

WHAT IS CAPITALISM AND HOW IS IT CHANGING?

An interview with ERNESTO SCREPANTI

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1. Could you please elaborate on the general theory of capitalism? Specifically, why is the fundamental institution of capitalism not, in general, the private ownership of the means of production, but rather the employment contract?

There are capitalist systems in which the means of production is state-owned, yet production is subordinate to capitalist accumulation. For instance, a relevant part of Italian industry was owned by the state in the sixties. Corporate control was exerted by IRI, ENI and other public holdings founded by fascism and further developed by the Christian Democratic regime. The rationale was that in this way the government could implement industrial policies aimed at promoting capital accumulation and providing cheap services and inputs (infrastructures, energy, steel etc.) to private companies. On the other hand, there are cases in which socialist firms, such as self-managed cooperatives, use property rights to assign control to the workers. In other words, private property is neither a sufficient nor a necessary condition for the existence of capitalism: it is not the fundamental institution of capitalism. Marx developed a very original theory in *Capital. Book 1, Chapter Six. Results of the Direct Production Process*, a chapter of *Capital* written between 1863 and 1866, though remaining unpublished until 1933. There he put forward the idea that the fundamental social relationship in capitalism is based on the exchange of wage labor. In this relationship, the workers are subjugated by the capitalist and their labor capacities are subsumed under capital. I elaborated on this idea in my book *The Fundamental Institutions of Capitalism*, where I argued that the fundamental institution is the employment contract. With this form of contract, the worker takes on an obligation to obedience in the production process in exchange for a wage (which is then to be intended as the price of renounced freedom) and the capitalist gets the power of command. It is through this power that the capitalist can control production and extract profits by exploiting workers. The employment contract is a necessary condition for the existence of capitalism, yet it is not sufficient. It is also necessary that surplus value is used to feed capital accumulation, and this may be ensured by different forms of accumulation governance structures and property rights regimes.

2. Throughout 150 years of capitalist development, a set of institutional arrangements, capable of regulating the functioning and evolution of economies, have emerged as new capitalist forms. So could you please explain the essential differences in the institutional forms of the real capitalism of western countries and the ideal types of capitalism developed by Marx?

Marx's classical model of capitalism was based on the mid-eighteenth century British system: personally owned companies operating in a rather competitive market. In its subsequent historical evolution, capitalism has proved able to survive by changing its institutional forms (while still keeping the fundamental institution intact). In the above-mentioned book, I proposed a classification of different forms of capitalism by combining three kinds of property rights regimes (concentrated private property, diffused private property, state property) with four kinds of accumulation governance structures (goods markets, markets for corporate control, external hierarchies, internal hierarchies). The resulting classification brings out five different forms of

capitalism that seem to highlight the real historical evolution of capitalism: classical capitalism, market-oriented corporate capitalism, bank-oriented corporate capitalism, decentralized state capitalism, centralized state capitalism. The prevailing form in contemporary advanced countries is the one developed in the Anglo-Saxon world. It is a system of market-oriented corporate capitalism in which private property prevails, the big companies have a dispersed shareholding and are controlled by managers, and big banks use finance capital to accumulate speculative profits. The raiders take over industrial companies in stock exchanges when they are undervalued, then they break them up and resell shares at higher prices; in this way they impose a certain degree of market discipline to managers but, at the same time, induce them to look after the value of firms with a very short-term view. Banks and financial institutions are not interested in the long-term profitability of companies, nor are their operations restricted to national markets. Rather they move portfolio investments all over the world in search of immediate capital gains from financial speculation.

3. In your view, Germany's and Japan's bank-oriented corporate capitalism has many advantages over the US's market-oriented corporate capitalism. You say it can mitigate or eliminate myopic speculative activities and short-termism. Could you please speculate on this?

The bank-oriented form of corporate capitalism developed after World War II in Germany and Japan, and a little later in South Korea. In this system there were a few big national banks (in Germany), keiretsu (in Japan) or chaebol (in South Korea) that took control in many industrial companies, not for short-term speculation on their value, but to keep shares for a long time and exert some sort of central planning. As they were interested in long-run profitability, they appointed industrial managers, scrutinized their ability and monitored investment projects, while providing finance for growth. Moreover, Trade Unions were partially involved in the company administration (Mitbestimmung, i.e. codetermination), and workers in the achievement of the company's 'mission'. This ensured a certain degree of social peace and a check on labor costs. Twenty years ago many observers, including myself, had a mild expectation that, in the very long run, if anything, the German-Japanese model would win over the Anglo-Saxon one because it ensured a more stable growth, lower income inequalities and a fairly stable social peace. We did not take account of the coming effects of the conservative neoliberal revolution of the 1980s and 90s. In particular, the closing of the Uruguay Round and the birth of the World Trade Organization paved the way for the outright liberalization of capital movements, financial market deregulation, the triumph of universal banks and the growth of shadow banking. German and Japanese banks widened their operations to global markets and abandoned most of their ambitions to exercise industrial control in their national economies. Manufacturing companies, for their part, extended multinational activities with massive foreign direct investments to take advantage of international competition between states and the labor force. Eventually the Anglo-Saxon model was the winner, with the result that global financial instability and social inequalities have increased.

4. Eleven years ago you wrote that American capitalism is characterized by high speculation, which may result in market volatility. It would seem that your predictions have become reality. The subprime mortgage crisis broke out in the US several years later. So could you please talk about this in regards to your forecast for the future of American capitalism?

Globalization is helping to trim down US hegemony. The trade competition of emerging and developing countries and the tendency of US companies to react by relocating investments abroad has driven down wages. If mass consumption and investment did not grow enough, effective demand would shrink, GDP growth would slow down, the public budget deficit rise, and the government would be increasingly unable to finance its huge military expenses. Starting with the 1990s this problem was taken care of through a convergence of interests of big finance and big

government. The latter complied with the former's demand for an extensive deregulation of financial markets and an expansive monetary policy. The former swelled their credit supply, especially in the real estate market. In this way a housing bubble was inflated that helped sustain consumption and GDP growth. However, the debt of households and firms increased, whilst leverage and bankruptcy risks mounted. Banks reacted by bloating shadow banking and redistributing risks with the securitization of their credits. A subprime bubble inflated together with the housing bubble. Moreover, since US industry was losing competitiveness, the current account exhibited a huge and increasing deficit. This was affordable because the dollar seigniorage enabled Americans to consume more than they produce, but the result was a strong increase in foreign debt. This is another way of saying that, through a global bubble, American big finance and government induced the rest of the world to fund the expansion of home consumption and military expenses. The burst of the bubble came when the Federal Reserve (perhaps to contrast the dollar's systematic devaluation against the euro and the emergence of this as an increasingly attractive international reserve currency) raised the federal funds rate. This was 1% in 2004. When it reached 6.5% in 2007, the bubble started to deflate. At the present time, the American GDP has made a recovery, but a rather modest one. It is propped up partly by Obama's expansive fiscal policy and partly by the Fed expansive monetary policy. However, the former policy inflated public debt, whilst the latter inflated another financial global bubble. When the Fed implements the projected tapering of accommodating monetary policies (which is now starting to occur) there might be another bubble outburst. In fact, the simple announcement of tapering last year precipitated serious currency crises in various emerging countries (India, Indonesia, Brazil and many others). To sum up, US insistence on trying to perpetuate their global hegemony with the help of big finance, has caused the world great troubles, and might soon cause another crisis.

5. Could you please comment on Chinese socialism with Chinese characteristics and the reform of Chinese state-owned enterprises?

In western Marxist debates the interpretations of the Chinese economy and society waver between two extremes. Some say the impressive achievements in GDP growth are just a result of (private and state) capitalist accumulation; others maintain that China is a country in transition towards socialism, which uses and politically controls capital investments to raise the people's welfare. I think that China is in the middle of a transformation process that might end up either way. Transition towards socialism can certainly be accelerated through a market economy in which private, state and socialist firms compete. State control over a relevant part of industry and banking can be used to implement industrial policies that favor growth. The Chinese Communist Party wisely rejected the Soviet model of centralized state capitalism – a model that eventually resulted in a catastrophic failure. They also wisely realized that the rules of a (politically governed) market economy are better than the despotic regulations of a command economy, i.e. superior in terms of economic efficiency, GDP growth and collective welfare. Transition towards socialism could well take place through market competition between private capitalist firms, state-owned firms and workers' self-managed cooperatives. In my view, the sole guarantee that the system is evolving towards socialism is that policy makers favor the growth of self-managed cooperative firms. For instance, reforms and privatizations of state-owned companies should be done by transforming them into workers' cooperatives, possibly preserving a minor public participation in capital, and finance should help cooperatives by granting abundant credit at low interest rates. In my book on *Libertarian Communism* I recalled Marx's definition of communism: 'the self-government of the producers', or 'free and associated labor'. There are sound theoretical arguments to support the idea that workers' self-managed firms are more efficient than capitalist firms (especially in dealing with information asymmetries), and therefore that competitive selection would eventually end up with the cooperative sector winning over the capitalist sector, *provided the state does not facilitate the latter with financial and legal privileges and compliance to oligopolistic power.*

6. I recognize this is a broad question, but could you please briefly outline what you see as the rudiments or key points of the classical economists' view and Marx's view of capitalism?

The classical economists, especially Smith and Ricardo, developed a theory of market capitalism and a model of bourgeois society that accounted well enough for the transformation of European economies in the industrial revolution. The theory contemplates three social classes: capitalists, landowners and workers. They receive different incomes – profits, rents and wages – on the distribution of which there is harsh social conflict. The three classes perform different economic functions: the capitalists direct production, then save and invest most of their incomes, the workers produce, and the landowners consume unproductively. The higher the income share accruing to the capitalists, the faster grows the nation's wealth. Marx highly appreciated the classical political economists. Although he criticized the ideological implications of their doctrines, he assimilated their analytical model, and developed it into a critical theory. The basic point in Marx's political economy is that capitalism is based on the exploitation and oppression of workers. In a modern capitalist system, under the rule of law, workers are endowed with freedom of contract but they are not endowed with the means of production required to produce their income. Therefore they are compelled to 'freely' accept an employment contract by which they give up their freedom in the production process. Thus the capitalists get the power of command that enables them to exert exploitation. Goods markets implement a certain allocation discipline by rewarding efficient firms and expelling inefficient ones. However, this discipline takes place through periodic crises that result in macroscopic inefficiency. Monetary and financial markets sustain capital accumulation by endogenously providing liquidity for investments and pumping up production during the booming phases of the business cycle, but also help exacerbate crises causing capital destruction and credit crunches (what Marx called 'money famine'). The Moor was also one of the first economists to anticipate globalization, as he understood that capital has an intrinsic tendency to expand abroad and, in the very long run, to create a unified 'world market'. One of the most important consequences of accumulation on a world scale is what Marx called an 'increasing relative impoverishment of workers'. Wealth and income concentrate in the hands of an ever richer class of capitalists and speculators, whilst wages, though increasing in absolute terms, tend to decrease in relation to the mass of profits. This is precisely what has been happening all over the world in the last forty years or so. Capitalism is a historically determined mode of production. It had superseded ancient and feudal economic forms based on slavery and serfdom, and constituted humankind's enormous progress in terms of economic welfare and civil rights. But it is not eternal. It produces its own kinds of inefficiency, oppression and inequality. Thus it is destined to be superseded by a more advanced form of society and mode of production, that Marx calls socialism or communism. The actors of this transformation are the world proletariat, induced to revolution by the workers' aspiration to real freedom and the knowledge that capitalism does not guarantee this to them and to the overwhelming majority of the population.

7. How do you view the economic situation of Italy and the Eurozone? Could you please analyse this from your point of view?

The Euro is an undervalued Deutsch Mark and an overvalued Lira, Peseta, Franc etc. Therefore German firms are advantaged in international trade whilst Italian, Spanish and French ones are disadvantaged. Moreover, German firms invest a lot in research and development and their productivity is increasing remarkably. On the other hand, the German government tends to implement restrictive fiscal policies by which wages are kept down. So, although German wages are about 30% higher than Italian, labor costs are lower in Germany. For all these reasons, the German current account surplus has been increasing since the creation of the European Union. This mechanism worked quite well (for German industry) until the breakout of the great crisis. Consider that, because of the increasing German surpluses, Italy suffered an increasing current account

deficit until 2012. And a current account deficit produces foreign indebtedness. Now, add the fact that the European Central Bank is prohibited from directly financing governments by buying public bonds in primary markets, and bear in mind that the Italian public debt was rather high (about 119% of GDP) in 2011. Then you can understand why speculators, estimating a high default risk, strongly attacked the Italian sovereign debt. This made interest rates rise and the public debt swell. The government, under recommendation from the BCE, the IMF and the German government, raised taxes and reduced expenditures in 2012 and 2013. The declared intention was to cut the public budget deficit and soothe speculators' anxieties. But the consequence was a recession with reduced GDP (-2.5% and -1.8% in 2012 and 2013), and a further rise in the Debt/GDP ratio (132.6% in 2013). A vicious circle has been triggered that might keep the Italian economy (and the Spanish, French, Greek etc.) in a long depression. Then there was the rebound effect: since many German goods are exported in Europe, depression involves the German economy too, with negative or very low GDP growth rates. Some observers cast doubts on the acumen of European politicians: are they too stupid to understand that austerity policies are self-defeating? But others surmise that they are not, and that there is a precise capitalist logic in those policies. Through recession and galloping unemployment (the rate of youth unemployment in Italy is now over 41%), wages are kept down, and through cuts in companies' payroll taxes labor costs are further reduced. In this way, i.e. through social and fiscal dumping, European industry could eventually become competitive with that of China, India, Brazil etc. German capital and the German neoliberal politicians head this kind of mercantilist strategy. Their interest is twofold: with beggar-my-worker practices they enact beggar-my-neighbor policies by which they impoverish other European countries; at the same time, German firms can invest and expand in Eastern Europe (where labor costs are rather low) and take over Southern European firms (whose value has shrunk because of the crisis). According to this interpretation, the European Union is an instrument of German imperialism. German big capital dominates other European countries' capitalists, and these comply because they obtain increased labor exploitation, which in the long run should raise their international competitiveness. However, it is possible that this kind of policy too is self-defeating. Since Europe is the greatest export market for the rest of the world, its stagnation is causing significant growth slowdown in many emerging and developing countries. Therefore, even if social and fiscal dumping would raise European competitiveness, European exports would not increase much as the rest of world imports will sink due to the global GDP slowdown. This is an international vicious circle that might cause a third dip of the great crisis (after the subprime and the Euro dips).

8. And now a final question. Could you please say something about your scholarly experience? What did initially draw you to the research on the general theory of capitalism? And what motivated you to focus on the "rethinking Marxism" program?

I was intensely involved in the worldwide anti-imperialist and anti-capitalist movement that began in 1967-68. Then, in the '90s, I joined the Partito della Rifondazione Comunista. Through these experiences, I realized that Marxist thought needed to be rejuvenated if it is to serve as an instrument for changing the world. It has to be reconstructed in two ways. First, it needs to be updated to account for the evolution of forms of capitalism. Contemporary capitalism is clearly very different from that observed by Marx and Engels in the nineteenth century. Thus, I tried to develop a general theory, that is, one capable of singling out the fundamental institutions which are common to all forms of capitalism. At the same time I sought to investigate the specific form capitalism is taking nowadays. Secondly, the philosophical and scientific presuppositions of Marxism need to be re-founded. Marx worked on the grounds of the most advanced thought of his times, namely Hegelian philosophy and Ricardian economics. There have been a great number of innovations since then. I think that we can enrich our instruments of analysis by assimilating many important pieces of knowledge developed, for instance, by post-Keynesian, neo-institutional and behavioral economists, and by taking advantage of certain theories that Marx could not have known, such as the theories of public, common and merit goods, asymmetric information, effective demand, and

financial instability, to mention just a few. On the philosophical front, the most interesting streams of thought in contemporary Marxism are taking inspiration from two great approaches - analytical philosophy and hermeneutics - one coming from the Anglo-Saxon tradition, the other from the continental European tradition. I have mainly been working within a stream that could be called "hermeneutic Marxism". The "rethinking Marxism" research program belongs to this stream. At the same time, I have sought to rethink Marx by bringing to light his method of institutional individualism – an issue recently clarified by "analytical Marxists". Finally, let me make one point clear: capitalism has survived by changing its institutional forms, ideological apparatuses and scientific instruments. Marxists must be able to improve their scientific tools of comprehension of reality if they wish to come to grips with the modern world. Otherwise they risk being reduced to relics of a dead past and antiques of the nineteenth century.