Intermediate Theory of Capitalist Economy: Market Capitalism, Bureaucratic Capitalism and Transnational Capitalism

Nobuharu Yokokawa[1)]

This paper argues for the importance of an intermediate type of theory between abstract theory and concrete analysis. The sections that follow concentrate on building the most basic part of the intermediate theory, namely the commodification of labour power in different evolutionary forms of the capitalist economy. The paper proposes the following periodization of evolutionary forms of capitalism: market capitalism, which was established in the mid-19th century; bureaucratic capitalism, which was established in the mid-20th century; and the possible formation of transnational capitalism since the 1990s. In order to examine the accumulation of capital in different evolutionary forms, the paper develops an open Marxist economic model, paying special attention to the international monetary system.

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1. Limits of Marketization and Multilayered Analysis

A rich tradition of political economy was lost to western academic economics in the post war period of neo-classical domination. However, in 1970s, Neo-classical Keynesian economics was criticised by economists on both left and right. Among the left ist critics, new interests in political economy arose. Marx's theory of capital accumulation and crisis was rediscovered. In order to solve contemporary problems, study was conducted of such topics as value, the difference between labour and labour power, skilled labour, productive and unproductive labour, reproduction labour and gender. Interest in Institutionalist economics revived in the form of Evolutionary Economics. Interests in multilayered analyses were also revived. Theory of state became an important topic. American Radical Economists built a theory of the social structure of accumulation. French Regulationists developed a theory of the Fordist accumulation regime, and analysed the rise and fall of the post war capitalist economy. Structuralist macroeconomists combined post Keynesian theory with Marxian economics. Dependency theory developed a new account of capitalist development. Many of these new trends in political economy contributed to the building of a multilayered analysis of the capitalist economy.

The reason why the capitalist economy should be analysed in several layers is that social reproduction cannot be fully marketized or commodified. Let us start with Marx, who paid special attention to the limits of marketization in his *Capital*.

Firstly, Marx's materialist conception of human history highlighted other institutions of social reproduction, such as the Asian, classical, feudal, capitalist, and socialist modes of production. From this point of view, the market is not the only mechanism that organises social reproduction; it is just one institution among many others.

Secondly, Marx defined a commodity as a circulation form. Any product becomes a commodity when it is sold for money, whether it is a product of the capitalist economy, of the small commodity production, or even of communal society. Commodity is thus defined as a circulation form that a product assumes in a circulation process. I distinguish here between nominal and real commodification, following Marx's discussion of the nominal and real subsumption of labour(see below). I use the term 'nominal commodification' for the commodification of products of non-commodity production, and 'real commodification' for commodity production. The capitalist economy cannot exist without nominal commodification, since it requires the products of non-commodity production such as raw materials produced in other modes of production and most importantly labour power produced in a family system. This is one of the main reasons why complete marketization is impossible.

Thirdly, Marx distinguished between labour power in a labour market and labour in a labour process, and elaborated a theory of the real and nominal subsumption of labour. Buying labour power in a market is one thing; exploiting labour is another. Exploiting labour requires more than egalitarian market relations. Capitalist must have command over workers in order to force them work longer than necessary labour hours. Before the advent of the mechanised factory system, the capitalist labour process had to rely on the division of labour among skilled workers. Marx called this the nominal subsumption of labour, since leadership of the labour process belonged to skilled workers rather than to capitalists. With mechanisation, capitalists organised the labour process by means of the division of labour among machines. Marx called this the real subsumption of the labour process, since capital took over leadership of the labour process. The nominal subsumption of the labour process may take various forms. It may be more similar to a master/apprentice relationship than to a capitalist/labour one. It has no standard relationships. In contrast, the real subsumption of the labour process has more firmly established general capitalist foundations, which Marx analysed in detail.

Fourthly, Marx paid special attention to the volatility of a market economy. He argued that the intermediation of selling and buying by money might cause crisis. The money market also increases the fragility of the economy: over credit at the end of prosperity accelerates the accumulation of capital, and tightening credit at the end of a boom triggers a crisis. Marx carefully analysed the cyclical movement of unemployment in the labour market, and pointed out its tendency to increase.

On the basis of this understanding of marketization, he developed the theory of the law of value that maintains the autonomy of capitalist economy. For Marx, the capitalist economy was essentially industrial, because at that stage it subsumed the labour process within the circuit of industrial capital. Industrial capital not only appropriates surplus value through buying and selling commodities, but generates surplus value in its circuit. This implies that capital is able to organise social reproduction in this formula, thus becoming an independent mode of production. From this point of view, the existence of labour power as a commodity is the precondition for the capitalist mode of production, and the re-commodification of labour power is the prerequisite for capitalist social reproduction. I shall now examine Marx's law of value from this point of view. The law of value takes material form in the competition between capitals for the highest rate of profit. It equalises the rates of profit by adjusting the supply and demand of commodities. The market mechanism thus works well for capitalist commodities, but the law cannot be directly applied to non-capitalist commodities, such as labour power. Non-capitalist commodities require different mechanisms to regulate supply and demand. Marx explained these mechanisms in his theory of the business cycle as the fundamental dilemma of capitalist economy. The production of surplus value relies upon labour power as a commodity, but the capitalist production process cannot produce labour power as a commodity. This dilemma manifests itself in the shortage of labour power and in the profit squeeze at the end of prosperity. A shift to a more capital-intensive technique may solve these problems, but it cannot be achieved smoothly and it gives rise to crises. Thus the wage rate and the demand for and supply of labour power are regulated through cyclical crises, which constitute the mechanism which keeps the law of value to labour power.

Marx developed his economics on the basis of mid 19th-century English capitalism, in that Britain had the only developed capitalist economy that he could observe. As a Japanese Marxist economist, Uno, has pointed out, the mid-19th century British economy had a tendency to become a pure capitalist economy. It helped Marx to formulate the general theory of capitalism, but on the other hand it induced him to believe that all capitalist economies would follow the pattern of British capitalism. Marx failed to foresee the historical evolution of the capitalist economy and its geographical diversity. Quite naturally, therefore, some of his conclusions concerning the capitalist economy were made obsolete by changing capitalism, which evolved into a new form at the turn of the century.

At the end of the 19th-century, the new development of the German and U. S. economies transformed the capitalist economy into a new evolutionary form, which also forced the developed capitalist economies to change. Only at this point did it become a theoretical question why those different types of economies should be classified, within a generic category of capitalism.

The controversy began with Bernstein's criticism of Marx's long-run theory of capital accumulation. Bernstein argued, firstly, that although Marx predicted that large firms would absorb medium and small firms in manufacturing, the latter nevertheless survived. Secondly, although Marx predicted the impoverishment of workers, productivity growth improved their living standards. Thirdly, although Marx predicted more severe and cyclical crises, the development of the credit system and the formation of oligopoly reduced their acuteness.

Marx's followers attempted to build a new theoretical frame works, which include Hillferding's *Financial Capital* and Lenin's *Imperialism.* These works investigated such new historical phenomena as the monopoly system, the new relationship between banks and industry, modified business cycles, and new roles for economic policy. Both Lenin and Hilfferding chose the more general conception of Marx's materialist history rather than his economic theory set out in *Capital*, as a theoretical foundation for analysis of these new phenomena. They developed intermediate theories between general theory and concrete historical analysis, examining new historical phenomena that were not anticipated in *Capital.*

The further development of the capitalist economy generated even more problems for Marx's one level analysis. For example, when Marx's theory was applied to the industrialisation of Japan in the 1930s, it was very difficult to determine whether the Japanese economy was a capitalist economy or a pre-capitalist one, since it displayed many differences from the pure capitalist economy. In this pre-World War II controversy, Uno addressed twofold problems of deductive and inductive methods. A theory of imperialism was indispensable in order to take the different environment of development into account. But, a theory of imperialism must be built on a solid base of Marxian economic theory, rather than on ad hoc historical theory. Uno's three-level analysis of the capitalist economy was his solution to these dilemmas between theory and history. The first level comprised the basic principles, which were to be derived from Marx's *Capital* and completed where necessary. The next level developed a 'stage theory of world capitalist development' which involved the concrete examination of the historical development of the leading industries, together with their main policies. At the third level of research, individual capitalist countries in their concrete historical situation are analysed.

Although Uno's three level analysis has theoretical and historical limitations, it is still a good starting point for development of multilayered analysis of the capitalist economy. Generally speaking, the lower abstract level of analyses must be based on higher level analysis, although these are relatively independent of each other since each level has its emerging properties which cannot be deduced by analysis at a higher level of abstraction. Higher level analyses, on the other hand, are reinforced by fact-finding in lower level analyses. Let us now investigate the relations between the three levels of analysis.

The basic theory describes the basic mechanism of the capitalist economy as if it continues forever. It analyses a self-regulating closed economic system, or a perfectly commodified system. Abstraction from fortuitous historical developments gives logical clarity to the basic theory common to all capitalist economies.

Both Marx and Uno chose mid-19th century England as the historical foundation of the abstraction with which to build the basic theory. They believed that mid-19th century England, with the formation of a three-class society and free market capitalism, had a tendency to become a pure capitalist society. Uno, following Lenin, distinguished three stages of development in the capitalist world system: mercantilism, liberalism, and imperialism. The idea underlying these distinctions is that capitalism purges the feudal residue and reaches its purest form in liberalism, moving away from the law of value in imperialism because of oligopoly, labour unionisation, government intervention, and so on. However, the actual mid-19th century British economy was an open economy, and it had many impurities. It relied on foreign countries as the sources of means of production and markets for manufactured goods, just like other capitalist economies in other ages. The capitalist economy cannot exist without nominal commodification, since it requires both impurity, in a sense that the existence of non-market relations is indispensable, and openness in the sense that all capitalist economies presuppose other economies. The English economy was far from being a perfectly commodified economy. Pure capitalism is the result of theoretical abstraction, and although the mid-19th century English economy functioned well as a working model, it was not the best foundation from which to abstract pure capitalism.

In my opinion, the law of value is the basic theory of the capitalist economy, rather than being its pure theory. If we observe the law of value only in liberalism, it may be better to have a separate economic theory for each stage of development. The law of value works at all stages of development of the capitalist economy with supporting social institutions. In a transitional period, when the social institutions that supported capital accumulation in the previous era have been destroyed and new social institutions have yet to be established, capital accumulation is fragile and never permits full employment. Therefore, only in a transition period is the law of value partially restrained. From this point of view, it is better to abstract common features from all the different evolutionary forms of the capitalist economy, given that there have been so many different capitalist economies since Marx's time.

The intermediate theory explains the historical development of the capitalist world system. In my opinion, the concepts of nominal and real commodification are the key factors with which to relate these two levels of analysis. It is in an intermediate theory that we analyse impurities and openness, which are examined formally as nominal commodification in the basic theory, together with other historical determinants. The reproduction of labour power or the family, non-capitalist firms, states, are most important topics in discussion of impurity. When analysing diversities and the evolution of the capitalist economy, it is important to determine how the labour market and capital market are organised. Labour power is the main source of diversities and evolution in two senses. There are many ways to commodify labour power in the circulation process and to subsume labour power in the capitalist labour process, and they determine the specific character of each stage of the capitalist economy. Openness is another feature that should be considered when investigating the capitalist economy in more concrete terms. International monetary systems and international trade structures are the two most important topics in discussion of openness. Finally, combinations of forces of production and relations of production, or modes of production, develop in concrete historical circumstances. Therefore, substantial analysis of modes of production belongs to an intermediate theory.

Uno, following Lenin, built a stage theory of imperialism on the basis of historical experience between the end of the 19th century and World War I. In this period, the mass production system was established in heavy industry in the form of the joint stock company. If we consider only these aspects, we may assume that the foundations of present capitalism were established in that period. However, if we examine its historically specific mode of capital accumulation, which relied upon capital export and colonisation to solve the problem of domestic underconsumption, we find that it differed substantialy from the present-day capitalist economy. If the intermediate theory is identified with the theory of imperialism, it is difficult to analyse the post World War II development of the capitalist economy, which successfully reversed the pattern of capital accumulation from extensive to intensive and established accelerator mechanism between productivity growth and domestic growth. The theory of imperialism hampers understanding the success and eventual fall of the post-war capital accumulation mechanism. And this implies that we need a specific intermediate theory to explain post-war capitalism.

In the 19th century, numerous economists, and Marx among them, believed that a less developed capitalist economy would follow the trajectory of the British capitalist economy and that all successful capitalist economies would converge to British-type capitalism. In the 20th century, the majority of economists believed that all capitalist economies would eventually converge to American type capitalism. But these predictions were not borne out, and experiences shows the following. Firstly, there has been a tendency towards convergence in productivity and income level because of a catching up effect. There are marked common features among contemporary economies since catching up is achieved within the shared framework of a capitalist world economy. This is why the intermediate theory is necessary to analyse individual capitalist economies in the world capitalist system. However, the intermediate theory does not do away with concrete analysis of the capitalist economy. The catching up process does not induce all economies to converge on the same type, since it takes place uniquely depending on each economy's historical and social relations. In Marxist terminology, a new type of capitalist economy appears with a new combination of forces of production and relations of production. Even in the catching up process each economy introduces new forces of production according to its relations of production, and, after the catching up process, productivity develops differently in different combinations. In a same historical period, the geographical divergences of the capitalist economy is significant. All the evolutionary forms of the capitalist economy contain specific core, semi-periphery, and periphery relations. Even in the same category, the path dependency of capitalist evolution make each economy unique. These emergent characters require third level concrete analysis.

2. The Law of Value in Market Capitalism

Marx's concepts of two modes of capital accumulation, namely capital widening accumulation and capital deepening accumulation, and his monetary theory of crisis address the law of value, or the dynamic order of market capitalism which is characterised by private ownership, entrepreneurial control, free competition, small non-interventionist states, and the gold standard system.

The relation between the Marxist concept of two mode of accumulation and the modern concept of productivity may be explained as follows. Capital widening accumulation in prosperity increases the amount of profits, but it does not change either the rate of surplus value or the rate of profit. Capital deepening accumulation with the introduction of more productive machinery in depression increases labour productivity and produces relative surplus value by reducing the value of wage goods. It increases the rate of surplus value, but it may or may not increase the rate of profit. If it requires expensive machinery it may increase the organic composition of capital and decrease the rate of profit. In other words, the diminishing return on capital may decrease total factor productivity, even if labour productivity is increased. If a technological advance supplies more productive machinery at less cost, it will increase both labour productivity and total factor productivity, and thus the rate of profit. Total factor productivity is an indirect measure of technological growth. Where it is not confusing I shall use 'productivity' to refer to total factor productivity.

This paper adopts Marx's definition of credit system and monetary system. The term 'credit system' means that credit money such as bills of exchange, and banknotes circulates as means of payment in the network of credit transactions. A 'monetary system' originally meant in mercantilist theory that the accumulation of gold was the sole purpose of economic transactions. Marx extended the definition to cover the case where only gold is accepted as the means of payment to settle debt. In domestic trade, the credit system was completed when central banknotes eventually replaced local banknotes with the development of the national economy, acquiring the nature of fiat money under national laws. Similar developments of credit money can be observed in international trades. English merchants usually granted credit to foreign capitalists. Bills of exchange were endorsed by merchant bankers in the City, and circulated in international trade as means of payment (Panic, 1992, p. 28). Those bills of exchange were backed by the Bank of England notes. However, in the case of international trade the credit system was not completed, since the Bank of England notes were not reinforced by international law, and the final settlement of debts required gold as the world money.

Marx's theory of the credit system was strongly influenced by the Banking School, which argued that artificial regulation of the credit system was not only unnecessary but also impossible (Fullarton, 1845). The Banking School explained the basic character of the capitalist credit system far better than did the Currency School. What the Banking School missed is that the self-regulating mechanism works on the average or in the long run. The Currency School insisted that the monetary authority had to regulate the amount of money directly as soon as the possibility of a credit boom occurred. Although the Currency School's monetary theory was one sided and failed to see the self-regulating aspect of the capitalist credit system, it won the Currency Controversy, and its monetary system was introduced by the Peel Act.

I shall now discuss here why the combination of the credit system in prosperity and the monetary system in depression was complementary to the method of accumulation of capital in the cotton industry, which dominated the business cycle in mid-19th century Britain (Hobsbawm, 1962, p. 57). The renewal of old fixed capital, or capital-deepening accumulation materialised its first upturn at the end of depression. Prosperity was made possible by the expansion of production based on this new fixed capital, or by capital-widening accumulation (Marx, *Capital III*, pp. 366, 488). The British business cycle synchronised the accumulation of capital in the world capitalist system through the international monetary flow. The expansion of British foreign trade imparted a multiplier effect to the domestic economy of the satellite countries in two ways: (1) by increasing demand for commodities, and (2) by increasing supply of international means of payment which could be used to increase the supply of domestic currency. Thus the expansion of social reproduction in the world kept pace with that of Britain.

According to Marx, the total accumulation of real capital (i.e. aggregate investment) in a society is proportional to the rates of profit, while the total accumulation of money capital (i.e. aggregate saving) in a society is proportional to the amount of profit (Marx, *Capital III*, p. 505). At the end of prosperity, the accumulation of capital eventually caught up with the supply of labour in Britain[2)]. The workers' bargaining position was then strong, and consequently the rate of profit fell, owing to a rise in real wages. However, the total amount of profit increased because of the sheer amount of total capital. Marx argues that relative excess in the supply of loanable money developed 'plethora', and that 'plethora', in turn, allowed bankers to adopt a very loose credit policy (Marx, *Capital III*, p. 508). Commercial capital responded to this loose credit policy by speculative stock building (Marx, *Capital III*, p. 514). Industrial capital responded to the fictitious demands and the corresponding rise in price level that reduced real wages, by increasing the supply of commodities. In this way, with the help of fictitious demand and credit creation, the capitalist economy achieved the 'full employment' (Marx, *Capital III*, p. 482).

Marx argues that the shift from the credit system to the monetary system was responsible for the monetary crisis (Marx, *Capital III*, p. 491). During the boom period, British credit money was oversupplied both domestically and internationally. Domestically, while demand for means of payment increased with speculative operations, the supply of loanable money decreased for the following reasons. Firstly, the formation of depreciation funds did not increase because the real economy was expanding less than before. Secondly, industrial capital required more circulating capital to cover the circulation period with the prolongation of the latter by speculative activity. The imbalance

2) Marx emphasises that existing machinery hampered the introduction of new machinery. An increase in the organic composition of capital in the newly invested capital slowed down the absorption of the industrial reserve army but did not create one positively (Marx, *Capital III*, pp. 258-9).

between the demand for and the supply of loanable money was covered by banks' credit creation, increasing the supply of credit money. Internationally, British merchants attempted to sell more commodities than other countries were able to buy, due to overproduction of commodities at the end of the boom, by granting longer-term trade credit. Once the term of credit was prolonged, the amount of a new loan exceeded the return payment of the past loan. This entailed that the supply of British credit money exceeded the demand for the international means of payment. The oversupply of British credit money made a gold drain inevitable when the deterioration of the British exchange rate surpassed the gold point. It also undermined confidence in British credit money, and deposits were withdrawn from banks. The drain of gold ultimately reduced the central bank's reserve, and the Bank of England had to raise the discount rate to protect the gold standard. Concern not to spoil the market gave way to a tighter credit policy.

The difficulty of obtaining credit soon affected speculative operations. Speculators could not wait for the best time to sell their commodities because they had to pay the bills that fell due. In order to obtain means of payment, competition to undersell started among speculators, destroying many of them. Insolvency spread to the nation through the network of endorsement of commercial bills of exchange. With the collapse of the price level and destruction of the network of commercial credit, the credit system gave way to the monetary system (Marx, *Capital III*, p. 483). In market capitalism, the social circulation of commodities was mediated to a far larger extent by credit money. The collapse of the credit system caused deflation and reduced social reproduction, since the amount of gold coin and fiat money was too small to compensate for and to take the place of credit money (Marx, *Capital III*, p. 483).

After a short-term liquidity problem had been settled by the gold drain from Britain, her balance of payments was improved quickly. Firstly, the contraction of the British economy reduced imports and her trade balance was improved. Secondly, the contraction of credit granted to other countries improved her capital balance. Then came the other countries' turn. Firstly, long-term credit fell due and gold drained from other countries to Britain. Secondly, the higher British interest rate attracted capital from all over the world. Then other countries had to raise their interest rates to reduce the gold drain, which caused a world-wide credit crisis (Takumi, 1976, pp. 3-5).

The crisis itself removed the bottlenecks that caused it. Collapse of speculation resolved the disproportionate accumulation of capital. The spread of bankruptcy destroyed many badly managed firms in the manufacturing and service sectors, creating reserve armies. This situation continued for a while because of the vicious cycle between the decreasing demand for commodities and the decreasing supply. In this process many weak firms were succumbed, and stronger firms completed the depreciation of fixed capital. Marx emphasises the importance of the introduction of new machinery in re-establishing capitalist institutions. First, it increased the production of surplus value ((Marx, *Capital I*, p. 517). Second, it created a relative surplus population that weakened the workers' bargaining power. Third, it increased the effective demand for means of production, and restored the conditions for a balanced expansion of social reproduction. Finally, it restored the prerequisite of the commercial and bank credit system, increasing the circulation of capital goods on which commercial credit was based. The recovery of the credit system completed the restoration of the most favourable conditions of exploitation. The economy was now ready for resumed prosperity.

A strict gold standard and rudimentary monetary control worked rather well in this period, reducing excessive booms and allowing quick recovery from crisis. The main reason recovery was rather easy is that the capital outlay in the cotton industry was relatively small, and fixed capital could be depreciated in approximately 10 years, which allowed for rather quick recovery. Thus in this period social reproduction was regulated by market forces without discretional human intervention. Marx called it the self-regulating character the law of value.

3. Transition from Market Capitalism to Bureaucratic Capitalism

This section covers two periods: the decline of market capitalism from the 1870s to the 1910s and the transition to a new evolutionary form of capitalism. It is characterised by joint stock companies, managerial controls, oligopolistic competitions, and interventionist states. I shall call this new evolutionary form 'bureaucratic capitalism' since both firms and governments were well structured by bureaucratic systems.[3)]

At the beginning of the 20th century the average growth of the international trade volume of advanced countries surpassed their average growth of output. The growth of trade was one of the most important factors in economic growth. By contrast, the average growth of trade volume of these countries dropped from the previous 3.9 percent to 0.5 percent between the wars. This was the most important factor in poor economic growth, which dropped from 3.6 percent to 1.9 percent[4].

I argue here as follows. Firstly, changes in forces of production required the adaptation of relations of production. Adaptation to the new technology differed between Britain and newly industrialising nations such as Germany and the U. S., which reversed productivity among them. Secondly, the international monetary system changed from a credit system to a monetary system between the wars, and this is one of the main reasons for the poor economic performance achieved at the time. In other words, the international institutions that supported market capitalism had disappeared and new international institutions had yet to be established. As a result, the accumulation of capital was

3) For example, Chandler (1988, p. 49) states that 'a significant sector of American industry had become bureaucratic, in the sense that business decisions were made within large hierarchical structure'.

4) Relationship between growth of output and growth of foreign trade in advanced countries, 1853-1984 (percent per annum), Hirst & Thompson (1996, p. 22).

	1853 -72	1872 -99	1899-1911	1913 -50	1950 -73	1973 -84
Average growth of trade volume	4.3	3.1	3.9	0.5	9.4	3.6
Average growth of output	3.7	3.3	3.6	1.9	5.3	2.1

fragile and never allowed achievement of full employment.

(1) The classical gold standard and full employment from the 1870s to 1910s

With the shift from light industry to heavy industry with economies of scale at the end of the 19th century, capital investment increased both its cost and time. It became impossible to write off capital investments in ten years or so. In Britain, complementarity between the rudimentary gold standard system and the accumulation of capital was lost, and big capital shifted investmens from industry to the monetary sector. Capital exports became a more important source of profit than commodity exports[5)].

In this process, the British credit system and the international monetary system became more sophisticated, constituting the classical gold standard system in the form of a credit system. The City was the most important money and capital market in the world where many countries kept bank accounts and raised trade loans (Panic, 1992, p. 22). British bills of exchange circulated as a means of payment in international trade. Most debts and credits were cancelled out on bank accounts in the City, only the balance was settled by the Bank of England notes. Thus the expansion of international trade was mostly catered to by British credit money. Gold was necessary only to reinforce confidence in British credit money as an international means of payment. Other nations followed Britain and adopted the gold standard to make

5) Britain invested more abroad than at home. It accounted for 42% of total international investment before 1914. Panic (1992, p. 93).

trade and capital imports with Britain easier (Panic, 1992, p. 66).

In the U. S. and Germany, new monetary and industrial systems were developed to enable a vast quantity of long-term investment in industry. The limited liability joint-stock company became the main institution in these countries instead of the private firm. In order to mobilise social savings, large-scale financial intermediaries were developed; among them the stock market was most important in the U. S., and the banking system was most important in Germany. The world centre of accumulation shifted from Britain to the U. S. and Germany. When prosperity started, the American economy attracted long-term capital from Britain, while the German economy attracted short-term capital from many countries. Prosperity in the U. S. and Germany increased both exports and imports and boosted international trade. When these countries suffered from short-term exchange problems, Britain played a critical co-ordinating role (Eichengreen, 1992, p. 66). The Bank of England could attract short-term capital from all over the world by raising the bank rate and it loaned this capital to these countries to solve their short-term exchange problems.[6] All other central banks followed suit and raised their discount rates. In this sense, the Bank of England was the *de facto* lender of last resort and the central bank of the capitalist world system.

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6) Panic (1992, p. 76) points out why the Bank of England could attract short-term capital from all over the world: confidence in the Bank of England's commitment to the gold standard; availability and attractiveness of financial assets in the City; and its central role in world finance.

With the help of the stable international monetary system the U. S. and Germany achieved full employment. As prosperity increased, demand for labour power exceeded its supply, and wages rose. The higher costs in these countries increased their trade deficits, and gold drained away from them. This gold drain was caused by a fundamental imbalance in the economy and it could not be solved by short-term capital inflow. At this point, credit was tightened in the U. S. and in Germany, and the crisis ensued. The crises in both the U. S. and Germany were quite severe, and the following cutthroat competition in depression forced oligopolistic firms to increase their productivity to survive. Thus the cyclical crises imposed the dynamic order of the capitalist economy on theses economies. Their investment in heavy industry exceeded that of the Britain, and due to dynamic economies of scale, their productivity surpassed British productivity during the great depression at the end of the 19th century.

In contrast to those the U. S. and Germany, the British economy never experienced an over accumulation of capital after the 1870s. Firstly, plethora at the end of prosperity was modified by capital exports, and credit creation no longer caused booms. Secondly, the sophistication of the credit system reduced financial shocks, and a rising bank rate no longer caused severe difficulties for industries. It may seem paradoxical, but the extinction of crisis and the elimination of cutthroat competition reduced productivity growth in Britain, because it made scrap and build unnecessary. Thus the law of value was restrained in Britain.

The relative decline of the British economy eventually made coordination of the international gold standard system impossible. It was finally suspended at the beginning of World War I, marking the end of market capitalism.

(2) The gold exchange system as a monetary system in the inter-war period

In the first half of the 1920s, inflation under the floating exchange system was the main concern of many countries. Although mild inflation helped many of them to recover from the economic depression of 1920, hyperinflation prevented any real accumulation of capital. Since inflation was aggravated by the flight of capital from the country, a return to the gold standard was considered to be the best way to increase confidence in the currency and to maintain a stable price level.

There are two main reasons why the international monetary system changed from a credit system to a monetary system. The first was the decline of the British economy. Britain suspended the gold standard in 1914, and it took eleven years for her to return to the gold standard. The relative decline of her economy changed Britain's status in the world economy from the most advanced surplus country to a deficit country, which undermined confidence in Britain's currency and reduced the attractiveness of her financial assets. As a result, the acceptability of British bills of exchange as the international means of payment declined. Secondly, although only the U. S. could have taken over the Britain's role, in contrast to Britain which managed to play a co-ordinating role with the smallest gold reserve among advanced nations[7], the U. S. could not perform this role even with the largest gold reserve in the world, because its money supply required a proportional increase in the gold reserve. When the U. S. economy expanded and the money supply was increased, the American monetary authority tightened credit, forcing all other central banks raise discount rates to protect their gold reserve.

Thus with the decline of the international credit money, the growth of international trade was limited by the supply of gold. Although European economic recovery depended on capital imports from the U. S., poor trade growth did not allow enough trade surpluses for the repayment of debt. As a result, the accumulation of debt made the European economy extremely vulnerable to U. S. monetary policy. In fact, strict U. S. monetary policy caused international monetary crises in 1920, 1929, 1931, and 1937.

The 1929 crisis and the following structural crisis are typical examples of the gold fetters in a monetary system. In the latter half of the 1920s The U. S. stock market boom attracted short-term capital from all over the world. The U.S. monetary authority tightened credit in oder to curtail bubbles in the stock market, which further increased short-term capital inflow, cutting U. S. foreign lending. Since the European economy depended on U. S. capital exports, central banks in Europe had to tighten credit in order to reduce the gold outflow, which exerted a strong downward pressure on the real economy. When confidence in the U. S. stock market finally collapsed in 1929, U. S. demand for

7) Eichengreen (1992, p. 49) wrote, 'The Bank's reserve amounted to a mere 3 percent of the national monetary supply.'

foreign commodities and U. S. foreign lending were further reduced, causing more severe foreign exchange problems throughout the world.

There were two alternative policies available, as Eichengreen (1992, p. 393) argues. At first all countries hoped to boost exports and limit imports by a restrictive monetary policy in order to remain on the gold exchange standard. Since all countries followed this policy, no country achieved the target. And this only aggravated domestic and international depression. The second alternative was to suspend the gold exchange standard and return to the floating exchange system. This alternative allowed a reflationary domestic economic policy, which mitigated debt deflation and encouraged stock investment for new fixed capital. Although this policy was obviously helped by the fact that prolonged depression finally cleared excess capacity carried over since the end of the First World War, this recovery proves that the gold exchange system with its strong monetary character was mainly responsible for the deepening crisis.

4. The Dynamic Order of Capitalist Economy in Bureaucratic Capitalism

The recovery of post-war international trade was magnificent. The average growth of the trade volume of developed countries was recorded at 9.4 percent from 1950 to 1973, while their average growth of output was 5.3 percent (Hirst and Thompson, 1996, p. 22). Both of these growth rates were the highest in the history of the capitalist economy, and they were the result of the deliberate reconstruction of bureaucratic capitalism after World War II. We argue here that the Bretton Woods system was a credit system that successfully reduced external pressures on the national economy, that the reconstruction of bureaucratic capitalism took different forms depending on past histories, and that post-war capital labour relations worked well with the Bretton Woods system, which rehabilitated the dynamic order of the capitalist economy.

(1) The Bretton Woods system as a credit system

The Bretton Woods system was a credit system designed to relax the external constraints imposed by the gold exchange standard on national economies. Although it was more advanced than the gold standard system in its formal international co-operation, the U. S. opposition raised in order to attain hegemony in the international monetary system reduced the credit character of Keynes's proposal to create an international clearing union. Instead of creating international credit money, the U. S. dollar, fixed at the rate of 35 dollars per gold ounce, was chosen as the key currency. All member countries were obliged to fix their exchange rates to the dollar. Since the systems international central bank function was limited, it had to depend on abundant supply of the U. S. dollar, and had to be supplemented by external market relations such as the Euro market in order to function smoothly.

It was the commitment of the U. S. A. that sustained the Bretton Wood system. Until the early 1960s, the U. S. economy achieved a huge balance of payment surplus due to unrivalled productivity. This surplus was exported to Europe and Japan as government loans and as capital investment. These funds were invested in these countries in order to catch up with American productivity, which increased demand for U. S. products. The smooth expansion of international trade under the free and multilateral trade system (GATT) and an abundant supply of international means of payment accelerated the growth of international trade and helped debtor nations to service and repay debts.

(2) Market-led bureaucratic capitalism and government-led bureaucratic capitalism

In wartime, the capitalist mode of production was suppressed by government central planning in many countries. However there were certain differences in the degrees of this suppression which were reflected in the reconstruction of post war bureaucratic capitalism[8].

At one pole, the U. S. government controlled the economy through the oligopolistic market mechanism. In 1942, when war needs replaced consumer markets as the determinant of end products, the War Production Board attempted to allocate scarce materials by the use of priorities. However, this system was entirely ineffective. Only when the Controlled Materials Plan tied the allocation of metals and strategic components into the

8) For the relation between the war economy and post-war reconstruction of bureaucratic capitalism, see Chandler (1988), Kawamura (1995), Aoki (1996), and Okazaki and Okuno (1999).

forecasting procedures developed by General Motors and other large corporations in the summer of 1942 did it start to work (Chandler, 1988, p. 240-1). At the other pole, the Japanese war economy was strongly influenced by socialist central planning. The government's central planning directly mobilised both means of production and workers by commands lssued in quantitative terms and implemented from the top downwards. Although, profit-oriented factors were incorporated into the command-type planned economic system in 1943 (Okazaki and Okuno, 1999, pp. 24-9), the government could not halt the dramatic decline in production (Aoki, 1996, p. 239).

With the return of peace the U. S. favoured indirect control of the economy. The War Production Board was disbanded, and market demand again became the basic criterion for decisions concerning the allocation of resources and the co-ordination of flows (Chandler, 1988, p. 241). Keynesian macroeconomic policy was sophisticated, and formed the mainstream market-led bureaucratic economy. Fiscal policy stabilised the price level in order to prevent a deflationary spiral in the competitive sector. Monetary policy to prevent a bank crisis was strengthened by such regulations as central bank control and supervision over banks and such remedies as account insurance and the lender of last resort. To counter an international eclectic flow of hot money, monetary authorities controlled exchange by adopting real demand principles. In contrast to the U. S., Japan favoured direct intervention. From the beginning of 1946, the government reinforced economic controls and pursued recovery by means of a planned economic system (Okazaki and Okuno, 1999, p. 31). As

Aoki has argued the reconstructed government-led bureaucratic capitalism 'started to work in the high growth period of the 1950s and 1960s, only when it was found to fit with an evolutionary tendency that had been taking place in the private sector' (Aoki, 1996, p. 235). The resolution of Zaibatsu and newly developing Keiŕetsu effectively decentralised the oligopolistic structure, and allowed the government to perform a co-ordinating role.

(3) Cyclical full employment and the dynamic order of capitalist economy

There were three characteristics to the accumulation of capital in this period: (1) the dynamic economy of scale, (2) the acceleration principle, and (3) capital labour accord.

(1) In the first two post-war decades, total factor productivity growth was proportional to investment, a phenomenon called the 'dynamic economy of scale'. This favourable relation between investment and total factor productivity growth can be explained by the following two phenomena. Firstly, all countries except the U. S. were benefiting from catching-up effects. Many countries introduced new technology from the upper side of production, which reduced the prices of the means of production. Therefore, productivity growth was realised without increasing the organic composition of capital. Secondly, the post-war accumulation process was realised as industrialisation. For many countries, manufacturing was the engine of capital accumulation, where dynamic economy of scale works better than in other sectors.

(2) The oligopolistic firms increased investment in proportion

to the increase in utilisation. With an abundant relative surplus labour and an expanding market, planned excess capacity was an essential condition for securing a market share. Otherwise, when the demand for the commodity expanded, other firms supplied the demand, and the firm lost its share. Taking the economy of scale into consideration, the lost share was difficult to recover, and, in the worst case, firms were driven out of the market.

(3) Experience of the Great Depression and the war economy strongly influenced post-war capital labour relations. In order to boost wartime productivity, the scientific management method was adopted on an unprecedented scale in the U. S., while teamwork in which random events were handled collectively became dominant in Japan (Aoki, 1996, p. 241). After World War II, workers accepted the introduction of these more productive methods in exchange for relatively long and secure employment contracts with productivity-indexed money wages.

The accumulation structure in bureaucratic capitalism differed from that in market capitalism. Nevertheless, demand for and supply of labour power was regulated automatically through capital accumulation in the 'golden age' after the Second World War.

The prosperity started mainly with increased investment and consumption, raising both employment and the rate of profit. As prosperity increased, firms maximised investment, utilising credit in order to take advantage of the dynamic economy of scale, which further increased investment demand. At full capacity utilisation, a Kaldorian profit-led accumulation mechanism worked came into operation (Kaldor, 1960; Rowthorn, 1982). The increase of investment raised the price level, which increased profits with sticky money wages. Workers tolerated higher prices because an increase in investment boosted the demand for labour, and the increased productivity made possible by the dynamic scale of the economy eventually increased real wages.

The most significant difference displayed by the new managed currency system was the self-sustainability of savings and investment at any investment level. In the case of the gold standard, the supply of currency was limited by the gold reserve. In the new managed currency system, there was no such external constraint. The central banks could create currency to meet the liquidity needs of the expanding domestic economy. As far as the domestic credit system was concerned investment continued limitlessly.

Acceleration of capital accumulation and tightening credit took different forms according to the levels of savings. In moderately high saving countries, equilibrium was not stable below full capacity (Rowthorn, 1982, pp. 20-1). With expansionary monetary policy the economy reached equilibrium at full capacity utilisation and often over-accumulated at the end of prosperity. As long as the country kept the rate of inflation equal to or less than the US rate of inflation, solvency was ensured. But once the financial system accelerated inflation beyond this level the balance of payments was degraded. When the exchange rate dropped below the predetermined rate, the IMF fixed rate system forced the country to tighten credit. In high saving countries, both equilibria below full capacity and at full capacity are stable (Rowthorn, 1982, pp. 20-1). Minskyan financial instability theory applies here, to explain the limiting of investment by stock market psychology (Minsky, 1978, 1982). The demand price of investment was is determined by expected profit flow divided by present interest rate. As long as the demand prices of investment exceeded the supply prices of investment, investment continued. Once the stock market suspected that the supply prices of investment was higher than the demand prices due to higher wage costs, investment stopped.

In all countries, reduction of investment triggered depression, which created Keynesian unemployment, which in turn re-established labour discipline. However, depression was a temporary problem. In the depression period a Kaleckian wage-led accumulation mechanism operated (Kalecki, 1954, 1971; Rowthorn, 1982). Sticky money wages and lower price-level pushed up real wages. Increased real wages and government spending raised aggregate demand. Firms responded to this increased demand by stepping up output. In an oligopolistic economy, investment increased with higher utilisation rates. As the result of the acceleration principle, the increase of demand more than compensated for the increase of wages, and both the rate of utilisation and the rate of profit rose. Then prosperity began again.

Thus the capitalist economy recovered its dynamic order, or the law of value, with endogenous business cycles.

5. Transition from Bureaucratic Capitalism to Transnational Capitalism

This final section reviews developments after the 1970s. The social institutions that supported the dynamic order of capitalist economy under bureaucratic capitalism, namely the Bretton Woods system and capital/labour accords declined. With the destruction of the supporting social institutions, the macro performance of the economy stagnated. Economic fluctuations grew more sever, repeating boom-bust cycles. In this new environment, some economies fared better: the Japanese economy and corporatist economies in the 1980s, East Asian economies by the early half of 1990s, and the U.S. economy in the 1990s. These experiences show that a newly evolved form of capitalism such as transnational capitalism was emerging.

(1) Decline of Bureaucratic Capitalism and boom-bust cycle

Long-lasting high capital accumulation itself made further accumulation difficult. Productivity growth in Japan and the former West Germany was faster than in many other countries including the U. S. and Britain.The disproportional development of productivity among countries made maintaining the fixed exchange rate system impossible. It also increased the U. S. balance of payment deficit and the supply of U. S. dollars, with the consequence that the U. S. had to stop conversion in 1971. Thus the Bretton Woods system was abandoned and the international monetary system returned to the floating exchange rate system. In the new market-led international monetary regime, the U. S. government forced openness on all economies, especially on government-led bureaucratic ones, in order to achieve a better U. S. trade performance and more efficient capital export, which many countries accomplished in the 1980s.

Hirst and Thomson (1996, p. 130) single out the following characteristics of the market-led monetary system. Firstly, 'The widespread domestic liberalisation of capital movement' resulted in the internationalisation of financial portfolios, which increased international financial transactions. Secondly, as the result of 'the growth in the scale of international financial transactions relative to trade transaction', exchange rates were determined in the financial markets. At the same time national governments stopped insulating economies against exchange rate pressures. Thirdly, 'A relatively small group of institutions', notably hedge funds, 'trade(d) simultaneously across the international market', which increased market volatility. 'Growth of information and communications technology' amplified shocks across the system. We may also add the inverse relation between the profit rate and the real interest rate (Pollin and Dymski, 1994, p. 383). In prosperity, a rising profit rate enabled firms to finance investment directly by issuing shares that decreased demand for loans, while a rising profit rate reduced the lender's risk and banks expanded credit creation, which increased the supply of loanable money. These actions reduced the real interest rate. In depression, a tighter credit situation raised the rate of interest and reduced the rate of profit.

The long-lasting high capital accumulation also changed co-ordinated capital/labour relations into conflictual capital/labour relations. The first problem was slow productivity growth. Productivity growth was the key factor in the success of the post-war capital/labour accord, since firms could pay higher real wages and secure jobs only with steady productivity growth. Firstly, the mass production method had reached the saturation stage in many advanced countries by the early 1970s, with a reduction of the catch-up effect. Further productivity growth required expensive investment in plants and equipment. Secondly, the relative laggardiness of productivity growth in the service sector forced de-industrialisation (Rowthorn and Wells, 1987). Productivity growth in the service sector was difficult with the available technology. The second problem was structural over-accumulation of capital. The growth of output is equal to the growth of employed labour power plus the growth of total factor productivity. With declining productivity growth, the growth of output increased demand for labour and eventually exhausted the available industrial reserve army. The creation of unemployment by cyclical depression slowed the absorption of the industrial reserve army but could not reverse this tendency. Labour then became militant, and wage bargaining changed from Keynesian with sticky money wages to Marxist with sticky real wages (Epstein and Schor, 1990, p.130).

In this environment a Kaldorian accumulation mechanism could not work because, when firms increased investment at full capacity operation, the prices of products rose but the increase in wages squeezed profits. Once depression started, recovery from depression by the Kalekian accumulation mechanism also became difficult. Firstly, increased competition between capital required that idle fixed capital had to be kept to a minimum. As represented by the lean production system, information technology was adapted to keep idle productive and circulating capital to a minimum. Secondly, conflictual capital labour relations made capital cautious of increased employment. As the result, the positive effect of demand by increased real wages on investment became less than before.

With the destruction of the supporting social institutions, the macro performance of the economy stagnated. After 1973 the unemployment rates of advanced nations never dropped to their respective average unemployment levels in the 1960s. Economic fluctuations became more sever, and the economy did not recover automatically. These facts suggest that the boom-bust cycles of this period were not caused endogenously by the over accumulation of capital. I argue instead that they were caused by the inverse relation between the profit rate and the real interest rate.

Prosperity started with exogenous factors such as fiscal and monetary policy, and capital inflow. Once prosperity had resumed, the economy expanded under the financial acceleration principle, so that the inverse relation between the real interest rate and profit rate cumulatively increased investment. Rising profit rates with lower real interest rates encouraged firms to invest, which further raised the rates of profit and reduced real interest rates, and high leveraged investment proceeded without limit. The floating exchange rate system allowed the central banks to create currency to meet liquidity needs limitlessly without exchange constraints.

Crisis was also triggered by exogenous causes. The decline of the post-war capital labour accord reduced the growth rate of real wages relative to the growth rate of output. Weak real demand shifted the sphere of the investment from the product market to the asset markets, causing a bubble economy. In advanced countries where domestic credit systems were better insulated against exchange rate pressures, domestic causes such as inflation pressure forced the monetary authorities to tighten credit. In less developed countries exchange pressures such as the flight of short-term money capital forced the monetary authority to tighten credit. When the monetary authority tightened credit, the rate of interest rose. Tight credit decreased both real investment and monetary investment, which reduced the demand for products and assets, which in turn decreased the price level and the rates of profit and increased the real rate of interest. The reduction of investment cut profits and made debt liquidation more difficult. Thus the inverse relation between the rate of profit and the rate of interest caused a downward financial acceleration. High leverage in bubble periods made matters worse, and in the most severe cases, debt deflation started. Thus, Boom-bust cycles after the 1970s paralysed the dynamic order of the capitalist economy.

(2) Transition to transnational capitalism

Without a complementary combination of capital/labour relations and production method, accumulation of capital cannot restart. There were three successful attempts to re-establish labour discipline in 1980s. Centralised bargaining in corporatist nations rehabilitated co-operative relations, and workers agreed to reduce wages in order to increase employment. Decentralised bargaining in Anglo-American economies demolished workers' power, and low wages enabled capital to start accumulation. In-between Japanese mini-corporatism combined labour loyalty and the flexible production system. Only the Japanese economy successfully combined a new capital/labour relationship with a new production method in the 1980s and understandably was the most successful. Information technology and globalisation changed this picture, however.

After the mid-1980s growth in foreign direct investment (FDI) was arguably the driving force of the world economy. I distinguish here between two kinds of FDI: one based on resources and the other based on a division of labour between equals[9]. The former is traditional and is based on differences in resources, especially cheap labour. Since replica factories are exported to developing countries, this process itself does not involve any development of total factor productivity. The latter is based on the development of a division of labour among equals, which has hitherto been limited to the margins of an economy. In a technical context, these are normal evolutionary features of the economy of scale. The further development of modern technology requires a wider market and a wider division of labour than a national economy can afford. The development of the second kind of FDI gives the possibility of new combinations of forces of

9 For this distinction see Rowthorn (forthcoming).

production and relations of production in the form of transnational capitalism.

The U. S. economy, which combined decentralised capital/labour relations with open network production in the North American economic bloc, was the most successful economy in the 1990s. There were several reasons for this success. Firstly, the market-oriented nature of the U. S. transnational corporation was best suited to the market-led international monetary system. Secondly, the U. S. economy demolished labour unions, and there was no strong opposing power. Thirdly, U. S. transnational corporations were most advanced in standardisation and modular production, which made the introduction of open network production possible.

In contrast to the U. S. economy, the Japanese government-led economy has been suffering from the worst depression in its post-war history since 1991, due to three problems related to increasing openness. Firstly, the Japanese financial market was directly regulated as late as the 1980s. Financial deregulation and globalisation cramped government-led governance without suitable development of market-led governance of the financial system. This caused an excess bubble and the subsequent difficulty in liquidiating bad debts. Secondly, the Japanese economy avoided de-industrialisation by achieving a huge manufacturing exports. After 1985 the growth of FDI exceeded the growth of exports, which eventually reduced domestic manufacturing production, with the effect of unemployment in the industrial sector. Thirdly, in the 1970s the Liberal Democratic Party was confident that it could manage relatively closed domestic social conflict and achieve the most successful economic recovery[10]. A more open environment coupled with a change of the electoral system toward proportional representation in 1983 and 1994, confused economic policy and the governments lost confidence[11]. The debt deflation was triggered by tight monetary policy in 1991. Although the Japanese economy briefly recovered in 1996, a higher consumption tax killed economic recovery in 1997.

However, prospects are more promising now than they were before for the Japanese economy to adapt to openness. Firstly, the development of Asian NIEs may allow Japan to co-ordinate the network production system between equals. Secondly, once trends shift to re-regulation, it will be easier to develop an Asian economic bloc, where government-led economies require more stable governance than the market-led variety[12].

Conclusion

My conclusions are the following:

(1) The rudimentary gold standard system worked rather well

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10) Rodric (1999, p. 99) emphasises importance of conflict management in the case of external shocks.

11) Eichengreen (1992, p. 25) argues that the proportional representation system caused a proliferation of political parties and confused economic policy in the 1930s.

12) The Asian crises in the latter half of the 1990s showed that the market-led international monetary system did 'a poor job of discriminating between good and bad risks.' Rodrik (1999, p. 90). As Hirst and Thomson (1996, p. 197) argue, now 'the authorities are recognising that there are undesirable consequences of market liberation and deregulation and the trend now is for re-regulation.'

with the accumulation of capital in the cotton industry in the mid-19th century. The gold discipline reduced excess boom and imposed the dynamic order of the capitalist economy.

(2) In the declining period of market capitalism, the gold standard system developed into the international credit system. It helped industrialisation in the U. S. and Germany.

(3) The international monetary system deteriorated from the credit system to the monetary system after World War I. It explains the poor growth rates of international trade and output in this period.

(4) The Bretton Woods system was a credit system designed to reduce external constraints on the national economies. The Kaldorian accumulation mechanism at full capacity utilisation and the Kalekian accumulation mechanism in depression worked well under the Bretton Woods system, yielding cyclical full employment, and re-establishing the dynamic order of capitalist economy.

(5) Long-lasting high capital accumulation itself made further accumulation difficult. The Bretton Woods system evolved into the fragile and volatile market-led international monetary system. It also changed co-ordinated capital/labour relations into conflictual ones. After the 1970s, the dynamic order of capitalist economy was paralysed by boom-bust cycles.

(6) The U. S. economy combined decentralised capital labour relations with open network production, forming transnational capitalism. This is best suited to the present market-led international monetary system and market-led international governance. But once trends shift to re-regulation, multi-layered

governance will allow other combinations of transnational capitalism.

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