

Is a Reconsolidation of Marxian Political Economy and Historical Institutionalism Possible?

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Abstract

This paper is an attempt to build a new framework for the political economy of capitalism. I consider a reconsolidation of Marxian economics and historical institutionalism to be possible. I start with examination of the Japanese Marxian economist Kozo Uno's three-level analysis of capitalism, which is a meta-theory of multilayered analysis developed to clarify the relationship between Marx's theoretical framework and historical analysis. I emphasize the superiority of Marx's new and original approach of "social forms" compared with "classical reductionism". It is complementary to Veblen's theory of institution. I then create a meta-theory for political economy in multilayered analysis.

Key words: Methodology, Marxian, Institutional, Political Economy

JEL classifications: B41, B51, B52, P16

1. Introduction

Geoff Hodgson (2001) in his work, *How Economics Forgot History*, has

1) I am grateful to Bob Rowthorn, Geoff Hodgson, Ha-Joon Chang, Makoto Itoh, Gary Dymksi, and M. Panic for discussions and helpful comments.

emphasized the importance of historical analysis and its conceptual framework. In the history of capitalism, political economy has largely been both a historical and social science: for example, Adam Smith, Karl Marx, Max Weber and Thorstein Veblen studied capitalism as a historical and social entity. Hodgson (2001) singles out two reasons why historical theory was abandoned after World War II. Firstly, historical economists, including Marx, members of the historical school and institutionalists “failed to acknowledge fully that statements concerning the (historical) relativity of theory must themselves rest on more enduring and transhistorical meta-theoretical principles” (p. 61). Secondly, neo-classical economics won the battle against historical and institutional economics. Lionel Robbins then “simply redefined economics in terms that would exclude institutionalism and historicism from within its disciplinary boundaries” (p. 207), so that “(e)conomics was henceforth to concern itself with the rational choice of means to serve given ends” (p. 197). Thereafter, mainstream economics, e.g. the general equilibrium theory, became increasingly applied mathematics rather than historical and social science.

In my opinion, the general equilibrium theory saw its heyday in the 1950s and 60s, and lost dominance after the 1970s when neo-Austrian economics emphasised the importance of the changing process, game theory paid closer attention to evolution, and complex systems economics criticised excessive simplification. These changes in mainstream economics encouraged the rehabilitation of historical economics.

This paper develops a meta-theory of political economy, proposing a conceptual ‘marriage’ between Marx’s theory of social reproduction and Veblen’s theory of institutions. Hodgson puts it, “This conceptual marriage of Veblen and Marx helps to pick out the kind of institutions that matter most in identifying and classifying each type of socio-economic system”

(Hodgson, 2001, p. 299) . Although Hodgson (2004, pp. 131-4) emphasizes the difference between Marx and Veblen in their general frameworks, I consider a reconsolidation of Marxian economics and historical institutionalism to be possible.

Hodgson (Hodgson et al eds. 2001, p. 78) points out four differences of institutional economics from Marxian economics: (1) economic evolution is path-dependent and there is no single outcome towards which history is progressing; (2) a huge variety of cultures, institutions, profit levels, levels of productivity, and so on, have persisted, and will continue to persist, within capitalism; (3) the capitalist system depends upon its internal variety and could not survive without it; (4) a wide variety of different capitalist socio-economic formations are possible, and can in principle co-exist.

These differences concern with Marx's reductionism and teleology. I will show firstly that the conceptual marriage is possible removing Marx' reductionism and teleology, secondly that it creates a new conceptual framework for political economy in multilayered analysis which is essential to rehabilitate political economy as a historical and social science, and thirdly that it reconsolidates these four differences.

2. Two Shortcomings of Marx' *Capital*

(1) Classical Reductionism

In his early writings, Marx accepted the method of the classical political economists, who removed the monetary veil from commodity exchange in order to reveal its substance. Classical political economy eliminated historical specificity from the analysis and reduced it to more general principles. However, in his mature work, Marx considered this classical analysis to be incomplete because it ignored the question of social forms. Without social

forms, for example, a commodity is not a commodity, for it is “reduced” to a product of human labour; capital is not capital, for it is “reduced” to means of production. The classical political economists studied social reproduction using such ahistorical concepts as “product” and “means of production”. Their theory was therefore ahistorical and applicable to any human society, but it failed to clarify the characteristics of a capitalist economy where social reproduction takes place with specific social forms, such as commodity, money and capital.

In his theory of social forms, Marx distinguishes two levels of abstraction: economic principles and economic laws. He saw capitalism as a specific mode of production in which the universal requirement for social reproduction, or economic principles, was expressed through specific “social forms”, namely economic laws such as “the law of value”. Marx examined how the perpetual metabolism between humanity and nature (i.e. economic principles) came about in capitalist modes of production (i.e. economic laws); or more precisely, how circulation forms mediated this process, and how competition between capitals to maximize the rate of profit regulated the allocation of means of production and labour power and determined the exchange ratios of commodities so that social reproduction could continue.

Although Marx emphasized the importance of social forms in his mature works, a residue of classical reductionism is still to be found even in *Capital*. For example, in *Capital* Marx directly “reduced” diverse concrete and useful labours into their substance, namely abstract labour, while ignoring their specific manifestations in a commodity economy. In his theory of transformation from value to prices, Marx reduced prices of commodity to values of commodity, and then to embodied labour hours, as if the entity was separable from its social forms. He then compared incommensurable objects such as embodied labour hours and prices.

(2) Teleology

Marx (1976, 78, and 81) developed the theory set out in *Capital* on the basis of his experience of mid nineteenth-century British capitalism. At that time Britain was the only developed capitalist economy that he could observe. It was neither a “pure” capitalist nor a closed economy. It still relied on pre-capitalist provisioning institutions such as the family and state. And it also relied on pre-capitalist economies as sources of raw materials and as markets for manufactured goods, just as other capitalist economies had done in previous ages. In other words, the English economy was far from being a perfectly “commodified” economy. Marx, however, believed that mid nineteenth-century England, with the formation of a three-class society and free market capitalism, would become a “pure” capitalist society by eventually eliminating the pre-capitalist residue and commodifying labour with the creation of a relative surplus population through cyclical crises. Marx was quite successful in abstracting a “pure” capitalist society, which helped Marx to formulate a general theory of capitalism.

On the other hand, Marx could not distinguish between the laws that operate in any capitalist society, such as the law of value, and those which operated only in mid nineteenth-century England, such as the law of immiseration and the law of the falling rate of profit. It induced him to believe that all capitalist economies would follow the pattern of British capitalist development. Thus his theory is affected by a teleology. Marx did not foresee the historical evolution of the capitalist economy and its international diversification.

Quite naturally, therefore, some of his conclusions concerning the capitalist economy were made obsolete by the changes in capitalism as it evolved into a new stage at the turn of the century. These developments generated doctrinal controversy, as exemplified by Eduard Bernstein’s (1917) critique

of Marx's long-run theory of capital accumulation. Bernstein argued firstly that, although Marx had predicted that large firms would absorb medium and small firms in manufacturing, the latter nevertheless survived; secondly that, although Marx had predicted the impoverishment of workers, productivity growth and social policy improved their living standards; and thirdly that, although Marx predicted more severe and cyclical crises, the development of the credit system and the formation of oligopoly reduced the acuteness of such cycles. For these reasons Bernstein declared Marx's theory to be obsolete and mistaken.

Marx's followers attempted to save his theory by dividing the conceptual framework from historical analysis. They built a new historical theory, which included Rudolf Hilferding's *Financial Capital* (1980) and Vladimir Illych Lenin's *Imperialism* (1996), works which investigated new historical phenomena such as monopolies in the commodity market, labour unions in the labour market, the new relationship between banks and industry in the capital market, modified business cycles, and new roles for economic policies. They developed a theory of imperialism by examining the specific mechanisms of capital accumulation at this particular stage of capitalism's development. For analysis of these new phenomena both Lenin and Hilferding used the inductive rather than deductive method. As their guideline they chose the more general notion of the materialist conception of history, rather than the detailed economic theory set out in *Capital*. Thus historical theory and the conceptual frame work were divided.

3. Uno's Three-Level Analysis of the Capitalist Economy

Uno tried to remove Marx's teleology and reductionism in order to explain diversity of Capitalism. When Marx's theory was applied to the

industrialisation of Japan after the Meiji restoration of 1867, it proved very difficult to determine whether the Japanese economy was capitalist or pre-capitalist because it displayed numerous differences from the “pure” capitalist economy even in the 1930s. For example, compared to the developed capitalist countries in West, Japan was a predominantly agricultural country, with many pre-capitalist institutions in the relation between peasants and landlords, while many pre-capitalist firms and small firms remained. At the same time, Japan adopted an imperialist policy and prematurely engaged in capital export and colonization, although this was usually done when an economy reached a mature stage of industrialization.

In this pre-World War II debate, Uno addressed two main problems. Firstly, a theory of imperialism was indispensable for account to be taken of the new environment of development. Secondly, the materialist conception of history was not a theory in itself but a guideline on which theoretical explanations, such as the economic theory of *Capital*, could be built. The theory of imperialism was a more concrete theory of capitalism which had to be erected on the solid bases of an economic theory of *Capital*. Uno then proposed a three-level analysis of the capitalist economy in order to reconsolidate theory and history (Sekine, 1975). The first level comprised “pure theory”, which was to be derived from Marx’s *Capital* and developed further where necessary. The next level consisted in a “stage theory of capitalist development” which involved concrete examination of the historical development of the leading industries, together with their main policies. At the third level, empirical analysis was conducted of individual capitalist economies in their concrete historical settings.

(1) Pure Theory

In a previous work (1989) *Kati, Koyou, Kyoukou: Uno Gakuha to*

Cambridge Gakuha, (*Value, Employment and Crisis: the Uno School and the Cambridge School*),²⁾ I put forward a new interpretation of Uno's theory. Uno identified two contradictory approaches in Marx's *Capital*: one ignored the importance of social forms, the other emphasized their importance. Uno (1980) removed the former i.e. "classical reductionism" from Marx's theory to create his "pure theory". According to Uno's theory of social forms, a capitalist economy is a mode of production where "circulation forms", such as commodities, money and capital regulate social reproduction.

Uno also removed historically specific laws which operated only in mid nineteenth-century England, arguing that abstraction from particular historical developments gave logical clarity to the pure theory. He described the law of value as the self-regulating character of social reproduction in "pure" capitalism, as if social reproduction repeated itself eternally in this specific form. In his theory of social reproduction, Uno paid special attention to the reproduction of labour power as a commodity. The demand for and the supply of commodities in markets regulate the production of commodities and make social reproduction possible through competition between capitals to maximize the rate of profit. However, capitalist production relies upon labour power as a commodity which is not produced in the production process of capital. A capitalist economy must regulate the demand for and the supply of labour power if social reproduction is to continue. Uno argued that cyclical crisis was the specific mechanism with which a capitalist economy created labour power in the form of a relative surplus population. The market mechanism and the business cycle were therefore the two components of the law of value.

Uno's pure theory differs in many respects from neo-classical pure theory,

2) This is a revised Japanese version of my Ph. D. Thesis: *Value and Reproduction*, Cambridge University 1985.

which in its turn shares many characteristics with classical reductionism. Firstly, Uno distinguishes two levels of abstraction—principles and laws—while neo-classical economists do not distinguish between them. Uno’s pure theory clarifies the law of value in capitalism as a specific manifestation of economic principles with which all societies must conform. In contrast Neo-classical theory does not have a concept of “social form”: it addresses economic principles and takes them to be applicable to any society. Secondly, Uno’s pure theory explains the law of value as the self-regulating mechanism of a capitalist economy, while neo-classical economics explains the market mechanism as an inter-temporal equilibrium mechanism. Thirdly, Uno’s pure theory emphasizes the difficulty of commodifying labour power, while neo-classical theory makes no distinction between ordinary and “fictitious” commodities such as labour power, land, and money (capital).

On the other hand, Uno’s pure theory is similar to neo-classical theory in its treatment of the state. Both theories treat the state as an impurity in a market economy. In my opinion, this is the main problem with “pure capitalism”: rudimentary markets for commodities can exist without the state, but a developed market system requires supporting institutions of legislation, jurisdiction and administration, and these are only furnished by the state. Since the law of value must coordinate the commodity, labour and money and capital markets, the state is the prerequisite for it.

(2) Stage Theory

The stage theory of imperialism was elaborated by Uno to explain the new stage of capitalist development. It is in stage theory that impurities and openness are analysed together with other historical determinants. The reproduction of labour power or the family structure, non-capitalist firms and states are the most important systemic impurities. Openness is another

feature that should be considered when investigating a capitalist economy in more concrete terms than those used in the “pure theory”. International relations among states, such as international monetary regimes and trade structures, are the two most important topics in the discussion of openness. The capital accumulation mechanism of imperialism which coordinates family structure, the state, markets, capitalist firms and international relations is a more concrete mechanism of social reproduction than it is in the “pure” theory.

Uno (1954), following Lenin, built a stage theory of imperialism on the basis of historical events between the end of the nineteenth century and World War I. In that period, large-scale production was established in heavy industries in the form of the joint stock company. The dominant type of capital at this stage was finance capital (namely the financial control of industrial activity through the system of joint-stock companies). The theory of imperialism as a stage theory was inducted from the capital accumulation structures of the three leading economies in the late nineteenth century: Britain, the USA and Germany. The accumulation structure of imperialism relied on capital export and colonisation to solve the problem of domestic under-consumption. Uno (1954) accordingly argued that the mode of accumulation of finance capital compelled governments to adopt imperialist policies.

Uno (1954) distinguished three stages of development in capitalism: mercantilism, liberalism and imperialism, which corresponded to the policies that governments were compelled to adopt by the dominant type of capital at the stages, namely merchant, industrial and finance capital respectively. Uno saw these stages as corresponding respectively to the formation, establishment and deterioration of capitalism. Capitalism purges itself of the mercantile residue and reaches its purest form in liberalism, moving away

from it in imperialism because of oligopoly, labour unionisation, government intervention, and so on. Imperialism was considered to be a deterioration of capitalism, because capitalism could no longer organize and coordinate social production with capitalist institutions such as markets and capitalist firms alone. Uno viewed capitalism after the Russian Revolution of 1917 as a transitional period towards socialism which did not form a new developmental stage of capitalism. A teleology consisting of Uno's prophecy of socialism affected stage theory.

(3) Empirical Analysis

In the nineteenth century, numerous economists, 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. But these predictions have not subsequently been borne out. Although there are marked common features among contemporary capitalist economies, since catching up has been achieved within the same type of capitalist world system. The catching-up process has not induced all economies to converge on the dominant type of national economy such as that represented by Britain in the nineteenth century and the USA in the twentieth. The first reason of the diversity is that every type of capitalist world system contains a hierarchical structure, the dominant, challenging and developing states. Secondly, the path dependence of capitalist evolution makes each national type of capitalism unique. Thus a third-level empirical analysis is required.

In Uno's view, the puzzle of Japanese industrialization could be clarified by means of stage theory as the theoretical framework for empirical analysis. Firstly, it was not necessary fully to dismantle a rural community to create labour power as a commodity, since imported advanced machinery

reduced the demand for manual labour, which would be supplied by a surplus rural population. Secondly, it was not necessary fully to dismantle pre-capitalist firms and small firms, since oligopolistic capitalist firms could exploit pre-capitalist and small firms through an oligopolistic market mechanism. Thirdly, although capital export was premature, it was necessary to export capital in order to secure foreign markets for products and as sources of raw materials in the era of imperialism. Thus empirical analysis helped by a stage theory made clear that industrialization could take different developmental paths according to the stage of capitalist development reached.

4. Hodgson's Multilayered Analysis

Hodgson (2001) shares Uno's concern with historical analysis and a more general conceptual framework. He argues, "general theories of complex phenomena are always limited simplifications, largely because of the complexity and computational limitations involved in attempting any truly general theory" and "we require combination of general concepts, statements and theories (or pure theory in Uno's term), with particular concepts, statements and theories, relating to particular types of systems or subsystems (or stage theory in Uno's term)" (pp. 39-40, my parentheses). Hodgson uses 'principle' and 'conceptual framework' interchangeably: a principle or a conceptual framework is more general, ahistorical and transhistorical, while theories to explain economic laws are more specific and historical. Hodgson (2001) then elaborates two principles of multilayered analysis: the principle of five analytical levels of social science and the impurity principle. He concludes that these two principles are theoretical guidelines and that "theoretical explanations have to be built upon it" (p. 335).

Table 1. Five analytical levels of social science

Level of abstraction	Laws and principles
1. General systems	Principles of evolution
2. Human society	General cultural principles
3. Human civilization	Institutional evolution, impurity principles
4. Social formations a. Classical antiquity b. Feudalism, c. Capitalism	a. Dependence on military conquest b. Ridgedly stratified system c. Commodification, pursuit of profit
5. Varieties of social formations ci. Historical varieties of capitalism cii. Geographical varieties of capitalism	For example: ci. Mercantile capitalism, agricultural capitalism, industrial capitalism, finance capitalism cii. American capitalism, German capitalism, Japanese capitalism

Source: Hodgson (2001), p. 326-7.

He explains “the principles of five analytical levels of social science” as follows (Table 1): “Any historically or geographically sensitive analysis must rely on material from all five levels of abstraction”: (1) general system, (2) human society, (3) human civilization, (4) specific types of complex human social formation and (5) varieties of each type of complex human social formation (pp. 325-7). The object of study in political economy, namely capitalism, belongs to the fourth and fifth levels in Hodgson’s five levels of abstraction. The object of Uno’s pure theory (capitalism) belongs to the fourth level. Other specific types of socio-economic system such as tribalism, classical antiquity, and feudalism, are not directly subjected to study by political economy. However, economic theory clarifies the economic principles with which those societies must conform. The objects of stage

Table 2. Layered Provisioning Institutions in Four Social Formations

	Social Formation					
	Tribalism	Classical Antiquity		Feudalism		Capitalism
Quaternary Provisioning Institutions						Capitalist Firms
Tertiary Provisioning Institutions	Slavery	Slave Estates	Markets and Exchange	Feudal Estates	Markets and Exchange	Markets and Exchange
Secondary Provisioning Institutions	Inter-social trade	The State		The State		The State
Primary Provisioning Institutions	Family Structures	Family Structures		Family Structures		Family Structures

Source: Hodgson (2001), p. 338. The shadowed provisioning institutions are prominent institutions.

theory and empirical analysis belong to the fifth level as historical and national varieties of capitalism respectively. As far as economic analysis concerns, Hodgson's five analytical levels and Uno's three-level analysis do not contradict each other.

He then develops the concept of "layered provisioning institutions" in four social formations (Table 2) at the fourth of his five levels of abstraction in order to explain "the impurity principle", i.e. "every socio economic system must rely on at least one partially integrated and structurally dissimilar subsystem to function" (p. 334), arguing that "successful forms" of provisioning institutions "tend to become fixed and serve as foundations for emerging forms" of provisioning institutions (p. 338). The family unit (the first-layer provisioning institution) emerged during prehistory and eventually became the founding unit of all civilised societies. "In all four

types of social formation, some kind of arrangement for the rearing of children is necessary and primary” (p. 338). The state “can exist without markets but the reverse is not true. Hence the state (the second-layer provisioning institution) is placed below the market (the third-layer provisioning institution). In turn, the state within civilisation provided the legal framework for the growth of contracts, trade, markets and firms” (p. 339). “At a higher level, capitalist firms (the fourth-layer provisioning institution) depend also upon the prior existence of markets” (p. 339, my parentheses.)

In the introduction to *Capitalism in Evolution* (Hodgson, Itoh, and Yokokawa eds. 2001) written jointly with two Unoists, Makoto Itoh and the present author, Hodgson raised an important challenge against Uno’s pure theory, arguing that no society can exist without impurity, so that impurity must be included, not only at the stage theory and empirical analysis, but also in the most abstract level of theory, namely in the “pure” theory of capitalism. According to Hodgson’s layered provisioning institutions, family structures and the state exist within capitalism as impurities, or as sub-systems, in parallel with the prominent or dominant provisioning institutions such as capitalist firms and markets as the main system.

Hodgson’s criticism has been taken rather seriously by a group of Uno theorists. Here I argue firstly that the concept of “pure capitalism” is a residue of “reductionism”; secondly that the theory of “social forms” does not contradict Hodgson’s impurity principle; thirdly that logical order of the provisioning institutions must not be taken too strictly; and finally that the theory of social forms and Hodgson’s two principles complement each other.

Firstly, Hodgson (2001) provides a clear definition of reductionism: “reductionism can be defined as the idea that all aspects of a complex phenomenon must solely be explained in terms of one level, or type of unit”

(p. 34n). Therefore reductionism contradicts not only theory of social forms but also Uno's three-level analysis. The concept of "pure capitalism" where four layered provisioning institutions (Table 2) are reduced into two institutions (market and capitalist firms) exhibits a residue of reductionism which must be removed from Uno's most abstract analysis.

Secondly, it is possible to rebuild Uno's three-level analysis replacing the concept of "pure capitalism" by the impurity principle. In Uno's theory of circulation forms, the market does not initially exist, unlike in classical political economy and neo-classical economics. Communal society existed first, and exchange took place among communities. When exchange began, it entered into communal society, and an internal market was created as a sub-system where the production process was mainly organized in non-commodity form as the main system. The commodity economy became the dominant system only when industrial capital incorporated the production process into its circuit after labour-power had been created as a commodity. Therefore theory of social forms and the impurity principle do not contradict each other.

Thirdly, which is the more basic provisioning institution in capitalism: the market or the state? According to classical political economists and neo-classical economists, the market is more basic than the state; in their view the market is natural, while the state is artificial. Marx also argues that the economy (i.e. the market) is the understructure and the state is the superstructure, suggesting that the market is more basic. From Hodgson and the old institutionalist point of view, the state is more basic than the market, because a market in a society presupposes many institutions and organizations, such as property rights, law, rules, and polices which are organized by a state; and the state existed before an internal market.

In my opinion, the logical order of provisioning institutions must not be

taken too strictly. If it is taken strictly, the impurity principle suffers from teleology. If “successful forms” of provisioning institutions “tend to become fixed and serve as foundations for emerging forms” of provisioning institutions (Hodgson, 2001, p. 338), social formations must develop linearly in the order of tribalism, classical antiquity, feudalism, and capitalism. In my opinion, the well developed provisioning institutions are not given in the beginning of a new social formation but are result of the development of interdependence and complementarity between provisioning institutions in the process of establishing social formations. For example, capitalism depends on well-developed markets, such as those for commodities, labour and money and capital, which in turn require regulation by the state (Hodgson, 2001, p. 89). These interdependence and complementarity are developed within capitalism.

To be noted is that once we adopt impurity principle (or the concept of layered provisioning institutions), there is no reason to consider the mid nineteenth-century English capitalist economy as the “pure” type of capitalism because the market is the main coordination mechanism, and other types of capitalism as mixed or imperfect types of capitalism because of greater government intervention in markets. It must be emphasised that the law of value operates with the complementary layered provisioning institutions. The law operated in the mid nineteenth-century English capitalist economy not because capitalism was approaching its “pure” form, but because it established complementary layered provisioning institutions. Since the law of value does not depend on “pure capitalism”, it is misleading to call the theory that describes the law of value a “pure theory”. We call it a basic theory.

5. A New Stage of Capitalist Development

Although Uno removed teleology in his pure theory, stage theory is still affected by a teleology consisting of his prophecy of socialism and three Hegelian stages of development. Uno considered the end of imperialism to be the end of capitalism itself. Capitalism nevertheless revived again after World War II in a new form, and between the mid-1950s and the 1960s it enjoyed its highest and most continuous growth in its 200-year history. Uno's prophecy has not come true, just as Marx's did not.

Explanation of this revival required a new stage theory. However, Uno's followers could not envisage a fourth stage of development until recently. The majority of Japanese Marxians believed, until the collapse of the Soviet Union in 1991, that the post-World War I period marked a transition from capitalism to socialism, maintaining that, since the period had been well studied by the stage theory of imperialism, there was no need for a new stage theory. According to this thesis, the dominant type of capital—finance capital—had not changed since the early twentieth century through the post-golden age period. Government intervention to keep the economy viable indeed increased, suggesting that capitalism was increasingly less able to sustain itself. If we consider these aspects alone, we may assume that the foundations of post-World War II capitalism were established in the period of imperialism. However, if we examine its historically specific mode of capital accumulation, we find that it differed substantially from that of the imperialist period. It successfully reversed the pattern of capital accumulation from dependence on foreign demand to that on domestic demand, and established the mutually reinforcing mechanism between productivity growth and domestic economic growth—what the Regulationist School calls a 'Fordist regime'. If post-World War II is identified with imperialism, it is

difficult to analyse the post-war development of capitalism. The teleology in the stage theory hampered the development of understanding of the success and the eventual fall of the post-war capital accumulation mechanism.

There are four approaches to the development of capitalism after World War I among Unoists.

(1) Uno argued that it is a transitional period to socialism, not a new stage of capitalist development.

(2) Robert Albritton (1991), a Canadian Unoist, developed a new stage theory to cover development after World War I. He called the fourth stage the 'stage of consumerism', which has covered the period from the end of World War I to the present, of which "the classical years of the stage of consumerism are roughly from 1950-1970" (p. 225). He argues that the dominant type of consumerist capital is transnational capital rather than finance capital; he then explains the general dynamics, or capital accumulation mechanism, of consumer capitalism.

The first problem with Albritton's approach is that it sees no qualitative difference between the accumulation of capital in liberalism, imperialism and consumerism. I argue that the law of value or self-regulating character of accumulation of capital operated both in the period of liberalism and in "the classical years of consumerism", but that it did not operate during other periods. The second problem is that, although there are significant differences in the institutions and the mechanisms of capital accumulation before, during, and after "the classical period of consumerism", it does not make them clear, since Albritton takes the three periods to constitute one stage. The third problem is, although the hegemon of the capitalist world system changed from Britain to the USA after World War I, Albritton does not pay attention to the change.

These are serious weaknesses in his theory, since stage theory was

originally constructed as a way to understand the industrialization of a country at a specific stage of development of the capitalist world system.

(3) Empirically speaking, it is possible to characterise the nineteenth century as Pax Britannica, and the twentieth-century after World War I as Pax Americana, since the hegemony of the capitalist world system was British in the nineteenth century and American after World War I. Groups of Uno's followers have elaborated this periodization as far as empirical analysis is concerned. Although this distinction has been drawn at the level of empirical analysis, the relation between it and stages of capitalist development has not been consciously considered.

(4) My periodization of the capitalist world system is the same as that of the third approach. However, I focus on the relation between this periodization and stages of capitalist development. During the evolutionary process of capitalism, numerous potentially new types of capitalist economy have appeared. While most of them have failed to establish complementary provisioning institutions, and to become the dominant type in the capitalist world system, the British type of capitalism in the nineteenth century and that of the USA in the twentieth have been able to establish complementary provisioning institutions and to establish market and bureaucratic capitalism respectively.

I call the nineteenth-century capitalist world system "market capitalism" because it was characterised by the coordination of the economy by the market; and the capitalist world system after World War I "bureaucratic capitalism" because it was characterised by the coordination of economies by well-structured bureaucratic systems of oligopolistic corporations and big government. I argue, firstly, that each has its stages of development and, most importantly, the stages of establishment. Market capitalism has gone through four stages of development: mercantilism (1750s-1810s), liberalism

Table 3. Periodization of capitalist world systems

Capitalism world system	Formation	Establishment	Deterioration	Systemic Crisis
Market Capitalism (Pax Britanica)	Mercantilism (1750s-1810s)	Liberalism (1820s-1870s)	Imperialism (1870s-1910s)	Interregnum (1910s-1940s)
Bureaucratic capitalism (Pax Americana)	Interregnum (1910s-1940s)	Welfare state (1950s-1970s)	Neo-liberalism (1980s-1990s)	

(1820s-1870s), and classical imperialism (1880s-1910s); liberalism being its establishment stage. It collapsed in the Great Depression. Bureaucratic capitalism has to date undergone three stages of development: interregnum (1920s-1940s), welfare state (1950s-1970s) and neo-liberalism (1980s-1990s); the welfare state being its establishment stage. Secondly, I argue that the self-regulating character of capital accumulation operated in the establishment period of bureaucratic capitalism as well as in that of market capitalism.

6. Intermediate theory

(1) Intermediate Theory

Noguchi and the present author (1996) proposed a new interpretation of Uno's stage theory in their co-authored introduction to *Marx Strikes Back*. We emphasised the importance of building a new stage theory which covered the development of capitalism after World War II. We called our stage theory an intermediate theory which differed from Uno's stage theory

in the following four respects:

Firstly, intermediate theories do not have the Hegelian teleology: whenever a new type of capitalism emerges, a new intermediate theory is created to explain the new type of capitalism systematically.

Secondly, the conceptual framework of Uno's stage theory was restricted to Marx's theory as developed in *Capital*. Intermediate theory incorporates new theories developed by heterodox economists in so far as they are necessary. In the 1970s, interest in multilevel analyses was revived during the so-called 'Marx Renaissance'. American radical economists built a theory of the social structure of accumulation; the French regulationists developed a theory of the Fordist accumulation regime, and analysed the rise and fall of the post-war capitalist economies; structuralist macroeconomists combined post-Keynesian theory with Marxian economics; the post-Keynesian financial instability hypothesis re-established the importance of money and credit in the business cycle; and the world system theory developed a new account of capitalist development. It is important to incorporate these new theories into the intermediate theory.

Thirdly, as far as the conceptual framework is concerned, there is a one-way relation between Uno's pure and stage theory where the former predominates over the latter. The relation between basic and intermediate theory in our scheme is reciprocal. Generally speaking, in multilevel analyses analysis at a lower level of abstraction must be guided by more abstract analysis, while more abstract analyses must be reinforced by factual findings in less abstract analyses. In my opinion, not only new factual findings by intermediate theory but also new theory must be reflected in basic theory. For example, Marx (1976 and 1981) criticised Say's law in his theory of money and in his theory of crisis. But his theory was not as clearly formulated as Keynes' theory of effective demand (Keynes, 1936), which can

be usefully introduced into the basic theory of capitalism. Similarly, Marx (1981) drew a distinction between the accumulation of money capital and real capital in his theory of crisis, but it was not clearly formulated. Introducing Minsky's financial instability hypothesis into the basic theory of capitalism helps clarify the monetary aspect of capitalist crises (Minsky, 1982).

Fourthly, intermediate theory is both a theoretical and historical analysis of a particular type of capitalism, while the stage theory provides only a historical analysis. Basic theories of market capitalism and that of bureaucratic capitalism explain more concrete economic laws than does the basic theory of capitalism, and historical analyses of market and bureaucratic capitalism provide analyses of their historical development.

Intermediate theory of market capitalism has been well studied by Uno and his followers in the form of stage theory. I will describe intermediate theory of bureaucratic capitalism briefly in the following sections.

(2) Stages of evolution of bureaucratic capitalism

The coexistence of socialism made bureaucratic capitalism unique. Socialism took material form in the Russian Revolution of 1917 as a new mode of production which would challenge capitalism and eventually dominate the world politico-economic system. After World War II, competition between capitalism and socialism became systemic and sought superiority in both economic and military power. Economists in both camps believed that they understood the economic laws of a market economy and that such laws could be manipulated in both capitalism and socialism. Economists in socialism believed that the economic laws of a market economy had been clarified in Marx's *Capital*, and that the planned coordination of an economy increased its efficiency. Economists in capitalism

believed that the market mechanism had been clarified by the neo-classical general equilibrium theory, and that government intervention improved the macro performance of capitalism by reducing market failures. Economic systems in both capitalism and socialism were designed to maximise economic performances. The rivalry between them continued until 1991, when Russian Socialism collapsed.

Bureaucratic capitalism has to date undergone three stages of evolution.

(1) Interregnum: the 1920s-40s. After World War I, the further deterioration of British manufacturing made it impossible for Britain to maintain even financial hegemony under the gold exchange system. Without a stable international regime, the macroeconomic performance of the capitalist countries was the worst in the history of capitalism.

(2) Welfare State: the 1950s-70s. The Bretton Woods regime was designed to support the bureaucratic structures of governments and firms. The welfare state policy was the result of the requirement of bureaucratic firms and social policy. Firstly, domestic demand had to replace foreign demand. Secondly, bureaucratic government had to achieve full employment and higher living standards. Bureaucratic capitalism successfully established the mutually reinforcing mechanism between productivity growth and domestic economic growth in the form of long-lasting prosperity of the 1950s-60s. The long-lasting high capital accumulation eventually reduced relative strength of US Economy. By the early 1970s the Bretton Wood regime collapsed. The long-lasting high capital accumulation also changed cooperative capital/labour relations into conflictual capital/labour ones. With the breakdown of the international and domestic institutions that supported the welfare state, the long-lasting high capital accumulation mechanism could no longer operate.

(3) Neo-Liberalism: the 1980s-90s. Confronted by the challenges of

German and Japanese capitalism, the USA shifted its policy from welfare state to neo-liberalism.

(3) Basic Theory of Bureaucratic Capitalism

The basic theory of market capitalism, such as that set out in Marx's *Capital* is grounded on the experience of the liberalism period of market capitalism. It describes the self-regulating character of market capitalism as a "law of value". We may describe the self-regulating character of bureaucratic capitalism in the form of long-lasting prosperity with automatic recovering mechanism from boom and recession in the period of the welfare state.³⁾

Prosperity started with increased investment, which raised both employment and the rate of profit. As prosperity progressed, firms maximised their investments, using credit in order to take advantage of dynamic economies of scale, which further increased investment demand. At full capacity utilisation, a profit-led accumulation mechanism came into operation. The increase in investment raised the price level, which increased profits with sticky money wages. Labour unions tolerated higher prices because an increase in investment boosted the demand for labour, and the increased productivity made possible by the dynamic economies of scale eventually increased real wages.

The acceleration of capital accumulation and eventual breakdown took several forms, according to savings levels.

In moderately high-saving economies, the economy reached full employment with the help of expansionary monetary policy. As long as the country kept the rate of inflation equal to or less than the US rate of

3) Yokokawa (2001) has described the law of value of bureaucratic capitalism in detail, building a formal model.

inflation, solvency of its current balance was ensured. But once credit creation accelerated inflation beyond the US level, the balance of payments deteriorated. When the exchange rate dropped below the predetermined rate, the IMF fixed-rate system forced the economy to tighten credit.

Minsky's (1982) financial instability hypothesis applied in high saving economies. The demand price of investment was determined by the expected profit flow divided by the present interest rate. As long as the demand prices exceeded the supply prices of investment, investment continued. But when the financial market suspected that the supply prices of investment were higher than the demand prices due to higher wage costs or other causes, investment stopped.

In all economies, reduced investment triggered depression, which created Keynesian unemployment and re-established labour discipline. However, depression was a temporary problem, for during the depression period a wage-led accumulation mechanism operated. Sticky money wages and lower price-levels pushed up real wages. Increased real wages and government fiscal spending raised aggregate demand. Firms responded to this increased demand by stepping up output. The increase in demand more than compensated for the increase of wages, and both the rate of utilisation of capital and the rate of profit rose so that prosperity began again. Thus the capitalist economy recovered its self-regulating nature, co-ordinating commodity, labour, and money and capital market through capital accumulation.

The self-regulating mechanism or the law of value of bureaucratic capitalism shares the following characteristics with that of market capitalism. Firstly, the economy recovered from depression automatically and prosperity began again. In other words, depression was temporary and did not become as severe as it had been in the 1930s. Secondly, once

prosperity had been recovered, the economy achieved full employment. Thirdly, prosperity automatically changed into depression because of the gold drain in market capitalism and the fixed exchange rate and financial fragility in bureaucratic capitalism. In other words, the boom period was temporary and did not grow into financial bubbles. Fourthly, through the business cycle, the demand and supply of commodities and labour power were adjusted in such a way as to allow the continuance of social reproduction.

The law of value of bureaucratic capitalism requires more government support and international cooperation than does that of market capitalism. One of the reasons for this is that, since capitalism had a challenging mode of production taking the form of socialism, it had to stabilize business cycles, reducing the duration and intensity of boom and depression.

7. The Basic Theory of Capitalism

Both the basic theory of market capitalism and that of bureaucratic capitalism are historical theories in the sense that they depend on institutions formed in a specific historical context. This shows that a law of value operates in any type of capitalism world system as long as there are complementary provisioning institutions. Can we therefore describe a more basic theory of capitalism, which covers all types of capitalism including market and bureaucratic capitalism? In spite of Hodgson's criticism on pure theory, from the institutionalists' point of view we cannot. The law of value of market capitalism works with its specific complementary institutions. So does the law of value of bureaucratic capitalism. If we abstract from these specific institutions, the law of value does not work. A revisionist makes a slightly different point. Robert Gilpin (2001) argued "different societies use

different institutional arrangements to perform the same economic functions” and “there is no one-to-one correspondence across national economies between structure and function” (p. 178). The important point is that the same function can be achieved by different institutional arrangements. On accepting that there is no one-to-one relation between function and institutional arrangements is it possible to describe common functions by abstracting from distinct institutions?

From the point of view of “social forms”, it may be possible to abstract common functions and supporting common institutions to create the basic theory of capitalism. In order to explain common functions and laws of capitalism such as value, prices, accumulation of capital, social reproduction, business cycle, and the law of value, it is necessary to abstract common institutions of capitalism, such as commodity, money, capital, market, credit system, family, and state from basic theories of different types of capitalist world systems.

If we do so, the model may become quite similar to Uno’s pure capitalism. Firstly, many of the institutions of market capitalism are found in other types of capitalism, since market capitalism was established earliest and imitated by other types of capitalist world systems. Secondly, the basic theory of capitalism must explain the self-regulating character of capital accumulation or the law of value. Hence, some institutions of market capitalism may be needed to build the model, even if those institutions have assumed various evolutionary forms in different types of capitalist world systems. In this sense, the basic theory of market capitalism becomes the foundation of the basic theory of capitalism. The basic theory and the “pure theory”, however, differ in crucial respects. “Pure theory” is fully commodified, while the basic theory includes pre-capitalist provisioning institutions such as the family and state as well as capitalist institutions such as market

and capitalist firms.

The basic theory of capitalism belongs to a higher level of abstraction than that of basic theories of market and bureaucratic capitalism, and is necessarily more abstract and poorer in detail. Nevertheless, the basic theory of capitalism is useful if we want to give clear definition to the capitalist mode of production compared with other modes of production. It is also useful for an educational reason: it is able to give concise and clear descriptions of capitalism.

8. Conclusion

This paper has developed a meta-theory of political economy, proposing a conceptual ‘marriage’ between Marx and Unos’ theory of social reproduction and Veblen and Hodgesons’ theory of institutions. Multilayered analysis is essential to rehabilitate political economy as a historical and social science.

In his theory of social forms, Marx distinguished two levels of abstraction: economic principles and economic laws. Marx examined how the perpetual metabolism between humanity and nature (i.e. economic principles) came about in capitalist modes of production (i.e. economic laws). Marx was quite successful in abstracting a “pure” capitalist society, which helped Marx to formulate a general theory of capitalism. However, Marx’s one level analysis suffers from both reductionism and teleology. Marx could not distinguish between the laws that operate in any capitalist society, which induced him to believe that all capitalist economies would follow the pattern of British capitalist development.

Uno removed historically specific laws so that abstraction from particular historical developments gave logical clarity to the pure theory. Uno’s pure theory treats the state as an impurity in a market economy. Uno then

developed stage theory of capitalist development introducing historical impurities into the pure theory. However, stage theory is still affected by a teleology. Uno considered the end of imperialism to be the end of capitalism itself.

Hodgson shares Uno's concern with historical analysis and a more general conceptual framework. However, Hodgson raised an important challenge against Uno's pure theory, arguing that no society can exist without impurity, so that impurity must be included, not only at the stage theory and empirical analysis, but also in the "pure" theory of capitalism. In my opinion, the concept of perfectly commodified "pure capitalism" exhibits a residue of reductionism which must be removed from Uno's three-level analysis.

I have rebuilt Uno's three-level analysis replacing the concept of "pure capitalism" by Hodgson's impurity principle. My intermediate theory is both a theoretical and historical analysis of a particular type of capitalist world system. Basic theories of market capitalism and that of bureaucratic capitalism explain more concrete laws of value than does the basic theory of capitalism. A law of value operates in any type of capitalist world system as long as there are complementary provisioning institutions. Historical analyses of market and bureaucratic capitalism provide analyses of their historical development. From the point of view of "social forms", it is possible to abstract common provisioning institutions of capitalism to create the basic theory of capitalism. The model may look similar to Uno's pure capitalism. However, they differ in crucial respects. "Pure theory" is perfectly commodified, while the basic theory includes pre-capitalist provisioning institutions such as the family and state as well as capitalist institutions such as market and capitalist firms. The foregoing analysis shows that a reconsolidation of Marxian political economy and historical

institutionalism is possible, removing Marx's teleology and reductionism.

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