimes and combine elements of existing technical and social knowledge to increase the profitability of their capital. They do not act as knowledge producers per se, they do not even provide social environments that enhance knowledge production, what they actually do is that they only embed new combinations of what they encounter as profitable ideas in certain given social environments. Nevertheless this task is not trivial and will have to be taken care of in the future – but it is not knowledge production.

¹ There is a rich body of literature documenting and interpreting this process, starting with [A.D. Chandler, 1977] and still flourishing today (e.g. [R. Hollingsworth and R. Boyer, 1997], [R. Whitley, 2000]).

² Subsidies for farmers are only one outstanding example, tax exemptions, cheap credit or low land rents are other forms of this wide variety of forms with which public bodies are aiming to help businesses to survive.

³ A good example is Schumpeter (compare [Hanappi and Hanappi-Egger, 2004]).

Knowledge production proper has always been the activity of scientists financed primarily by political authorities using tax revenues⁴. Though this fact today is sometimes hidden by the titles given to this type of funding (e.g. money spent for ‘national defence’ in the USA) it is evident that major universities as well as the funds of the most important laboratories are mainly financed with public money. In that sense they also are responsible to the public, and not to the profitability criteria put forward by firm representatives that are so omnipresent in current debates. Societies thus via indirect and mostly little developed feedbacks could and should control directions and diversity of their knowledge production. As a matter of fact a broader, and more informed debate on education and knowledge production design has only started in the recent decade. The difficulties that are accompanying it are mainly due to the rapidly increasing amount of noise, i.e. inadequate information that often is hard to distinguish from valuable knowledge. Why noise and knowledge are exploding can be traced back to two interacting forces: Maintenance of political power by ideological means and support of this objective by a boost of information and communication technologies (ICT).

The two central representative devices of the ICT revolution are computer networks and mobile phones (compare figure 1 and 2, source: [UNCTAD, 2004]). They are currently responsible for a profound change of cognitive capabilities and communication habits of the human species; their impact can hardly be overestimated.

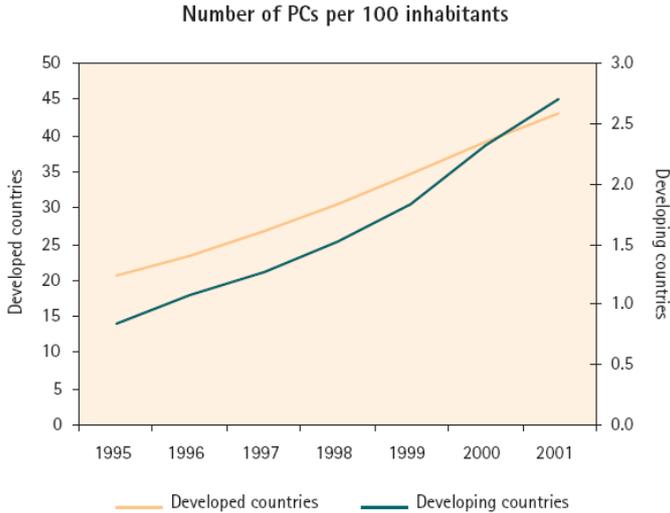


Figure 1: The Information Technology Revolution

⁴ This even holds for the scholars financed by monarchs in the late middle ages. Today political authority usually has been passed over to the democratically elected governments of nation states.

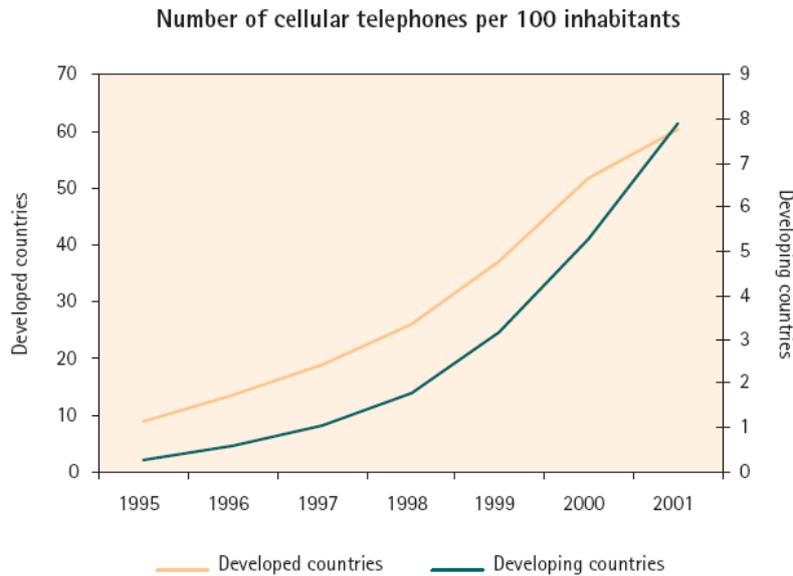


Figure 2: The Communication Technology Revolution

The overall mid-term impact on the global political economy is extremely hard to predict. What seems to be sure is that these devices in principle have the potential to enhance the design of a global democracy – though its implementation surely is a different story.

What currently can be observed rather resembles a quickly growing income difference between major groups of states of the world economy and somewhat slower increasing income differences within most states⁵. There is not much evidence that deeply rooted properties of social and economic structures that are different between states started to converge after World War II (compare figure 3 and 4, source [UNCTAD, 2004]). It rather seems to be the case that under the surface of a converging information sphere of the ruling elites in the big cities (e.g. finance and fashion), the current mode of globally integrated capitalism exploits and deepens local, often historically grown inequalities.

⁵ An interesting study of parallels (between now and the late 19th century) of global income inequalities - both theoretically and empirically - is [Ph. Aghion and J.G. Williamson, 1998].

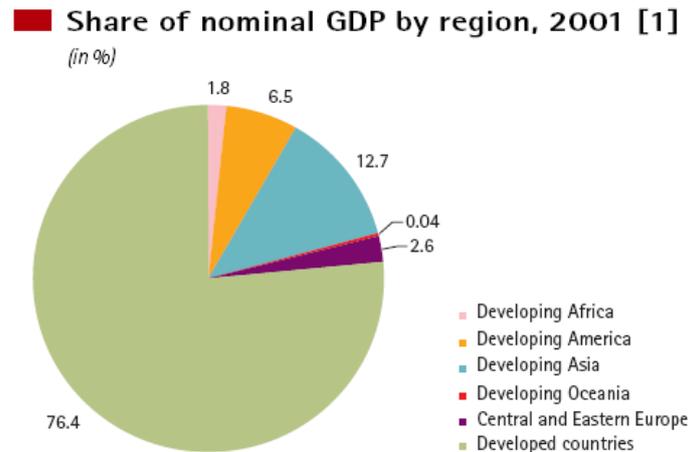


Figure 3: Global inequality in output

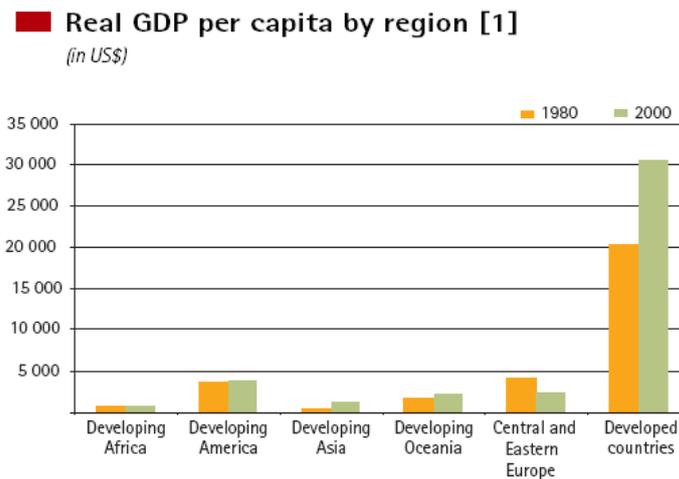


Figure 4: Global inequality in productivity

As a consequence the old perspective of the labour movement, namely that an internationally united working class will emerge – ‘The worker does not have a home country.’ Karl Marx proclaimed – seems to be misleading. It now is rather clear that capital does not have a homeland and uses homeward bound cultural and economic specificities of workers to divide and conquer by means of ICT supported ideological power.

Workers – Firms – Classes – States

In the framework of classical political economy a **worker** was defined as a human individual in a capitalist economy that produced surplus value. This definition presupposed the existence of a capitalist, i.e. a blueprint of typical behaviour of an owner of means of production, as well as the validity of an adequate concept of social value. As sketched in the last chapter actual developments in the world economy in recent decades have blurred both notions. On the one hand labour productivity has soared and labour inputs thus can be provided by a decreasing number of workers⁶. In particular the related upsurge of profits enabled capital owners to entertain a whole scale of structured payments to split workers into different strata⁷ - they are split within production units, between labour types, between regions and more recently between continents. To experience the own position in society in terms of political economy, namely as a worker, a provider of surplus value, has become increasingly unlikely. In addition social value, for classical political economists 'labour value', is not a concept that can easily be grasped, not to speak about quantification of a surplus. Workers today often feel exhausted due to the enormously increased labour intensity, but the permanent ideological influence of a subjectivist interpretation of individual use values lets any thought of being exploited dissolve in a feeling of personal failure.

As a consequence it probably will be the duty of professional knowledge producers, of scientists, to develop an adequate theory of social values. Such a theory evidently will be in sharp contrast to moral aspirations and religious attitudes which misuse the concept of social values today. Only with such a well elaborated concept at hand⁸ it can be attempted to determine the position of the different strata of the global political economy today. And only with such a scientific evaluation at our disposal the political implementation of improvements in a labour movement perspective can be envisaged.

Production units will always be needed, though what will be produced will (and has always) changed rather dramatically. Looking at the long-run the nature of production units seems to return to its early roots in merchant capitalism: As in the early times (e.g. the East India Company) the fate of large companies is tightly interwoven with the fate of large political

⁶ As [A. Wood and C. Ridao-Cano, 1996] show the emergence of the corresponding skill difference of workers might in turn speed up the divergence between developed and less developed parts of the global economy.

⁷ Already in the 50-ties of the 19th century, while Marx was publishing his 'Das Kapital', the British ruling class was busy to ameliorate the fate of the local working class. A conscious and decisive attempt to disperse resistance and to export exploitation – a very successful attempt indeed.

⁸ It still seems to be the methodology of augmented and enhanced, dynamic input-output frameworks, which is most promising as a starting point for this research project.

units – the political economy in the literal interpretation of the concept re-emerges. In between, in the age of industrial capitalism⁹ prevailing from the 18th to the early 20th century, a somewhat different setting seemed to take on shape: All political agenda, including a monopoly on coercive and ideological power, are concentrated in the hands of the nation state. Within this nation state a regime free from all power relations, only regulated by market forces that work between independent individuals prevails. So far the vision - the actual political world in which it had emerged vanished in World War I and had to give way to ideologically oriented movements (e.g. Fascism, Stalinism) and large scale production systems (e.g. Fordism and Stalinist production systems [Hanappi, 1994, pp.112-161]). With World War II the first competitor for a new political economy model, Fascism, failed, and the overwhelming hegemonic power of the United States enabled its firms to become truly transnational models for global production units. Some European and Japanese firms, mainly due to their advantage of starting with brand new capital stocks after WW II managed to produce some imitators. Already during that period it became evident that different strata of types of production units will build the production system of the future. When in the early 90-ties the remaining competitor of the U.S. model, the Soviet union, crashed as a political system, the surviving production units in its former hemisphere added a new variety to the strata of the global production system.

In the last 10 years another variant of a Stalinist production system, the **Chinese model**, flourished and now is producing the majority of goods traded in the world economy. To be very clear: This most successful contemporary model is based on a congruence of military, political and economic power – a political economy in the immediate sense of the word. Production units in China are not really exposed to internal market forces, but rather work as command systems, external relations of China are to a large extent politically centralized. Though business relations in the large centres, like Shanghai, are changing quickly it would be simply wrong to consider these production units to be in the same category as US firms or European firms. At the moment it is not clear at all which type of global division of labour related to the different strata of production unit types is emerging – and is feasible in the mid-run. Decision-makers in this process will be changing coalitions of military, political and economic elites, with power probably distributed in exactly this order.

As the discussion of workers and firms already vividly shows an innocent and simple debate on **classes** and class relations is not possible. If there is no easily determined proletariat as a

⁹ For a more precise definition of industrial capitalism compare [Hanappi, 1988].

self-conscious class, then the simplistic notion of the dictatorship of such a class is pointless. The negation of the alienating features of industrial capitalism evidently can take place rather as a revival of ever larger, though nevertheless faster (thanks to ICT) political feedback loops. These feedbacks will come from a very complicated structured public, a global public that must not only be well nurtured but also well educated – something very far away from the current situation. If the concept of class is to evolve into such a new concept of a structured, public sovereign of last resort then the major stumbling blocks towards this goal are religious movements. Whenever enlightenment and education fail, religious leaders step in to use ideological (increasingly ICT supported) power for exploitation. Together with the return of politics in economics comes the return of the battle for atheism, i.e. the agenda of the enlightenment. It is a necessary component for the further evolution of what was previously known as the class concept. Global coalitions of political feedback groups are not a strange idea; indeed international finance mechanisms – increasingly populated by public funds, e.g. pension funds – are already paving the way for more conscious and politically legitimated ways for such linkages.

In a certain sense this evolutionary task is the hardest of all since it runs completely counter current trends. It therefore might emerge under the disguise of rather surprising forms, like international finance. It might also get some additional support from groups gaining their consciousness in political economics by being confronted with global environmental problems. In any case the difficulties of organising, focusing and above all providing the theoretical basis for intelligent design will be enormous.

Finally it has to be kept in mind that **nation states** will change their role, but will not vanish. Their possible future importance will not stem from their agency in economic policy; they will rather be instruments, local devices and sensors, in this respect. What might be their major contribution could be their role as units of cultural identity. In providing diversity within the larger units of the political economy they could act as safeguards against monolithic aspirations of central framing authorities. By translating ideas to and from different cultural languages, seeing them in different contexts, the overall space for reactions to new challenges is extended. As shown with respect to innovation activities of firms in a recent paper [Hanappi and Hanappi-Egger, 2004] there is an inverse relationship between the change of speed of the environment and the optimal diversity of behavioural responses. Too little internal diversity makes large units extremely vulnerable if environments change fast, on the other hand too much diversity in slowly changing environments is an unnecessary luxury.

Nation states thus could serve as culture pools that breed potential social innovation for the larger political economy unit. If this suggestion turns out to be correct it is evident that Europe has a promising starting position¹⁰.

Concluding remarks on New Deals

Who will be the parties that will have to strike a deal? And first of all, what does the concept of a deal imply?

History of social evolution comes in time packages: For each time package a certain set of social relations, rule systems, law systems and corresponding executive powers seem to be frozen – at least when they are compared to the short periods of extraordinary fast dynamics and flux that divide the frozen states. A deal usually is an attempt to freeze relations, either immediately after a period of turmoil or even during this transition phase. It is meant to pave the way towards a new state of temporary stability.

To reach out for a *new* deal implies that the old deal does not work any more. In other words, the relative stability the old deal once provided is vanishing. As a matter of fact, new deals usually are not only characterized by new agreements to be formulated by the same old bargaining partners, they most often also are new because new players have entered the scene.

Roosevelt's famous New Deal was a proposal made after the Great Depression to implement a new mechanism between firms, the state and workers to prevent similar economic catastrophes in the future. What Roosevelt proposed for the domestic economy of the U.S. was a new deal; and with similar motivation what Keynes proposed in Bretton Woods as a fixed exchange rate system for international economic relations was a new deal proposed for nation states. Players in these deals were contemporary, but different. Interestingly enough most of the deals struck in this period were intact for an incredibly long period. Only most recent developments - mainly initiated by the breakdown of the Soviet hemisphere and the follow-up of a Bush administration that aggressively has been changing most written and unwritten laws of international conduit – only these events made it evident that a new deal is waiting to be designed.

¹⁰ There are indeed first signs of a reversal of the brain drain from Europe to the USA that occurred during and immediately after World War II (compare e.g. [J. Rifkin, 2004]). Preference formation of academics sometimes is a good indicator for prosperity.

In the light of the discussion of the previous chapter it is clear that the new players that could strike such a deal have not been constituted yet. Of course, there are some old players, like the UNO or the OECD, who certainly will be important again. Other important bargaining partners, e.g. the international scientific community, have not found an organizational form, not to speak of a consistent mindset.

Others again, like China, are of utmost power and influence but lack any appreciative physiognomy in the views of their possible bargaining partners. China's future economic policy is perceived like an unguided missile: everybody hopes to benefit and at the same time is afraid to be destroyed.

Latin America is currently entering a period of industrial revolution. In a few respects this process is comparable to the corresponding classical period in Europe, but in most others this development should be characterized by a learning process, should circumvent the well-known painful experiences the old world had to go through.

In this debate another extremely important bargaining partner comes into sight: international finance. Who's that? There is no global institution to manage world finance yet¹¹.

Other potential bargaining partners at the moment only exist as latent forces too. Most pressing are the needs for voice of those masses of population that do not have any education or socioeconomic perspective at all, where some 30 thousands die every day from starvation.

This short and eclectic list should be sufficient to show how enormous the task envisaged by a new deal really is. Only to name the potential bargaining partners, to constitute them, is more difficult than dozens of human genome projects - it probably is more urgent too. But still a success would only be the starting point for designing and bargaining. Despite these difficulties, and as the old masters of new deals have shown so impressively, there is no room for despair; there is an incredibly large and growing community of scientists out there that – if it joins forces – might be able to act as a catalyst.

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¹¹ To discuss the issues related to international finance would go beyond the scope of this paper. Recent work in much the same direction of what is proposed here can be found in [Aglietta M. and Rebérioux A., 2005].

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