

# Hartmut Elsenhans and a Critique of Capitalism

Conversations on Theory and Policy  
Implications

Neil Wilcock and Corina Scholz



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Implications

Neil Wilcock and Corina Scholz

*University of Leipzig, Germany*

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# Foreword

*Hartmut Elsenhans*

The idea for this book originated from Corina Scholz and Neil Wilcock. They approached me to present my theories on capitalism, growth, the emancipatory class struggle and the future of the international system from an introductory perspective. Having been my students and also enrolled in a master's programme that had to tackle my theories, they are able to present my work from a totally different perspective than I am: they know from their own experience and from the experience of their colleagues what the challenges are in understanding these theories. The fact that Corina and Neil have been able to prepare this book demonstrates that the difficulties in understanding these theories could be overcome provided they focused on my basic concepts and arguments. They pick out some central concepts and arguments, which could be problematic for the reader, and concentrate on making these concepts and arguments clear with respect to their connections with other elements within these theories.

In their efforts to present these theories in a novel way, Corina and Neil are more able than me to focus on the elements that are more challenging to readers. With each chapter delving into a different theoretical aspect, from both a theoretical and practical dimension, the book will serve as a source of interest not only for my students, but also for a wider academic audience interested in any one of the ten topics discussed. I am very thankful to them for this endeavour.

The history of the struggle of ideas in Western academia is full of cases where undesirable theories are silenced by declaring them as incomprehensible. Authors are unable to argue against such criticisms as their explanatory responses are classified by their detractors as even more unintelligible. I hope the explanations from the perspective of the young scholars, as represented by the questions and discussions with Corina and Neil within, can contribute to overcoming this issue.

Indeed, throughout my teaching, students have maintained interest in my arguments, whereas colleagues who had vested interests in the existing dominant and mainstream critical theories regularly assumed that my critical positions were best relegated to the archives, if not into more unknown and dark places. Colleagues have felt so sure of my errors that they have not refrained from writing such statements in official



replies from purported objective academic institutions, such as promotional institutions or bodies charged with academic staff development. Such episodes worry me that academic freedom is becoming the freedom of the powerful who remain powerful by limiting questioning – the very basis of academic enquiry.

I agreed to participate in this book by offering myself up for interviews and made no stipulations on what could or could not be asked, the questions were all at the discretion of Corina and Neil. I found the experience a pleasant contrast to the anti-innovation positions held in many of the social sciences, where there is a lack of questioning of basic assumptions with them being replaced by theatrical, superficial discussions that seem more akin to debates about the number of legs on a centipede than a serious academic debate. I believe this combination of rigidity and timidity constitutes a threat to academia and to discovery.

Turning to my theory, I introduce a perspective to readers that is at odds with established mainstream assumptions: capitalism is neither a historical necessity nor the result of a necessarily evolving historical process of socialisation and technical development. Rather, capitalism is the accidental result of the capacity of the lower strata to impose their participation in the gains of technical innovation by raising their mass incomes. The lower strata, the oppressed classes of precapitalist societies, had no intention of creating capitalism. There was no blueprint of the future society in Europe when the incomes of the poor increased. However, increasing mass incomes of the poor not only reduces the amount of surplus the ruling classes can use for the most diverse purposes, from war armaments to works of art, but it also changes the conditions of access of members of the ruling class to the surplus. The technically more efficient members of the ruling class, normally the less privileged ones who opt to go into trade and capitalist production, can disestablish centralised power-based strategies of exploitation so that decentralised access to surplus through market competition on the basis of technical efficiency can upset the normal power struggles in the ruling classes and shift the power in society away from rigid ruling classes. The resistance of the lower strata against exploitation and immiseration creates the conditions for the emergence of the bourgeoisie. Profit depends on investment spending, as profit has to be realised on markets instead of being appropriated by increases in unpaid work time by the ‘powers that be’. Investment is possible if there are products in demand that are produced by means of investment goods, especially machinery, and positive net investment in excess of replacement of worn-out investment goods requires increasing demand of such products.

My theory, which insists on capitalism being dependent on the empowerment of labour, is not popular with those in mainstream discourses. Ironically, the conservative supporters of capitalism do not appreciate a relatively favourable evaluation of capitalism if it opposes their more basic goal of reducing the share of labour in total production. They do not want to stabilise capitalism, but expand its exploitative capability. They defend the necessity of increasing exploitation in order to maintain competitiveness. In addition, mainstream adherents of capitalism realise my critique of anticapitalist positions is based on a Marxist mode of thinking, albeit with significant departures. For the so-called Marxist orthodoxy, using Marxism in order to repudiate violent revolution and enact permanent reform within capitalism as not only a possibility, but also necessary for the system's survival is anathema. The renegades of Marxist orthodoxy are bigger obstacles than the open supporters of current capitalism.

With increasing productivity, the basic mechanism of capitalism is disestablished. Productivity may rise to levels where mass consumption does not keep apace, as masses no longer only want to consume but aspire to other goals, like future security. In this case, the empowerment of labour no longer reduces the resources available for accumulation. Spontaneous struggles of the poorest for a stakeholding in progress are no longer sufficient for stabilising capitalism; increasing mass demand and reducing the resources available for the powerful and wealthy is not enough. In the future, more complicated mechanisms are required, and the great mass of the people will have to be introduced in the understanding of capitalism's foundation in increasing mass consumption and greater empowerment of labour.

In its younger days, capitalism grew because the masses did not have to understand capitalism as long as they were only pushing for higher mass incomes; they grew capitalism inadvertently. Capitalism requires the committed cooperation of the masses when it becomes capable of transcending the satisfaction of purely immediate material interests. When productivity reaches levels where social prosperity is no longer entirely absorbed by mass demand and the resulting need for investment finance for capacity enlargement, surplus floats around. In the history of capitalism, there has always been some surplus of this type, with rentiers increasing their consumption as a consequence. However, this dominance of the rentiers did not orient production or the political climate. When surplus increases, as it has done in the last three decades, all privileged groups try to find nonmarket means for controlling this surplus.

As before, the wealthy are ideologically in the better position in this struggle for introducing political means of appropriating the surplus, but how this contest is resolved is crucial in the present day given the extent of surplus available. In fighting for higher mass incomes, the working classes never cared for ideological justifications, but this is now under assault from an opposing ideology that alleges such a struggle is actually against the working classes' interests. As the masses have not realised that growth is basically dependent on their own incomes increasing, which can trigger investment, they easily fall prey to the propaganda of the wealthy, for example that joblessness is the result of their excessively high levels of consumption. We are in the position where the least well-off are ready to reduce their consumption in order to keep their jobs, but ultimately it only serves to limit their employment. Leading countries like Germany contradict the illusion that this behaviour increases employment given it only increases employment for the few at the cost of those in countries with balance of trade deficits.

A more hopeful alternative would be for the masses to understand the decisive role of their demand and the impossibility of securing future needs by contemporary savings. The analogy between the private household and a national economy remains unchallenged – the belief that saving is a virtue and the reduction of the incomes of the masses is a condition for growth. Alternatively, mass-based political movements could maintain capitalism by letting the market function successfully through efficiency in production and control of the powerful and wealthy by imposing competition, and complementing the market using other structures necessary for needs that the market cannot satisfy, such as the environment, social security in the future, humanisation of the labour process and a re-orientation of the importance of alienated work in relation to other activities instead of transforming this increasingly only relative importance of alienated work into precarisation of work. Such a development would probably live up to the criteria the labour movement in its history has identified with the transition to socialism.

The alternatives are, on the one hand, a type of socialism that incorporates the achievements of capitalism, or, on the other hand a power-based structure that the wealthy term capitalism, which really conceals the appropriation of surplus based increasingly on the mechanisms of rent collection.

# Preface and Acknowledgements

Two years had passed since we had taken Hartmut Elsenhans' 'Rise and Demise of the Capitalist World System' class at the University of Leipzig, but there was something about that class we were unable to shake off. It wasn't so much that we found it unusually informative – most courses at a masters level are engaging enough – it was more how it stood out from the rest. This wasn't a conventional course or actually anything like any we had ever taken before; it was a course outlining a unique theory on global capitalism delivered by the theorist himself. That was the first time we had experienced such an approach from a tutor and it stuck with us, the lingering effect of which inspired us years later to come up with the idea for a series of interviews with Hartmut.

On approaching Hartmut, he remembered us well as former students and was open to the idea immediately. We audiorecorded two lots of interviews, firstly in August and then in December 2014, over the course of two full days at his home in Wiederitzsch in Leipzig, Germany. The setting was his wonderful basement-cum-study, which is lined wall-to-wall with books and fully warrants the old-fashioned paper filing system he uses to arrange them. The process of transcribing the interviews took several months, and the majority of the editing took place in April and May 2015.

The original conception of a series of interviews over a range of subjects of particular interest to him and us took shape in precisely the way we had imagined. The idea and execution was fully our own, while the editing process involved some back and forth on clarifications and a final 'sign off' by Hartmut. The structure of the book, the ideas and general decision-making on content were down to us.

Between us as authors, there is no clear division to speak of in the chapters. This book project was truly a joint effort. As ever with such a full collaboration, there were differences of perspective between us as authors but they were to be expected and actually provided for lively exchanges.

In our interviews with Hartmut, we found him to be a generous, entertaining and friendly host. He was always willing to answer our questions patiently, however basic or repetitive they may have been for him. We would like to thank him sincerely for trusting us as interviewers and for giving the necessary support whenever we needed it. In the

twilight of his career, he continues to work tirelessly both in and out of the classroom, both domestically and abroad, with his customary verve and spirit.

Lastly, we'd also like to thank our colleagues and friends who helped in different ways to make this possible. Pawel, Suki, Regina, Jona, Dave, Clare, Ross, Fletch and Bea – your help was invaluable.

*Neil Wilcock and Corina Scholz*

# 1

## Introduction

### Synopsis

This book presents a series of interviews with Hartmut Elsenhans on his wide-ranging theories and their policy implications. Over the course of several interviews, we discuss his individual theories on marginality, rent, development, underconsumption, his idealised model of global capitalism, nongovernmental organisations (NGOs), social movements, the European Union (EU), and himself. Elsenhans is an old-school intellectual in the sense that his academic hinterland is vast and the stances he takes are uncompromising and independent. We hope this book will serve as a gateway to his complex theories and function as an introduction for both students and scholars new to his work. We bring together, for the first time in one volume, Elsenhans' thinking across his range of interests, acting as a compilation of his distilled thoughts. We have not diluted his theories, keeping their essence but putting them in simpler English while using examples to illustrate Elsenhans' views. Whether discussing the reasons behind the economic slowdown, the future of the nation-state international system, or how the Eurozone crisis can be resolved, what stands out is Elsenhans' bold and thought-provoking ideas, and the unusual places he finds solutions.

### Purpose of the Book

In his long and prolific career, Professor Hartmut Elsenhans has published numerous books on a host of issues from Algerian independence to social movements in the developing world to development theories and, more recently, the first of a six-volume book series on his global economic theory. One would think that to add another publication of

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Elsenhans' work might be a redundant exercise given his extensive list of publications. However, through spoken interview our approach deals with his work in a new and unorthodox way. The plethora and variety of articles, reviews, conference papers, lectures and books by Elsenhans lead to a common complaint that his writing was lacking in clarity. This book is an opportunity to right that wrong and produce a clear-cut overview of Elsenhans; insights which stand out for their clarity.

Our experiences as former students of Elsenhans, in and out of the classroom, convinced us of the usefulness and quality of the insights we would cover. However, we wanted to have these exchanges in a language that was more rudimentary than in Elsenhans' writings. Ulrich Menzel, in a review of his work, sums up the dilemma:

Unfortunately, he keeps getting in his own way. The complexity of his language reflects the complexity of his line of argument, even in English. To do justice to the argument, the reader must be as well-read as the author (Menzel, 2013).

We hope to appeal to anyone with an interest in any of the ten chapter topics. The goal has been to condense Elsenhans' work to the point where an enthusiastic undergraduate could reasonably begin, but never to the point at which the ideas would be diminished. We are in an advantageous position to provide this perspective as it largely replicates where we started when we first encountered Elsenhans as students. What struck us was the depth of knowledge Elsenhans possessed, which he recalled effortlessly to back up a point, and also the originality of his thoughts on a wide range of subjects, which was placed within the point's relevant state of the art.

When communicating his ideas in lectures to new audiences, Elsenhans took a step-by-step approach, which allowed for categories to be defined and from which more complex conclusions would be drawn. The spoken word can simplify ideas that, in written form, are expressed in a more convoluted form; therefore, we knew interviews could help us condense and concentrate Elsenhans' thoughts. We chose the themes of the chapters to introduce Elsenhans' main theoretical interests in his Capitalist World System theory, envisaging that each subject would add to the comprehension of the others. The later chapters were chosen with regard to some of the political applications of his theories; for instance, he has published widely on social movements and the EU. It will allow for others to experience an intellectual engagement that was gradual in progression but also straight to its conclusions. The interview form

afforded an opportunity to increase interactions on the topics of discussion, allowing us to shape the conversations and ask the questions he has not covered in his writings.

The topics are varied and wide ranging, which reflects the prolific career and interests of the interviewee. Elsenhans can claim to be a prominent voice in a variety of discourses, including the Algerian independence revolution, social–political movements in Asia and Africa, and development studies, but his interests are far more extensive than set academic disciplines and interrelate across the social sciences. His approach is based on theoretical interpretations and – a gift for interviewers – always with policy suggestions to support them. He advocates development through countries weakening their exchange rates to support export policies, that the solution to the Eurozone crisis isn't Greece's exit from the single currency but that of Germany and its return to the Deutsche Mark, and the 'state classes' of developing states should prioritise wage increases of the poorest given full-employment capitalism came into existence and can only maintain itself through an empowered labour force.

We were attracted to Elsenhans' approach given that it appeared to combine the best of old-fashioned scholarship – diligent preparation, widely researched, on specialties fuelled by personal experience – with a purpose that was timeless and universal – changing the discourse in order to advance human freedom, economic or otherwise. His metalevel analysis caught our attention, as we studied and discussed one issue it would soon be related to other phenomena, which would, in turn, serve to illustrate a broader pattern. Our backgrounds are in interdisciplinary social sciences, which made this cross-pollination thinking attractive, especially given that the conclusions Elsenhans makes are bold and far-reaching.

The beauty of a set of interviews over a wide range of topics is that the text is not based on a single idea, recycling that idea over and over; on the contrary, there's an abundance of ideas and thought experiments within these pages. Whatever this publication may lack, it will not be a shortage of varied and fresh ideas from chapter to chapter. Just as in the lectures, we were struck by the originality of Elsenhans' ideas, not just in his economic interpretations but in his commentary on current events. These reminded us that there is a need to challenge a rigidity of ideas as much as a rigidity of interests in established discourses.

Elsenhans has had a career extending far beyond Germany, with teaching posts in Pakistan, India, the USA, Algeria and Canada. His academic career has also ventured into the political world, with stints in



the Ministry of Planning in Algeria in the 1980s, and seeing from the inside India's governing party in the 2000s. Added to this a family life with origins from Nepal, our subject of interest is able to use examples from personal experience from a variety of places when he worked as a scholar or an advisor.

As ever, with the passages, it breathed with ideas and opinions that would inform and provoke. As the book deals with so much of Elsenhans' core beliefs and thoughts, many of them are backed up by personal experiences and anecdotes. We aimed for these personal insights to alleviate the denseness of the subject matter while giving a better sense of the perspective of the interviewee. Infused throughout are personal reflections, lending insights dating back through the decades since growing up in the early postwar period in Baden-Württemberg, Germany. Brief glimpses emerge of his character, his life story and his noted sense of humour.

Elsenhans' openness and readiness to take on any question led us to find out not just what he thought, but also why. Given that we always found our subject of study interesting, we were able to uncover his perspectives on religion, culture and history, which are not areas of his formal academic interest and on which he has never made any public record. This gives some personal insights into the contributions he makes.

We do not expect the ideas exchanged to sit well with everyone, for instance the unflinching take on the role of NGOs or his criticisms of monetary Keynesians, who he believes are leading a weak protest to economic decisions. However, we were happy to open and challenge ourselves to these more radical views and pass them on to the reader to face as we have. Such free thinking brings with it obvious opposition, but critics would find it hard to argue with his capacity for knowledge and his quick mind, which has produced a voluminous body of work.

Our aim was to direct the conversations in ways that spell out the main tenets of Elsenhans' theories while contextualising them where it seemed necessary. In 'General Thoughts on Capitalism' (Chapter 7), Elsenhans reflects on the contribution of Karl Marx, John Maynard Keynes, neoclassical economics and World Systems Theory, which will be of equal interest to the novice and the expert. Elsenhans made it clear that he did not have a mentor or one hugely influential figure in the genesis of his thinking – his theories came from his time spent researching and developing his own direction, but he lends from each of those economic pillars to varying degrees.

For those with a social democratic outlook, Elsenhans' positions will be of high interest. There is nothing dated about the debates he

addresses within this book; they are the fault lines of our time, and his opinions on those fault lines are radical and deserve due consideration. Considering socioeconomic problems in a novel way, we hope this publication can act as a potential departure for future engagement with his theories. With the latest big ‘truth’ of the last century to fail spectacularly – market fundamentalism – the time to consider new outlooks in the field of economic policy is now; Elsenhans makes his contribution by offering new and bold solutions amid the challenges of globalisation. This book can function as a clear and concise introduction to a range of topics, serving as an entry point for those wishing to access the scholar’s main theoretical contentions, covering rent, social movements, marginality, development studies, Europe and beyond. As hopeful as we are of providing a distillation of the scholar’s theorisations, it will not replace interested parties from going on to read Elsenhans’ original work. We were left with quite some excess of interview material by the end of editing, much of which would be of further interest; however, to arrive at a coherent chapter structure, this was a necessary organisation.

With this in mind, we acknowledge restrictions in depth and analysis in the subjects we cover. Where the spoken word gives the possibility to simplify and condense, it brings with it the drawback of being unable to provide sufficient support and evidence for each idea proposed – of which there are sometimes many on each page. This publication is an exercise in simplification and understanding rather than a critical analysis, which explains the omission of tables, graphs, or mathematical formulae within. We accepted this trade-off between a plethora of interesting and challenging ideas on the one hand, and an inability to explore and scrutinise them sufficiently at times on the other. It is up to the reader to decide if we have found that balance, but we were cognisant that our main aim as editors was to present those big sweeping ideas.

Let us be clear, in the lectures and the interviews that have gone on to form this text, where we had differences of opinion or could not wrap our head around his ideas, we challenged him and were honestly critical. Not all doubts could be resolved, and ideas were exchanged that we did not agree with and there were areas that we had huge difficulty with, but that is for the reader to make up their minds on just as we have.

Despite Elsenhans’ mother tongue being German, the interviews were conducted fully in English and as Elsenhans speaks solid English it allowed for a fluid exchange of ideas. We all agreed that we would like this book to be published in English in order to reach the widest possible audience. We were also much more familiar with his publications

and the terminologies he uses within them in English. None of the interviews are verbatim quotes and were fully edited by us in order to present the most lucid text we could without going as far to change any of the meanings in the answers. Elsenhans read all the edited interviews and was given the opportunity to edit the content.

## Layout of the Book

The topics chosen were done so on the basis of covering the main theoretical economic issues that, when combined, go some way to outlining Elsenhans' Capitalist World System theory. The chapters on 'Rent' (Chapter 2), 'Marginality' (Chapter 3), 'Overcoming Underdevelopment' (Chapter 4), 'Convoy Model of Globalisation' (Chapter 5), 'An Underconsumption Crisis' (Chapter 6) and 'General Thoughts on Capitalism' (Chapter 7), are interconnected to the extent that, taken alone, they will not capture holistically his theory but read together will relate ideas and cross-analyse to create an outline of his Capitalist World System Theory.

The content of the book covers Elsenhans' theories widely. He has a wide range of academic interests and we have tried to cover the subjects we judged he had the most interesting perspectives on, extending beyond his economic theories to distil his thoughts on sociocultural movements, the environment, NGOs, culture, and his personal philosophies. Most previous commentary or summaries of Elsenhans' work have not had the chance to let the author answer himself, so the chapters are novel in their range of topics, as well as their content.

All chapters can exist in standalone format and be read with respect to its subject, but there are interlinkages that will supplement the content of other chapters, particularly the economic subjects. The sequences of questions in each chapter are designed to lay the ground for later exploration, which frequently involved beginning with definitions of terms. Defining may seem a needless exercise but much of Elsenhans' theories are couched in extensive definitions of terms conceived of differently in mainstream discourse, a notable example being *marginality*. We found that without doing so there would be subsequent confusion, and bringing out the precise definitions was crucial to formalising Elsenhans' interpretations.

The book can be thought of in two halves, the first half as being more theoretical and purely economic, and the second half being more wide ranging and more political. We considered Elsenhans' economic theories to be of widest academic interest and unique to him, which is

why we placed them in the first six chapters following this introduction. Chapters 8–11 are less concerned with Elsenhans' economic theory and encompass subjects of political application. He is openly of an economic viewpoint, hence the need to spell out the infrastructure of that thinking to understand his perspective on other subjects. Although he has published less on noneconomic subjects, we found there was just as much, if not more, sustenance of intellectual curiosity in the second half of the book. While the first half of the book involves much discussion on definitions and contextualising his theory, the second half is more revealing in showing the political consequences of his thinking.

## **Content of the Book**

The first interview (Chapter 2) is 'Rent', which Elsenhans defines as 'the surplus appropriated by political means... and not used for mass consumption'. We began with rent as it serves as a handle to explain his interpretation of the modern economy. He categorises rent in contradiction to profit, the other type of surplus, which serves as a motor for growth. Rent is appropriated through political guarantees, whereas profit is earned on markets under the condition of competition.

Chapter 3 is 'Marginality', a categorisation Elsenhans gives for the existence of part of the population that cannot produce as much as it needs for its survival. The marginals are those whose productive capacity is less than what it costs to employ them. Elsenhans' contribution in this regard is to introduce a dim perspective of labour in the production process, believing much of labour today is not value creating, which is in contrast to all other perspectives, from the neoclassical economists to the Marxists.

Chapter 4 is 'Overcoming Underdevelopment', linked umbilically to Chapter 3. Elsenhans sees marginality as a consequence of mass labour surplus, therefore development solutions lie in creating the conditions in which labour is in high demand. Elsenhans explains that the answer is in the focus towards mass markets as without them there is no interest in developing technologies to satisfy a demand that does not exist.

Chapter 5 is entitled 'A Convoy Model of Globalisation', which is Elsenhans' idealised model of global capitalist development. It is a global economy of expanding mass markets that stem from the production of new products available to the mass of the population: a pattern of globalisation where economies falling behind do not suffer from unemployment but only experience deterioration in their terms of trade due to a temporarily devalued currency.

Chapter 6, 'An Underconsumption Crisis', is an explanatory chapter in which Elsenhans describes the ailments of the current global economy. An underconsumption crisis, which he believes we are experiencing now, has the hallmarks of a weakened negotiating position of labour, wages that have not kept pace with productivity increases, weak demand caused primarily by lack of reinvestment, and consumers preferring to save rather than spend in the face of dim economic prospects.

Chapter 7, 'General Thoughts on Capitalism', is where we ask him to put his economic theory in context, with particular reference to John Maynard Keynes, Karl Marx, neoclassical economics, and World Systems Theory. He explains why he considers himself a Keynesian, and also what aspects of Marx and neoclassical economics he adopts. We ask him to reconcile his socialist beliefs with the capitalist solutions he proposes to achieve them.

In Chapter 8, 'Nongovernmental Organisations', Elsenhans perceives a growing disillusionment with NGOs stemming from their bureaucratisation and the increasing dominance of middle-class perspectives. The root of the problem being that NGOs ultimately have to rely on the decisions of their international donors for survival. This economic basis consists of a rent acquired in their societies of origin and at the international level (United Nations, Government Aid Budgets, Private Foundations, etc.), which determines their role.

In a fast-sweeping interview in Chapter 9, 'Europe, the European Union, and the Eurozone Crisis', Elsenhans explains how Europe found itself in a prominent and relatively wealthy position as an accident of history. We then discuss the formation of the EU in the postwar setting, particularly the history of French efforts to institutionalise the emerging German economic power, also the creation of the Eurozone currency and how its pains could be solved today, and finally an imagining of a future Europe under French cultural leadership.

In Chapter 10, 'Social Movements and New Cultural Identitarian Political Movements', Elsenhans reflects on the origin of social movements and how he sees their modern-day equivalent as morphing into a phenomenon he terms 'network' social movements. He explains the rise and moderation of political movements in developing societies, the New Cultural Identitarian Political Movements, which mobilise popular support with references to conceptions of cultural identity that arise out of the failure of state development policies.

The eleventh and final chapter is entitled 'Reflections on Career, Criticisms, Creed and Other Issues', which was our opportunity to explore areas of interest which Elsenhans has not been recorded on previously.

He reflects on his career and how his work has been received; we then move on to talk about his view on culture as a determinant in capitalism, and ask him to answer criticisms that he does not factor in environmental considerations when promoting mass consumption theories on a global scale. There are also small sections on the minimum wage, tax and tax havens, patent rights and his personal philosophical beliefs.

## Placing Elsenhans

Elsenhans has been accused from seemingly all angles given his unique take on economics. For some he is a turbo-capitalist, given his trust in markets to produce equitable and efficient results, but for others he is a far-leftist, given his support for intervention to raise incomes and redistribute wealth in favour of the most marginalised. In his own words: 'My theory can comprise many of these things – Marxism, Keynesianism, neoclassical economics – but not just adding it, but putting them in a very special argument. And that is why many people oppose me'.

So for some he is a Keynesian, to others a Marxist, and to the rest a neoclassical adherent. Therein lies the interest but also the controversy; he resists simple categorisation but also risks falling between any. To his cost academically, Elsenhans occupies an outsider role in mainstream academic circles due to him not fitting easily into any of the academic schools. He explains:

Hans-Heinrich Nolte has written that I am basically a neoclassical author.<sup>1</sup> That is wrong because I don't assume a neoclassical order where equilibria are dependent on microdecisions. The *Frankfurter Allgemeine* newspaper wrote I was a very old-fashioned Marxist because I share with Marx a macro-social perspective, something I consider to be the biggest contribution of Marx.<sup>2</sup> I also have a Keynesian view that idle capacity may exist, but most of my Keynesian colleagues are narrowly interested in monetary policies so I find myself apart from them.

As one would expect with a theorist forging his own path, Elsenhans finds himself in opposition to many colleagues when sharing his beliefs. That trust in his work makes him uncompromising at times, not being afraid to take positions against the most prominent economists, seeming to take exception as often with those one might presume he had most in common with. A case in point: 'The typical Keynesian, those who think they are Keynesians, they are arguing that you only have to manipulate

the money supply. I am arguing that Keynesianism is the other way – you must amend the income distribution’. It is the place an academic outsider naturally finds himself, but we can say with confidence such contrarianism is on behalf of his theoretical positions rather than any personal motives.

Elsenhans shares the neoclassical conviction concerning the superiority of a market economy and its allocative efficiency, especially price formation, but not the conviction the economy will automatically approach full employment only if wages are low enough. He shares with Hayek the fear of relying only on monetary policies but not the neoclassical belief the market leads to appropriately high real wages. For neoclassical economics, rising real wages are an inevitable consequence of growth. For Elsenhans, like other post-Keynesians, they are its very condition.

In believing that capitalism can function embedded in socialist principles, he considers himself a leftist thinker. Contrary to how capitalism is usually conventionally understood, that the main two tenets of social thought – capitalism and socialism – are not just incompatible but acting in opposition, Elsenhans believes that under certain conditions capitalism can be used for socialist principles and is, in fact, the best system to attain socialist conditions owing to its self-regulatory mechanisms.

Elsenhans proposes a socialisation of risks in the future to counter the ill effects of current global capitalism. In his version of socialism, we will be able to use the efficiencies and output of capitalism in ways that have socialist goals. He believes ‘the future can only be saved by a collective effort. We have to consider that socialism is required for the benefits of capitalism to survive, even more so if capitalism expands’. It requires the institutionalisation of solidarity, so that the unwanted and dangerous reduction of consumption through saving, and the steady reduction of demand caused by depressed wages are both avoided. He believes this is done by taking on the so-called ‘capitalists’, believing the modern-day plutocrats are the real hindrance to an economy they purport to keep afloat. Elsenhans sums this up in a one line manifesto: ‘We need to save capitalism from the capitalists’.

Prerequisite for development is an interventionist economy that creates the right conditions for a capitalist system to function through redistributive measures in order to first increase mass incomes. The problem with capitalism as we know it today, according to Elsenhans, is that capitalism is not profit-based but rent-based – meaning, revenue is determined by a power relation. He advocates capitalist development through free markets, where efficiency and growth is greatest, but

imbedded within a wider protective and redistributive state. Like Keynes, he advocates interventions in order to create those market conditions in the first instance, as well as manipulation of the money system to meet the productive capacities of the state. He finds himself reacting in disbelief to policies today made under the misconception of money as holding value rather than money merely being a claim; he sees this strict obedience as a psychological barrier to progress.

Elsenhans is commonly thought of as a development scholar given that his writings concentrate on overcoming the lack of prosperity. Although his analysis delves into the minutiae of economics, the goals stay wide by focusing on economic improvement through empowerment of the most marginalised. For all the depth of knowledge across a wide range of subjects he has maintained a singular and simple goal of improving the lot of victims of an unfair and unjust economic system. He has an historical reading of capitalism arising from the increases in wages of the most marginalised, which led to mass consumption and the strengthened role of labour in production. He conceives to improve the faltering conditions of today's economy, as well as most of its unfairness, is through that same origin of capitalism, labour that is empowered.



# 2

## Rent

*Rent is defined by the power-based means from which it is collected, which is in contrast to profit – the other type of surplus – which is collected on the basis of competition. Under the conditions of competition, capitalist producers are forced to reinvest their profits in order to remain competitive, which serves as a motor for growth, as opposed to rent-based economies where the so-called ‘capitalists’, more accurately rentiers, are under no duress to reinvest their surplus as, owing to a power relation, they have guaranteed returns. When the rentiers base themselves are at the centre of state productions, like in the oil-run Gulf States, they constitute a ‘state class’ from which they secure access to those rents and insulate themselves from competition. Elsenhans believes a rent-based system destroys the efficiency and growth gains that capitalism achieves, and that capitalism must be saved from the rentiers. The concept is fundamental to understanding his critique of the current economic system.*

**You use the concept of rent to explain what you believe to be an unfair economic system, a system that secures the earnings of an opulent few at the majority’s expense. Can you elaborate?**

Most concepts are chosen because they are useful. I believe rent is particularly useful due to the direction capitalism is travelling in today. Our basic political arrangement deals with the dilemma of whether something is morally just or not, and most people feel capitalism is unjust because there are very rich people side by side with very poor people. Since time immemorial the conflict is basically about who gets what. That’s the political question of Harold Lasswell, who asked ‘who gets what and when?’ But capitalism is more complicated than such a narrow political question.

Those people who demand money is taken from the rich are told by the establishment that the wealth of the rich is creating jobs for them and they should not complain because these huge profits are socially necessary. At the same time, people are seeing that a lot of surplus in the hands of the rich is not being used for investment. One has to carefully analyse what is basic about capitalism, the system, and what is basic about surplus, the result of capitalist activity.

The question you are asking is what am I saying about this system. Well, there are certain truths in capitalism, one is that profit is normally used for investment, but in cases of underdevelopment, a lot of surplus is not used for investment. This is a symptom of the rent situation – lack of investment caused by a protected elite.

### **What exactly is ‘surplus’?**

Surplus is the amount of income that exceeds the portion that is utilised to maintain the system. In an economy overall, it would be that above what is needed to maintain the productive operations, namely the factors of production such as labour and capital invested. People might think of surplus as profit; however, I categorise what may be used in day-to-day language as profit as surplus, and from that I say there are two strands of surplus – one being rent and the other profit. I say surplus is generated in an economy which is either rent based, that derived from political rent, or profit based, that derived from competitive markets; how the surplus is extracted is the crucial dimension in my analysis.

To understand rent therefore, you need to ask not only how much surplus there is, but also how it is received, and that can be in two ways: on a market [profit-based] or as the result of a power relation [rent-based]. An example of a rent-based scenario is the Gulf States with their oil wealth, the sheikhs own the structures of production and the state gives political guarantees on how they run the industry. It is not open to competition; it is closed to democratic interference from the population; they decide how to run their production; the workers are paid meagrely with no relation to the end production; and, most importantly, the owners run the sector not on the dictate of competitiveness or efficiency but because they have guaranteed revenues due to the political arrangements for the industry.

A profit-based scenario would be an independent company operating in a competitive market, for example any clothing, food, or car company. It is responsible to its customers, who are free to prefer the services of another company if they are not satisfied, and if enough customers

feel the same way, it will be out of business while others make the profits. This is economic activity determined by the choices on free and open markets, which new companies can enter and old companies can leave. The profit [surplus] the companies earn has to be reinvested in order to stay competitive, due to a capitalist logic. This is in contrast to the rent-based model whereby the surplus is guaranteed so there is no capitalist logic forcing them to reinvest in order to survive.

**When people think of rent, they think of their mortgages or utility bills but this is a different concept you are using . . .**

This is a nice indicator for the lack of understanding of capitalism in today's world. In classical political economy, also for Joseph Schumpeter, the reduction of rent in favour of profit is a standard theme.

Rent is the surplus appropriated by political means, that's why I wanted to highlight the means of appropriation as central. There is no rent if there is no surplus. Rent, in my view, is all that is based on power, which may be legal or not; profit is all which is based on a market.

**It seems we have to understand profit in order to understand rent, given their opposition. Taking profit, how is it generated and why does the capitalist have access to profit?**

Marx dealt with this in the first chapters of *Das Kapital* and his argument is that labour produces more than its costs. However, the question should be how does the entrepreneur extract his surplus? This is where the rent/profit conceptualisation comes from. If the argument is that labour produces more than it receives in a textile factory and it can exchange its income for other goods, to whom does the entrepreneur sell the additional clothes?

I will attempt to model this simply: an entrepreneur pays his workers a certain salary, which they are able to spend on their consumption. Consider that there are only workers who are working in consumption goods factories. The producers of consumption goods would be the only consumers of these goods. The total of their income is equal to the total value of consumption goods bought by these workers. The total of all the workers' incomes then equals the total value of consumption goods demanded by the workers and sold by the entrepreneur. Their spending constitutes the entrepreneur's revenues which he will subsequently have to emit again in the form of their salaries. If this is the case, he makes no profit.

We continue to assume that there are only workers in the production of consumption goods but let us now say that one entrepreneur

produces textiles. The entrepreneur will receive an additional income as a profit only if he is able to sell the textiles to more workers than he employs himself. There have to be other workers who buy these products. Other workers from other branches of consumption goods production, say shoe factories, can buy the additional textiles off our textile entrepreneur only if they reduce their shoe consumption, creating a loss in the shoe industry. The total profit of the entrepreneurs in the consumption goods industries, however, does not increase by the textile entrepreneur selling more textiles than a shoe producer sells shoes.

In order to realise surpluses as profit on the market there have to be consumers who do not receive incomes in consumption goods production. My argument is that profit can be realised on perfectly competitive markets provided there are people that have not produced consumption goods but who receive incomes which are spent on consumption goods.

**If consumers do not receive their incomes in consumption goods production [products made for consumption by the average consumer], where does it come from?**

The number of workers in the investment goods production [also known as capital goods: goods that produce other goods or services, e.g. machines] is the additional demand, if the government sector is in balance and if the foreign trade sector is in balance. The profit directly depends on a demand that the entrepreneur can only realise on the market if there are salaries paid in the nonconsumption goods-producing sector. The profit of entrepreneurs depends on the existence of investment goods production in addition to consumption good production.

It shows profit is a category that depends on the overall macroeconomic structure and not on a power relation. It is not so simple for an entrepreneur in a profit-based model to go to the worker and say 'I need more profit, give me your money', whereas in certain rentier scenarios as it was in the feudal times, the feudal lord could exert his might over his estate workers over the distribution of the product and the lord would receive, as a result, more food. The power relation in capitalism compared with a rentier situation is different.

**What practical significance does this have for the economy more generally?**

The distinction is that the receiver of profit will be eliminated as an entrepreneur when he does not make profit – the profit motive keeps him permanently interested in being competitive. To make profit on competitive markets, the entrepreneur needs to invest in cost-saving

technology to improve his productivity. The total amount of profit is dependent on how much is spent on workers in investment goods production. The individual profit of the entrepreneur is down to his efficiency. The total amount of investment will be partly dependent on technical progress, which will further generate technical progress. What I hope to be explaining clearly is that profit is linked directly to a mode of behaviour of those who receive it – profit earners have to go for investment. This is in stark contrast to those who receive rent, where the compulsion to stay competitive is not there: the guaranteed revenues hinder the necessary economic diversification to overcome underdevelopment, so they are more interested in their position in a power relation.

**Just to be clear, this is not your theoretical contribution – you are building on what other authors have previously worked on.**

Indeed, I just tend to agree with it and haven't forgotten about it. In the tradition of political economy from Adam Smith to Karl Marx, I call such surplus 'rent' – income earned without costs for productive activity.

Adam Smith has nicely contrasted the efficient and inefficient landlord. The inefficient landlord is wasteful; he entertains dancing girls, circus people, and such things. Whereas the efficient one will invest in the improvement of his land and in new technology, etc. The big question Adam Smith asks is how you shift from one to the other. That massive shift to investment occurs when former rentiers are excluded from the surplus-appropriating class – in today's world it would be like depriving the sheikhs from all the mechanics of the state giving favours to their oil production.

Here's a wider point, I believe we are much more conservative thinking today than the analysts of capitalism at the beginning of the last century. They were much more aware of the progressive character of capitalism in that real capitalism benefits its workers rather than the pseudo-capitalism today, which does not. Even very critical authors of capitalism, like Rosa Luxemburg, say that capitalists cannot increase consumption because the compulsion to invest in order to stay competitive binds them; otherwise, they will lose their position amongst the capitalist class. I mention this because, today, mainstream economics says the capitalists increase their consumption. Based on this, only capitalists in some type of a rentier situation, like a monopoly, can acquire enough wealth and spend it on consumption. This type of behaviour, however, in a profit-based system would always be a temporary thing, for example only until the monopoly falls. All the theories

of the benefits of financialisation were on the basis that the capitalists will increase their consumption; it will have real balance effects – people are richer so they buy fancy cars, and so on, but this didn't happen. Assuming such a contribution of financialisation to consumption implies accepting that financial capitalists have already turned into rentiers.

**Now that we have clarified the productive type of surplus, profit, and with that in mind, let's go back to rent. This 'rent surplus' is earnings disposable in an economy which is . . .**

. . . not used for mass consumption. It is not being used for mass consumption or for the consumption of labour; mass consumption is only possible through the compensation of labour. The surplus which forms the rent can be reinvested but it is not. The whole theory of overcoming underdevelopment [discussed in Chapter 4, 'Overcoming Underdevelopment'] is based on the idea that rent surpluses need to be reinvested but nobody is forced by capitalist logic to reinvest rent. The reason for that is we are not in a true capitalist economy and explains why development is failing.

The use of rent requires a political structure because with no economic compulsion, the only possible constraint is a political one, which can be popular pressure from below, as is agitating in many of rent-based economies, notably the Gulf States and during the Arab Spring in Northern Africa.

**Some would argue that this is just the way things have naturally occurred but I sense you are less forgiving about rentier situations?**

It creates a class of people that is able to appropriate earnings and become very rich on the back of political arrangements. The country's living standards do not increase from that wealth: it ingrains a privileged class at the top, does not create jobs on a mass scale, and newer technologies are not initiated because of that lack of investment. The rents continue to flow to those that are politically powerful and there is a continued exclusion of the poor from any gains.

I am highlighting the economic drawbacks but there are wider cultural and social aspects that are troubling, too: a culture of nepotism based on favours and unfair competition; a disillusionment amongst the society that they have no chance of succeeding if they are outside the privileged class. A de facto caste system emerges and the society will likely be more hierarchical with the constant vigilance and threat of repression

by those in power, elites rightly perceive their interests to be in direct contradiction to the masses, which are seeking change and opposition to these systems, finding their only means of articulation in the politics of the extreme [terrorism].

I therefore argue both leftist and even free-market positions cannot be forgiving about rentier situations. I don't see it as a question of left or right. In fact, in many countries rent-based structures are what have kept their economies from developing. In that sense, there can be no meaningful discussion about development if rentier scenarios are not addressed.

**If rent is determined by how it is appropriated and maintained, can you talk about how that is done?**

As I have said before, rent is on a political basis. In a precapitalist society, poor people have political clout on account of their numbers. If this political clout is taken away from them by divide-and-rule policies or expulsion of some kind, then the opportunities to extract rents go up by exploiting the workers yet further. With less inequality, the lower strata have more say in the society. When polarisation occurs in the wake of stabilisation of state power in the shift to more hierarchical power systems, this influence can be taken away by the powerful, the dynasties, the state apparatus, etc.

This is what you find in all these arguments about the capitalisation of economies based on raw materials, namely the throwing out of poor people. Poor people lost their right to land in Africa just as they did in Scotland [the Highland Clearances] and other places, which Marx has described.

If the political clout is lost then the rich will increase the pressure on the lowest by increasing rents, affecting more surplus at the rentiers' whim. If you are in a situation where labour is not needed because there is diminishing marginal returns – a very precarious position indeed for labour, which is most evident in agriculture – then there will be many vulnerable people.

**It would be helpful if we had examples of when rent situations emerge. Can you illustrate this with some examples of where sources of rent arise?**

Generally speaking the possibility to extract rent has to do with market imperfections. This is usually the case in the raw material sector, as I mentioned with oil. To explain, if you are producing where your

production costs are lower but somebody else is required to supply enough to clear the demand of the market, naturally your price will rise to match his price, despite you being able to supply it on the market cheaper. If you have a politically exclusive property right, for example access to an oil well, as it is in the Gulf States, then you will collect the difference in price favourable to you. The difference between you and other producers is on the basis that you have a political right to this property.

This is a rent on the basis of differential production costs: oil is one such example but is not limited to it. Another example would be iron ore. Brazilian iron ore now has 60% iron purity, whereas in Germany iron ore has less than 20% purity [Salzgitter], and in the United States it is also much less than it used to be. The differences in production costs due to the purity level create rents.

Normally, rentiers have access to surplus because they are specialised in products where the prices are not determined by their costs of production. For instance, when selling wheat on the world market, the world market price for wheat is what matters, not the production costs. The United States produces significant amounts of wheat, which means wheat generally sells quite high despite it being produced cheaper elsewhere. Take the oil price, it has less to do with its costs of production in the OPEC countries and more to do with the costs of production of alternatives to oil; this is true for all minerals. Look at the effect the availability of shale gas has had on the price of crude oil in 2014–15. The surplus level is basically determined by the capacity to sell products with a price in the industrial countries, which is influenced by their production costs or some demand conditions, like competing products in the case of a globally traded product.

### **Are there more conditions aside from differential production costs where rents emerge?**

Rents also emerge where there have been political interventions in products but the demand has not reacted significantly to the changes in price. In economic jargon: where there is low price elasticity of demand [the demand does not alter significantly to changes in price]. These are products where poor countries have a monopoly and have united to use the monopoly to increase the prices. The classical example is export taxes on coffee; the price of raw coffee is so low the price of a pound of coffee is irrelevant. The total sales of coffee-exporting countries in case of low prices is lower than their total sales if they reduce the supply and



get higher prices with fewer quantities exported. If you make the price lower, it will not sell much more, but if you create a coalition to raise the prices then you can create a de facto tax on coffee exports, which will maintain sales despite the higher cost. This happened in the 1940s but it is no longer very popular because the international institutions don't allow it. Until the debt crisis of 1982 it was the policy of third-world countries to do this but the World Bank has acted against them. This strategy by the coffee producers may come round again.

A third rent scenario arises, for instance, when you use money to subsidise productions. The producers can avoid producing locally when the product is cheaper on the world market and continue to import. In extreme cases, private entrepreneurs will take the subsidy and buy from the world market the product that is cheaper and sell it internally; for example, if entrepreneurs are subsidised to produce tractors but they then use that money to buy supplies from the world market so the tractors are constructed at a cheaper price than would be possible with local production. The state has channelled the entrepreneur some money but he has used it to undermine the goals of the subsidy, such is a typical case of rent.

### **What is the political power that this entrepreneur holds in that example?**

He is asked to follow production targets but he cheats. This is not theoretical – it is happening today in many forms in subsidising agencies. These are slow bureaucratic processes which he exploits owing to the information asymmetry like in any patron–client relation; that is his political power. He knows the production details but the central agency does not. What I am describing here is in any political process there is a hierarchy of information which allows the entrepreneur to cheat, and there a rent is extorted.

Just to elaborate on this point, when I was working in Algeria, the Ministry of Planning was consistently deciding upon all expected production levels of the Ministry of Agriculture. They would send someone to the Ministry of Agriculture who would, in turn, give them fake numbers on production expectations. After some time, the Ministry of Planning was considering that production had to be readjusted because the numbers were so distorted. Without such adjustments, the Ministry of Agriculture would have further approved extremely inefficient projects and thereby increased the financial resources at its disposal, which would also allow increasing the number of staff and their remuneration.

Such information asymmetries are typically exploited into rent scenarios.

**Ok, so that was three: firstly, on the basis of differential production costs; secondly, in products where there is low price elasticity of demand; and, thirdly, a hierarchy of information or information asymmetries that allows the agents to cheat. Any others?**

I will give you one more. It is common in large-scale investment projects, and a prime example is what happened with the new airport in Berlin [Brandenburg Airport]. At the beginning of the project, the contractor tells you how much it costs but after it has begun you are practically unable to control these additional costs. Now if you have a situation as in most of the planned economies – like in Germany where there is planning – those who want to run such projects will lie about the future costs in order to win the tender. The more the tender has already adjusted the costs ex post, the more the contractor can continue claiming new costs because every politician will rather spend another million instead of burying the 15 million of costs already incurred. Stuttgart 21 [rail and urban development project] is another such example of this. Therefore, once the tendering process is complete, competition no longer exists and the contractor can effectively hold the payer to ransom.

**This rip-off of public finances once a contract has been awarded is also increasingly common in the UK, too, particularly under the private finance initiative [PFI]; the Edinburgh trams, the Millennium Dome, and Wembley Stadium come to mind as such examples...**

I can imagine it's the same phenomenon. In Algeria, in the planning process which I know best, they fulfilled all earmarked spending during the realisation of the planned projects. They would say they had spent all the money that was put at their disposal but when you investigated the work at the end, less than 50% of the target of production capacity was actually achieved. These are major avenues where rents are siphoned off. Crucially, for my analysis and where it ties into what I said before, all is due to the exclusion of competition.

In a typical underdeveloped country, which is catching up through massive investments, you are initiating projects that are new and unique for the country, particularly in their scale. However, once you award a contract then you have no competition and you are at the mercy of the

contractor. Whether they are an international company or a local one makes no difference in principal.

Let me jump to a solution in these large-scale tendering cases. Wherever your economies of scale allow you to organise a sort of competitive market, there you will probably only give initial starting costs by progressive amortisation and things like that. The most important aspect, then, is to look at the middle ground between rent and profit to ensure you are encouraged to create a profit model wherever possible, and this is crucial for projects like the new Berlin airport, Stuttgart 21, and the PFI schemes you mention. It does not have to be a pure rent system as there have been too huge costs; successful construction projects can use multiple companies to complete large infrastructure requests. Thus, the trade-off when building is not just '1 million extra versus 15 million buried', as mentioned, but there remains an inherent competition when building: if a construction company is claiming part of the work is taking an extra 1 million, there is an opportunity for another of the companies to complete the work if they assure you they can complete with less money. The profit-based system then kicks in again and you avoid the rent scenario where a ransom takes place.

**Implied within your analysis is rent does not create a market and all the benefits that a market brings, such as competitiveness, efficiency ...**

It can contribute to these things if it is used intelligently but it does not attain them automatically, as with profit. In addition, capitalists want and actively seek rent scenarios because it is a less precarious position than operating within a market – this is an ongoing tussle amongst certain sectors to achieve those guarantees. Dean Baker terms this the 'conservative nanny state' in the US context, whereby corporate welfare, patents, and other state assurances insulate certain industries. From a business point of view it makes sense: why compete in a competitive market when you could rest assured through a political arrangement that guarantees your position? It makes sense for them but not for the economy generally.

**How does that rentier system come about in the first place: through a lack of investment or is it the other way around, the rentier system causes a lack of investment?**

No, I think it comes around because the shape of the economy does not provoke a capitalist accumulation process because there are no mass

markets. If there are mass markets there will be investment given there is profit to be made, and continued investment serves to discourage the re-emergence of rent.

**Could you give an example of a country that has made that journey from a rent-based economy to an open and competitive market economy?**

It's important to point out that for that to happen the rent must be used as an instrument to finance a catch-up process. Take South Korea: they did so according to their comparative advantage in textiles. Textiles are a little bit like coffee, at a certain level of production you will have saturation, which the Koreans were facing in the early 1970s. Not wanting to lose money, they could have done the same thing as oil countries: tax the textiles, make a national development programme, inscribe in the national development programme a textile machinery industry and finance it through subsidies. They were more intelligent though and simply blocked the import of textile machinery. What happened? All the Korean textile exporters had higher costs but this did not matter, for two reasons: all entrepreneurs had the same rise in costs in the wake of the blocking of imports of machinery, so there was no distortion of competition, and on the world market they were facing low price elasticity of demand so that quantities sold as exports went down only slightly, despite prices having risen.

It is just as I described in the second scenario of rent emergence: surplus emerges when there is a raising of the price in products of a low price elasticity of demand. Transforming from a rent-based to a profit-based model depends on how that additional surplus/rent is used, which must be reinvestment and subsequent consumption productions for mass markets as Korea wisely did.

The Korean exporters naturally wanted to have new machinery so they went to their spare parts producers and showed them how that new machinery was made but did not reveal to their Western enterprises that they copied it from them and had those same high-tech machines.

**It's illustrative to have an example of how rent can be overcome. How would you phrase that in macroeconomic terms?**

You escape rent scenarios by creating markets that justify the production of investment goods so profit exists materially, as I spoke about when I outlined the profit model. This way, mass demand can expand without huge difficulties and the accumulation process begins again.

**Aren't there situations where rent is inevitable? With lucrative natural resources, some are blessed with this huge amount of money. Oil is most frequently mentioned but we could maybe talk about another example. It is an unavoidable situation and therefore, if it is an unavoidable situation, we should create the circumstances that don't cause this sort of corrupt political control...**

That's what I think. I have not said 'all rents have to be removed'. I have not said 'one must fully remove the class that appropriates rent in order to achieve any development'. I have said 'try to find a practical arrangement in which you can limit the waste'. And if you try to reach this practical arrangement you will find that previously there existed much wastage.

Investments – mostly in infrastructure and some key enterprises – should be made. The Chinese and the Indians have started to have very large factories for machine production, where skills will be acquired and privatisation will follow from these same factories [expanded in Chapter 5, 'A Convoy Model of Globalisation']. The slimmer you keep your rent-based sector, the lower the need for administrative staff capable of controlling it, which is a very scarce resource in underdeveloped countries. The more you invest in strategically important industries on which a large series of customers depend, the more these customers are allies in the control of the rent-based enterprise. The Algerian rent-based state-owned steel company was heavily criticised by its customers, which pressured them enough to provide a better service. Generally, the slimmer the rent-based sector, the narrower the negative consequences.

**Let's move on to rent-based state classes, which you have published on and became known for. Can you give a definition of state classes?**

I think it is useful to define classes by their access to resources. We call capitalists capitalists because they make profit on the basis of the productive capital they employ. Capitalists gain profit with a logic of behaviour which forces them to use their profits on investment, otherwise they suffer economically. We call a feudal lord a feudal lord because he has a fiefdom, which means a monopolistic estate on which he produces a surplus. And I call a state class a state class because the members of the class have access to state offices and the mechanics of state from

which they appropriate surplus, albeit under the pretence that such economic activity is to the population's benefit. My whole theory of the state class is the conditions under which a rent-appropriating centralised class invests the money.

The state classes are centralised by their nature given they need political guarantees and are able to maintain some coherence in the management of the rent for their existence. These structures are able to be maintained as long as, for instance, differential rents in mineral production, as I have discussed with regard to oil countries, are available.

Historically, the limited financial resources of the developing countries have been used extremely inefficiently, so the state classes have had to accede to a greater opening of their economies, which has created new dependency relationships with international business and financial institutions. They would have been able to avoid this result if they had not believed the illusion that by using rents they would be able to catch up to the leading industrialised countries without changing their internal social structure. By 'changing internally' I repeat what I said about Korea's transformation, by creating markets that justify the production of investment goods so profit exists materially and demand is present. The present malaise many developing countries find themselves in today is the result of the wealth of these state classes and the political and economic structure that keeps these classes from being forced to use rent for employment creation and economic diversification.

### **Where do state classes exist and are there any in Europe?**

In all those countries where the rent fuels the state. In Europe, state classes don't exist because in our countries the taxes of the state are highly controlled. As the chancellor of Germany you cannot demand this or that on a whim. It's a lack of control domestically that makes the state class independent. The Soviet Union politburo was not controlled; nobody democratically controlled Mr Brezhnev or does currently Mr Abdelaziz Bouteflika [Algerian President, 1999 – present]. Bouteflika was re-elected in a situation in which he did not tell the people what he wanted to do; he was so sick one had to wheel him to the office to give his declaration and it was hard to understand what he mumbled in his inauguration. Seek out the images from April 2014; it is astounding for a president of a major country to be in that condition, but he is still the leader. This is the consequence of a state

class. My work on state classes has mostly concentrated on the Middle East and North Africa, as I believe this is where they are most obvious.

**Have you had experiences of working with people in these state classes during your career?**

Yes, when I mentioned I worked for a year with the Algerian Ministry of Planning, from 1984 to 1985. I tried to convince them that they should imitate the structure of capitalist accumulation by extending mass consumption and investing in production for mass consumption. I suggested they invest in machinery production and improve the infrastructure, and so on. As I said in my definition of rent, the problem with rents is that there is no economic compulsion to make the changes; therefore, in Algeria I was trying to instigate that political compulsion.

One of the results of the rent situation is that it discourages people from taking any initiative and risk-taking given the guaranteed protection the state affords them. This means that changes, improvements that lead to a higher efficiency, etc., are unlikely to happen in most of the cases. As it transpired in Algeria, my suggestions went unheeded, albeit noted as interesting,<sup>1</sup> which sort of only serves my point of the in-built conservatism within these state classes.

In a capitalist process you take risks and if you fail you end up bankrupt, nothing more. The mechanisms of rewards and punishments are easy in capitalism; with rents the incentives are different, which distorts the whole system.

**You are now referencing political arguments against rents, as well as economic ones?**

I conceive of rent in economic terms but there are political arguments, too, certainly. My argument is you should try to use the market as much as you can because this process of failure and consequences in a rent structure is inefficient and complicated, as well as upside down at times. If you have a class, the state class as I call them, who all are under this protection, then you will have a sort of *coalition of the fibbing*. Everybody is lying; everybody who thinks they have failed thinks 'I won't say it because someone will tell others about my failure which endangers my position'.

The GDR [German Democratic Republic] broke down because the head of the planning commission admitted that the government didn't even know the state of the economy. It seems that the only organisation

that knew was the Stasi [GDR's secret service]; everyone else was cooking the books. In Algeria, it was the same. Incidentally, this has nothing to do with culture, and I have many critics who argue along these lines: it has to do with the risk aversion of those managing the rents.

**Let's take the example of Norway. Norway is a state that has profited enormously through oil, which was discovered in Norway in the 1970s. Is it a rentier situation in Norway given that it is state-owned through Statoil? If so, it seems a challenge to your analysis of rent as a drag on economic activity given Norway's health and wealth . . .**

Well, remember that the reinvestment of Norwegian oil was not in their domestic society. Most of the money of Statoil was invested abroad because it wanted to avoid Dutch disease – an increase in revenues from oil would have caused Norway's currency to appreciate with the result of exports becoming more expensive and the country losing its competitiveness, which would have damaged its wider manufacturing sector. It wanted to avoid a wide expansion of consumption in Norway on the basis of the oil surpluses, which would have led not only to massive imports of goods, but also cause the de-industrialisation of Norway. Basically, they now have income streams from this money because Norway is a country that has invested massively in international financial markets. The same is true for Kuwait and some other Arab Gulf countries.

To clarify, Norway is a rent situation but not a situation of a state class – the rents are used wisely and the people in charge are open and accountable, and at risk of being disposed if the public chooses to. If rent situations are inevitable, as I concede they can be, then they must be used in a way that benefits the wider population and not for elite consumption, which in most cases they are.

**When you say rent is a surplus appropriated through political power, tax comes to mind. Does tax constitute a form of rent?**

I think the correct answer is that tax is a form of rent, but with some qualifications. You can only make the distinction 'tax or rent' in the sense of does it go to the public purse or to the private purse, and what constitutes that public purse is important. In a capitalist society it is clear that the state is formally separated from the private sphere and tax goes to the state in the general budget on a democratically or representatively decided utilisation. The question of whether or not



tax is a form of rent is determined if there is a constitutional state or not.

**Can the financial markets be said to be rentier systems in that they are sectors with high political influence and what seems like political guarantees?**

The expansion of the financial markets is rent because there is no production and because there is monopoly power. Only few people, who are making lots of money, have access to these sectors.

This speculation-based money is actually false as it has no material counterpart in the real economy. The fake character of the speculation-driven money revealed itself in the crisis when trillions of dollars were found to be circulating on unregulated markets. Despite the banks being effectively bankrupt, they were still able to extract guarantees for the security of their assets.

**Can this 'fake money', like those on unregulated financial markets, be converted into 'real money'?**

If the financial markets have sufficient clout then you can transform illusionary money into real money, yes, and it presents a rent scenario given how the guarantees have been extracted – through a political relationship. Nowadays, we have the situation that financial markets have over-expanded and broken down. The live political issue is why has this fake money been converted into real money? If the government provides the banks with money in order to stay afloat and doesn't declare default on its titles, then these titles are immediately transformed through the money the state has given on its behalf. It explains why finance capital wants the floating of the currency in that it will allow for looser monetary policies. I conceive of this as money that is appropriated by political means and why the finance sector has benefited from a rentier scenario.

The tendencies of financial markets are to grow like tumours. If government rescues are enacted, other arbitrary operations immediately follow for converting their fake money into government-protected assets. Other elements of the financial markets become equally insured, which allows them to rely on high leverage, for example derivatives. It creates high profit rates, which, in turn, crowd out real investment for which only lower profit rates are possible. This is a problem that always emerges if financialisation is tolerated, as financialisation comes with monopolisation. Profit rates above 10% always reflect market imperfections, which we were seeing precrash.

**The standard argument in reply would be the finance sector, and the rentier scenario that you just described, is a necessary evil for continued production and normal bank operations?**

I believe not. It goes back to eschewed incentives in rent scenarios, the brokers in the banks knew the banks were too big to fail, and therefore, personal liability was limited. With this in mind, they were effectively gambling with taxpayers' money; their huge losses are being paid for by cuts in public services today. More generally, there should be the socialisation of these societal risks to make capitalism viable again, such as property taxes, investment promotion, and increasing rates of amortisation.

My father was a banker and was earning twice as much as a professor. The argument of Helmut Schmidt [West German chancellor from 1974 to 1982], who when asked how much should be the difference in incomes in an operating capitalist society between the top earners like the bankers and the lowest earners like a road sweeper said 4:1, and Schmidt was not a revolutionary, yet we are at a ratio of anywhere around 25:1 or more today. Germany was growing much faster at the 4:1 but not because my father was a banker [laughs]! I don't see the banking system actually promoting growth.

**A recent article of yours spoke of a 'globalisation of rent against globalisation of profits', what did you mean by that?**

I think we are fast moving out of a capitalist system, a system that is based on profits, as we still largely have it in the developed world. It will be replaced by a system that is based on rents. We may still think that we are in a capitalist system because all forms look like capitalism but we will have no more empowerment of labour on the labour market and no full employment policies. The poor are being left outside the production process and are becoming unnecessary for the economy to grow, leaving them impoverished instead.

**I remember you terming this global rentier scenario as a return to 'tributary modes of production' ...**

It's a way of describing highly hierarchical political systems: they were most evident in the old agrarian empires. A clear surplus is appropriated on the basis of political power within politically organised systems of repression against direct producers. The surplus is extracted by political means, as a sort of tribute. The basic characteristics of such structures are a surplus of resources and a growing population. We can see parallels today with the rising population globally and the exhaustion of basic

resources such as water and productive land. When resources in relation to population decrease, labour becomes less productive. If there is no land and no water, additional peasants cannot produce anything.

A surplus of labour will also emerge. Whereas employment under capitalism is the result of demand for labour given its positive productivity, the power re-balances in favour of the rentiers who are in a position to accept some from a vast pool of desperate labour. This shift in power to the owners of the means of production will allow those in command to maximise their take by stepping up the exploitation further. There will be growing inequality, as we can see in our era, and the increase in luxury production in the modern era represents the rise of the rentier classes. The increase of luxury production presents a further obstacle for full employment given it is not facilitating mass production or mass consumption but the privileges of a segment of the population.

We are seeing the emergence of this privileged, noncapitalist, centralised ruling class which appropriates the surplus while providing scant services and instead preferring to engage in luxury consumption. In the Gilded Age, vast sums were spent on the arts and crafts but it was to the cost of the society as a whole – I see it as a warning. Unfortunately, I think the resurfacing of tributary modes of production is inevitable, I'm fearful history is beginning to repeat itself, and the growing inequality rates are an indication of this.

### **Can you give any real-world examples of the 'globalisation of rent'?**

I think the star industries are working along such principles, the way Hollywood operates would be an example. Another is FIFA, the governing body of football, given they completely own and administer a product [football] without democratic input, they have guaranteed incomes for any event, administration not restricted by any fair national laws, governing via corruption and nepotism, and, most importantly, they restrict themselves from any global competition. If football was governed in a better way, it would be sufficiently funded from top to bottom; it has the funds available, football is a fabulously rich game, just look at their revenues, but it is not shared amongst its participants and the money generated from the game stays with a much-pampered elite at the very top.

# 3

## Marginality

*Marginality is the existence of part of the population that cannot produce as much as it needs for its survival. The marginals are those whose productive capacity is less than what it costs to employ them to produce. It would be like employing a hairdresser who costs more per hour to hire than everything he or she is able to earn in that hour. They are therefore dependent on transfers from above, or if the transfers are not there, in principal, they would starve without community munificence. Elsenhans believes the developing world is facing this reality with regard to its potential workforce; therefore, he takes the perspective of labour in the production process that much of labour today is not value creating, which is in contradiction to perspectives from Marxism to neoclassical economics.*

**Marginality is a key concept in your economic thinking linked to development and the transition to capitalism. What is your definition of marginality?**

Marginality is the existence of part of the population that cannot produce as much as it needs for its survival. They are essentially unproductive as they cost more to employ than what they are able to produce. This population is dependent on transfers or if the transfers are not there, in principal, they would starve.

The marginals don't starve because they are embedded in precapitalist links of solidarity: the large family for example. In that sense marginality is not only a technical construct, it is a social construct: if it wasn't for these links of solidarity, marginal people would starve and then there wouldn't be marginality.

**Why is this concept so important and central to your theories?**

I highlight this concept because it explains the lack of negotiating power of average-skilled people. This also implies that those who, by accident, have better work contracts have also no negotiating power because they can be permanently replaced or they have no property rights.

It's a useful concept because it allows us to say that, overall, the society produces as much as it needs for survival, some people produce more than they consume, and others produce less, which makes distributional issues very important and also property rights, especially with regard to land.

**Can you specify who these marginals are?**

The marginals tend to be those in the lowest skill sectors, most commonly agriculture, whereas the nonmarginals make up sectors of some skill, which could range from engineering to opera singing. Marginality has something to do with the natural conditions of production: only in agricultural production do you see diminishing returns; in industrial production normally not. If you increase labour in agriculture, production per head decreases. Therefore, there comes a point where you have so many people with so little land that the additional production becomes lower than what these people need as food intake.

**You speak of rising 'thresholds of marginality'. What do you mean by that?**

The threshold of marginality only wants to say that those people that are below the threshold are not dependent on reciprocity, while people above the threshold are dependent on redistributive measures.

**Where in the world can marginality be found?**

In all poor countries; in all precapitalist countries. Marginality appears in a labour-surplus economy, where labour produces less than it consumes.

This was, to a large extent, formulated by William Arthur Lewis in the 1950s, in his theory of dualism. Contrary to the neoclassical assumption that labour is limited, Lewis argued that labour is unlimited. He developed the model of the dual economy that is divided into the traditional agricultural sector with low wages, low productivity, little capital and no modernisation, and the industrial sector where wages can be high due to high productivity, much capital and modernisation.<sup>1</sup>

**Let us reflect on your answer about the nature of labour in production. The reason why marginality is not a concept in other theories is rooted in different assumptions about the quantity of labour?**

Yes, and in the idea of value creation. A normal neoclassical economist and a Marxist cannot imagine there is marginality because everyone thought that human labour is value creating. The whole Marxian theory is based on the idea that the marginal product of labour is higher than the cost of labour. Hence, the argument of Marx that workers are exploited by capitalists.

Marxian and neoclassical economics thinking behind this is very simple: agriculturally, Europe is relatively well endowed; it is not as cold as Siberia, so relatively warm, and it is not as dry as in India, so with enough water. Therefore, European agriculture can rely on being rain-fed, as it rains all year long. We don't have a large concentration of plots and we don't have as much landlessness as Asia. This idea of labour as automatically value creating originates from a European-centric basis as no-one in Europe can imagine that there are countries where the poor have to survive despite not being able to produce as much as they consume.

**Can marginality also be found in developed countries?**

Marginality is a problem of the preindustrialised world because there the share of agricultural products in consumption is so high. In developed countries we do have a labour surplus and some people are earning less than they would need to survive but this is due to a lack of demand for their products. This is a problem of low prices resulting from little demand, which is totally different.

In agriculture, however, it is a physical relation between the land and the number of workers, in other words diminishing returns, as I have described it, which is not dependent on relative prices. So I would be very careful to apply this to developed countries.

**You already mentioned how people survive in marginal circumstances, i.e. it requires precapitalist links to be in place. What do you mean by that?**

Historically, the larger family is important when marginality exists, but there are other arrangements. In India, for example, the caste system is largely determined by these reciprocal obligations.

In tribal structures in the Arab countries, even in industrialised countries, everybody will tell you that if someone is really in need there is help.

We have done some empirical studies on the behaviour of small farmers who were given land in Zambia. It revealed that these farmers give a lot of money to other people in the family. This is criticised by economists because it means that they do not accumulate. As long as even the farmers with the better incomes think that their incomes are insecure, they will invest in these dependent relations. They will give money to other family members in need, thinking that at some point they might be in the situation where they are dependent on these welfare relations themselves. Only if they are definitely better off, and especially if they have the feeling that this will last, then they don't do this anymore.

You see this now also in the dissolution of the Indian caste system becoming a relatively normal class system with families. Take the sons and daughters of my friends in India, they no longer marry within the caste necessarily. They would not refrain from marrying somebody who is rich but from a lower class.

### **What effects do these redistributive measures have on the structure of such groups?**

Those receiving the transfers on behalf of the rest, they are the powerful ones within the group because they are also able to dictate the behaviour of the small groups.

In my family in Sikkim, India, there was one sister-in-law who was on very good terms with those more powerful. She was making relatively good money and distributed that among the rest of the family so they could survive. Subsequently, she was instructing the family what to do politically. Nobody was allowed to criticise those in power, because if anyone did she would lose the access to the transfers. These hierarchical relationships are established by the powerful in order to have the lowest possible number of allies to deal with in order to control the mass of the poor.

### **So far we have talked about marginality as a phenomenon of economic nature and relevance. What about the political dimension of it?**

On a microlevel I have just addressed it. On the macrolevel, one could say marginality is a phenomenon in a state of underdevelopment. Underdevelopment, as opposed to a developed country, can be described as the rich having resources and access that allows them to

marginalise the poor, economically and politically; therefore, the society is divided.

In a typical third-world country most people are not needed economically. In Saudi Arabia, the poor are not really necessary for the running of the economy; in Qatar the poor are necessary now to build some skyscrapers but afterwards they will be superfluous; in Western Africa, the poor farmers are becoming superfluous as the people from the cities are buying their wheat from abroad.

Underdevelopment, in my view, means that you have a situation where the poor lose most of their political power because they are not really needed by the rich. In addition, they cannot gain economic power like in a capitalist-developed economy where labour has negotiating power. The question is the empowerment of the poor so they are able to exert influence on the labour markets as their labour is all they have. That's an economic reality which has political logic, too.

**You have described a situation – marginality – where labour is unproductive, so income levels linked to productivity would be too low for survival. How are the marginals supposed to exert influence on the labour market?**

That's where you need development policies involving a redistributive and interventionist state initially, including Keynesianism measures, in order to overcome that.

**Let's sum up quickly: marginality exists in a situation where the major economic sector is agriculture with diminishing returns or, in other words, in a state of what can be called underdevelopment. In the political realm the poor people have no political relevance. Now your argument is that the poor need to be 'empowered'. What are the possibilities of achieving this?**

The poor in a normal society have some *political* empowerment, even if it's only their number, because they can kill the rich. Cynical but true. Look at a typical precapitalist society: you have peasant wars as a form of empowerment of labour, history is full of them – Japan, England, Germany, and the dynastic cycle in China is a history of peasant wars.

Ibn Khaldun describes how the poor revolt when the degree of exploitation becomes too high. This is a political revolt where they take arms, the empire disintegrates, some of the middle ranks of the bureaucracy join the revolutionary forces and so on. In a typical underdeveloped country nowadays, though, the rich have the means of violence: tanks, guns, automatic weapons and so on. The poor



remain superfluous and cannot achieve empowerment through political measures.

In functioning capitalism, however, labour is primarily *economically* empowered. For instance, if a company tells its worker they won't pay his supplementary hours he can go to another company that is willing to pay him more adequately. This means that he has economic options. What I am saying is that capitalism is an arrangement where there is a quasi-automated empowerment of the poor, provided that the system is run at high levels of employment.

### **And how do you get to that point?**

This is the central point of my model: the poor have to be empowered in order to kick off development; in other words, overcoming marginality. And provided the society produces enough to deal with the problem of marginality, at any level a capitalist growth process can start. There is no other requirement than enough resources to remove marginality. This is the basis of my argument.

### **In one sentence: What does 'empowerment in capitalism' mean for the poor?**

The ability to have negotiating power over their employers and wages earned relate to the profits of the company, while always having the ability to walk away freely to seek employment with another employer.

### **We have spoken about rent in Chapter 1 and we have now spoken about marginality. You also have a marginality-cum-rent model. Can you explain that model?**

If there is marginality, the increase of lower-class incomes through the market does not occur because labour does not reach scarcity [a high demand for labour]. Labour that is scarce is able to link incomes to productivity and so share in the spoils of growth. Only scarce labour can negotiate better wages and thereby equalise lower class incomes and it can only become scarce in the first place when there is mass demand and consequently mass markets. Mass markets require entrepreneurs to reinvest their surpluses in order to remain competitive.

One of the problems of marginality today is that the accumulation of surplus is not limited by the need for investment spending, as it would be in my model of capitalism. The surplus not being limited means vast sums are appropriated through nonmarket means because investment

spending is not required – the control of those lucrative markets through political power is a case of rent.

**We will discuss your model of capitalism in more depth in Chapter 5 ('A Convoy Model of Globalisation'). For the time being, your point is that in a situation where there is marginality in a country, there is always going to be an elite that is able to appropriate surpluses as rents?**

Yes, that is what the model suggests. The *marginality-cum-rent* model tries to highlight the inevitability of emerging rents in all societies in which there is a certain level of productivity but still marginality. It's also the impossibility to make the rent disappear via triggered-off spending on investment so the surplus becomes profit. This can only happen once marginality is overcome; one must come before the other. Then the question is, what do you do with the rent?

Therefore, such a model presents a political opportunity. If, politically, you can direct the rent to overcome marginality and create a profit-based model, then you are on the way to catching up. That is why I called one article: 'Overcoming Rent by Using Rent'.<sup>2</sup>

**Are we now starting to talk about development?**

Yes, they're tied together in my thinking. Overcoming underdevelopment is the use of resources in the situation where the simple process of increasing mass demand does not work. This is a case of marginality because the poor cannot increase their incomes or the incomes of those who have the same qualifications as the marginals.

Many countries started industrialisation at a very low level, including Germany; South Korea is another successful case. Obviously, you have better conditions when you have better craftsmen; however, this is not really necessary. You have all these newly emerging countries that started without such an advantage.

**Let's apply this to real-world policies and some of those responsible for managing developing. You argue that the World Bank and its ideological adherents have created such a stringent system it actually hinders development. What do you mean by that?**

They are not aware of the marginality problem! It's not only the World Bank by the way. Their position is if you have markets everything can be solved. My position is if you have markets it may work out, provided the empowerment of the lower strata is guaranteed. The neoclassical

assumption that everybody produces more than he consumes, hence everybody is empowered, is wrong. This is why I am introducing the concept of marginality and focus it on third-world countries. A failure to address the marginality problem is the failure to address development properly, in my eyes.

**The concept of marginality challenges us to reconsider the situation of those that are not able to sustain themselves by their own labour, regardless of the existence of markets. We said that this is important both in economic and in political terms. Can you reflect on how it sustains itself politically?**

It is clear how important it is to be empowered very early on. Nonempowered people cannot exercise democratic influence onto the powerful. If people are totally poor, there might be a formal democracy, but what power are they exercising in that democracy? Instead of pursuing their own political interests – a demand for higher wages, better skills development and training, mechanisms of formalised influence and a general awareness of their situation and possibilities – the marginalised are easily instrumentalised to support the political interests of others. Look at India today, the candidate goes to the poor district with a few crates of beer and afterwards people vote for him. An evocative generalisation, but it is not wholly untrue. Any member of parliament tells you that it is very costly to become a member of parliament because you have to buy so much beer for the people [laughs]!

**Lastly, where do labour unions come into your analysis, as historically they were very important in Europe in strengthening the position of labour? Are we looking for the same role for labour unions in the developing world?**

I have no concrete view on this. There are critics that say I'm underestimating the role of labour organisations. My view is labour is empowered if it is scarce and produces a surplus, then somebody wants to hire them. Trade unions cannot survive if labour is not scarce; therefore, I think the labour unions are a secondary question to the marginality one. As you said, historically in Europe the unions became very important, as they were in Australia, but in the US unions have never been important. There are many ways in which labour can be empowered, that is my conclusion.

Jürgen Habermas and Wolfgang Streeck think that big capitalists destroy the corporatist consensus that is based on unions. However, I think the negotiating power of labour is destroyed because we are making the wrong economic policies. We would be able to restore labour's negotiating power if we made better economic policies – that is more determining than the existence or the role of labour unions.

# 4

## Overcoming Underdevelopment

*Understanding marginality as a consequence of mass labour surplus, the solution therefore lies in creating the conditions where labour is in high demand. With labour scarcity, the masses are able to have negotiating power against the capitalists, linking wages to productivity increases. The reverse situation exists in the developing world today, one of labour surplus and weak demand. Elsenhans paths development through mass consumption markets, as without them there is no interest in developing new technologies. Overcoming underdevelopment requires a developmental state that first fosters domestic markets with policies of import substitution, and then a dual strategy of industrialisation coupled with exchange rate devaluation at the point of export potential. Alongside this industrialisation, measures should be taken to increase mass incomes as this causes an increase in mass demand which, in turn, creates incentives for investment and begins the accumulation process.*

**In this interview we will talk about how to overcome underdevelopment. We will start by clarifying your understanding of the terms and concepts, and then discuss the problems associated with underdevelopment and how to overcome it. Firstly, how do you understand your contributions to development theory?**

I think there are two dimensions to development theory: firstly, *why* development has occurred, because when we discuss development we're talking about a very short period in history, and secondly, development theory in a more narrow sense is *how* to catch up considering that some of the conditions are not in place which have led to development elsewhere. These are the two parts of my theoretical contributions. I started

to work on how to catch up and then I came to the question why some develop and others don't.

**Then let's stick to this order and first clarify what underdevelopment is.**

If we were in the twelfth century when no-one had developed, nobody would be discussing what underdevelopment is as everybody would still be poor. The question of underdevelopment emerges if you have to solve the following problem: some regions of the world have developed and others have not.

And the countries that have not developed are not just poor, they are blocked. They cannot emerge in a path the developed regions have followed as special obstacles make it difficult for them to catch up: a high share in agricultural production and a surplus of labour. I call these causes of marginality [discussed in Chapter 3 'Marginality'] more generally underdevelopment.

**You are saying that scarcity of labour is going to create the conditions of overcoming underdevelopment and the empowerment of the poor. Is it always the case that when labour is scarce, this equals the means to development, and when there is an abundance of labour that this equals underdevelopment?**

In the case of development, yes, and in the case of underdevelopment you have to be precise. It is a special configuration among those whose labour is economically not scarce. In a precapitalist society, labour has a political possibility of empowerment but economically they do not. Therefore, the question should be: Why is labour in precapitalist, predeveloped societies not scarce?

I think the reason has been given by Malthus and in English demographic history. Until the eighteenth century, the situation was that parents had enough children in relation to the supply of food. If there was enough food for everyone to survive, the population increased; otherwise, it did not grow. It changed for the first time in the eighteenth century when the population continued to grow even if an additional worker, usually on account of the endowment of land because agriculture is the most important branch, no longer produces as much as he eats.

In that situation people are dying from hunger as it is quite common that these societies are not successful in maximising their food potential and the surplus from existing food production possibilities.

**Abundance of labour is one of the aspects of underdevelopment?**

Yes, or, in other words, the blockage from experiencing development is a surplus of labour. And that has a lot of consequences for the structure of the economy. If labour is scarce, technical progress will be sought to reduce the amount of labour needed in order to increase profits. A pattern of technical progress emerges where products for the increasingly empowered poor are available – basically mass products. This is a type of technical progress where you minimise the amount of labour in producing the mass products. It has to be mass products because they are relatively cheap to produce and also the poor can afford them. The resulting mass demand causes labour to be in demand and ultimately to become scarce.

The pottery wheel is one of the first inventions of a machine because it allowed the making of pots very quickly and supplied the mass consumption goods for everyone as pots are needed by everyone.

**Your point is that if labour is scarce people try to innovate to save the required labour time, which is, in your words, the motor of technical progress . . .**

Prehistory is full of descriptions of how people invent things, mainly beautiful things. Any history of pre-1500 achievements is a book on arts. You will have Greek temples with wonderful paintings and sculptures, and the Taj Mahal in India epitomises that beauty and excellence. There are also utilities for daily use, but it's the beauty that stands out.

Those who are in command of society can maintain their power not only by repression, which was already at that time, but also by acquiesce. Those in power have an interest in making themselves accepted in order for the poor not to stir revolutions as it's very costly to suppress them. They create prestige, which lies in beauty, which will impress and enthral people. Every dynasty builds higher temples for this reason: the Europeans in the Middle Ages increased the height of the cathedrals and the Mughals increased the heights of their tombs. The same principle lies in beauty. I think all cultures try this mechanism of control in some variety.

**Now we are talking about ancient arts and beauty, and their relevance for political power. What does that have to do with technical progress?**

It conditions a certain type of technical progress but not one we can term development. Given the manifest power relation in elites' favour,

there are no mass markets in underdeveloped economies. With no mass markets, there is no interest in developing technologies to satisfy mass markets. With no technologies to satisfy mass markets, you have a very small amount of investment goods. Even with these works of amazing beauty, the basic capacity was the craftsmen: the tools used to build the Taj Mahal were simple, the tools to make clothes are already more complicated.

### **Is this still the case today?**

The thing in underdeveloped economies nowadays is that you have practically no technical progress because today many things, including the luxuries, are modern products imported from the West. The well-off in developing countries do not spend the surplus on their own luxuries, a shift that occurred in the early nineteenth century, roughly.

In the developing world they have no luxuries internally produced and little industrial production because they have no market to sell to. The majority of people still work in agriculture, but this also explains why there is no pressure to increase agricultural productivity: people who have land and are agricultural producers cannot choose to consume domestically produced goods. Even if they make an agricultural surplus, they can buy very little with it. The surpluses therefore are being spent on imported goods from niche markets abroad.

### **So we are talking about surpluses that are not turned into investments but are spent abroad, which don't benefit the domestic economy. Without that investment from surpluses there can be no development?**

Exactly. Of course, the export branch naturally turns into investment to some extent. For example, coffee producers will plant coffee trees. Sugar producers since the seventeenth century bought machines to cut and squeeze out the juice of the sugar cane. However, there is no internal market to invest in. Another problem is that the raw material branches of today normally have such high technical requirements for investment goods that they are not promoting general technical competencies, so there's no learning for would-be skilled workers.

In Europe, the sewing machine had been an important element of the chain of investment goods in the late nineteenth century. It has complicated movements so you learn how to make complicated movements – this is what I mean with general technical competencies – and you have naturally all the elements of a mechanical machine.



**You just mentioned raw material branches. Let's take African countries as an example, they mainly export raw materials. Do you see Africa industrialising currently?**

No, they are not industrialising. Industrialisation means a command of technology and you get that by specialising in industrial products that are produced with technology and you acquire technology when you are producing them in mass quantities but they are just exporting materials that have been taken out of the ground.

Compare Africa to China, which is industrialising. China is now undertaking the same type of specialisation that happened with imperialist countries and colonies in the late nineteenth century. China's pattern of specialisation is causing major problems for those countries with the same specialisation as them, for instance Brazil, as China can produce cheaper and higher quantities, it goes back to comparative advantage.

**In summary, you are saying that even if production is happening there is a triple hindrance for it to contribute to development: firstly, surplus that is invested in production goods flows abroad as investment goods have to be purchased abroad, which does nothing to foster the internal market; secondly, the goods that are produced with that machinery are usually for the export sector, so the internal market does not benefit yet again; thirdly, knowledge transfer will only materialise in a limited way because of the nature of the sector. This is the connection you make: when machinery is more specific and not general, the knowledge that can spill over is somewhat limited . . .**

Yes, the basis of knowledge creation at the beginning of development is the knowledge to make machines, for instance drilling machines. These are the standard machines with which you can make a mechanism of power transmission, but if you have very specialised machinery you don't learn about general mechanical movements.

In addition, there is not enough of a market; there is a specialised one but not a mass market that makes the difference. The investment is not being determined by a lack of surplus but by a lack of an incentive to invest. There is no return on the market as there is no mass market on which the investments can profit on.

Some argue spin-offs of specialised productions are a side effect but its effects are limited for development overall. I give you an example in oil production. You will not be able to transfer the knowledge of this heavy

drilling machine that drills down to 1500 metres onto a drilling machine for the household or small craftsmen. The differences in drilling purpose are too great. To say again, the spin-off that comes from those specialised items is very limited. And the later you enter the process of specialisation, the more the equipment is specialised.

**Arguing the other way around, the consequence of scarce labour is a certain orientation of technical progress, a certain structure of the economy. Investment goods are produced, which means local machinery will provide general knowledge on how to make machines?**

Yes, that's correct and the question is how to create the type of demand structure to begin that process.

**You have put forward an idea of how to initiate that process in an extremely poor context. You suggested a social programme that can also be read as a radically different form of development aid and shows some of the dynamics of your arguments at work. Stones would be dropped from a helicopter in a region where worklessness prevails. People would collect the stones, which creates an entitlement to income. They would earn a monetary compensation, which reflects the financial requirements for the workers and their families and the average labour capacity.**

**Let's take this in smaller steps: What effects of this idea are you hoping for?**

Locally empowering the poor and enabling them to satisfy their basic needs through purchases. Also, a steady increase in demand for basic needs products will have production reactions. Most of the financial resources that are poured into dropping these stones will have immediate production effects because, naturally, these people will all ask for food, particularly from local farmers. These farmers will, in turn, buy machinery to reduce the cost of production, increase their capacity to work, and so on.

Food production expands and absorbs labour that was previously marginal. Soon the people will be able to demand more than just food, which will stimulate other industries, more jobs will be created, and so on. This unconventional money transfer would enable these people to participate in markets and consume more, which would stimulate the local production. There is employment creation and, in the mid-term, increasing mass incomes.

**Why are you suggesting stones? It's a strange measure but entertaining [he laughs]. Is there any reason you chose that particular item?**

The stone example is supposed to illustrate that there is a measure of last resort. One Indian colleague commented on it saying there are many better ways than collecting stones, which may be true, but the basic argument is the idea that you have to take measures to create labour empowerment.

It is relatively similar in principle to the argument about the sanctity of property rights: property rights ensure people still own their possessions tomorrow so are willing to go out to earn today. Only my position is I don't say you must be guaranteed property rights but entitlements to income. Basically, you are creating entitlements to income and in this scheme prevent the moral hazard of redistribution.

**The point of moral hazard is interesting as the reaction to this would inevitably be that you are wasting time and money on a pointless and unproductive scheme, whereas you are arguing creating this scheme is avoiding moral outrage in a way?**

If you redistribute when people receive something without furnishing a service, not only might these people be morally bad and cheat you, but you also encounter the possibility of extortion from those more powerful within the community for those welfare payments.

My scheme transforms such transfers into a demand for labour. You can take away a donation that someone has given to a labourer, arguing that you are also in need. But you cannot take away the salary he makes working all day long to his maximum capacity which he needs to buy food for himself and his family. That would not only be morally unjustified, but without food he also loses his capacity to work.

My stone example is quite in line with the argument about property rights – even if people don't want to admit it. The property rights argument only differs in the underlying idea of how growth comes about and I'm saying it starts with secured incomes, not secured property rights.

I give people without any rights in land an artificial industry, and it would cost a lot less than some other outlays: compare it to what the banks have received.

**How would you determine in which countries to pioneer the stones scheme?**

Whoever wants to. Some countries will believe the World Bank that it is a dangerous mistake but others are so poor that they will be willing to do anything that helps. It is not a global solution but also you don't need to have it all over the world. It is enough to implement it in one part of the world; you would have a pilot project.

The medium-term goals in dropping of these monetary-valued stones are jobs with higher incomes than the ones you have created in the scheme. Fewer people will go out and collect stones because they will earn more elsewhere.

**We said earlier that this suggestion is somewhat entertaining. Now we are under the impression that it is entertaining for you, too. Talking about this, we see you smiling a lot. We wonder to what extent you take this measure seriously in its implementation rather than just in hypotheticals . . .**

As seriously as any other suggestion we've talked about. It allowed me to make clear my other version of Keynesianism. The typical Keynesians, those who think they are Keynesians, like Stiglitz and Krugman, they only think that you have to manipulate money. This measure goes further in fixing incomes and enacting redistribution through state spending to create markets.

**Just to be very clear: Can this be put into practice? Should it be revised?**

It's ready to be put into practice. The collecting of the stones could be replaced by other work but I think you need to consider the argument behind my design. I would answer my critics by saying we have seen enough of these work programmes being exploited by compromised planners.

The other advantage of the stones scheme is those who receive the money cannot cheat on the quality of the product. If you say 'go build a road from A to B' the road in its foundations might be so badly made that you have more costs to remove it than you had in the beginning. There is no incentive to do this in my stones example. People who earn the money will go to entrepreneurs and buy some food; they will not buy food that is bad. The farmer then has a larger market; he will try to increase production. He will only buy machines that increase production and not reduce his own labour.

My argument is, if you have no other possibilities you easily can use this one. It is a form of supporting the poor and triggering development where you exclude moral hazards.

**Well, it's certainly an unusual way of approaching development. Assuming that the wages of the poorest increase, as you advocate, then the first demand that will increase is the demand for food as you just mentioned. However, higher demand for food will equal higher food prices.**

If you do not invest massively in food, that is true, but the Green Revolution has worked. Food prices have not gone up.

India produces four times more food than it did 40 years ago. If demographics outpace food production then it becomes problematic. This is why I argue that any economic process requires increasing food production. Arab countries are a special case; there you cannot advise this given the terrain.

**Against the backdrop of food production and food security, the World Bank and the United Nations seem to be very much in favour of large-scale foreign investment in land and agriculture in countries that are unable to do that themselves. What effect will this have on the poor and workless?**

Nothing.

**Because people that have been marginal before will ...**

... still be marginal. There is still labour surplus and no steps towards industrialisation.

**And the employment effect can almost be ignored in large-scale farming?**

It depends, not all. That is a very special case. It is a like a resource like oil. Oil production has no employment effect or next to nothing; there is only an income effect for the country. In the case of foreign investment it has an income effect for the foreign investor.

**So your argument is there is no added value for the country of foreign investors having access to prime resources?**

Not totally; you could also tax them heavily. As long as the national treasury respects an average profit rate of the foreign company, they can be taxed. The foreign company will only leave if the

profit rate is higher elsewhere; otherwise, it will accept the country's taxes.

**For instance, Africa doesn't add value to its raw material exports. Should they secure their own consumption markets, ban imports for consumption and manufacture their raw materials in order to industrialise?**

Well, I think it would be better to capture those surpluses from the raw material exports without adding value onto them and use the surpluses for other industrial lines. The transports costs in Africa on adding value to raw materials restricts this option anyway.

**Let's go back to the issue of labour empowerment. Your solution seems to be to make labour scarce in order to trigger development. What role does labour empowerment play?**

Labour empowerment is the circumstance that will trigger development effects. We have discussed the means to establish more labour power when we discussed marginality.

In brief, the options: firstly, you can use political power. For example, you dispossess the rich who have this unfavourable consumption; you make an agrarian reform as it used to be called. A large part of the surplus of land formerly in the hands of big landlords is used in favour of agrarian reform. Secondly, you can tax the landowners. Thirdly, you just kill the rich landlords like the Chinese [chuckles]! Or, lastly, you establish class struggles in the village where the richer farmers have to accept transfers to the poor – that's how the Chinese Revolution started.

What these different options do is turn development into a political process and by doing so you get hold of resources to spend money on those branches that you are still lacking in order to have a developed economy.

**What would those initial stages look like?**

You would create a local steel industry. This is the first thing to build as everybody can see machines are made of steel. Then you would build a cement plant, also probably a fertiliser plant as it's necessary to increase your agricultural yields. You would produce steel tubes in order to have irrigation; in China and Algeria tubes were one of the first things they produced.

Thereafter, you will probably also think that you require some basic products. You create spinning buildings and weaving looms. You look

surprised as I'm telling you this, but everybody has done so. In the 1950s everybody used chemical fibres because they were new and cheaper.

**This would be your prescription if someone wanted to make a national plan to overcome underdevelopment?**

In practice it is always more complicated, of course. The experience is the planning process entails a spectre of moral hazard. Basically, a society is composed of greedy people and when they think they can get more, they will do so in the name of protecting their family. You have a lot of undisciplined people, which is proven by the corruption on endemic scales in the developing world. Therefore, you should avoid as much as possible the necessity of relying on these political structures. To some extent you cannot avoid this, but the more you avoid entrusting planners and politicians the better.

Some of my proposals are very appropriate for that, for instance agrarian reform. If you give land to peasants, the peasant will, under certain conditions, increase production and buy things from the market. By making social programmes for the landless peasants like the English Poor Laws [relief for the worst off], you also create a demand on the market for these products. It then becomes profitable to invest in these production lines so you can have private entrepreneurs.

**You spoke about development and what can be done in such large countries as India, namely expanding the internal demand. You have not been explicit about the role of comparative advantage in successful economies.**

No, no yet. Comparative advantage is a rational thing if you are not considering the long term. And I insist very much on comparative advantage in order to explain to students that the spontaneous way of specialisation follows comparative advantage and not absolute advantage. The important thing for students to understand is that you are selling products on the world market, even though they may be the worst at producing them.

**How does this relate to what you were saying about building a steel industry, having concrete production . . . ?**

This is about going *against* your comparative advantage. Comparative advantage normally goes in the direction of developing

countries having comparative advantage in those products where the skill demand is lowest, so the learning required is little. At the beginning of the nineteenth century in America and in Germany, people realised that you have to specialise *against* comparative advantage because you have learning costs which others have already had.

China did not follow comparative advantage in its investment decisions but instead followed comparative advantage in its exports. For a long time investment in basic industries in China had no comparative advantage but they still supported them. These investments were made by Chinese companies, both state and private, whereas production lines in which China did have comparative advantage, like textiles and electronics, were all done by multinational corporations. In the case of exports and in the form of long-term acquisition of competences it can lead to a comparative advantage in that previously unproductive field/branch. This mixture of state and market is a typical story in overcoming underdevelopment, and there we are already beginning to talk about what to do.

### **Can this strategy be generalised to overcome underdevelopment?**

Basically, any strategy consists of using export markets as much as possible in order to acquire resources, not just following export markets in your investment patterns in order to step up your learning process and trigger growth. In other words, use export markets to acquire resources but do not focus on products for the export market; plan against comparative advantage in agriculture because otherwise it will lead to specialisation in very simple, labour intensive products that don't bring about any learning.

It is crucial the specialisation process creates labour empowerment; therefore, technology choice is very important. The more basic the technology, the more you empower people. And this is not because a weaker technology is superior but because a weaker technology allows mobilisation of more people. That may imply a foreign trade strategy of a low exchange rate in order for imported technology not to be competitive against your domestic enterprises. The exchange rate should be used in this way to protect domestic industries in their infancy and stop importing necessities that should be supplied domestically.



To sum up at this point: empowerment of labour is necessary in order to lift people out of poverty and to equip them with a political voice. In order for this to happen, underdevelopment has to be overcome and this has not happened yet as the historic circumstances have not required the people to develop general machinery. This trend is perpetuated nowadays by investments mainly flowing abroad or into extremely specific machinery of which the learning effect is very little. A focus on the internal market is crucial to rebalance this. A knowledge transfer would happen allowing internal demand to rise and production would increase. This is the basis for labour to become scarce and therefore to be 'empowered'.

You think in order for development to materialise, mass consumption is required. This brings to mind Rostow's 'five stages of development', which he formulated in 1960:<sup>1</sup> traditional society; preconditions for take-off; take-off; drive to maturity; and age of high mass consumption. Do you agree with Rostow and how does that correspond with your theory?

There are important differences. First of all, provided the society produces enough to deal with the problem of marginality, at any level a capitalist growth process can start. There is no other requirement than enough resources to remove marginality. I am not claiming that there is no such thing as a precondition, but the preconditions are relatively simple in light of the inventive capacities of people. I consider that if there is growth then you have a mass of people who can find out that they can make money if they are inventive or contribute to production, a discovery process that is extremely decentralised. Possibly slower than if you have a lot of money to buy technology, but it still happens.

Secondly, Rostow has a theory of stages, whereas I have a theory of different paths. I believe development comes through technical progress oriented towards mass consumption, this comes first and not as a final stage, as Rostow argues. Historically, all today's industrialised economies started with mass products. The Germans also produced that type of product during their development – 'Made in Germany' was introduced to warn the British consumer of the lousiness of German mass consumption products.

Thirdly, the implication of what I am saying is that Rostow thinks that you need capital and therefore a rising saving rate. Rostow and all his friends think that you first need to start saving. However, I believe that you just need labour to work more efficiently. In my model, nobody is saving, they are just becoming more productive.

And this is where my obsession with technology comes in: nobody will make a technology where the unit costs of labour time are higher. This is the whole purpose of machines, to decrease the labour time per unit in production and in the preparation of production, the making of tools. In this way, labour is becoming more productive and for this you don't require additional capital or higher saving rates. Rostow doesn't consider this.

**You are very much focused on industrialisation rather than good planning...**

The standard model of modernisation theory is the state should invest; the state represses any higher consumption, including of the rich, and uses all this money to invest. Rostow, too, argues there should be encouragement to buy things from abroad, as well as producing them domestically, then increase the productivity and start to enlarge the production so people can consume. This has been shown not to work because you have a moral hazard of the planners who know that they can create rent-based scenarios.

If you don't have a mechanism to limit the enrichment strategies of the capitalists by empowerment of labour then any strategy where you hand over money to people will be very much threatened by the possibility of these people becoming private rentiers themselves. I'm not talking theoretically here – that's exactly what happened with the World Bank's liberalisation in the 1990s.

In any of these countries where you have very rich people, all claim that it is the workings of the market; however, it is not a true market but a market distorted in favour of the rich. They are all very much opposed to state interference because they have become very rich through the failed development strategies of the past. The Chinese government has this problem today with part of the elite of the communist party turning to the private sector for the same reason.

The argument that is being lost today is that redistribution is better than exclusively investment as it directly equips the poor with purchasing power which, in turn, will create markets.

**When you talk about redistribution you mean that funds should be channelled towards the poor to increase, for example, their income?**

Invested and channelled, both are necessary. Channelling would mean increasing their incomes, which enables them to act as agents on a more robust market. In terms of investing, it is easier if you invest

when having the prospect to serve mass markets, especially the production of technologies in large quantities. When you produce locally and have a domestic market, then this also enables your employees to purchase products, which will trigger the expansion of markets, create employment and so on. My point is that investment is a complimentary measure to channelling incomes, i.e. redistribution; investment is not a solution by itself.

**When you say ‘you’, who are you referring to?**

The planner – the state. When I was in Algeria working for the Ministry of Planning, the minister had invited me because I was arguing if your income distribution is relatively egalitarian, then you have a large sector of the economy run by informal enterprises, for example clothing and food production. Algeria and similar countries need to concentrate on what they cannot provoke through the market, which is basic industries, steel, and so on.

**In what way should they focus on these industries?**

Assuming that the market cannot yet service the amount of steel and machinery needed, the state should directly command the required investment. Afterwards, once the market is there, you can sell those enterprises to local capitalists. My point is that the state should invest when there is a need for it, not as a general rule.

There are people who are saying that you have to maximise investment because that is the fastest route to growth, which I oppose; it’s also a Leninist–Stalinist argument. Basically everybody who is trained in an American or a Soviet university says the same thing: maximise investment [laughs]!

But it shouldn’t be about maximising investments, it should be about increasing mass incomes. If you look at what the Chinese are doing, they have understood that the investment strategy is not working. They have now a policy of massively increasing wages; the programmed wage increase per year is 7% – that is extremely high but it follows a logic I support.

**It is clear then that you advocate increasing wages as the pathway to development, but you always advocate redistribution. How would you go about doing that?**

The classical case has been agrarian reform. That is perhaps no longer relevant because the cost of the implementation of an agrarian reform

is high and, second, because agricultural productivity increasingly depends on inputs, which are bought on markets.

Instead, you can redistribute as the Brazilians are doing. They are taxing away – now you have the case of rent and tax being identical [as discussed in Chapter 2 ‘Rent’] – from richer people and redistributing it to subsidise poor households in ways that link to productivity increasing efforts. One example: households only receive money if the children are regularly attending school and when they don’t the household doesn’t receive anything. It disincentivises households having children stay at home to do work for the family. This is just one idea of what you can do.

**But this was not the way of development for most successful ‘old developing countries’, particularly in Asia.**

Yes, that’s true; they emerged due to export oriented industrialisation mobilising existing surpluses. If you have a high real income of the poor it is the realisation of the required high supply of food supplied to the entire population and not for foreign markets. Such a domestic food supply allows you to have access to cheap labour for exports on one basis: you are able to supply the necessities of this labour from your own production. That is why you don’t have export oriented industrialisation as much in Africa because the Green Revolution has not succeeded there as it has done in China, South Korea and, most recently, in Vietnam,

Any of these countries that have enough food is able to devalue below purchasing parity as it doesn’t have to buy the products for additional workers from the world market.

**It sounds counterintuitive when you speak about ‘high real incomes of the poor’ as we generally believe that their development is made possible by the low production costs from cheap labour. The idea of the cheap Asian clothing factory . . .**

First of all, cheap labour in these countries does not equal low real wages. Look at any World Bank report on per capita production: you will see that per capita production at the exchange rate is one-fourth of the per capita production at purchasing parity. This means that the income is four times higher than on the basis of the exchange rate. And you have a lot of nontradables for the population which are in relatively large supply – and they’re cheap; this includes housing, food and other daily necessities like the metro ticket and so on. The flip side is that all imported products are more expensive clearly, and that’s on the basis of divergent price levels.

**Why has that strategy of devaluation not been put into practice more often then?**

The World Bank has not understood what this strategy is really about. People here don't understand because they think that this labour is extremely exploited. It is exploited but we have to differentiate between a global market and a domestic market. China will have increasing wages as long as Chinese wage earners do not import production for their consumption. China can have low exchange rates with increasing real wages, which will improve the domestic population's access to domestic products.

**To repeat ourselves, mass consumption that does not depend on imports leads to increasing wages and that is why you need a local market for basic necessities. To achieve that, countries should use their ability to devalue the currency to foster domestic mass markets?**

It's what I believe, yes. Provided that the country is able to produce enough food, a devaluation strategy should be implemented. [Devaluation as an instrument is discussed in more depth in Chapter 5, 'A Convoy Model of Globalisation'.]

# 5

## A Convoy Model of Globalisation

*A convoy model of globalisation is a model of globalisation whereby countries of underdevelopment experience deterioration in their terms of trade due to a devalued currency in order to become competitive while leading countries through their demand provide a stimulus for that industrialisation. The equalising effects of full employment capitalism will function internationally whereby productivities converge, allowing developing countries to catch up to the productivity levels of the leading economies. China is an example of a country that has developed through industrialisation, a devalued currency and increasing wages; it now acts as the leader for less advanced countries like Vietnam and Thailand in that China's increasing internal demand is fuelling their exports as they absorb them. The multinationals' relocation from developing countries in search of even lower wages can be overcome, as it was in South Korea and Taiwan, if factors of production are sufficiently diversified and the skilled people transfer to new spin-off companies that can serve to replace them.*

**When discussing the ailments of the current economic system, you have proposed an alternative, which you term a 'convoy model of globalisation'. What does it entail?**

A convoy model of globalisation describes how under certain circumstances economic development can lead to converging productivities globally. Such a model of globalisation is possible if developed economies take the lead and stimulate the world economy through higher levels of demand while developing economies begin an industrialisation process.

Globally converging productivities is the idea that as poorer economies tend to grow more rapidly than wealthier economies due to

lower diminishing returns of capital, all economies after some time will converge in terms of per capita income. As the developing markets have access to the technological know-how of the developed countries, they have the potential to undergo rapid rates of growth. Known as 'catching-up', a convoy model is the realisation of poorer countries reaching the income levels of the more advanced economies.

In my model, there is a globalisation of profit and the worldwide establishment of full employment capitalism; the more innovative and productive countries can stimulate economic development in less productive and innovative economies up to their own level of productivity. Within the model, no developing economy can overtake the leaders as it is a model of mutuality and reciprocation, which is why I call it the convoy model. It connotes a mechanism of conjoined economic development that is necessary for a successful global economy rather than just individually successful economies. When all economies have reached comparable levels, there may be some economies that will take a lead, but those economies they will have overtaken will be able to realise a similar catching up and overtake processes in the next wave of innovations.

### **What are the necessary circumstances for this conjoined economic development to occur?**

The basics are to bring both rural and urban marginals [covered in Chapter 3, 'Marginality'] into nonprecarious employment situations. They need to be able to produce a surplus in order for them to gain negotiating power, which they don't have currently because they are economically unproductive. It involves simultaneously increasing mass incomes and market-driven investment while using the exchange rate to devalue individual currencies to make countries more competitive.

The decisive mechanism is all systems tend to scarcity of labour, meaning labour is in a strong position with regard to wage negotiations due to a high employment rate – the opposite circumstance of when there is a labour surplus. Then the equalising mechanism I term full employment capitalism can work, the 'catching-up', and productivities converge internationally. Productivities converging will be signalled by the movement of the price system. Relative prices will be similar in all economies and differences in productivities will be the same all across the different branches of production internationally. Prices can be the same worldwide and exchange rates identical. Although we may not reach this point, the tendencies towards this that represent a convoy model of globalisation.

**You are saying the convoy model only works for economies in those countries that are not characterised by underdevelopment and rent but instead have full employment. The question then is how to reach that for underdeveloped countries?**

I am advocating high levels of employment relatively early on in countries that become competitive through devaluation. The conditions of underdevelopment, like marginality and rent and a labour surplus, have to be removed for the model to work.

I believe that, historically, capitalism came into existence because the masses were earning relatively high wages for the first time, and it is only through a high level of employment can you say it is 'the masses' who are earning good wages, otherwise it would only be a minority. This explains why the employment level has to be sufficiently high early on during any periods of growth if a country is to create a long-term capitalist development. There are big debates surrounding the origins of capitalism and the transition from a precapitalism system. I believe the decisive aspect was the increase in remuneration of the masses, and for capitalism to survive we must undergo the increasing of mass incomes and measures of redistribution.

**You just mentioned devaluation of the currency. Can you go into more detail of how this enhances employment and growth?**

When a country depreciates its currency in relation to other currencies this has two basic effects. On the one hand, it will be more expensive for this country to buy goods on the world market. This is likely to result in fewer imports as they become more expensive. On the other hand, for the rest of the world it becomes cheaper to purchase goods that are produced in the country with the depreciated currency. At the same time, for a foreign company it becomes cheaper to produce in this country as the costs of labour is now lower. This will lead to an increase of exports of this country. Devaluing your currency induces these effects.

Devaluation is also a strategy of import substitution, increasing self-sufficiency and decreasing dependency on developed countries. As imports become more expensive, people actively try to substitute them and start producing certain goods locally. This strengthens the domestic market. Three important effects materialise more or less simultaneously: exports increase, the country becomes more attractive for foreign producers and more goods are produced domestically. As long as the local production of mass consumption goods reacts flexibly to the increasing local demand, devaluation won't have a significant effect



on the real wages as most of the poor people do not have a high share of imports in their consumption.

**An obvious effect of the exchange rate is that it makes labour cheaper in relative terms. You mentioned the cost of labour and the real wages. Can you clarify the difference?**

The real wage is the money wage related to a basket of products. It decreases when price levels go up, that is when the basket of products becomes more expensive, but the nominal wage – wages measured in terms of money and not by their ability to command goods and services – stays the same. The labour cost is the money wage calculated in international dollars and the more a country devalues, the less the cost of labour in international dollars. With devaluation, the imports become more expensive, which would make the prices in the basket rise. As was mentioned, most poor people do not have a high share of imports in their consumption so the real wage in the country of devaluation does not change in principle for the masses.

However, while devaluation doesn't change much for lower classes, it changes the real wage for the middle and upper classes as their consumption share in imported goods is higher. It explains exactly why the upper classes reject currency devaluation. This is in so many cases the reason why this strategy is not adopted. It is also the case that the upper classes have substantial assets in stocks and other investments, which devaluation would directly hit.

With regard to the lower classes, the important point is if you devalue below purchasing parity [relative value of the currency] and people turn to locally produced goods then you implicitly give more goods to your workers than they are able to earn on the world market. Devaluing below purchasing parity means the wage you are paying the labourers in national currency becomes higher in local currency than if exchanged for other currencies.

**Why isn't devaluation spoken of more often if it is a tool with such potential as you describe it?**

I think most people have trouble understanding the role of the exchange rate. For example, in Germany, until the CDU [Christian Democratic Union] said Greece should leave the Euro in order to devalue, nobody considered this an option at all in politics here.

The condition of implementing the strategy is you are able to produce the wage goods locally, that's the necessary consumption goods. There has to be sufficient food production locally because with the devalued

currency it would be costly to import such necessities. Therefore, the agricultural sector has to function well.

**Is there an example for a national economy that has implemented and benefited from a strategy of devaluation?**

China is such an example and has, in fact, managed to develop through this strategy. China has always devalued its currency to remain competitive with its exports. This way, China had been attractive for foreign investment because the labour costs had been relatively low. It has lost some of its attractiveness, however, not due to Chinese real wages being high but rather the combination of the pressure of the exchange rate, high employment in China and the wage increase leading to higher labour costs. This is what has led to a slowing of foreign investment in China; however, it fits with converging productivities given its productivity is rising.

China can't devalue too much further because they are now near full employment and have inflationary pressures. If the process of growth continues at this speed, they will face serious inflationary pressures. Therefore, the international labour cost increases, which has caused companies to leave China, for example to Vietnam. These relocations do not scare the Chinese, however, because with the present strategy the Chinese have reached a level where they are not dependent on foreign investment anymore to increase wage goods production.

But, as I said, this is part of the growth process in a convoy model, devaluation has worked for China and its economic development as it would for others. Part of this argument is that devaluation is necessarily a pro-poor approach, because, fundamentally, it increases employment and with increased levels of employment, the resulting scarcity of labour will increase wages.

**With a strategy of devaluation, or in effect a strategy of import substitution, you stimulate local production and attract foreign investment. That's not everything, however – you are also arguing that internal economic interventions have to take place simultaneously. What are the practical measures that you are suggesting?**

Devaluation-based strategies favour import substitution and export orientation at the same time. Both succeed only if these strategies are embedded in a programme to develop internal mass markets. Both paths of industrialisation depend ultimately on social restructuring. I suggest agrarian reform, like the Koreans, Chinese, Taiwanese, Vietnamese

did, in order to take people out from marginality and to maximise the impulses for locally produced products so that a local small-scale industry evolves. The state should complement this by support systems for small-scale industries, less by subsidising them directly but rather by encouraging local technology production. I also recommend measures to promote industrial innovation in technology for small enterprises, as well as providing employment programmes for the rest of the people that you are not able to integrate.

For example, there should be stabilisation of the income positions of urban marginals who are not a part of these new industries. Investing in infrastructure like in road building is advisable, provided that the exchange rate is very low. Road building is always labour intensive and most of these countries still need roads in order to reach out to villages. If you want to have a market-based economy, each village has to have a road. And in most of the least developed countries, this is not yet the case.

The argument here is again to equip the lower classes with incomes so that the development of certain industries is stimulated. In doing so, you multiply in a very traditional Keynesian way: increasing the multipliers of demand by creating demand in the first place. Higher demand leads to higher levels of employment, with increased levels of employment, the resulting scarcity of labour will have an impact on wages.

### **Can you describe how an example of the convoy model would work in practice?**

Let's assume there are only countries with high levels of employment. Suppose there is an innovation in country A in innovative branch 1. Then branch 1 products will have a cost advantage and replace all other countries' branch 1 products. Therefore, the exchange rate between country A and country B will change. A's exchange rate appreciates due to the higher demand for its products. Based on this change of the exchange rate, with country B experiencing a de facto devaluation, it technically becomes competitive in all other noninnovate branches that are not branch 1. Country B will increase its production, its exports and subsequently the demand for labour to satisfy these additional exports. Due to devaluation, the real wages in country B increase uniformly over all branches, for example hairdressers will see an increase in their wages due to a booming national car industry. Real wages will increase in country B until it can no longer service the world market with its noninnovative products based on its lower exchange rate.

### **What about the interference of countries C, D and E?**

If there is another economy that becomes competitive in noninnovative branches, then this process of increasing wages in country B cannot take place. Country C in this example can be China. If China can sell the product, then there will be no increase in exports from country B to country A. This is not just a theoretical example; take the weaker European countries like Spain and Italy, they are suffering competition from low-wage countries because they haven't been able to devalue the exchange rate within the single currency.

### **How does productivity, and particularly productivity increases, factor into your model?**

A competitive economy requires not only increased labour productivity, but also enhanced productivity of capital. Labour productivity increases if labour is operating better investment goods which are produced by innovation. The result of better investment goods is higher productive potential. If the increased availability of additional production is used for accumulation, then the rate of growth of the capital stock increases. If wages follow productivity increases, which are due to better investment goods, full employment can be achieved without an increase in the rate of growth of spending on investment above the rate of growth of national income. Stable and high-capital productivity therefore does not depend on the accumulation of capital, but on the limitation of the accumulation of capital to levels of technical progress and rises in labour productivity. Both rises in labour productivity and technical progress are triggered by expanding mass consumption and the introduction of mass production in new products, which, in turn, triggers the invention of new, until then un-thought-of, products.

With that acknowledged, it is also worth noting wages are not dependent on individual productivities of the workers, but on average productivity, as wages are dependent on scarcity. Only through labour scarcity do people with or without productivity increases gain higher wages. In the case of high levels of employment, workers migrate to the branches where wages increase and leave branches where wages are low. Increases in wages depend on the overall capacity of the economy to react to this extension of demand by increasing production in other branches.

That is why hairdressers earn more in Germany than in India, and where the differences in wages between branches within a capitalist economy are less marked than in noncapitalist economies. Hairdressers

have a certain level of productivity, almost the same throughout time and space so we can say generally that they haven't increased in productivity. The hairdresser can only increase his wage if the other branches increase wages, and other branches reach higher wages by expanding production and by labour becoming scarce. This will eventually spill over to other economic sectors and affect their wage levels, like the hairdressers. That's why when I pay for a haircut in Germany I pay the hairdresser €8, whereas in India I only paid 30 rupees [€0.40] for the same quality of service; it's to do with the national productivity of the country and not any individual branch. This mechanism can be interpreted as the central element for constituting nations.

My model does not imply any productivity increase of the less productive branches in the short term. The hairdresser does not increase his productivity, and in food production productivity won't increase rapidly either. However, if there is such a process of increasing wages, food prices are likely to go up relatively. Many of the farmers will therefore receive higher wages without productivity increases due to the other sectors having increased their productivities.

To sum up, mass consumption will lead to productivity increases in certain sectors. Under the condition of full employment these productivity increases will translate into wage increases, first in the productivity increasing sectors but later on as well in sectors with little or no productivity increases.

**There are a lot of complaints in industrialised countries that production is relocated because labour costs are lower elsewhere, known as outsourcing. You don't have a problem with that – you think it is actually contributing to globalisation and works in a convoy model of globalisation?**

Do you mean whether I have problems with the fact that companies are going to countries with low labour costs and people are worse off in developed countries?

Yes.

Such complaints are ignoring that if you have increasing labour costs and an expansion of your internal market it wouldn't present such a problem. The German case is illustrative in the sense the complete opposite is happening: Germany believes it has to have a foreign trade surplus, and in order to reach that it has been cutting German labour

costs. Higher labour costs would increase the prices of export products, which would affect Germany's competitiveness. Therefore, a set of policies has been implemented that prevent real wages from rising to prioritise those export industries. However, the export surplus means the German economy relies on external demand rather than a self-sufficient internal demand. With that strategy, Germany is obviously not expanding its internal market corresponding to its productivity. As a strategy, it's damaging if you are a leading country in the convoy model as you are stopping converging productivities occurring.

If Germany increased its internal demand, it would have an increase in its internal market and would lose some of its export markets, just as Britain did in the nineteenth century. That means some of its former export industries would be outsourced but to the benefit of less developed countries that you would be giving increased demand to.

**An argument against this, that you hear quite often, is national economies are competing in a global economy; they are in a race against one another. The thought of Germany increasing internal demand to aid others would be counter to that rhetoric.**

This is a gross exaggeration because this so-called race can be side-stepped; the only thing you will be forced to do is lower your exchange rate.

**Well if Germany and England are producing a product, are you saying there is no competition over who can produce to the best quality and having the highly skilled people to produce it?**

Of course there is a degree of competition but it is not cut throat in the way you describe it. The value of the price at which your labour power is sold on the world market depends on its productivity. If you are not competing well enough you lower your exchange rate. Before the Euro, differences in productivity increases were regularly dealt with by adjusting the exchange rates within the European Union. The whole European monetary system was characterised by such regular adjustments.

There is global competition but the consequences of it don't have to be this pseudo-competitive race to the bottom ideology. Obviously, the more productive your labour the higher the prices of the products that this labour produces on the world market. The higher your productivity, the higher the price you receive for your labour, but suppose your economy falters suddenly, what will happen is you will only earn less for your labour at a lower exchange rate.

The point here is you have those people in Brussels who are saying you are in a global competition so you have to depress your wages, but the wage rate does not determine competitiveness on the world market. Compressing the wage in order to be competitive on the world market reduces the purchasing power of the worker not only in relation to products from the world market, but also in relation to products that are locally produced. In case of devaluation, only the cost of the wage is reduced in relation to imports. In the case of adjustment through wage compression, the international value of financial assets is maintained, whereas in the case of devaluation, the value of nonfinancial and financial assets is reduced. Therefore, adjusting through wage compression or devaluation is actually a class question as wage compression favours the rich whereas devaluation favours the poor.

Labour and the internal market more generally are disenfranchised if most of the proceeds from the total factors of production go to a tiny minority who are nonproductive and are not inducing demand. Productive demand comes from those products that will lead to more technical progress, that's Adam Smith. Adam Smith introduces the progressive and the not-so-progressive landowner; the not-so-progressive landowner has dancing girls and the champagne and other largesse, whereas the progressive landowner invests and he consumes products which trigger investment. Having a lower exchange rate and a higher real wage, rather than the situation of high wages for a select few, will help you to produce more technical progress; that's why I believe it is foolish of people in Brussels to extol this economic propaganda.

**Then let's talk through how your convoy model would apply in today's environment and project that into the future. What would happen if, for instance, Germany increased labour costs and if these changes in the industrial outsourcing occurred?**

Germany would not go bankrupt because if it imported too much the exchange rate would just depreciate again. The more Germany increases its internal demand, the more it compensates increasing competitiveness by increasing the exchange rate. Appreciation of the currency corrects wage repression and depreciation of the currency corrects too-high wage increases. Having an appropriate exchange rate favours labour, whereas the combination of wage repression with appreciation of the currency hurts labour. This obsession about competitiveness in the air is dangerous.<sup>1</sup>

Such questions would be answered after an extension of the internal market, but we are still very far away from that point. The important

point in relation to the convoy model is that the countries with high rates of productivity and innovative branches, like the leading countries Germany and Japan, are the only ones that can push the global economy to higher levels of demand. The poor countries that are competing against other poor countries do not have the economic capability to provide the necessary demand, so for the convoy model to work, it does require some recognition of leadership from the richer countries.

### **How likely are the leading countries to take on that role?**

Germany can contribute if there is the political will, but with the highest trade surplus it is basically operating a neomercantilist system.<sup>2</sup> Changing the German strategy would require a cultural change because Germans are extremely fearful of decay and are frugal to a fault, which is to the difference of the Americans. Americans never had a situation where the country had no foreign exchange like we had in Germany after the wars. Under Ronald Reagan, the Americans had a large balance of trade deficit which was covered by American outflows of finance. The Germans don't have that balance between forces: they have both an outflow of finance and a foreign trade surplus, which is very dangerous for the global economy overall.

The Germans and the Japanese have not understood how they would have to behave if they were true leading powers in a system that is basically imperialist – true imperialists know they can't only make decisions in their own interests! I recently received a letter from a friend telling me how good German NGOs [nongovernmental organisations] are – he works in one of them. His NGO is promoting democracy in Eastern Europe but what they are doing is really pure imperialism. I wrote back to him saying I think that if one wants to make imperialism one should do it correctly ... I never got any reply [laughs]! Imperialism would never have worked if it had not fulfilled some functions for the dominated countries.

**Let's employ more of a meta-perspective: the widespread export-orientated technological industrialisation you advocate seems like it could only work on an individually prescribed basis – look at how many developing countries there are and for them all to follow the same path at the same time seems counterintuitive.**

Firstly, that depends on how large the absorption of the world market is. That absorption increases if you follow strategies of increasing mass



incomes in the industrialised countries – the internal demand point we just discussed. As I have said in the beginning, this is a condition for the convoy model to work.

Secondly, we are probably not able to develop the entire developing world like this simultaneously. However, the capitalist world system was able to this with China, and it has worked in China, a country that is one-fourth of the third world. In comparison, three or four Arab states are not that much. Therefore, we should not underestimate the capacity to absorb.

In reality, not all countries will immediately opt for this strategy. So far, we have had a situation in which East Asian countries are going for such a combination of export orientation and import substitution industrialisation. Suppose China becomes a high wage economy in the next 20 years: not only will it import raw materials, but also simple manufactured goods, then you suddenly have one-third of the world developed, which will mean high absorption rates. I think this will happen.

### **... provided China starts importing from its neighbours.**

China will do this as it is an essential strategy to counter the United States' influence in its neighbouring countries. They already have imports from Indonesia so these types of contracts exist, and a main reason why there are not more imports is because some of China's neighbouring countries have not understood how to devalue – Pakistan being one. The more China is engaging in higher productivity activities, the more it is interested in delocalising these productions. This is the convoy model working in practice: the development of one country allowing for the development of others via an ever-present international demand.

If you had forecasted in 1949 that the Germans would delocalise production, everybody would have said it would take centuries until Germany was in a position to do so. It took not more than 30 years. South Korea is another illustrative case; it opts for international production sites because it cannot make any cheap home-grown products anymore. Like the Germans in the 1960s, the Chinese are naturally trying to enter more solvent markets, namely the European markets. China is buying, like the Germans did, local failing enterprises to have a base overseas to get some people who know how the local tax system works and off you go.

**With regard to China and its role in the system, did we understand you correctly: China embarked on this strategy and after 30 years has reached a level of development where it starts importing simple goods? Now that the giant China has entered a new phase this could be the point in time for other countries to adopt that strategy, hence explaining the use of the word ‘convoy’.**

I think it will still take 10 years, but Korea and Taiwan started it 10 years ago. China still discriminates strongly against simple products but the tendency is clear and in the direction you mention.

**Let’s take the implementation problem again. Not everybody can devalue at the same time, that’s impossible – mathematically.**

Well, not all countries will adopt this strategy at the same time, especially the ones that still have raw material rents, like the oil states, because they think they can survive otherwise. If everybody devalued, it goes back to my point about absorption; we would have a problem because the West is not large enough. That’s not an argument, though, against encouraging such strategies if they can be successful in some countries surely. I am not pretending that any- and everybody will be able to do that but the point is we should not worry about whether all do this or not. If you can get some to adopt the strategy, it has already succeeded in my eyes – in Vietnam for example.

Latin America is an interesting case, Brazil would like to devalue but it is so raw material-rich, it is very difficult practically to implement. The Chinese are effectively de-industrialising Brazil: China is buying Brazilian raw materials, which causes the exchange rate of Brazil to appreciate. There is a lot of discussion in the Brazilian context about how you can manage to keep the exchange rate low in such circumstances.

**If this is the economic reality for Brazil, then is your model not applicable to countries like Brazil? What is the solution for them?**

What countries like Brazil have to do is to tax their exports. This is so far removed from political realities that it was forgotten when the WTO [World Trade Organization] was being negotiated. The WTO forbids so many mechanisms for discouraging exports, but there are no interdictions of raising export taxes, as neoclassical trade theorists think that a country that raises export taxes kicks itself out of the market and helps other countries to sell more, but it’s a viable option. WTO rules

state you are not allowed to tax imports but it is not clear whether or not you are allowed to tax exports. It has really been forgotten and neoliberal economists cannot conceive that you would ever discriminate against your exports by making them more expensive.

Admittedly, I think there will be some areas that do not fit into my model. Of course, you will not have industries on the small islands like Sylt in Germany. This will then certainly need to be addressed. One country which would be excluded is Mali. In Mali, I think they can have tourism, a little bit of agriculture, and otherwise it is very far away from infrastructure which prohibits any industrialisation. There will always be some exceptions.

**We said earlier that the convoy model of globalisation only works for countries with an agricultural potential or the capability for agriculture to furnish its population. That is not the case for every country, though. Many poor countries are net food importers.**

I know – this is why the Arabs cannot do it or the Africans either, because they have not been able to dynamise their agriculture. For Algeria, and Northern Africa more broadly, I have put forward a proposal that addresses the difficulties in their agricultural sectors.

As oil is still available, somewhere like Algeria has to diversify its economy in the Chinese way of export orientation. Without an agricultural surplus – given the population and the natural conditions – they have to see where to collect these agricultural surpluses. My argument while working at the Algerian Ministry of Planning was there should be European–Arab cooperation where Europe gives its agricultural surpluses at concessional rates to the Arab countries. The Europeans have difficulties in reducing their agricultural production and eliminating their agricultural surpluses. As these surpluses are already paid by European subsidies, they could sell them to Arab countries at concessional prices. The Arab countries would take them and distribute them to their population so that they could devalue and increase exports without shortages in mass consumption goods when employment in export sectors increases; their necessities would no longer be imported at high costs. On the basis of the Arabs' food sector being secured, they could implement all those measures we talked about and with the Arab world developed and industrialised, Europe would be the granary of the Arab world.

Any strategy in North Africa will require assistance; they have to develop an agricultural surplus or be highly competitive in a variety

of industries in order to have high levels of employment. Otherwise, they are at a dead end – they cannot develop their internal market. The concept of an internationalised model of catching up, like the convoy model, and the possibility of a self-centred model of development are similar – they are not so different and do not represent a zero-sum game. In the convoy model, the capacity of the catching-up economy to take advantage of the opportunities of devaluation-driven exports depends on the local economy providing mass consumption goods for additional workers. The possibility of developing through exports depends on maximising multiplier effects from the export branches which are best realised if the additional demand created via employment in the export sectors increases demand for local industries. I am trying to show that maintaining a self-centred developing model means to open to the world market. China has shown the way on this.

### **The advantages of a European–Arab cooperation for Arab countries are clear, but what’s in it for Europe?**

First of all, Europe’s agricultural production is huge. Europe cannot reduce its agricultural surplus and neither should it. Second, this would create a dynamic periphery around Europe. We would have access to another huge market for our high-tech products as soon as they have developed. It would near enough double the market for such high-tech products. And when you want to launch new technologies, you have to have large markets in order to recover the development costs. In the long run, the Arab countries, together with Europe, could constitute an ensemble like the United States and China are moving towards at present.

### **What have been the reactions to this development strategy for Northern Africa?**

I presented this argument in the economists’ celebration of the 50-year anniversary of Algerian independence and one of the journalists confided in me afterwards, ‘If this is put into practice, then the country will be on fire’. In a way he was correct, Algeria would be on fire for these middle classes who all benefit to some extent from the rent, but not for the poorest, who would benefit from such a free trade arrangement. Such decisions are based on power and ingrained interests, not economics.

When I proposed it to German officials it was not negative. Some French officials’ reactions were also not negative. The reaction in Algeria

was extremely negative, though. The thing is, the secular nationalists – the state classes [discussed in Chapter 2, ‘Rent’] – will not do this. They would lose out with such a strategy as they will lose access to luxuries. I don’t get the idea published in any North African journal – they always object to the idea in principle. At my age it does not matter if one article is not published. Rashid Ouissa will publish all of the blocked articles in a book at some point, so I’m not so concerned [laughs]!

**Economies are globalised and mostly determined by multinational corporations but you don’t even name-check multinationals. As we said earlier, they obviously benefit from devalued currencies when the cost of labour is low. What is their role with regard to real wages?**

Multinationals do not care about the real wage but the labour costs. They don’t even know what the real wages of their workers are because their rate is worked out by the headquarters, which pays them in dollars. Therefore, you will have a lot of foreign investment even if there are higher real wages, provided that the exchange rate is low.

**There are well-trodden arguments against globalisation which reflect on the character of multinationals themselves. One complaint is the transnational corporation moves into a country and monopolises their production potential, but whatever surplus is generated is not going to stay in the country but will flow back to their headquarters...**

I am not saying that it is not a problem. I think you should not entirely rely on multinational companies. You should be able to have people who do the same things as the multinationals and when the multinational leaves try to get its export markets and the labour it has qualified. The multinationals have invested a lot of training; it is favourable if these skilled people transfer to the new spin-off companies.

What the country is not able to tax will flow back to the headquarters but that’s not everything and I don’t think that’s so much the problem. The problem for me is the reinvestment of the profit. As long as these countries are still competitive, the multinational will invest and extend production. I would use the Chinese case again as illustrative as their economy is growing despite multinationals having come and gone. To manoeuvre multinationals better you can arrange them on average

profit rates because multinationals will not go elsewhere when there is a steady income stream that is relatively high.

### **Why would average profit rates solve this problem of relocation on a whim?**

You can always squeeze a multinational by taxing it, but only to the point where it makes an average profit rate. The fundamental issue is: whether you have a multinational or not, you will always be exploited in this strategy in the sense that someone takes advantage of the low labour costs. For instance, China is deliberately letting itself be exploited; the companies only came for their cheap labour and left when it suited them; China realised this. However, multinationals cannot pay workers less than other companies in the country. Their advantage is that they are normally more efficient in getting into markets. Paul Krugman has made this point, 'it is better to be exploited than to be jobless', that is, marginalised in our words today. And that is what the Chinese have done by being massively exploited.

### **What about the threat that the transnational company will leave at some point?**

That may be a threat when you reach another price level where the profits are less; it's what is happening now in China. It is not catastrophic, however, because if your factors of production are sufficiently diversified and competent, you can take over this production yourself. That is what happened and continues to happen in many developing countries. In South Korea and Taiwan, you very often had multinationals, which at some point in time preferred to go to another low-wage country, but following the convoy model it is actually positive in that it is a sign of their development and upgrading while allowing other countries to take over their previous productions.

If these countries which the multinationals have left gain full employment, including higher exchange rates and higher wages, then they usually upgrade, that is, enact deliberate technical policies to use existing production potential to become more efficient.

To repeat, I'm not saying multinationals just leaving on a whim is not a problem; I would advocate stricter terms for them. The states hosting them, however, should not entirely rely on them, which has, unfortunately, been part of the problem. There should be contingency plans for circumstances where they do leave so they are replaced.

**It is clear that your convoy model of globalisation requires a high degree of intervention, at least in the beginning, to kick off this development. Is this compatible with a liberal trade regime?**

I don't believe that you have to have completely liberalised markets. If you take a German federal state for example, Bavaria was very poor. I remember my first time being in Bavaria in 1953; I was 12 years old. When we arrived at the boundary of Bavaria, the good road in Baden-Württemberg ended and the small, shabby Bavarian road began. That was on a school excursion and the teacher sitting next to me said 'now we are coming to a poor country' [laughs]!

Why is Bavaria no longer poor but the richest of the German states? Because Franz Josef Strauss has used the armament of Germany systematically; he had all high-tech armament producers established in Bavaria. He did this during the Cold War, arguing that the region in Germany to be overrun first by the Soviet army would have been the Munich area. The Americans do this with the department of defence and Pentagon funding in a similar way – a highly productive sector incidentally where many technical innovations have emerged from. These sort of interventions can happen at the national levels and, incidentally, without justifying it in defence motivations.

The important point to see is everywhere where capitalist development took place, an initial intervention triggered it. On a national scale, the difference is you will also have industrial policies that take into consideration the economic impact. If everybody has reached similar levels of development – and if my convoy model is followed they will – the Chinese and some other catching-up economies are showing this now, then you have a system where everybody tries to exercise this kind of impact through targeted industrial policies without great negative consequences for the others; in the long-term everyone will benefit.

# 6

## An Underconsumption Crisis

*The characteristics of an underconsumption crisis are a recessionary climate, unused capacity, excessive debt and pessimistic expectations that block further accumulation. An underconsumption model has the hallmarks of a weakened negotiating position of labour, wages that have not kept pace with productivity increases, weak demand caused primarily by a lack of reinvestment and consumers preferring to save rather than spend, that is, the situation in the West today. As Keynes explained, the only way to escape from such a downturn is to increase demand, and it falls upon today's countries with positive trade balances, like Germany and Japan, to provide that stimulus for the world economy.*

**You have a book by the title *Globalization Between a Convoy Model and an Underconsumptionist Threat*. Can you begin by describing what that underconsumption threat is?**

When there is a recession and there exists unused capacity, excessive debt, and pessimistic expectations based on a falling economy block further investment. Capitalist competition induces falling wages, which, in turn, causes falling consumption and further recession, it's called an 'underconsumption trap'. It causes lasting stagnation because it encourages the persistence of factors, which discourages investment – unused capacity, excessive debt, pessimistic expectations on market returns.

If corporate debt, excess capacity and pessimistic expectations are pronounced, then the private sector will not invest. The inherent profit seeking of business turns to restoring competitiveness, which we can see today with the cutting of wages and job losses, which raises the gap between the wage level and labour productivity, as well as the gap between consumption and production, which shows itself perhaps



initially in overproduction but materialises in unused capacity. Where there is idle capacity, any increases in demand will not lead immediately to new investment so profit will not be easily restored. The divergence between higher productivity growth and limited growth in actual production is an indication of an underconsumption situation.

**To clarify, when excess capacity caused by a gap between consumption and production holds down investment and a high unemployment rate holds down wages, this is called an underconsumption crisis?**

Yes, and a stoppage in the investment process due to underconsumption is nothing other than capitalists realising in advance the futility of engaging in an acceleration of accumulation beyond what the society will be able to consume given the masses' weakened economic position [the consumptive capacity of the society]. Without the necessary investment, which is prevented by consumer saving and pessimistic expectations, entrepreneurs do not produce an income and therefore do not establish an effective demand. I come from the Keynesian perspective that places aggregate demand as the root of the problem.

Credits go towards investment in production if it appears profitable, that demand for credit is dependent on expectations of returns. In times of recession, the hoarding of money is seen as the best investment as consumer confidence is so low that investors are not willing to risk their money. In an underconsumption crisis, holding shares and other assets appears to give higher returns than investments in production. Instead investors look to safe havens for their money, which is counter-productive to re-growing the economy. For example, currently investors within the Eurozone prefer to invest their money in bonds, despite sometimes getting a real negative rate of interest rate – such is the level of fear.

**It sounds like a contradiction to say we are in an underconsumption crisis. In some places like the UK, Greece and Spain, spending was high and consumer debt was high. Yet, you allege it's an underconsumption crisis and one of the reasons why is people are not spending enough?**

Debt-based spending acts as a palliative to wider problems in the world economy. Debt-financed consumption without inflation is a clear indication of a mismatch between productive potential and household incomes. If we are not spending out of incomes but out of debt, then you have a debt problem – which is the condition of many countries

today. When you do not rely on increases in household spending but on additional sources of demand, these additional sources of demand are very vulnerable and may disappear very quickly. Take the 1920s inter-war period in America: wages expanded at half the rate of productivity increases, which leads to an increase only of the highest incomes, the CEOs and such elites.

Much of that investment then, just as it does now, went on real estate. It created the illusion that it is good to have the extension of the short-term credit for the household. All this is based on the idea that, ultimately, the households can pay back their mortgages but the households are unable to because they never received the gains in productivity of that time. The wages of the lower strata never increased in the West; instead, it went to higher wages for the already well off.

Those who had claims on money on account of their properties continued to spend money but after the crash such claims suddenly stopped. That happened in 1928/29 just as in 2008/09 – the same mechanism. Therefore, I argue that if you do not actually transfer the money to households you effectively take money as final demand out of the money circulation. Then you have an underconsumption crisis. You have faltering demand: everybody tries to survive by not spending money and then you have today's scenario.

### **Is underconsumption caused by the crisis or is a cause of it?**

It both causes a crisis and perpetuates it. It intensifies when there is a crisis because people are no longer spending. It presents a lack of a domestic market and no increase in demand.

People have a lower tendency to consume their income. They want to secure the future and therefore they increase their savings. You have an increase in the supply of savings and, on the other hand, you have a decrease in the demand. Statistically, this is very visible. In Germany, for instance, households have positive saving accounts and enterprises have positive saving accounts.

### **This is what Keynes called the 'the paradox of thrift' . . .**

Yes, that in times of crisis people are fearful so save instead of spending, but it only serves to worsen the downturn. It shows that capitalism is a social organisation, a system where developments are very interconnected and interdependent, and where the intertemporal savings do not work. This dichotomy between current benefits and future benefits, 'we need to save for tomorrow', is a misnomer in the current economy – it's widely accepted but, in fact, is actively harmful.

Saving in an underconsumption crisis means to prevent the development of industries that would otherwise create employment and pay wages. The multiplier effects are prohibited from coming into action. This has an impact on the overall structure of the economy and is therefore harmful. People have to understand that savings cannot save the future.

**Okay, then let's look at some of the economic variables that are interconnected and interdependent in underconsumption. What about the role of wages? Wages are what people can spend on consumption...**

The total demand necessary not to be in a state of underconsumption not only comprises wages, but also investment. If the wage-based demand increases then entrepreneurs will realise they can make more money by selling more. Therefore, they will enlarge their capacities of production through investment, which is, in fact, triggered by additional demand.

Secondly, given the entrepreneurs' assumption that there will be a long-term expansion of demand they will acquire more capacities of production because otherwise they lose their share in relation to others – a necessity for the entrepreneur in capitalism. I'm arguing for higher wages to cause this effect.

Investment is part of the total demand but the level of investment is positively correlated with the expectation of future demand. My argument is standard Keynesian – a demand needs to be created, preferably by markets but if not by the state, and any demand will increase investment and begin an investment process again.

**There is also a decline in the profit rate in the current crisis. Is this a symptom of underconsumption as well?**

The decline of the profit rate is, in fact, the dire consequence of wages not expanding in line with productivity growth. If there is no investment spending, profit declines and with it the profit rate.

I agree with Keynes that the investment decisions should not be left to the capitalists alone. In times of a low profit rate they will refuse to invest adequately what would be necessary due to low expectations of returns. The profit rate and the rate of accumulation are the same, so entrepreneurs' decisions on how they think the accumulation process will proceed determines that profit rate. The problem with downturns like today is that low expectations deliver low levels of investment and therefore a low profit rate.

### **How does your understanding differ from mainstream economic theories?**

The standard argument of the mainstream economic theory is that investment and wages are a zero-sum game: if you increase wages, you decrease investment. If total product equals one, one is shared between wages and investment, so investment is the result of what is left. I am saying that if you do not increase consumption, you don't have the presence of demand in the first place.

Here's the difficult theoretical contention: the basic idea in macroeconomic thinking is with economic development the demand for credit is equal to the demand for saving. It is argued that savings given to the debtor are the source of economic activity and these operations for liquidity preferences that the savers opt for are ultimately adapted in such a way that the credit demanded in the economy is as high as savings. I'm arguing against this assumption because one does not know if the demand for savings is equal to the demand for credit.

This leads us to the question of what determines the savings and what determines the credit. The credit is determined by the amount of investment goods considered as profitable and hence necessary to increase the production. The more the economy grows, the more the entrepreneurs invest, which only comes about if demand expands.

### **Can you place underconsumption crises in context with economic scholars?**

An underconsumption crisis is always a disproportion between productive potential and consumptive potential. When the crisis breaks out, those distortions increase instead of converging. Neoclassical economists believe they do converge, which I believe is wrong.

However, Hayek has a point when he criticises Keynes, arguing that if you manipulate money you are creating consumption in excess of what would be the natural consumption in the economy. According to Hayek, money manipulation [central bank quantitative easing] creates fake investments; it causes the economy to be in an 'unnatural' state – cheap money allows for the production to expand; however, if incomes haven't risen, the consumers are not equipped with the means to buy these additional products –the relation between money and value is broken. I agree with Hayek when he says money manipulation leads to problems. Overcapacities that are not based on higher real wages but on money manipulation have a negative impact on the crisis. In that sense, one should make an effort to keep 'natural' proportions.

However, I don't share with Hayek the necessity of so much saving; proportional growth means that you have to let the wages grow early on in the process in order to avoid this overheating by creating credit money.

With underconsumption there is not only too little demand, but there is also too little nondebt demand, which relates to Hayek's point about money manipulation. If you fight the lack of demand by cheap money, that was the Alan Greenspan decision, then you are basically fighting underconsumption by credit. My argument is you have to fight it by distributive measures. It explains why I believe someone like Paul Krugman is a monetary Keynesian: he thinks the monetary policies are an appropriate tool to create demand, whereas I would define myself as a real economy Keynesian – real distribution matters and not the monetary policy. You cannot overcome imbalances between mass incomes and surplus available for investment by simply injecting more money into the economy. Monetary Keynesians like Krugman actually have a very negative influence. You can see what the debt is doing today: look across the European Union [EU] and the disastrous outcomes.

**It seems like it is another criticism of neoclassical theory in which the wage rates are part of the demand function. Neoclassical economics believe unemployment will not emerge and there will be no underconsumption crisis because the demand will always be there as long as wages are fully flexible and therefore there is a supply.**

I think my divergence with neoclassical authors would be that neoclassical people think that any sort of money contains a value which can be realised on the market. That money can be transformed automatically in goods, products, if the holder of this money wants to consume. Monetary Keynesians believe that you can manage the economy by manipulating the supply of money. Neoclassical economists believe that by manipulating money, you create further imbalances. I think that both do not address the real problem: there is no direct link between the amount of money and demand, but only between consumption demand and derived investment goods spending on the one side and productive potential on the other. I argue that money is basically created by the banking system and that does not have to be proportionally reflected in real goods.

Monetary policies can play a supporting role in bringing the economy back to an appropriate relation between consumptive and productive

capacity: a short-term investment push created by cheap money may help to re-empower labour by rapidly increasing employment so that demand turns into mass demand again.

**Let's go back to the problem of saving. Some would argue savings will be spent at some point, be it by the person who owns them or who inherits them. Can't we assume that in the long run it doesn't matter?**

I am going to illustrate this with a hypothetical, albeit slightly exaggerated, scenario. Imagine at some point in the future the revenue of the old-age pensioners due to their massive saving is 70% of the total disposable income of the whole economy; meanwhile the young populace only has 30%. Then, the total production of the economy of 100 has to be exchanged 30 to the young and 70 to the old, so those who are producing are only recipients of 30% of that take, while the pensioners can claim 70% of it.

If such an imbalance occurs, the younger group would sensibly create a new state with their own currency. The 'old' state with the old currency could import goods from the 'young' economy with the new currency, but as the old-age pensioners do not produce anything, their currency would devalue and become worthless. The young economy's currency, on the other hand, will appreciate and they would decide they are now only exporting a smaller percentage of production to the old state in exchange for the money they have.

What I'm trying to illustrate is if you don't have a solidarity contract that keeps the younger generation from doing this, your money will become useless as they won't keep supporting it from current production. The huge pension obligations are causing such imbalances between working people and pensioners, but it could be eradicated easily by either creating a new currency or wiping out the existing pension claims, or by inflation. It illustrates that money itself is not a value, it's not something we can hold, but merely a claim, and for a claim to be realised it relies on someone else to uphold that claim.

**Can you elaborate on this point about money only being a claim?**

At the core of the problem you have the fact that one of the most believed arguments is that money is an instrument to preserve value. Money does not preserve value. If you want to preserve value through money, you have to buy gold. The capability of money to preserve value is solely dependent on the overall situation of the economy. That is,

whether there are people who are willing to go into debt, but if it is the case that people are no longer indebted themselves to invest in production then you don't have anybody who you have claims on when you want to realise your saving. Simply put, there is nothing you can buy.

The irrationality of neoclassical thinking is so powerful today. The yogurt that you refrain from eating one night will not be available to eat 20 years later just because you have planned to do so [chuckles]. It is so evident but economists don't see this because they decide on the basis of models – whether the model is realistic or not they disregard.

**Is it the case that people are saving too much or is it more the case that capitalists are realising they cannot accelerate accumulation beyond what would be the consumptive capacity of the society?**

I think it is both. As people are increasing their savings, capitalists realise that the market does not expand – both things are concurrent. The basic thing is: in a gold currency system, those who want to hold value can hold it only in the form of gold or gold coins. If the people who want this gold increase the demand, then the production of such gold coins increases. Therefore, the act of saving in a gold currency system is a demand for a product – gold. However, with paper money, or a fiat currency as it's called, the demand for saving is a claim in paper which has no production cost and therefore also no direct employment effects.

**So far we have concentrated on underconsumption at the national level. In the world economy, what are the effects of an underconsumption crisis?**

Countries that are permanently seeking export surpluses destroy demand in countries that have import deficits. Therefore, Keynes in 1945 was negotiating hard with the Americans on the following scheme: Keynes suggested that a country with permanent export surpluses had to hand over the income to the International Monetary Fund and it would then distribute this money at very low interest rates for investment to increase productivity in the deficit countries. It shows you how far we are away in the European Union context from Keynesianism.

Applying this to the European case today, it would mean the Germans giving a lot of money to their European partners at very low interest rates, given their constant export surpluses. That is exactly what the

Germans don't want because that would be the communalisation of debt. The same principle was agreed in 1944 at Bretton Woods, despite the Americans being against it. The Americans thought at the time the export surplus was real money to which they were entitled, and history is repeating itself with the German's mentality in the Eurozone. Keynes argued the export surplus is a sign of an imbalance. The sense of entitlement to the incomes of export surpluses is a curse; it loses track of what is important, which is that the world economy is kept close to full employment. It illustrates the difference in perspective of American and European economic thinking at the time, and how we have shifted to a more American thinking and away from Keynesianism in Europe today.

**An implication of this would be that saving in industrialised countries lies at the core of the problem, and in a globalised economy is hindering development for less industrialised countries.**

Clearly, yes. Another dimension of that problem is we have not sufficiently increased mass incomes – the mass of the people's wages are too low, particularly in Germany. This means we have proceeded to alternative sources of demand – in the case of Germany it was exports, in the case of the United States it was spending extravagant amounts on property that led to these oblique financial products; in the countries of Southern Europe it was the state that provided additional demand through deficit spending.

Over the last decades, Germany has implemented policies that pretty much prevented real wages rising. Germany's internal demand is therefore not sufficient to meet its potential capacities. I can't remember in history the central bank of a country telling its main union to push for greater wage demands, but in Germany it actually happened! The German economy at the present exchange rate [unnaturally depreciated due to the Euro] and wage rates is highly competitive and that means the Germans are bringing demand and productive potential together by export surpluses, a neomercantilist strategy and aggressive behaviour towards its partners, also within the EU.

Southern European countries cannot do this because they are not so competitive and you can only have export surpluses if others have import deficits. They took on indebtedness, which led to such extreme state debts. It came to the point it was no longer tolerable because investors thought such levels of debt could not be repaid, which was true, and therefore we have the debt crisis.



**Let's look more closely at the case where a big share of the spending goes towards imported goods. The country is not competitive on the international market with any good so it is not exporting anything in return. Given its spending structure, most of the spending is going to flow abroad which means for the national economy it is always going to be an underconsumption crisis, no matter how much they are spending...**

Yes, when you want to increase spending by increasing the money you outlay and when you have a very high propensity to import it's going to be an underconsumption position. Underconsumption arises as the demand you are creating goes to other countries, whereas the demand for your own economy remains below the productive capacity. However, if the whole world economy is rather in balance, increasing imports of this economy will have demand effects on its partners. If these partners are close to full employment, then they will have rising prices and another country will start producing their products. That is the mechanism.

It does create problems for the national economy that loses these industries unless it starts severing its ties with the world – the only way out is to crowd out imports and to support exports by devaluation. That's the reason for devaluation but this is impossible for most of the European countries being in the Eurozone.

### **What about the relevance of regional differences between industrialised economies and the developing world when it comes to the underconsumption question?**

Catching-up economies need to use demand from the industrialised countries in order to follow strategies that contribute to development. This is why the industrialised countries have to overcome underconsumption and expand their demand to contribute to this [discussed in Chapter 5, 'Convoy Model of Globalisation']. Every economy has developed through being supported by demand from the leading economies of that period.

The Americans allowed the Germans and the Japanese to do this after 1948. And the leading economy in the world under capitalist conditions can do this because the maximum the catching-up economy can achieve by full employment is a wage level comparable to the leading country. The catching-up process is characterised by the demand of the industrialised countries providing the basis for the less developed countries' growth.

All of this discussion is very academic, however, because we are suffering from an underconsumption crisis, which is both hindering the productive capacities in the developed world and, as a result, stopping a development process in the developing world where they can make full use of the potentialities of our demand for their growth.

**As you have proposed the lack of spending as a source of the problem, do you have an idea on how to increase consumption in developed countries and escape an underconsumption position?**

I have mentioned the Keynesian redistribution I am in favour of and we need bold measures that will strengthen the role of workers in the production process, starting with them being better remunerated. In the case of Europe, I would cancel all of Greece's debt, for instance; it's economic strangulation they are suffering from. People would reconsider the virtue of saving when they see money and debts written off at the stroke of a pen.

Aside from the macroeconomic ideas, one idea to counter the lack of spending is to reduce the working hours. If you reduce the working hours the propensity to consume increases because people have more free time in which they will spend money. They will be more likely to spend the money they do have. One major element of this has become leisure consumption, that is, holidays, sports and so. You are reducing production and increasing consumption at the same time if you reduce working hours.

**Would that be reducing the hours at the same salary?**

Yes. Over the last 200 years increasing productivity was distributed through a mix of higher real wages and less hours. In the early nineteenth century, we had a struggle for the ten-hour day, which seemed to be socially very progressive. At the end of the nineteenth century, most of the workers were working 8 hours a day. We started after 1945 with an eight-hour day in most countries; this could certainly be reduced.

This is a more difficult and complicated plan than the proper first step, which would be to declare all of Greece's debt cancelled.

**You have mentioned the necessity of real wages to rise. Can you elaborate on the role of labour in that regard?**

Underconsumption is most likely to apply when the working class is relatively weak and therefore lacks the power to negotiate higher wages. I mentioned America in the interwar period as an example, or

in underdeveloped countries where a large labour surplus in agriculture depresses urban wages. The persistent insufficiencies in the demand for consumer goods arise from inequality in the distribution of income. Labour must organise to exert influence against capital if it is to secure a fairer distribution from the proceeds of growth, akin to the post-World War II consensus.

What I'm hinting at is the future can only be saved by a collective effort. That's why I am saying we have to consider that socialism is a requirement for the benefits of capitalism to survive, even more so if capitalism expands. At some point we will realise that we use markets for all those things where it is useful to have competition, like in basic consumer goods. Where the market is not an appropriate tool, private pension schemes are an example, the state should play a more active role [expanded in Chapter 7 'General Thoughts on Capitalism']. This will include transforming underdeveloped economies into economies where the neoclassical assumptions can apply, like the forces towards full employment if market conditions are manipulated appropriately.

Other forms of regulation will become necessary. Implementing these regulations in a democratic manner equals, in my view, the emergence of socialism. Socialism should not be thought of as an end to the market, but a political instrumentalisation of the market within democratically developed combinations of elements of economic regulation [discussed further in Chapter 7, 'General Thoughts on Capitalism'].

**As a last point, you have just mentioned old-age pensions as an example for when the market is not useful. Why is this the case?**

Yes, in my view, the decision to privatise old-age pensions was a major mistake of Western governments. I believe the problem of underconsumption indicates that microeconomic decisions do not necessarily lead to equilibrium. That is more radical than Keynes: he was arguing in a more cautious way. I argue that you may arrive structurally in a situation where leaving some decisions to microeconomic decisions of households causes problems, for instance old-age pensions. As soon as we say 'you get as much old-age pension as you have managed to save up', then everyone starts saving which causes us to lose our productive potential. It is better if the system constitutes a solidarity group.

I feel those mainly responsible for this are the mainstream discourse in America with very short-sighted views, which are resulting in a microeconomic pseudo-rationality – a mentality that the state must be run

in the same way as a household – macroeconomically that makes absolutely no sense. And it is even harmful because the more people buy into this the less they consume because they believe they have to save for the future. You create lower consumption today without acquiring anything in the future – it actively harms future production.

# 7

## General Thoughts on Capitalism

*Elsenhans contextualises his economic views with particular reference to John Maynard Keynes, Karl Marx, neoclassical economics and World Systems Theory. For some, he is a theorist of turbo-capitalism, given his trust in markets to produce equitable and efficient results, but for others he is a far leftist, given his support for raising incomes and redistribution. He sees himself as closest to Keynes, particularly in demand-side economics, albeit with a more international perspective on national economic development, and distinguishes himself from contemporary 'monetary Keynesians', who only seek solutions in altering the money supply. He reconciles his socialist beliefs with the capitalist solutions he proposes by arguing the self-regulating mechanisms of capitalism are most fitting for achieving prosperity, albeit within a redistributive state mechanism that socialises risks. On more general thoughts, he explains why capital accumulation does not play a role in today's capitalism of widening gaps between rich and poor, reflects why he is against the free-trade agreement between Europe and the USA [the Transatlantic Trade and Investment Partnership (TTIP)], and talks about our destructive fetish with property.*

**We have spoken a lot about capitalism throughout the different interviews, about how it works and how it should work, but often just implicitly. In this interview we want to complement earlier interviews by being more explicit in our references.**

**Your work is based on a multitude of scholars but what stands out is you describe yourself as a Keynesian . . .**

Yes, I call myself a Keynesian. I consider my work as the attempt to use – as described in the book *Saving Capitalism from the Capitalists*<sup>1</sup> –

Keynesian models to provide a new interpretation of the history of capitalism.

When I got my first appointment as a professor, the president of the University of Marburg welcomed me and in the usual procedure asked about my academic profile and ambitions. I told him my plan was to generalise Keynesian ideas in a historical theory of the world. That is what I have basically been doing in my later years.

**What is it that Keynes saw that stands out or has convinced you?**

Keynes saw that the capitalist system does not tend to equilibrium, if equilibrium is full employment. The theories before Keynes always assumed systems tended to reach equilibrium. In his *General Theory*,<sup>2</sup> Keynes argues that the markets do not necessarily tend to full employment, despite flexible prices and wages. Therefore, the basic innovation of Keynes is to understand that the system is not stable and the demand side determines this. For Marx and all those who preceded him, the system is unstable because it does not generate enough profit. Since Ricardo, this was the great worry.

Keynes believes the system generates always enough profit because – he has not been very clear but ultimately this is what comes out – we have a stable capital–output ratio and therefore we don’t need too much money. I believe that is the salient point.

**You have referred to yourself as an unorthodox Keynesian and even as a post-Keynesian, which implies differences between your thinking and Keynes.**

The basic thing with Keynes is that Keynes sees very well a basic structure. Sometimes he also recognises it is a long-term structure but most of his work – because he is oriented towards practice – is dealing with what happens in times of recession. He does not discuss the long-term too often.

Therefore, the first discrepancy is that Keynes concentrates on the short-term and on ways to re-establish demand in times of recession. I am concerned with the functioning of capitalism more generally and therefore focus on the long-term implications. When Keynes considers the long term and the historical dimension, he mostly deals with monetary policy, for example low interest rates in the sixteenth century. In my view, these are aspects of how to deal with temporary imbalances but it cannot be applied to a structural deficit.

A second difference between Keynes and me, closely related to the first point, is Keynes thinks that with monetary policy you can create

demand and I don't think that this is the case in the long run. Cheap money may shortly bolster new investment, but in the middle term any investment depends on demand – ultimately final mass demand. Cheap money encourages indebtedness but at some point cheap debts used as the major instrument to create demand can accumulate to a degree that it becomes unsustainable; the 2008 crash in the US, for example.

This is also my problem with modern Keynesian economists – above all post-Keynesians – they are solely interested in questions on how to manipulate monetary policy and try to show they are mathematically as 'good' in model building as neoclassical economists. That does not interest me. I am interested in the class relations that are necessary in order for the system to survive in the long term.

Third, Keynes – and neoliberals – think if the crisis is deep enough the economy will recover to a state of full employment. The underlying assumption is obsolescence processes, a wearing up of capital, will take place and this mechanism will cause a new investment boom. That basically implies that even in a crisis, the capitalist mechanism will basically remain, whereas I believe it can morph into rent-based structures.

Keynes, in my view, does not have a historical theory of capitalism where he puts capitalism in a comparative perspective to other societies. His work does not address that capitalist structures, in case there is a long-term deficit of demand, may turn into rent-based structures where surplus appropriation depends on political means [further discussed in Chapter 2, 'Rent'].

This is the historical difference: I assume that a state of underconsumption will not last long because if there is underconsumption there is the possibility to appropriate the capacities of production. Somebody will come and will be able to use these resources and offer some jobs provided the workers accept unequal power relations. A society that is partially capitalist, which suffers from underconsumption, will turn back to a sort of tributary structure, all that I see as rent based.

### **Tributary modes of production are described as precapitalist structures. How do capitalist societies become tributary?**

In the current crisis you can see that people are less worried about the increasing inequality in society but more worried about their jobs. The poor are the first ones to accept more state spending, even for the benefit of the rich, because they must sell their labour power. Some people do

address the bigger picture, for example the Occupy movement, but the large majority of people are not voting for redistribution.

The poor acquiesce when conservatives say 'if you let the rich consume, and if you leave the rich in peace, then they will provide the jobs'. It's convincing for most people – consciously or unconsciously. Therefore, the rich are capable of reducing the degree of competition and able to secure their grip on certain productions without distributing to the wider society. This is when you can observe the re-emergence of tributary structures. They appear as capitalist because there are market-type transactions; however, these markets are characterised by market imperfections in favour of the privileged as the markets in the ancient empires were.

**You also call yourself a Keynesian because you agree with Keynes' interpretation of money. Keynes said money does not exist, that it is just a shared exchange value.**

Yes, it's another area of general miscomprehension about capitalism. In relation to money, nothing of the future can be produced today. If you save for tomorrow that is only a loss of demand today, nothing else. Money can become a claim for the future only if somebody accepts to be indebted to invest in production again.

Things like pensions and securities have to be considered in the context that money is no mechanism of preserving value over time for the future. This was basic in the neoclassical economics which we were taught in school: money saves value for the future. This is simply not true. Money constitutes only claims and existing claims on money for the future – this difference is not seen by most of the population [discussed in Chapter 6, 'An Underconsumption Crisis'].

I have lived through times when money had no value. After the Second World War, there was a lot of money but we could not buy anything with it. In Germany, a lot of things were paid for in Camel cigarettes. Girlfriends of American soldiers were very happy as they were given Camels, which allowed the girlfriends to buy everything in the city; the Camel was a currency in Germany for a time.

I mention this in order to show you money was once worthless; a currency reform had to be made. Money has to represent a material value and to do so a proportion of money had to be destroyed. It's happened four times in the last century in Germany [1924, 1929, 1932 and 1953], if any country should understand this it should be us [laughs]! I don't see where there is a difference between the



Nazi Reichsbank printing money or whether through computers the banking system increases the credit balances – it's the same worthless money. This is not understood by the population; they think that money is security. It is one of the most difficult things to overcome today and Germany is particularly ingrained into this thinking. If you were to have a socialist management of capitalism, as I advocate, money, naturally, would be respected in the everyday life but nobody would believe that money itself had any intrinsic value or is the really important thing. Keynes was instructive in this regard – he was showing that money was to be controlled to suit the conditions in society.

**Now we have spoken about Keynes, we would also like to address neoclassical economics and Marxist theory. You lend from both of them, if we understand you correctly?**

I think that most of the economics of Marx are outdated, but the specific contribution of Marx, in my view, is to show that the economy acts as a driving motor but is embedded in society and at the same time structures society. And capitalism structures society according to class lines. The argument of the Communist Manifesto is that history is a struggle of classes but I would say history is a struggle of people with economic interests; these interests were more complicated in precapitalist times. The young Marx is very much aware of this fact when he says 'the proletariat lost all specific characteristics except its proletarian condition'. This reduction of the social reality occurs in capitalism. It makes capitalism so innovative because in this system, for the first time, there is no need for people to pray to God in order to justify or accept their social reality. In a precapitalist system, people need God because God sanctions the exploitative practice of the ruling class. In capitalism there is no need for people to believe in God; the anonymous market tells them how things are distributed.

Neoclassical economics and Marxist theory are actually not so different regarding their assessment of basic macroeconomic variables. In terms of economic analysis, there is no difference between a neoclassical model and a Marxian model as they are based on capital accumulation. However, a big difference between neoclassical economics and Marxian economics concerns the price mechanism. Keynesians and neoclassical economics see prices as determined by demand, disregarding the question of value. Marx, on the other hand, considers demand but insists on the theory of labour value [value of a

good is determined by its labour input]. When I give courses on Marxist and neoclassical economics I start with the price theory to present the core differences and similarities.

### **Can you explain the different arguments how prices are determined?**

For Marx, the notion of socially necessary labour implies at least average technology and that there is a demand for the product. If you produce something for which there is no demand, it is also not value creating. Marx therefore also implicitly considers demand relevant.

The theory of labour value is originally from Ricardo, and Marx adopts it. Marx argues the product is sold at a higher price than the costs of the materials used and of the labour employed. If the product is sold at a higher price than the cost of production that's because additional value has been added in the process of production. Clearly, there is a profit as products can be sold at higher prices than their production costs.

The two factors of production are capital and labour. This higher price cannot result from what Marx calls 'constant capital' because constant capital can be bought at any moment on the market at the cost which it later adds to the product. The remaining option is labour and as it cannot be capital, Marx concludes the additional value of the product beyond the cost of the salary and the materials must have been produced by labour.

### **Where is your difference with Marx over this?**

Marx does not explain how labour produces the surplus. He says it must have been labour. According to him, labour has added value to the product which exceeds the cost of production and constitutes the entrepreneur's profit. However, I argue profit depends on the macro-economic relations between consumption, wages and investment. A producer can sell at a higher price provided there are workers who have not produced consumption goods but earned salaries in the investment goods branches. These workers in the investment goods production will also demand consumption goods and the total demand for consumption goods will exceed the total cost in the consumption good. This additional demand of workers who have earned salaries without having produced consumption goods generates the profit in the consumption

goods industry [see discussion in Chapter 2, 'Rent']. The real problem with Marx is therefore not the labour value theory but the theory of profit.

If you accept my theory of profit, you do not reject the fact that all products are produced by labour. The total of investment goods equals the total of profit, which is the Keynesian equation. Thinking about this, you realise that the real point in the labour theory of value is that anything in the world is basically produced by labour. To recognise this, we don't really need the Marxian argument that the prices are corresponding to labour values. They are bound to some extent to the labour values, as I said, but not as directly as Marx argued.

### **What about the neoclassical theory and the argument of how prices are determined?**

A neoclassical economist is convinced prices are only determined by demand. However, if demand is generating a price lower than the cost of production, the product will not be produced. Any serious economist in a bank will tell you the determining factor for the price of a product is cost. This, in turn, is also the reason for entrepreneurs to cut costs. Clearly, the cost determines the ultimate price in the long term, especially under equilibrium. If all entrepreneurs have access to state-of-the-art technologies, the price of the product should be as much as the cost of its production, that being the average profit rate.

This begs the question of how profit is generated. If a neoclassical author would have to explain profit, he would argue that it arises due to the efficiency of the entrepreneur and the scarcity of the good he produces. Neoclassical authors can explain why more efficient entrepreneurs earn higher profits than others, but the efficiency of entrepreneurs does not explain how the total profit is generated in general terms. Ultimately, you would come to the same theory of profit as I presented earlier [Chapter 2, 'Rent']. In order to remain competitive the entrepreneur is forced to reinvest profits in technology which increases the productivity. As this is the case under conditions of competition, the capitalist – to use Marxian terminology – cannot accumulate capital as personal gains.

An aspect on which neoclassical and Marxian economics agree is that there is a process of capital accumulation. Capitalism is probably a lot of things which are bad; however, I disagree with Marxism and neoclassical economics in accepting that there is capital accumulation – there is no capital accumulation in capitalism.

**What you are referring to is the major criticism of capitalism originally formulated by Marx that capitalists have the means to accumulate capital as they possess the means of production. Capital exploits labour in the sense that it appropriates the surplus generated by labour and thereby accumulates. Now you argue that this is not the case. Can you explain?**

Capital accumulation can only happen in parallel with the increase in production. In capitalism, the capital–output ratio does not increase, it remains constant.

The capital–output ratio describes the relation of the amount of capital necessary for a certain output of production. A constant capital output–ratio means the value of capital in relation to the output value does not increase. When the entrepreneur reinvests he does not obtain higher quantities of investment goods but more advanced goods. As a result, the relation of capital to the output of products does not increase, statistically for the last 100 years in particular. It wavers around 2 in the industrial sector in industrial countries. If there is an accumulation of capital it is only because the entrepreneur has been able to buy more expensive technologies produced by more expensive workers and increased his capacity to increase the total output.

Opposite claims result from the fact that we normally measure output value at constant prices. To do justice to the output value measurement, we would also have to look at capital in constant performance. When the entrepreneur reinvests he does not obtain higher quantities of investment goods but more powerful ones. And as capital goods are produced by labour, if you consider goods at constant prices, then you also have to look at capital goods with increasing real wage content. The economy at constant prices has increasing real wages because higher productivity translates into increases in real wages. Capital goods are obviously more expensive when they are produced by workers that earn double than workers previously. The impression that producers require higher amounts of capital stems from inconsistent calculations.

The easiest indicator to check this is the capital–output ratio because the capital–output ratio compares the value of production in relation to the value of capital on an identical price basis, current prices or inflation-adjusted prices. This has not increased, on the contrary, the capital–output ratio has even decreased since the end of the nineteenth century which Marxist theory would have thought impossible.

There is empirical evidence to back this up. Also in terms of theory, this is not new. Rosa Luxemburg describes it in *Die Akkumulation des Kapitals* [*The Accumulation of Capital*] in 1913.<sup>3</sup> She explicitly excludes the possibility under competitive conditions for the capitalist to increase his consumptive share in the economy. Implicitly, an accumulation of capital would translate into a higher consumptive capacity of the entrepreneur. She says if he consumes more, he will go bankrupt, which is basically true.

**And Marx, Keynes and neoclassical theory have not reflected the reality of capital accumulation?**

Marx could not know because there was neither theory nor empirical research while he was alive. Keynes could not reflect on it either because it was not yet known. This type of research was conducted later. And neoclassical theory disregards it. If capitalism does not depend on capital accumulation but on the reproduction of – in labour values – a constant stock of capital in relation to wage increases and output growth, the whole theory of exploitation is not very illuminating.

**What about the theoretical stance in World Systems Theory? Accumulation and therefore exploitation is at the core of that argument.**

Trade for Marx is no source of exploitation but Immanuel Wallerstein does not really reflect this. As Wallerstein is not very familiar with economics, which is responsible for his success in social sciences, he has no theory of capitalist growth worth discussing. He thinks that growth is the result of accumulation, and the more you can exploit somebody, the more you can accumulate.

Looking at the real world, some of the exploited economies can catch up and do not remain impoverished. Wallerstein needs to explain this so he invents the category of a semi-periphery. He adds that all this has to be supported by the state, an argument he takes from his previous theoretical commitment to US political modernisation, which was in vogue when he studied Ghana.

He never explains the contribution of the third world in the sixteenth century to the accumulation in the centre, the West: Did the centre gain food or raw materials from the third world which allowed it to employ additional labour in the investment goods production? It did not. Therefore, Wallerstein's argument about the sixteenth century where the West exploits the third world and thereby accumulates is not valid. I do not

deny that the West has exploited the rest. It did, however, not serve its development, it was even futile to their development. Indeed, the West exploits, and has been exploiting the third world, but for a theory on how capitalism works it is not relevant.

Authors are able to show that the West was not importing any products from the South that were essential to increasing accumulation. All the food of the West is not imported from the South. The Baltic States play a role but it is not typical to be supplied by the third world. Coal and iron are produced inside Europe and not elsewhere. Imported goods are basically cotton and sugar, which are no means for accumulation. And sugar is substituted during the industrial revolution by beet sugar.

What is common to World System theorists, in my view, is they have a crude understanding of Marx and they are from an American faculty context, which is why they never put the assumption that capitalist growth and accumulation of capital go together into question. Pre-Keynesian economics rest on the assumption that capital accumulation necessarily happens in capitalism but I am post-Keynesian in that respect. That is all.

**Looking at the world, it is hard not to believe that capital accumulation occurs as some well off people become richer while poor people become poorer . . .**

In industrialised countries, poor people do not get poorer. The widening gap between rich and poor at a global scale is visible and disconcerting, but that has nothing to do with capital accumulation.

The country which is currently most exploited, economically speaking, is China. As they devalued the exchange rate, they supplied cheap products for the entire world. Never in history was a country as massively exploited as China. They are growing; however, they accumulate capital due to the increasing production. They serve the demand for their products at the low prices they are able to afford because of currency devaluation.

The point I want to make with this example is that all those people who say the South is exploited argue the South has to supply cheap products to the North in order that the North can accumulate. Never has this contribution of the South been quantitatively more important while at the same time endangering accumulation in the West. China is one-fourth of 'the South'. The number of people that are working in Chinese industries is around 80 or 90 million; the amount

of industrial workers in the OECD [Organisation for Economic Co-operation and Development] countries is less. For the first time in history, an industrial complex, the West, is able to exploit a larger army of workers than in the West. That has not contributed to any acceleration of accumulation in the West but predominantly in the South.

Western enterprises go to China because in China there is an expansion of the market and they prefer to accumulate in China. If the market expands you have accumulation in line with the increase in production as I have described it; however, not because someone acquires a surplus that is roaming around. If a Western enterprise moves to China they accumulate there. The reason why they are able to accumulate, though, is the proximity to the market and their superior technology. Investing in China won't allow you to necessarily make higher profit rates just because Chinese labour is cheap.

**Wealth accumulates; it is so visible it is difficult to deny this, the marked inequality in somewhere like the United States is staggering. Do you argue that this capital and wealth is not accumulated under capitalist conditions?**

Partly, yes: we have to have a closer look at what is really happening. We have a situation in which a small minority has extractive power in the form of monopolies. This came out in Thomas Piketty's book.<sup>4</sup> We have a large noncapitalist sector, quasi-monopolies, etc., which he doesn't consider monopolies. In the cases Piketty references, people get rich by using market imperfections that are not very visible but he does not recognise this. Their wealth is not re-injected into the capitalist process, conditions which give rise to rent-based capitalism.

And this is the exact point: many people say now that luxury consumption, etc., is all capitalism. A true Marxist like Rosa Luxemburg, on the other hand, say capitalists cannot increase their consumptive capacities.

A capitalist who increases his rate of consumption in an inconsiderate manner – as many do nowadays – can survive only if there is no competition willing to supply the market with a lower margin for their own consumption. If there is no competition, these capitalists are basically rentiers; therefore, it is no longer a situation of capitalism. The privileged rentiers being able to increase their wealth explains the rising levels of inequality. One solution is to remove the barriers for new capitalist producers to enter these markets.

**To narrow that down and summarise: when this accumulation of wealth happens, for example in the United States, then this is due to a lack of capitalism.**

Right. One of the elements of my theory is that we are moving out of capitalism as we are not able to tame these tendencies. That is why I am polemically saying 'saving capitalism from the capitalists'. We have to remove the possibilities for capitalists to become rentiers.

**Is there an example of an ideal profit-based economy these days matching your model?**

I think for a long time it was Japan and nowadays, to a large extent, Korea and Taiwan are very dynamic in this direction ... also Scandinavian countries.

**Can we expect this to change any time soon? What happens if the investment climate remains stifled?**

This all began because real investments had relatively low-profit returns and therefore money was used on financial markets to guarantee better returns. If my argument about the profit rate is right, then the rate of accumulation will also remain low. If the rate of accumulation is low due to an unfavourable investment environment, then we may be in a situation where financial resources become very cheap – the price of capital [interest rates] may go down to nearly zero. When the investment process slows down not many projects that are costly are undertaken, but only the ones where productivity increases may be realised rapidly. With the microelectronic revolution the sources of productivity increases are more down to the skills of people, which you cannot own as capital to be included in the balance sheets of a company like physical capital such as machines and buildings. The increase in productivity comes mostly from skills of working-age people and from replacement of machines which do not cost more than before. Net investment spending on physical capital tends to become zero, and so also the rate of accumulation which determines the profit rate in the real economy.

If what I say is accurate, we are going to arrive in a situation where the profit rate is extremely low. The current philosophy of people is 'saving is a virtue' but in my model saving becomes a vice [discussed in Chapter 6, 'An Underconsumption Crisis']. In such a low-profit economy, there will have to be either an inflationary process in order to maintain demand or savings have to be taxed heavily; it would require a mini cultural revolution to take place. The alternative would be to



internally devalue the currency by having an inflationary process, but I favour the tax solution.

### **You are suggesting a tax on savings?**

The possibility of taxing savings is not unheard of; Switzerland finds that capital coming into the country is very dangerous so the government can, without a law and only by decree, tax the money that is flowing to Switzerland. I'll tell you an anecdote: while researching this point I had terrible difficulties finding the necessary documentation because nobody in Switzerland talked about it openly. I got it by ultimately phoning the director of the library of the Swiss national bank who sent me a copy. When I tell people if capital loves you it can also be very dangerous for you, they are very surprised [chuckles].

**We want to take a slight detour from the theory to see how it applies to a current political argument. The European Union [EU] and the United States are currently still negotiating the terms for the free-trade agreement, the TTIP. There have been large and very polarised discussions on the benefits and dangers of this free-trade area. Given you are in favour of free markets in certain circumstances, we wondered if you supported it.**

I think the arguments in favour are absolutely incomprehensible. Two economic areas of that size will not grow very much through more free trade. The main specialisations are possible within these areas. I don't see why people argue like that.

Secondly, it is obvious that we are in a period of continuously destroying standards. We can already see how difficult it is in the EU to achieve transnational standards. Why should it be possible then between two continents worlds apart? The EU system seeks to acknowledge any national standard that might be possible in a relatively homogeneous world. We can agree on standards for smaller issues like egg in spaghetti, which the Italians did not want. However, we were not able to have a European plug. How could we possibly agree on common standards with the US?

Also, the US is not a recommendable partner to begin with. Oil companies spent money on academic institutions and got the expertise they want – that global warming isn't happening. I would stay away from a partnership with a country where financial power is so overarching and pervasive. In that sense, it is not only about one standard or the

other, it is a question of wider standards. The US has responded by saying 'We think European arrangements are socialist and we do not want that'.

The Americans are fully entitled to think like this but it is up to the Europeans to decide whether they should share this position. And I think it is problematic that a minority in Europe, big business, tries to impose this view by mobilising an external ally against the old fashioned European socialists. It even goes beyond the question of standards. It is a question of power relations. Why should we become a member of a feudal kingdom if you have achieved the republic? Would you advise France to become part of the Habsburg Empire in 1792? I would say no [laughs]!

**That is quite interesting. You are reflecting on power: you are saying that this is actually a power relation. You don't usually reflect on power that much in your analysis.**

I don't reflect on power when I analyse capitalism. You have to see the operation: I show that the textbook capitalism works in the absence of power on one condition: the empowerment of labour. When labour is empowered it can demand more products. This will enlarge the production, which therefore requires more workers; labour becomes scarce. When labour is scarce it can negotiate better wages, increase demand, etc., which further empowers labour. When labour is empowered there is a quasi-automated self-regulation which is why I disregard power in the analysis.

That does not mean that I am blind to the fact that existing capitalism works based on power relations. But the point is I delegitimize the currently existing capitalism where the argument is that a power relation more favourable to labour would not work. My argument is capitalism works very nicely if the power relation is the other way around: in favour of labour.

This goes back to my critique about Marxists. Marxists, in my view, will have no practical impact because they say that capitalism is bad. I say capitalism can be a force for good but the capitalist system currently in place is a farce of capitalism. If there is any foreseeable orientation of the political struggle from below in the directions of what I desire – more environmentally friendly, more social, more equitable arrangements – you need to have an answer for the great majority in the middle of the society on how to manage the economy. They don't see an acceptable solution proposed by the left so they keep voting for conservatives.

I don't believe it is possible to mobilise the majority of the middle of society to attend assemblies and decide collectively by majority votes on how to structure and manage the productive system. Therefore, I see the great value of a functioning capitalist system that allows for the realisation of people's interest in impersonal ways. I do not want for what I consume to be decided by the people in my street or elsewhere. I say, let the markets work where they work satisfactorily. If you can show that the market works in large areas reasonably, provided that some relatively simply organised conditions are met, then you are giving practical examples people can identify and ally with – with all their different interests.

**With what you said you present yourself as having an almost neoliberal position. But you also refer to yourself as a socialist. Both a socialist and a capitalist, it sounds contradictory.**

I aim for a socially acceptable system for people with very diverging opinions and interests. One must ask: Are Marxists' arguments correct that the market is always working against the poor? I don't think that's always the case, I argue the market works according to the general power set-up in which it is embedded. We are able to influence this general power set-up, which is the important aspect.

The reason I consider myself a socialist is because I believe a system has to benefit everyone to the largest possible extent, especially the most vulnerable in the population. Socialism doesn't mean to remove the mechanisms of capitalism that work; socialism means to socially get hold of the capitalist mechanism, let it work where it produces what we want – high levels of employment and efficiency – and intervene in the areas where it does not work.

Socialism is the conscious application of mechanisms of economic and social coordination which may or may not use the market; however, it does not succumb to it. In other words, as much market as possible, as much nonmarket democratically decided regulation as necessary. That is the SPD's [German Social Democratic Party] Bad Godesberg resolution, whereby they discarded its Marxist doctrinaire approach in favour of a more nuanced application of socialism.

In Hegelian thinking, to which Marx adheres, the synthesis of thesis and antithesis – in this case of capitalism and socialism – retains the positive elements of the thesis. It is translated into English as 'sublation' [in German, 'Aufheben'], meaning both to preserve the positives of the thesis and to lift them to a different level.

I see there are two relevant types of market failure. There may be areas where the market produces the wrong effect, for example wrong products with regard to the environment. Secondly, there may be areas where labour, despite general high levels of employment, is exposed to repression. The necessary measure is to foster labour laws; at full employment that is normally easily in reach. We have achieved high labour standards in the past. In the case of environment it is more of a long-term process.

**So where the market is not functioning, the state is the answer?**

Yes. I am not a neoliberal economist as I don't assume capitalism moves in the direction of full-employment equilibria. However, any intervention of the state has to be evaluated with respect to its contribution to creating full employment. Interventions should always seek to create incentives for those in control of the surplus to invest, rather than saving or spending on luxury consumption, as not investing has major macroeconomic repercussions [discussed in Chapter 6, 'An Underconsumption Crisis'].

In terms of interventions that oppose this tendency, taxation on wealth for employment programmes could be an instrument in the transition to a socialist transformation of capitalism, which maintains the essential advantages of capitalism. This tax on property could be channelled into employment programmes that allow local bodies to hire the jobless at a politically determined wage rate. This is an intervention addressing the demand side, but state interventions are equally possible on the supply side – any infrastructure work, for example.

State intervention is needed in underdeveloped economies where a lack of demand and/or a lack of performance block investment, but also in advanced economies where there is a saturation of markets or a rise in unsatisfied collective needs that have gone unanswered by the market. Where needs cannot be satisfied by actually produced goods, such as security from hunger and wants in an undetermined future, relying on individual purchase decisions will not create employment. The state must take an active role here.

**Private property rights are one of the central characteristics of capitalism; socialism, on the other hand, favours collective property. Where do you stand on this issue?**

My argument about capitalism is profit is socially delegated – something that requires the whole system in order to materialise – and therefore

does not suddenly materialise on the basis of property alone. I think this is a very important implication of my model. Even if we socialised our economies and we made them operate on the basis of markets, profit would emerge just as in my description. So, private property is not at all necessary.

We massively regulate private property in our societies, legally and psychologically. This obsession with property rights reflects the ideological character of the American society, which I think is their counter-piece to what fascism was here. It is this idea there is an 'over-right' of private property. It is an expression of upper classes being afraid and defending themselves, and it serves as a protective mechanism for them.

In practice, this allows pushing poor people into a very bad situation; it allows you to block technical progress, etc. That is not capitalism. In my model of capitalism profit does not disappear. This is very important. Arguing the other way around: profit does not imply that you have to maintain private property in any case. Even if you socialised all your economy, you would have profit in the company sector which you are running according to the market.

**The labour empowerment you aim for assumes a relatively high degree of solidarity among labour, which enables them to negotiate more favourable working conditions. Is that necessary and, if so, is that realistic these days?**

Twenty years ago I would have argued this point. The mechanism these days works differently. Workers show solidarity if they have power in the labour market. In the transition to capitalism, the increase of productivity takes workers out of marginality, the marginal productivity also increases and therefore all workers are producing a surplus. If this is the case, the capitalist wants to employ more workers to produce a higher surplus. Now the worker can claim a higher wage because he is necessary to produce a surplus. This is how I view the system.

Obviously, workers are in many cases in a weak situation but they should not underestimate their position. In Europe, the mass of people who were suddenly released from all the fetters of feudal societies, for example the movement from the village to the city, were realising at some time they had power. Once they realise this they will not make the distinction between sometimes having power and sometimes not having power; they have a new consciousness of being able to impose something. This happened in the European case very early on.

**It would be remiss not to talk of class in the context of labour empowerment. Class doesn't seem to matter much anymore or at least people don't conceive of themselves as being part of a particular class. Are you saying that this should regain importance?**

Mainstream sociology thinks it is an achievement that people no longer think in categories of class because people now have to compete against each other in all spheres of life. I believe this is very problematic.

If we are no longer in categories of class then you can no longer talk about the achievements of capitalism; that is, it's a-cultural determinism. The big achievement of capitalism is that it functions without imposed norms; there are no inherited norms. People obviously have some norms to solve conflicts, but they invent those themselves. They don't have to be politically correct in areas not vital for capitalist activities; you do not need to adhere to all these principles which are currently declared as so important in our society as manifestations of political correctness if you want to conduct business and gain prosperity. If the system works, it creates the problem-solving mechanisms in place that render other norms, customs and, importantly, hierarchies, unnecessary.

Capitalism organises the productive apparatus but also frees other social spheres. All art before capitalism is in some way linked to the power structure. In capitalism, it is not. Nobody dictates art like they used to. When I see in a museum there is a Coca Cola can attached to a white background, I am asking myself if this is art or not [laughs]. I am not saying it is not art; if other people think it is nice, it is nice. But this development of what can exist as art was only possible in capitalism. The same happens with regard to music. If you like a certain type of music you annoy perhaps your parents but nobody else, all other areas are free.

The last one – just to bring this to an end – of these areas that was not freed was sex. The structure of the capitalist ruling class and the bourgeoisie required certain cohesion in the families based on marriage alliances and certain restraints. In this regard, the aftermath of 1968 is the perfection of capitalism because the main result of 1968 is that sex does not matter for the stability of the system. There had been so many authors who said the repressive sexual world is necessary for capitalism. The first sexologists from the Frankfurt school all tried to establish that sexual repression is necessary for capitalism. The students in Berlin claimed capitalism needs sexual repression, otherwise people become too free and start a revolution, etc. And we are now free, 1968 has shown capitalism does not even need bourgeois morals.

**Returning to the point about class, you are saying people constitute themselves in different identities but they are actually fooling themselves in a lot of ways. Workers and people with low incomes should understand themselves more as being part of a class to increase political leverage . . .**

That is the argument of a standard Communist party. I admit that I have not thought about the next tangible political steps in sufficient depth. What I see is that the basic capitalist mechanism – profit depending on investment spending generated through increasing mass demand – is being disestablished. How capitalism should function has been disestablished in the consciousness of people but that doesn't mean it is not needed anymore in the real world. And this discrepancy makes me fear because this contradiction makes capital extremely powerful. That is my argument.

I believe my work provides the arms to create oppositions. The problem, however, is the level of information people have: the established discourse, let alone the political one, are major barriers. I can define my situation like Gramsci would put it: an organic intellectual of a social movement which should be launched. My hope is my arguments will be picked up by other people who put them at the disposal of any related movement. However, it's the issues which count; I don't mind if I am referenced or not [laughs]!

# 8

## Nongovernmental Organisations

*Elsenhans sees nongovernmental organisations (NGOs) as being no different in their economic basis to the more idealistically minded members of the state classes that make up rent-based states. This economic basis consists of a rent acquired in their societies of origin and at the international level (United Nations, government aid budgets, private foundations, etc.). The donor-recipient relationship forces the NGO to adhere to the power structure of the West to receive funds. He sees a growing disillusionment with NGOs, stemming from their bureaucratisation and the increasing dominance of middle-class perspectives, which is caused by NGOs ultimately having to answer to international donors. Elsenhans conceives the challenge of globalisation as the ability of developing countries to reach a state of high employment; while acknowledging the good intentions of NGOs, he sees them not only as doing nothing to increasing employment (read: developing), but actually acting as a hindrance in achieving it as they occupy political spaces that crowd out alternatives.*

We have spoken about development, about how to overcome underdevelopment. What comes to mind in terms of development cooperation, and what we have not addressed yet are NGOs. We would now like to speak about the nonprofit sector, or more broadly development assistance and what role they play with regard to your models.

To start with a general point: your argument is that NGOs have the capacity to channel resources.

They channel resources which are rents into these countries.



### **Why is it rent?**

Because the money does not circulate on markets. It is a political circulation process as if the government is distributing money.

### **According to that definition all development assistance would be rent.**

Yes, naturally. The NGO sector is a rent-based structure. The use of the money is the result of a political negotiation process with specific interests. In this case, the NGO wants to survive so it wants to appear as worthy of obtaining more funds. Therefore, the NGO will do something good so the aid recipients voice their appreciation of the NGO.

It is a mechanism of distributing rents in the system, which is basically supplied by foreign money. Your project's outcome for the target population is the entry ticket, which is subject to negotiation with the donor.

### **But in that sense you regard NGOs as agents that act in favour of the redistribution that you are always advocating for.**

To some extent yes, but limited. What they are doing is not the necessary mass redistribution required in the developing world or constituting an internal market. They are helping some people, like the catholic and the protestant church here, or the Salvation Army, but they are not the vehicle to development they believe they are. They implement projects but they are not able to cause structural changes.

### **Let's be more specific about what NGOs do or don't do.**

The NGO in the third world is a provider of resources. It channels resources to target groups [aid recipients]. The target group on its own would not be able to get the same resources that the NGO channels through, so the target group is in the following situation: either they accept the programme and then will get something that is somehow useful for them or they don't accept and don't get anything. So the target group will follow the NGO and will basically do what the NGO says.

The NGO needs the target group's reaction in order to acquire the resources. There is a contract where the target group sells its smiles to the NGO and in return the NGO provides resources. And that is how they manage to get along.

Naturally, to some extent they will ask these people about their needs, but they also, to a large extent, believe that they know better what the people they want to help are in need of.

**You are already implying here that you question the relevance and effectiveness of many if not of most of the NGO programmes.**

Yes, and, in addition, I would argue it allows a large discretionary power to define the agenda and the interpretation of the problem in favour of the NGO and not of the target group. Therefore, I think it is problematic.

The economic rationale of an NGO is to continue to mobilise financial resources coming from outside. And therefore the whole production is seeking the appreciation of the outside. There is a lot of misinformation about what is really happening there.

I will give you one example. One of my PhD students found out that one NGO in Rajasthan, India, did not go into the poorest area but went into another poor area in a relatively better-off district. Why? Because in the poorest area it was very difficult to produce those photos in a short period of time, which you need to mobilise money. In the less poor area, on the other hand, it was easier to display a poor region that was advancing. The person responsible for the NGO was an Indian feudal, from a feudal family. We sent him the PhD thesis. Then the director suggested that the PhD thesis should be rejected because it was insulting his organisation.

**In an article you named three arguments that are put forward to support the claim of the superiority of NGOs in channelling rent to the poor in contrast to the development state.**

**The three arguments in favour of their superiority are their smallness, their dependency on fundraising and their flexibility in management.**

That is what the literature says about NGOs and what they say about themselves, which I don't deny. What I'm contesting is their ability to restructure society. For development to work, societies have to be restructured.

Take the Salvation Army, for instance. What they do is good and maybe admirable but if you had only had the Salvation Army you would have never had the welfare state, never had labour rights, etc. That is my argument. I don't want to morally disregard NGOs; I only think they are greatly overestimating their role.

**How is their dependency on fundraising an argument of their superiority?**

In fundraising, dependency means certain ways of using money. Misappropriating funds, for example, which you find in the development state, is not possible given the stipulations on donations. They cannot just spend the money on themselves. Fundraising always requires accountability on the side of the organisation.

**Okay, they have to justify all their expenditures. Does that also mean that the NGO system is characterised by an absence of corruption?**

Corruption is still there but it is not too visible. The absence of corruption should not be used as the measurement of their efficacy, though, despite it being a positive.

**You were comparing NGOs to the situation of a development state. What is the difference there?**

The question of development depends on a rearrangement of fundamental structures, for example agrarian reform or large-scale programmes to feed the poor. The development state can implement such large programmes. It has the capacity to do so, whereas an NGO does not. NGOs implement projects not structural changes.

When I was in Senegal I discussed my development thoughts with a worker from the UNDP [United Nations Development Programme]. He responded to me by saying: 'How should we talk about development, if development consists basically in rearranging the total society? We in the UNDP are not allowed to that'.

I think this is the basic argument here: you would have to change the structures. A development state would be able to do that. NGOs are not.

**On the other side of the coin, if NGOs had such a social project and such a holistic view on things, they would be accused of neocolonialism in a lot of ways . . .**

That is possible. But we have to differentiate between the analytical point of view and the question of whether you can approve the NGOs morally.

You also would not criticise the Salvation Army. However, people do not believe that the Salvation Army constitutes the solution of the social question. That is the point.

**Fair trade comes to mind. If executed properly it increases the incomes of workers who would earn less otherwise. Is fair trade an appropriate tool to enhance labour empowerment, incomes and exports?**

Fair trade is among the things that I think are morally good but that don't really change the set up. I am in favour of fair trade – I have nothing against it.

However, I would not write an article on it. I would not criticise on moral grounds, which is the implicit approach of fair trade. I would rather write an article on how to improve terms of trade in general – that would be my interest.

I also don't think that these morally inspired measures prevent the real revolution. That is not my position. I just wouldn't dedicate much time to it in order to defend it. If someone asks me: Is this good, is this nice? I answer, yes, this is nice. But it is not the point!

**It is mostly clear what you refer to as structural changes, but can you go into more detail?**

Let's assume that products are exchanged on markets. The condition for the poor to become scarce is that their product is sold on the market at a price higher than its production costs. We can further assume that the production costs are mainly the wages they receive.

If the product generates revenue higher than the wage costs of the poor, they provide a benefit to their employer, whereas if the product generates less revenue than the wages of the poor, they inflict a loss on their employer. Under conditions of competition the producers, the privileged ones, cannot accept such losses and soon the production would cease. However, if the work of the poor generates a surplus, the privileged ones will always employ them. Under competition, there are always privileged ones who are willing to employ workers if they produce a surplus, which places some negotiating power with the poor.

In agriculture, at low levels of productivity, the products of the poor are also the inputs of the work of the poor. Low levels of productivity may therefore lead to marginalisation, in case the marginal product is lower than the cost of necessary subsistence [discussed in Chapter 3, 'Marginality']. Outside agriculture the price of the products produced by the poor depends on demand. Restructuring society through the redistribution of income and thereby creating demand therefore contributes to the profitability of employing the poor.

With this, the whole power structure changes. And I have never heard of NGOs having a comparable impact.

**We'd assume most people who work for NGOs are doing it with the right intentions and think they are changing societies for the better. Why are they so compromised?**

I think the famous Indian analyst Rajni Kothari once said, 'they are the real promoters of capitalism in the countryside'.<sup>1</sup> I say they may appear as the promoters of Western interests, but they rarely promote those means I identify as necessary in capitalism for the empowerment of labour. As a matter of fact, the NGO operates in the power structure of the West to get its money. You will not find many NGOs that really put the system into question. They are allowed to name the negative consequences of the Western system, but they do not show real practical alternatives. They show some improvements within the framework of the existing system.

The best way to rebuff challenging ideas is to admit that they have a point but to reject their proposals on the ground that they are unrealistic and unworkable. By refusing the practicability of alternatives, a system stays stable: it is criticised on its external appearances and not on its internal functioning. And if you do so with the humanitarian moral touch you get even more efficient in maintaining the system.

NGOs can criticise the unfairness of the capitalist system or campaign against an aspect of trade or law, claiming it is the essence of all global unfairness – in some ways that is necessary to justify their existence. However, they cannot mount a political project that may challenge the system directly or indirectly – it would jeopardise their role inside a structure which supports its existence.

**One problem is certainly that even when NGOs are supposed to be involved in decision-making processes, they don't have a say.**

**This seems to fit in with your thesis on how they behave. They keep within an ideological structure and, basically, they don't challenge the power of certain things.**

That is what I was saying. They are operating in the power structure of the societies. They are not supposed to challenge any major option. They are, like in Germany, the student representatives in school – that are more or less cooperating with the system.

The problem is they occupy a social space which could be an area of self-organisation of these societies. The NGOs are unconsciously disempowering the marginalised by their slight support structures. It would be

much better to do everything to enhance the self-organisation in those societies. This is very difficult but if we are unable to do this then we are better not to do anything. It would be better to spend all this money on employment programmes that will create different power structures than to pay for all these people working in those organisations. I am not saying that they are not committed, but I think it is a very inefficient way. We spend a lot of money on that.

**You said self-organisation should be enhanced. How do NGOs prevent self-organisation?**

I would argue that the contact of the NGOs with the local population is rather limited. During my missions in India I have not seen Western NGO workers who were fluent in the local languages. The same applies to sub-Saharan Africa. As a result, they are relatively isolated, and because of their isolation they do not seem to be very efficient in fostering local self-organisation.

Actually, there are a lot of cases described where they really compete with anything local. One can have certain opinions about Islamists, but in many countries the Islamists are organisations with a popular basis, much more so than the NGOs. Most of the local solidarity nets in India are linked around castes, for example temple organisations.

NGOs are fiercely struggling against these religious organisations and organisations that are religiously inspired.

In Latin America, studies suggest that NGOs were deliberately destroying Communist Party organisations by hiring qualified staff, trying to reduce the number of people available.

I know one study, for example, done by someone from Sri Lanka, who describes how the local religious association has been systematically destroyed by NGOs because they were afraid that they were losing their target group. The logic of the NGO is to monopolise these possibilities because that increases the stream of money. You can argue that there are some NGOs that are aware of this and do not behave like this – that is certainly the case.

**Why is it so problematic that they are pushing the local structures aside?**

Movements can only become influential if they are built on local structures. If you want to remove the influence of landlords, you have to rely on peasant leaders. Often they are not the poorest ones, but slightly better off; however, they have the trust of the rest of the peasantry.

If you want to mobilise workers, you have to rely on their own leaders. The Korean experience has already shown in the preparatory phase that middle-class intellectuals in Korea could contribute to the labour movement, but only if they accepted being in a serving position. The same can be observed now in mainland China with the emergence of a local working-class movement. In neither case do I see Western NGOs in prominent roles.

**Don't you see how the work of an NGO possibly contributes to structural change rather than hinders it?**

What needs to be done to achieve structural change is out of reach for foreign-staffed Western NGOs.

There are examples of efficient mobilisation of resources for employment through local NGOs, though. In Bangladesh, BRAC and Grameen Bank are doing this.<sup>2</sup> However, they are not NGOs that implement projects, they are the *de facto* local administration of Bangladesh. There is nothing else. BRAC operates nationwide – you can't call that an NGO anymore as it is basically the local government. In this case, the organisation becomes really a state-like institution with the capacity to do what a state does. BRAC has created more or less the local school system, for example. Together with Grameen Bank it has also created a local production system by handing out credits to the poor. Now goods are produced for poor people almost all over Bangladesh.

There you have an administration that you cannot call nongovernmental. It is basically the government – a nondemocratic one. It is patronage government in the sense that educated people with good intentions do for others what they think should be done.

No Western NGO can reach that level of involvement and relevance. If it did, it would be referred to neocolonialism, as you mentioned earlier.

**Let's talk about the role of donors. The financial dependency on external donors is a given and donors can and do exercise influence and impact on the work of NGOs. How do you assess their role and the relevance of their own interests?**

As I said, normally they don't do harm, like building wells or schools, or providing school material and so on.

Naturally, other interests have a stake in this, too. Here, the main point is that these interests are diffuse. There are old colonial interests, there are new geopolitical interests, there are trading interests, but all

of them are too weak to provoke a holistic coherent strategy by the donors. The interests, intentions and types of intervention are too varied to speak authoritatively of one type of relation. In addition, the third world no longer presents a vital area of interests for the great powers, if it ever did.

Two things result from this apathy of the great powers: first, a heterogeneity of interests in aid assistance which reflects the civil societies inside the great powers. This heterogeneity can represent opposing views; for example, one NGO could be seeking to expand microfinance initiatives while another seeks financing opposed to such market-based approaches. Secondly, there is a great degree of autonomy afforded to those who claim to represent the interests of the great powers in the aid sector, be they formally private or public agents. The evidence of this is the relative large differences in strategies followed by official donor agencies. To summarise, there is a relation of dominance, clearly, but one that is diffuse and varied.

**You mentioned the political leverage the NGO leadership have. So far, it sounds as if they don't have any political influence. They just deal with their target groups...**

They have little political leverage, normally, because the money they move is not enough to threaten. Most countries have high control mechanisms in place for the money that flows in. Recently, the issue came up because in Egypt after the revolution, Mursi established the control of inflowing money, but that is standard. Basically, it is an agency to which any money that enters the country has to flow first.

Generally speaking, I don't think they have much leverage, but it depends on the local situation. I think in some African countries they can be powerful. Often in very poor countries, the NGO is so rich that many people want to work with it and they are willing to do what it takes for the NGO to hire them. They sort of constitute a new colonial bridgehead as the West had for a long time previously.

What I have seen is that there is a certain logic of the NGO. When they are unable to reach out to the target group or become a natural leader within the target group themselves they work together with committed local elites. Together they channel resources to the target groups that the target groups usually appreciate. The target group has to comply with certain conditions in line with the NGO's objective. They are not going much beyond that.



**NGOs attract highly skilled labour in those countries, which is also discussed in the literature. Do you see a certain danger that NGOs are more attractive employers than the state or the private sector?**

They do not attract that many people. Yes, it happens, but that does not create labour scarcity or distort the labour market in any way.

When I was in Bangladesh I spoke to a clever civil servant and asked him why does one become a civil servant in Bangladesh. He gave me an answer that I thought was wonderfully put: you become a civil servant in order to know how the system works. After ten years you will try to get hired by a multinational company. If this does not work, you try to get hired by an NGO. If that does not work, you will have to become corrupt and use your knowledge that way [chuckles].

**Maybe we still need to differentiate between different types of NGOs because we have only talked about NGOs in a very general way. Obviously, they are dealing with a broad variety of different issues. What you have been doing so far was to always relate their activities to their ability to mobilise rent against the backdrop of rising incomes. What about NGOs whose missions fundamentally differ, for example reproductive health or fighting malaria?**

Don't get me wrong, I am not saying that the purposes of the NGOs are negative. I am saying that the macrolevel of the NGO is problematic.

The respective NGO occupies a small realm like reproductive health, the fight against malaria, birth control and other things – they are all good causes. Whatever you take, these are all meaningful things.

If you ask, on the other hand, 'What is their role in development?', then you have to look into the political economy. The thing that becomes complicated in the third world is that in order to raise money, NGOs behave as if they know exactly what was necessary in these countries. Secondly, they create a support basis in these countries on which people depend and which therefore excludes other ways of organising people's interests.

**What about organisations that go there with the specific objective to organise interests?**

The Friedrich-Ebert foundation and the Hans-Böckler foundation are trying to organise labour.<sup>3</sup> They organise seminars for people and the like, but their attempts address the problem insufficiently and they are not changing the set up.

They were not prominent in the development of the Korean labour movement nor do I see them in prominent roles in the development

of a grassroots Chinese or Bangladesh labour movement. I don't think you should expect they could become prominent if they changed their behaviour. Such movements emerge when there are people who are ready to organise them. You cannot organise people from outside, and especially not if you are in a totally different economic and social situation, as the Western staff of the NGOs are.

And the problem about that is not even that they are unable to change the set-up but that, to some extent, they are preventing the people from really doing this. You get a structure where some people have some resources and bind the rest of the population. The provision of resources usually causes the marginalised to continue with 'business as usual' rather than advocating structural changes.

**You have addressed it implicitly and it has been pointed out in the literature: NGOs might sometimes even be interested in the prolongation of the problem in order to maintain their own jobs. One example could be Palestine, where there is the highest density of NGOs, globally speaking.**

Everybody pays for Palestine because everybody has got a bad conscience.

Let me reply to the question of whether NGOs might even have an interest in the prolongation of a problem with a joke.

A young lawyer from a family of three generations of lawyers comes home for dinner. The family sits around the table. He is really happy and proudly announces: 'Today you can all congratulate me. I have won the case!'

Then the grandfather gets angry and says: 'You are a terrible fool! We have lived off that case for three generations!'

Now, seriously. Naturally, there might be people who think that this is the case. But I don't think that NGOs do anything to exacerbate those conflicts. There are still so many areas where NGOs could be sent to.

**According to you, NGOs are unable to change the set-up. But you think that when it comes to issues like reproductive health they can be helpful. What role could you envisage them in being useful?**

Also in the third world NGOs now occupy public space. For many villagers, an NGO is a source of comfort because they do something there. The majority of people are certainly convinced the NGO struggles for their interests.

Reducing the plight of people is always worthwhile. But there are two views: one is that it is essential to reduce the plight of people. With the Salvation Army that is the ladies having their afternoon tea in Germany in the nineteenth century.

The other position, the position of the social movement, is that you have to change the structures in order that people can look after themselves. The problem with the NGO is that the NGO occupies a public space at a very high level where an alternative discourse could develop. I am not saying that it will develop, but it could. So it is not so much that they are doing something bad, but they are crowding out other alternatives.

### **Could NGOs behave differently, and if so, how?**

The NGOs could also say 'We are doing something useful but we are not the solution to the problem'. But in that case they would have a problem with justifying that they obtain a high share of the national development assistance budget. So this is not going to happen. This is perhaps where their own interest comes into play: wanting to maintain the situation that an NGO is considered to be the most efficient instrument of channelling these resources.

**NGOs have a frame of reference as to what their objectives are and what they are working towards, the Millennium development goals (MDGs) or, as of 2016, the Sustainable Development Goals (SDGs). You were talking about the MDGs and, from the sound of it, you voice the same criticism from a different angle. You criticised those MDGs, saying that they are disparate and not integrated.**

I think it is obviously unsustainable if you say 'we want this and that' without giving precise answers as to how to make that sustainable. This type of approach does not consider that what you have to do is to create a productive structure where people, locally, can achieve these goals by influencing the structure.

If you want to have schools, you have to have long-term budgets for them. It is not enough to just channel money there for a period of time. If you want to see empowerment of women, then you have to have a structure where women have alternative ways to earn their income and so on.

If you take the millennium goals, there is total emptiness regarding the question on what production structure you will base the permanent achievement of these goals. That's why I think this is a way of discharging responsibilities without really addressing them.

### **By the nation states or the UN?**

The UN... but not just the UN. All international development organisations have now oriented themselves to this type of argument.

As I said, it is good to identify the needs and to address them. However, all needs are linked to a production structure. If we want to change the situation in the third world, we have to create this production structure. In order to pay teachers you need a certain amount of taxes, which have to be mobilised. Temporarily, they can come from outside. In the long run the system has to have a production structure that generates taxes for itself.

When you want to create this production structure and you realise that you are lacking resources to do so, you can ask an NGO for help. That is okay. But it is not okay to implement project after project and thereby avoid a meaningful reflection on what changes are ultimately required. This also entails avoiding the conflict about the production structures which would mean intervening in society.

### **Intervening in society seem grand words. Who can even do that if not a developmental state?**

In my view, the decisive social actors are relatively large movements, like the organisation of classes [discussed in more depth in Chapter 10, 'Social Movements and New Cultural Identitarian Political Movements'].

And the NGO is not an organisation of the working class. I think NGOs are basically organisations created and operated by middle classes.

I would argue that we generally have a weakening of the social relation around class in our capitalist societies. We now have a situation in which people of the middle strata, who are sufficiently educated to depict the deficiencies of the system, try to convince people they should defend interests that are not their own but general interests of society. People from the middle class advocate for causes that don't necessarily concern them, but other spheres of society or even other regions in the world.

This leads to the emergence of a sector that is operated by people who try to raise awareness about these general interests, which they defend. NGOs are part of that sector.

### **What is the difference to a more class-based system?**

Comparing this to a class organisation there is a very practical difference. Workers will, in the extreme, say 'if we do not work the whole system stands still'. They have a veto power without necessarily having to justify it. Naturally, workers will justify why they go on strike,

but they will claim that their interests are legitimate. The NGO, on the other hand, will say that the purpose they defend is legitimate. They will never say 'that is our interest, we are concerned'. They say, 'many people are concerned'.

This also applies to their efforts in the third world. They are also not defending their own interests but interests of people they believe will benefit from their efforts.

That means, in my view, NGOs are closely associated to anything like a network society. They are extremely networked and at the same time their existence depends on these networks. They create a sort of consciousness about systemic errors that need fixing, about things that go wrong in the world, about political correctness, etc. It is important for them because they have to operate within this. In other words, they need these discourses as their source of legitimacy.

These networks consist of people who obtain nice salaries in this diversified economic situation, however, on the condition that they move in these networks. This could happen because the system has become relatively rich so it is able to finance new needs.

### **Do you consider this a problem in terms of power?**

Not directly, but these middle class organisations did not get rid of oligarchic tendencies. This is not a scientific survey but what I see is this constellation gives high prominence to people who happen to be there and define preferences on what should be done without real democratic control or input from the target group. It can also be about preventing people from taking drugs or offering a new facility, that is all honourable; I am not saying all NGO representation is necessarily bad, just that it is not empowering for its target groups.

# 9

## Europe, the European Union and the Eurozone Crisis

*According to Elsenhans, Europe has found itself in a prominent and relatively wealthy position in the world by an accident of history, namely the inability to export its goods initially so instead having to produce for its internal markets. Moving on to discussing the foundation of the Eurozone, it is proposed that it was one in a list of measures to institutionalise emerging German power by a French polity which wanted all major decisions in Europe to be decided upon by majority voting, thereby rendering every state in the minority. Elsenhans believes the current Eurozone malaise can be solved by the eradication of Greek debt in its entirety, not dissimilar to what happened in Germany in 1953, which he can recall living through. And if Germany is unwilling to expand internal demand through wage increases it should be the one to exit the Eurozone. The possibility of the European Union (EU) being led culturally by a multicultural France is also explored.*

**For quite some time now, Europe has been a wealthy region and in a position of comparative strength economically, socially, culturally and politically. The rise of Europe you don't perceive as one born out of colonialism or foreign expansion, but as an accident of economic necessity whereby an actual relative poverty in Europe meant without the destinations for Europe's exports there was a shift to expanding internal markets which was the trigger of future prosperity . . .**

Europe was very poor comparatively and the only thing that Europeans could sell in large quantities until the fourteenth century was slaves. The pier in Venice where the slaves were sold has the name Riva degli Schiavoni, which means 'for the slavs and the slaves'. We know that many of the Slavs – incidentally their original population was in the region we are sitting in now in East Germany, the city of

Brandenburg – were enslaved by the Crusaders and sold as slaves. The Europeans had little to sell, except some tin and copper from Britain and other goods like woollens, but overall Europe was very poor. Luxury imports had to be paid by precious metals and by selling slaves. When the Europeans wanted to buy increasing quantities of other goods they had to circumvent the people who were in the Levant and they did this by occupying them, which they did through Rome.

All these battles between ancient Rome and the Persian Empire were over control of trade routes. When Rome had lost to the Persians, the Christians went to the Crusades, which did not work either. Immediately after the Crusades, the Europeans were trying to go around Africa. This intensified when Byzantium was lost to the Ottomans. What this history lesson is showing is that this expansion overseas made certain segments in Europe very rich; the so-called ‘periphery’ was not a market for Europe, it was a source of imports of luxury products for rising European elites. I don’t think that the increase in production through the industrial revolution in Europe is an immediate consequence of reconnaissance because the Europeans were not selling many products.

Until the eighteenth century, Britain was importing so much cotton from Bengal that it suddenly had a balance of payments and employment problem. British weavers were against the imports, and Britain decided to close the market and, as a result, began to overtake Bengal in the production of cotton textiles. This is how I think Europe developed – its industrialisation served mass markets internally, England with its infancy textiles is one example. From the opposite perspective, China’s relative prominence until around the fifteenth century was undermined by its orientation to production for elites and using its surpluses in that direction. I’d even contend that colonialism was a threat to capitalist development in Europe due to the misuse of the surpluses for elites [discussed in Chapter 2, ‘Rent’]. I don’t agree with the history of Europe as ascendancy on the back of colonialism; I think it is more a question of internal structures and industrialisation for mass consumption. We spoke about the relevance of mass markets and industrialisation for development in another interview [Chapter 4, ‘Overcoming Underdevelopment’], I conceive of Europe’s development along the same pathway.

**By implication, you believe Europe’s ascendancy in the world to a status of comparative richness and wealth had nothing to do with cultural or social reasons, like Max Weber’s ‘Protestant work ethic’?**

I agree with Arnold Toynbee that only challenges create responses; the ruling classes in our societies today think that opportunity creates

incentives. I am very sceptical of the new philosophy because I have not seen the majority of people acting only because they have opportunities. Those who were sailing around the world to work were doing it to earn a lot of money; they were not all nobles. I am not aware of royal princes of a ruling house sailing around the world. They prefer the cosy life. The Italian cities were going to the Levant but the really rich families arranged it so they didn't need to go overseas as they knew it was dangerous. I don't believe so much in the good traits of people – I believe people adopt such traits if they are challenged, which Europe was.

The second thing is to respond to your point about Weber; there are so many people all over the world who have the same habits and have not acquired these riches. In my answer above to how Europe gained comparative wealth, I don't see anything like a Weberian mode of behaviour. Many Calvinists do not have Protestant ethics anyway. The idea of explaining development through religion I find troublesome.

I think it's worth reflecting on Max Weber as a character when considering if there is such a thing as the Protestant work ethic. Weber was ambitious and wanted to be better than Marx. He actually wanted to be the substitute of Marx for the German Bourgeoisie. Marx's theory assumes, like neoclassical theory, that humans want to maximise their incomes. Weber was, however, antineoclassical in the sense that he thinks there are other motivations. These other motivations Weber wanted to give moral credit to – he identified them as moral values and from this stems his whole theory. For example, he wanted to disregard greed. Personally, I do not feel that the motivation of greed is bad as long as the society as a whole benefits from the greed of individuals – capitalism was that link between greed and societal benefits in European history.

**If you disregard Weber's theory, how can you explain that it could be seen in Germany that areas that were predominantly Protestant had higher economic activity?**

The Protestant Reformation involved learning to read because you cannot claim, as the Protestants did, that everyone is the architect of his own salvation if he is not reading the bible. It was a standard practice of the Protestant church to read; socialisation to the church was through reading clubs. Wherever statistics have been on this, reading is important for the transmission of skills and knowledge. Many studies correlate the year of introduction of primary schooling with economic development; it is a relatively strong relation.



**Let's skip forward to the past century in Europe. A big marker for Europe is the end of World War II, and how the Marshall Plan was invested with certain political means. What is your reading of Europe's postwar evolution?**

The Germans had tried in 1914 and in 1939 to become hegemonic in Europe, and both times they lost. In 1919 there were still many forces in Germany who thought they could reignite a pan-European coup, which led to Hitler. In 1945 it was clear for the German elite that Germany was morally so discredited that it was over as a force internationally.

The French in 1919 tried, through the demilitarisation of the Rhineland and taking control of the Ruhr, to become hegemonic in the belief that hegemony in continental Europe was to bring together coal from the Ruhr and iron ore from Lorraine. France's aim under de Gaulle's reign [Charles de Gaulle, President of France 1959–69] initially was to control Germany. France was cognisant the Treaty of Versailles in 1919 had not worked, and in the postwar setting had to resolve anew how they could accept the Germans becoming an equal country in Europe. If Germany had been an equal country in Europe they would still have been dominant on the continent, given their demography, their raw materials and their industrial base. The French decided in response to do the following post-World War II: give Germany equality without this equality having any impact on the power relations. It involved replacing international politics conducted through the balance of power by an institutional system where Germany was in the minority. This vision was behind the mechanism of the European Community for Coal and Steel, the European Common Market and eventually the Euro, run by the European Central Bank. The thinking of the French is to come to terms with the fact the Germans are very powerful, even to accept that Germany will be the most powerful country above them, but will never have a majority and can never use its power like a government but only as an influential member state of something greater – the European Union.

I'm describing a process of French efforts to institutionalise politically German economic power in exchange for a normalisation of Germany in foreign relations. This is the logic of French policies in Europe and the innovations of Robert Schuman [French Prime Minister 1947–48]. The Germans have not been ignorant of the thought process of the French so in exchange have used the EU as a vehicle for their foreign policies; today for instance, they are using the Political and Security Committee in the EU as an expression of German power but in a new setting.

**Was the European Monetary Union [the Euro] created on the same principles of French desire to institutionalise German economic power?**

Yes, the Germans should no longer be able to exercise the clout of the Deutsche Mark upon other economies that do not participate in decisions about the Deutsche Mark. To do this you replace the Deutsche Mark with a currency that is managed by European institutions in which the Germans will be in the minority. The Germans were aware of the motivations; therefore, they said, 'Well, we are very afraid about your lax money policies so we introduce Maastricht'. Nobody really believed in Maastricht; nobody was following it. All this finger waving by the Germans towards the Greeks on breaking rules... it was the Germans who were the first to break the rules of the Maastricht Treaty [on budget discipline during the re-unification of Germany in early 1990s]. The Maastricht Treaty was basically imposed by the Germans so the Italians and the French do not exercise lavish monetary policies.

**Can you take us through the steps that led to European Monetary Union?**

If Europe had only been a free trade area, the end of fixed exchange rates would not have mattered. The free trade that the Germans, the French and others wanted inside the community involved transfer payments to France and other European countries in the EU at that time, so the others were effectively being subsidised. People do not like to admit it but this was the case. Transfer payments initially took the form of high agricultural prices. These higher prices were decided upon because development studies at that time believed the more developed country would have a lower share of agricultural production. Therefore, if you support agricultural production you immediately support the weaker countries because they will have a larger share of agriculture. France benefited from agricultural support prices; it received compensation because it did not benefit as much from free trade as it had a weaker industry than Germany. This is the basis of uniform agricultural prices union-wide, which has lasted up until today in the form of the Common Agricultural Policy [the CAP].

When exchange rates started to float after the Smithsonian agreement in 1973 [end of the dollar's convertibility into gold] and even before that, in 1968, there were very high increases in nominal incomes in France, which led to inflation and strong pressure for devaluation of the French franc. The devaluation could not be avoided by France.

The fundamental point is that the uniform agricultural prices were the vehicle of transfers to the weaker countries as they were still receiving the same European-wide price but at an increased number of francs given the devaluation. In case of uniform prices, a change in exchange rates implied either an increase in agricultural prices in France in relation to the general price level in France or a decrease of German agricultural prices in relation to the general price level in Germany. If you have transfer payments in the form of uniform agricultural prices then in case of changing exchange rates you have a problem.

**How would a nonfixed exchange rate coupled with transfer payments present contradictions?**

This has to be considered: Do you pay the German farmer in German marks at the same price as before the exchange rate changed? No, because the German farmer would not accept decreasing prices just because the French had to devalue. If you did not have a fixed exchange rate, you would have to pay to the French farmer at the new exchange rate more money in French francs than before if all agricultural prices remained the same. If the prices for German products stay the same, then the French products become more expensive. This would have created undesirable incentives in France, one being that the shift of labour from agriculture into industry would have slowed down.

Simultaneously, you create a problem for the French consumer because you have not increased the wages of the industrial workers but you have increased the wage of the agricultural worker. To solve this dilemma, they fixed a European currency unit in order to fix all Union-wide prices; this European currency unit eventually led to the Euro. Some argue that Europe has always been at the behest of the US's desires for them; however, the Americans were no longer interested in a fixed currency at this time – they were in 1948–49 but later on it was really a European decision.

**In summary, the core European countries wanted a free trade zone. To overcome different productivity levels of development there were transfer payments in the form of agricultural price stabilisation but those transfer payments caused economic imbalances in how they were distributed between agricultural and industrial workers inside countries. Did a single currency solve this dilemma?**

Well, the decision had to be made because Europe was not a free trade zone, despite the will to be one. Indeed, it was an economic community but they couldn't get round the transfer payments as you described so

it wasn't a true free trade zone. It is the transfer payment in the form of common agricultural prices that is the source of the European Monetary Union. Despite the decrease in its share, the agricultural budget is still close to half of the EU's total budget today; it shows you how central it's been.

**The issue of transfer problems can't have been the only economic reason behind the monetary union?**

Sure, it was not the only reason. In 1987, with the single European market, capital movements became free. The Italian and French economies, which were less flexible economies, could use inflation in order to make structural changes. If you have a less integrated and less disciplined working class, as in France and Italy, you maintain political stability by accepting a slightly higher rate of inflation as it increases employment, depresses the savings of those rich enough to have them and reduces the real value of debts of those indebted. To make up for this, there was always devaluation before the Euro was established in the French and Italian currencies.

If the expected rate of inflation is lower in Germany than in Italy and France then the following happens: if I have money in Paris, I will ask my French bank for an interest rate on my savings that covers the German interest rate plus the rate of expected devaluation of the French money. The rate of interest, however, always has a flip side. If it is high, you get high interest rates on your savings but those with credits also have to pay high interest on their debt. Therefore, in France, the rate of interest for investment credits will be higher than in Germany, which means the difference between the two economies increases. The French wanted to control the German interest rate; they wanted to have the same interest rate in France, which is what happened. Therefore, if you have the Euro, you have a uniform interest rate all over Europe for similar projects. Investment credits in the rest of Europe are no longer more expensive than in Germany, and it was hoped this would ease the investment process in the weaker economies of the Union.

**Going back to political explanations for the Euro, was the decision of Germany to adopt the single currency also the case of an exchange for other nations to allow East Germany and West Germany to become one new member state?**

I think the East German re-unification condition had to be negotiated only because the French had leverage on this. Nobody thought that East Germany would contribute very much to West German economic power. That is a snapshot reading of how the Euro came into being as it

started much earlier and I think the economic reasons I have explained were of more weight.

**One condition of the Germans accepting the Euro, as they were not its most enthusiastic supporters at its inception, was they would take political control and leverage over the Euro and ‘depoliticise’ the democratic managing of the European currency.**

In accepting the Euro, the Germans stipulated a very strict monetary policy through the Maastricht Criteria, as I already mentioned, and despite it not having worked, the Germans are continuing to push to create international mechanisms to impose even stricter restrictions than the Maastricht Criteria. The French government is in crisis over how exactly to deal with these pressures, despite Germany being isolated, as we saw over the Greek negotiations. There is an imbalance: Germany and its adherents, like the Netherlands, are in the minority, while Italy, France, Spain, Greece, Portugal and others are opposed to this position, which is important as I told you about Europe having built an institution governed by majority decision-making. I believe France should have pushed Germany harder in these negotiations and allowed Germany to risk completely isolating itself – the very thing 70 years of German diplomacy has worked to recover from.

**To describe the situation today, it’s overvalued national currencies with the exception of Germany, tight monetary policies, tight fiscal policy, deflated wages and stagnant prices. You said the gold-standard problem was similar to the Euro conditions. What can we learn from this in relation to how we solve the crisis today?**

It’s never discussed, but France, Italy and Spain should exercise their right to ask the Germans to leave the single currency; I think it is a viable option economically. If this happened, the German positive balance of foreign investment, especially financial claims like they have over the Greeks, would devalue at the rate of appreciation of the new Deutsche Mark. The Germans realise this, of course. If Germany is asked to leave, Germany will have a new Deutsche Mark and this will appreciate in relation to the Euro due to its competitiveness and constant export surpluses. However, it will be of much relief for these countries to be less indebted to Germany because their debt in German currency decreases with the new Deutsche Mark appreciation.

Secondly, the German export surpluses in relation to the rest of the EU will decrease if Germany leaves the single currency. As the Euro would depreciate, German exports would become more expensive. The current German strategy of maintaining high employment without expansion

of the internal market will be over: Germany having based itself on this model would realise it can no longer operate if it left.

**This suggestion is not even mooted by the Southern countries, despite increasing resentments toward Germany and its intransigence in negotiations. Does that pose a threat to Germany's position within the EU?**

Countries like Greece, Portugal and Spain are shouting 'once more the Germans are doing with the money what they did with their tanks 70 years ago'. That may not be true but there are so many people that accept this cheap propaganda. The effect of greater dissent will be that the Germans will feel totally isolated. The only country where the post-World War II German repentance has been credible is in France. Poland is afraid because the devastation of 1945 was so tremendous that even when the Germans say they do not want to revise the Oder-Neisse boundary, Polish politicians – you could see this with the Kaczyński brothers [Lech Kaczyński, President of Poland 2005–10; Jarosław Kaczyński, Polish Prime Minister 2006–07] – are always worried that in the future the Germans will return to this issue. Poland will trust Germany only if France gives its backing on such matters. With other countries, it is yet worse; look at the comments in Italy and Greece about their sentiment towards Germany.

The second thing is the Germans will be immediately isolated at the foreign policy level if they leave the Euro. If Germany cannot impose its economic policies, and that is the calculation of the French left, it will have to suffer the policies that the others decide are necessary. That's the position of a group in the French socialist party; they have said that you have to talk louder to the Germans, and are criticising François Hollande [current French President] for being timid. The decision makers in Berlin are afraid of this situation developing and always try to keep the conflict at a low resonance because if it reaches a high level, namely the mainstream in France, it will not unfold in Germany's favour.

**How viable is this German capitulation at the highest political level and giving in to full debt relief for Greece and other economic rebalances? It seems more unrealistic given that Germany's foreign policy is more steadfast than it has ever been since the end of World War II...**

If the conflict does escalate, the German coalition partner of Mrs Merkel [Angela Merkel, current Chancellor of Germany], the SPD [Social Democratic Party], will have to decide whether it will remain credible in the long run. That's complicated because the German public believes that

money holds true value [discussed in Chapter 6, 'An Underconsumption Crisis'] and therefore supports the decisions of Mrs Merkel to 'save our money'. When I go to the local SDP meetings here, most people think that Mrs Merkel is doing the right thing because it is 'our money'. They don't understand that this is not really true, as Germany's economic success is based on export surpluses and low real wages that come at a price for the rest of the EU. It will be very difficult to shift this mind set. With the majority of Germans having bought into this idea represented by Mrs Merkel, the SPD, with 23% of the vote, will not take the risk of setting out a radically different path on European relations. It is not an accident that Mr Kohl [Helmut Kohl, Chancellor of Germany 1982–98] has said that Mrs Merkel is destroying his work as she has not built on the efforts to forge cohesion across Europe, but most people do not see Kohl's perspective.

**Alternatively, could some sort of postnational nation-building solution, which would most likely exclude the UK, be a solution in which we see increased mobility, a return to economic balances and a less national-based solution arise?**

Everybody knew that the Euro was problematic at its inception; there are libraries full of presentations predicting we would run exactly into this crisis. The response from François Mitterrand [French President 1981–95] and Helmut Kohl and many others was 'that may be so, but the European integration process has always been there as a solution'; they were saying that today we are not able to impose a political solution for tomorrow's problems, 'our successors will find a solution because they will not go backwards'. You see this argument is still in the minds; this was why Greece was not allowed to leave the Euro – the big worry of the European decision-making elites was that we are losing the unilinear process of always more integration.

The European integration process exists on the basis of contradictions and continues to run on imperfect measures. In what I call an *overarching elite consensus*, leaders agree integration is necessary in the direction of European nation-building. Contradictions that become threatening are overcome by intensifying European integration. I think it's been the basic logic of the EU to expand; all elites see any problem as solvable by more integration. Yet there is a challenge on the horizon: leaders in a bid to assuage public discontent have made promises to their populations not to blindly follow this integration consensus – the UK seems to be leading on this.

Joschka Fischer [German Foreign Minister 1998–2005] had a plan for a federal Europe which the French did not want, and there were other

plans that were mooted. To create a successful union, one has to go incrementally with such an elite project where you test what is possible and progress only on a social basis of support which will emerge among the contradictions.

**What's the end point of this *overarching elite consensus* that is running the European project currently?**

This political class has one priority: make Europe work because no country by itself can exercise influence. It is the conviction shared by the French and German leadership. The generation of Kohl was single-minded in pursuit of the European dream; Kohl said 'you have to bow three times before the French flag before you bow once before the German flag'. It was manageable until the policies of Mrs Merkel, and Mr Schröder [Gerhard Schröder, Chancellor of Germany 1998–2005] before her, put them in danger. Mr Schröder comes from North Germany and Mrs Merkel from East Germany, where this close relation with France, which the West Germans around the Rhine and south-west Germany have developed, is less felt. I would argue this affects Germany's stance within the Union.

If one European government is not pro-European, the others do everything to make its life difficult. If it is openly un-European, like Mr Haider [Jörg Haider, Governor of Carinthia 1989–91 and 1999–2008] in Austria, they are actively isolating them. If they are more respectable Eurosceptics, like the Kaczyński brothers in Poland, then you do everything to ensure they don't succeed so they will lose domestic support. But if you are very much in favour of Europe, like Mr Tusk [Prime Minister of Poland 2007–14 and current President of the European Council], everybody treats you as if you were an archangel. They receive eulogies from abroad from other leaders, which can improve the public opinion at home where everyone thinks they have a very good prime minister, and he will return the favour to the others. That is part of the *overarching elite consensus*.

The UK is excluded from this. It has opted out of the back-slapping; in fact, it prefers to present a defensive front to European partners as if they weren't partners at all. The Eurosceptics in the UK see for the first time an opportunity to stop a one-direction train to integration and halt it. This is why David Cameron [current UK Prime Minister] is so strong in making pronouncements on this subject. Member states are beginning to seriously envisage that the UK could leave the EU and instead be entered into a common market where the UK is linked to the EU, but not politically. The political postures of the UK government under Cameron have not been taken in reference to how the EU works;



if he thinks the UK will be able to influence by being outside the EU, he is being unrealistic. If you are outside of the consensus, you are not able to influence much. The basic calculation is that even if such a situation transpires, the UK will be totally out of any decision-making in the EU.

This EU overarching consensus could head very strongly in the opposite direction to the UK so if it wants to join once more, it would have to accept the *acquis communautaire*, a repeat of the UK's experience in the 1960s. In the 1960s it tried to negotiate very hard for its terms, but de Gaulle was content to see it excluded. de Gaulle was considering whether by removing the UK, France would be the natural leader of the EU, putting France in a very powerful position. When the UK entered the EU after de Gaulle, it had to accept the complete *acquis communautaire*; it could not influence the rules but only say one or two terms were not applicable to them, for instance some variations in the CAP. The UK was scared that the EU would develop so much faster without it so it joined, but it could repeat the same mistake with a potential 'Brexit'. The UK is currently playing power politics and that's not so successful in this different realm of politics.

**Let's talk about the make-up of the European Union institutionally and how matters are decided. We have a parliament that is representative but it is without teeth given it can't propose its own legislation – it can only reject certain legislation. The European Commission, which is the executive that carries out most of the tasks without reference to the parliament, means that a democratic deficit exists. Then there is the European Council, which is increasingly where most of the decisions are being made. Do you share this reading of the European institutions and how much bearing will the institutional make-up of the EU determine Europe's future more generally?**

I think what you describe shows it will over the long term be a very contradictory process, with the main thrusts coming from formal government coordination where the European Council is primary but not necessarily deciding through majority voting. The European Parliament has increased its influence, however; indeed, the Commission is powerful in actually carrying out decisions at the microlevel, and it's true the Council is very important but it is to some extent like the German state chamber, so consensus between the nations has to be reached.

The national governments will not be as important as they might like to be but they have one argument in their favour: when a European common decision affects a major social group in a country, the members of the European Parliament are not able to order the police to dispel

them – only national governments can do so. An illustration of this is to look at another federal state, the history of Germany. It is surprising it took until 1919 for the central government to risk invading a member region that was not following orders. In Saxony, you had a popular front government in 1923 to which Berlin responded by sending the army, to the shock of the Saxons. The Saxons thought, 'We are Saxony, we are a part of the German Federation but we can do as we please'. The same thing happened with Bavaria in April 1919: the government sent the army to Bavaria to halt the Bavarian Soviet Republic. They submitted because in Germany they agreed 'a state is less important than the federation'. This is relevant today because it is the other way round in Europe: people agree the nations are sovereign and therefore immune to an outside force, which is to the strength of the nation ahead of the federation.

It is in the national governments' interest to caution Brussels about what they can and cannot bear in terms of the supranational interference. When you rule over a government, the priority is always to maintain security and obtain acquiescence in the country. Therefore, the Council is important in arranging such 'high politics' with regard to the use of force. The Council is not as primarily important in the way Andrew Moravcsik describes it as a de-facto government. The only way of expressing universal capacity and the only institutions in Europe that can command the state of emergency are the national governments. The national governments are sovereign in the meaning Carl Schmitt notioned, but they exercise this sovereignty in a way in which they promote the legitimacy of Europe as much as possible while respecting the interests of each other.

**Let's return to why the economics of Europe has failed so spectacularly of late. You wrote that despite freedom of movement in the EU, the required labour migration has not matched the movement of industries. Such a movement in industries would need to be matched by a movement in labour to rebalance across the less-to-more prosperous regions.**

Firstly, migration inside the EU from the data I have seen is nearly at the same level as migration into Europe from outside, which has complicated a standard wage-mobility model. In an integrated economic space like the US, labour migrates from high unemployment areas to low unemployment areas reasonably flexibly, not so in Europe. Migration has not been used in order to create economic homogeneity in the EU. When Germany became unified in 1990, 1.5 million East Germans were migrating to West Germany, 10% of the population, because wages

were higher and unemployment was lower. This has not happened in the EU, despite the ability of people to move freely from regions of high unemployment to places where they would find jobs. There have been effects but it's not on a scale that would see a rebalancing of the European economy.

Another aspect of this is that the EU has a consistent policy of not favouring wage convergence; instead, the EU hopes that productivity convergence will be the result of labour cost differentials. Therefore, if you look at the Cardiff process and the Luxembourg process [EU economic and employment coordination], there are no attempts to unify European wages. It's one of the reasons why labour is not strongly organised at the Brussels level because we have no European wage bargaining. We have always had nationwide wage bargaining in Germany. People were moving from Schleswig-Holstein, where there was unemployment because national wages in Germany were too high for that area, to Baden-Württemberg and Bavaria. We have no equivalent at the EU level, the Cardiff process explicitly excludes wage convergence and there are no designated European labour unions to bargain for it.

We have to overcome the crisis by wage-led policies, a wage-bargaining process that will favour mass-consumption. An alternative would be through social security system integration; however, these social security systems are very difficult to merge and it will only be through weakening them temporarily that will we get a transnational European basis to create a system compatible for all of us. I say that because the implementation of a union-wide welfare system is a real challenge to European integration; it worked with regard to German unification only because Helmut Kohl was determined to pay any price and was able to convince and then hide from the West Germans the full costs of reunification. I can't see the political possibilities of this happening European-wide today.

**Just as you are speaking about the absence of a strong presence of labour unions in Brussels, could the opposite be said for business operating at the EU level?**

Indeed, because unlike labour unions who do not have a unifying goal to organise around, business has unified successfully around the extension of the market. That's why the EU is so neoliberal – the motors of the EU are big business. Business lobbies that organise at the European sphere have been very successful in Brussels; it's a tremendously fertile environment for big business. Go around Rondpunt Schuman [centre of European institutions] and look at the name plates of the offices in the EU district, there will be many head offices of business lobbies

representing a coalition of conglomerates but you will be searching a long time to find equivalents in labour unions. The inability of labour unions to organise at the EU level has allowed business to capture the policy process ruthlessly. Justin Greenwood has written about the scale of business lobbies in Europe and it is indicative of a lack of democratic influence, too.

**Given that, can we really talk of a social basis of support for the EU then?**

Well, the real social basis of the EU project is, on the one hand, big business, that has profited well in the integration project, and, on the other hand, alternative movements, like the Greenpeace movement, what I call the 'Greenish' people – highly educated people who don't want to think in national confines and who are part of the postmaterial society. The division between big business and 'Greenish' people strikes me as a strange dynamic, but it's what I see. The vanguards in both these groups are educated people; they all speak English, and constitute a sort of transnational group that begins to constitute the social basis of a pro-European identity.

Here's the crux of the matter, neither are concerned with a workers' agenda; instead, you have a postmaterialist opinion – prioritising values ahead of material gain, for example human rights promotion – all over Europe. Green parties are being aided by this movement currently. It's not that this agenda is not important, just that what it doesn't include is important.

**Let's talk about the current crises in Greece, Spain, and Italy, which have huge unemployment figures, and potential solutions . . .**

Madame Lagarde of the IMF [International Monetary Fund] has told it to the Germans, and even the Head of the Bundesbank has said it: wage increases should be 3% at least. If Germany increases its wages, we will expand the market through higher demand in the Eurozone and the recession-hit countries will increase their employment. They can buy things from us, and we are very happy to have higher incomes. This was the message that Mr Gabriel [current leader of the SPD] should have sent when he began negotiations with Mrs Merkel after the election in 2013 but didn't.

**You are turning the responsibility away from the usual suspect of Greece?**

Completely. If Germany increases its wages it is the same effect of Greece devaluing, only with German wage increases they stay in the Euro.

The labour cost increases in Greece diminish in relation to the German wage cost. As they have already declined through the adaptation measures, Greece will suddenly become competitive. The Germans will have higher wages, so once more workers here would benefit too.

Secondly, most of the debts are not recoverable; they were made in the first place to maintain demand in places like Germany. Either you compress Greek demand further by forcing Greece to pay them back or you do what is always done in a major debt crisis, which is default. Latin America never paid back after 1982, South Africa in 1993, Croatia in the mid-1990s, and there are many other cases.

The diminishing of the debt was proposed during the Cyprus crisis in 2013. Those who held most of the money in Cyprus banks were Russian oligarchs, and as Putin did not like those oligarchs he told the Europeans: 'If you expropriate them it's no bad thing'. The Europeans were determined that all savings under €100,000 were protected, which is a relatively high saving for a normal family. For the rest, incremental cuts were made, called 're-scheduling'. It allowed Cyprus to devalue their debt without inflation. Cyprus has demonstrated the solution for the rest of Europe.

Naturally, the banks are very angry about this proposal because it diminishes what is in their account balances. The banks argue pensions and other insurances will be hit, and give other spurious warnings. Nobody has calculated how much old-age insurances would decrease but I don't think by very much. I think one of the important ways these measures become more acceptable is by taxing the wealth in the Southern countries. It is unacceptable that these very wealthy millionaires, who basically do not pay taxes, continue with their excesses.

**The problem here is you are actually wiping out people's wealth . . .**

It's fake wealth! You are destroying fake wealth. We are once more on the question of the relative value of money [discussed in Chapter 6 'An Underconsumption Crisis'].

**We can see the morality of doing so but can you really just take people's wealth away so easily?**

As a child, I lived through exactly what you are talking about. What was the currency reform at the beginning of the German economic miracle? Exactly this. On Friday afternoon the government said the banks are now closed, and there were no ATMs in those days. The government announced in the evening: we will change everything 1:10, and for your holdings it will be something like 1:100 or 1:1000. For all the excess

balances when we were changing the money of East Germany, we were saying up to 6000 Deutsche Mark it is 1:1 and above that it is 1:2. The restructuring of Greek debt has to work in some variation of that same principle.

It's quite ironic: what we are doing tentatively in Greece we have undergone four times in the last 100 years in Germany [1924, 1929, 1932 and 1953]! The wealth of the poor and the middle classes is preserved because they are the political priority, but the very rich are not as they should have known that they were investing in fake money. It is quite reasonable to dispossess them; I have not seen much complaint in Germany against the expropriation of the oligarchs. I don't think a big tycoon in Germany says 'I had 3 million and now I only have 1 million', no one will complain as most people will question how he could raise so much money at a time of crisis . . . Must be stolen [laughs]!

The argument is based theoretically on the relation between financial assets and real assets. People believe the financial assets are independent of the real economy, which is dangerous. It is the basic experience from West Germany, from the GDR [German Democratic Republic], from Latin America that the financial assets and the real assets cannot diverge too far because money is only a claim and not a value.

**I'd say the general population is ignorant about the fact that this restructuring of the currency can happen and did happen in postwar Europe and so recently in Cyprus . . .**

We are not in the situation of a lost war so it will be much more difficult to impose. It has already been done incrementally; the Greek debt has been cut by probably more than the 75% written off by the banks already. Your argument that no one will dare to do this is not true – it is done regularly. The key to making re-scheduling socially acceptable is to protect the smaller creditors.

In the German banking structure, the Sparkasse [German savings bank/building society] would be safe from such restructuring for instance. The reason for the Sparkasse never going bankrupt is because the Sparkasse is owned by the city government and the Sparkasse is not allowed to make risky investments. The recent changes to allow more lax practices have been much criticised. When you have your money at the Deutsche Bank, you have it at a private bank; it can go bankrupt, as some of them did in the crisis – that's a problem. In the crisis of the 1930s, private banks went bankrupt, whereas the Sparkasse did not; I can see the worth of this logic continuing.

**During the crisis, the state gave the banks funds to stop bankruptcy and shore up their balance sheets. From what you have just said about private and public banks, I presume you think that it was the wrong strategy to give private banks insurances on their assets on behalf of the state?**

I think it was excessive and I think it would have been more effective to nationalise them and to look at how much money they needed to continue and subsequently privatise them after having the toxic assets cleared. One did not want to have banks breaking down, because there are multiplier effects. Now this money was created, we have to reduce it by taxing the collective of the banks, telling the banks we have saved you and now you pay back what you owe. However, there are some banks saying 'but this money belongs to us' – what an incredible insolence!

You see once more how any strategy in Europe will have to be supported by stronger institutions. My argument is that the left is well advised to promote what the right is doing to gain new institutional powers, like the strengthening of the European Central Bank and the European Investment Bank, because even if it doesn't look so evident now, all these new levers can be used for redistribution in the future. Look at the situation today, we do not have a European institution powerful enough to install a banking union with global bank monitoring even if the left wanted such an arrangement. The right may create such levers now but afterwards the left could impose different solutions through these new found powers of the institutions.

The big worry and danger for the banks is the decisions that will be made by other politicians less favourable to them than Mrs Merkel. The banks will follow Mrs Merkel because she is able to tell them we cannot do otherwise and convince them that there is no better solution than the one she can get for them.

**Let's talk about the changing realities in terms of the member states' internal make-up due to migration. Nation-states consisting of a relatively homogeneous population are increasingly becoming a thing of the past. It seems that, in particular, ex-colonial centres, like France and Britain, are experiencing some of the issues they first exported to the world. Britain and the Netherlands went to South Africa, which created this cross-continental multinational state with different languages and people; now they are experiencing this at home with large inward migrations. Is that of any relevance to the EU?**

I think the French have moved the furthest in this direction by coming to terms with the new realities. The French realise if they play this

game of the new modern nation, they can be the political leader of Europe. Britain has given up the possibilities of emotionally becoming a European leader but I think the French have, very largely, done this.

**What do you mean by this leadership, in a sort of postethnic way?**

Most of the nations in Europe, as far as I can see, can identify to some extent with France, namely Germany, Austria, Italy and Spain. The French image of history is very European with all the compromises and chequered episodes, and whatever else [chuckles].

One does not so much identify with the British version of history; it remains isolated and exclusive – still very British. If you have such a brilliant history as the British, having defeated fascism, it is not such a tremendous gesture to leave. But if you have a more blot-ted history like France, which collaborated with the Nazis; Italy was a fascist country; Spain was a fascist country; and Germany we don't have to talk about – none of these countries has the same sentimental and glorified relationship with history as Britain. The other European nations look forward; they want a new age where they don't have to be ashamed because of the deeds of the past – there exists a totally different sensibility.

**What are the areas in which you are saying France is the leader?**

Others often follow their policies – foreign policies for instance. The Germans are very reluctant to separate themselves from the French in foreign policies. Take the interventions in Africa or the deal brokered in Ukraine or the decision not to go into Iraq – the Germans have followed. France is also much more prudent than Britain; one does not want to lose Putin, and that's also a position of the Germans. Perhaps I have spent too much time in France and am overestimating this, but I think there is something to it.

**And you don't see this foreign policy emerging with a particular German or British complexion, but a French one?**

There is a big difference between Britain and Germany. Despite the UK's economy weakening over the decades, its foreign policy still has a wide reach. In Britain you have an old colonial tradition of cadres speaking the languages of the colonies and vice versa, having the School of Oriental and African Studies [SOAS] and the London School of Economics. You have nothing comparable in Germany. International Relations departments in Germany are much less developed than in the UK – the field began in Aberystwyth in Wales. There is something comparable in this international mentality in France, so the Europeans will



perhaps, especially the Germans if they can find this resolve, arrange themselves behind one of the two countries – France or Britain. However, it looks as though Britain will opt out of any such role because it does not seem to want to lead anyone except itself; that being the case, it automatically falls on France.

Back in 1997, I was saying that the Germans would be well advised to be something like the stomach of the EU and leave the leadership in foreign policy to the French. There is no other country in the EU that could challenge the demand for leadership of either France or Britain. I commented on this in an article in *New York Review of Books*; I titled it ‘Germany Not Ripe for World Policy’, arguing this point. If Britain was to fully commit to the EU then it would become interesting because many countries in Europe would prefer British leadership over French leadership. But I don’t think that Britain has any aspirations to do so; their current position resembles membership of the EU only to slow it down and its leadership ambitions are confined to themselves only.

**UK leadership of the EU currently seems a distant possibility  
culturally and politically...**

That is the drawback of having been happy – you do not realise you have to invest in future happiness if you are living on past contentment [laughs]!

# 10

## Social Movements and New Cultural Identitarian Political Movements

*Elsenhans reflects on the origin of social movements and how he sees their modern day relations as morphing into a phenomenon he terms 'network' social movements. Such movements are no longer determined by their membership but by their lead negotiators in junctures of political negotiation, which leads to compromises in a middle-class orientation. This is a transformation from social movements in capitalism, which were interested in the distribution conflict. He explains the rise and moderation of political movements across Asia and Africa which mobilise popular support with references to conceptions of cultural identity; he terms them 'new cultural identitarian political movements'. He believes these new cultural movements arise in countries where state development policies have failed and depending on the different constellations of social groups which give their support, the movements will succeed or not in reaching power. Despite the widely different cultural motifs of the movements, Elsenhans is optimistic that such movements could act as stabilising forces on global politics.*

**Social movements can be traced far back in history, and range from the Axial Revolution [800–200 BC], to the bourgeois revolutions [eighteenth–nineteenth centuries] to online activism today. What do you see as common to social movements?**

Traditionally, social movements threatened powerful actors with their capacity to opt out, to declare they are no longer ready to play by their rules. For this reason their numbers have always been significant and why the 'great number' was a way of recognising them. Social movements are the opposite of centralised power; this has been the case from the very beginning. Most societies are therefore organised in such a way as to destroy the solidarity of the great number. The establishment

creates a variety of distinctions, bridgeheads in the dominated society, village headmen and families with a special distinction.

If you look at tributary modes of production [highly hierarchical political systems, discussed in Chapter 2, 'Rent'], there is a wide variety of situations where basically the large number is terrorised in some way. This is why most social movements are ultimately linked to the distributional conflict, even if they are religious. When the poor are fragmented, such small groups could be terrorised by manipulation of communication, effectively fractioning the people. In history, slaves were chosen from different Caribbean countries so they could not talk to each other in the first generation and it would prevent a social movement emerging amongst them.

Power by segmentation explains why all precapitalist societies do not have the concept of nation for the great part. The Chinese empire could live well with people of different ethnic origins. Religion must be there because religion serves as an instrument to keep people in an obligation to God and therefore the existing order.

### **What role does capitalism play in changing the dynamic and reconfiguring social movements and how are they changing in the present day?**

For the first time, capitalism radically simplifies the position of the exploited class: Labour constituted itself on the basis of a relatively homogeneous position. The homogenising force of the market – average incomes imposed for average incentive work – causes average workers to perceive their basic solidarity. When the labour movement was constituted, people were not saying the cobbler was less productive than the blacksmith. Traditionally, the labour movement has done the opposite: the cobbler is the person who thinks and the blacksmith is the person who is strong, but they are still of the same class. The ideological leadership of cobblers is universal in Europe from the labour movement, but they were leaders of a labour movement constituting all workers, not just a worker's movement.

Most of the class-based movements have the idea they are the common man. In the European movements, the common man is also the exploited worker. The idea of the common man is universal and historic: it was present in the peasant wars; it believes man has no distinction from others. In Germany we say it is 'der gemeine Mann' [the common man], which is, by the way, the same expression in Hindi and in English. This was the basis for most of the social movements in history.

The European working class movements were linked to a theory of exploitation. The role of the working man in the German peasant movements was also based on the view of exploitation, and it extends to some elements of the Arab Spring movement today. Overall, these types of class movements have faded and social activism, like your example of online activism and single-issue campaigns, claims to be its replacement. However, these new forms of social movement in the West don't have such a link anymore to large classes and the distributional conflict. They may be social movements but it would be wrong to categorise them in the same lot as the bourgeois movements, the working classes or peasant movements. They also do not benefit from the organisational efficiency the appeal to class and common material interest provides.

Class-based social movements were linked to necessity; relatively poor people had to concentrate on how to survive and class movements served that purpose. We are not in that position any longer; we have now in the middle of society in the West a salaried class that is no longer living in necessity and has taken up other concerns. It organises and creates networks, like through online activism. Networks are established and you have a permanent dialogue where the network attempts to expand: I call them 'network' social movements and my thinking on this applies mostly just to the developed West. They might be linked to the distributional conflict, and are concerned with policies like labour rights, progressive taxation, rising mass incomes, etc., but not in a coherent way. Instead, they address single issues and are rather separate from each other. This does not mean the 'network' social movements are not political, just that they are not concerning themselves with the distributional conflict as they used to, which is my condition of a class-based movement.

**This is a controversial idea, that in the modern day people are joining groupings, what you call 'network' social movements, which are, in fact, disempowering – the opposite of the intention to join them in the first place. Can you expand?**

I've not published on this but it is something I have seen forming more and more, especially with the rise of NGOs [nongovernmental organisations] and the European Union [EU]. Basically, it is social movements that are determined by the capacity to network at an elite level rather than organise amongst the population. Class-based movements have succeeded traditionally due to their make-up and most crucial in that make-up, as I referenced in the first question, is their number. If they were able to organise swathes behind them, they would be able to exert

the greatest influence, not least because the biggest form of protest involved withdrawing their labour.

Network social movements are no longer only determined by their number. I'm not dismissing that it has an influence but much less so. More, their success is determined by their capacity to network at the junctures of political negotiation, for example succeeding in the schmoozing in Brussels, or the ability to have elements of popular culture in their initiatives. Given it is determined by networks, their leaders will be first and foremost skilled negotiators of the professionalised class they are trying to influence rather than one of the representatives of the movement. You can see this with the job exchanges at the executive level amongst disparate campaign groups; they are more familiar at working within those junctures of political negotiation than they are with the rank and file of the 'movement' they are leading in negotiations.

The membership of these network social movements is less committed, on average, than the erstwhile social movements, given that their stake in outcomes is much reduced. There is an obvious difference between whether your trade union negotiates an increase in your wage package to what outcomes come from discussions on a casual interest; that common *material* interest provides a greater stakeholding.

The political consequences of this are it creates a middle-class power structure whereby conflicts are resolved through lengthy compromise and on a gradualist basis. Within this middle-class power structure, radical change is blunted by an infrastructure that only allows the entrants who can organise themselves at these junctures of political negotiation. The social movement's leader becomes more prominent and accepted when he is able to work out compromises showing he has won small victories for the movement, albeit those are in the establishment's interest. Representing the interests of their constituents is less important than defining the interests of the cause in a way more palatable to the powerful ones. The axis of compromise moves in the direction of the powerful.

**However, whether to call these network social movements 'social movements' seems to be a grey area. It would seem redundant to group an environmental group with the Arab Spring, for example...**

I'm not so interested in deciding whether one grouping constitutes a social movement or not – I agree with you that it would be a redundant exercise. I do see activists are working on the same principle –

organising in order to cause changes that benefit and/or interest their membership. Groups like the antinuclear energy movement can be considered social movements given it is like-minded people communicating and organising for a cause. What I deem relevant in the capitalist system is whether a social movement is class-based or not, i.e. linked to the distributional conflict.

Concluding this classification between movements, I would say the cyber revolution is naturally helping just as much as the industrial-scale printing of the Gutenberg press helped the social movements of previous centuries. Social movements need communication but I don't think the internet has created social movements, despite facilitating their organisation. The new typography facilitates but doesn't create them – there has to be a committed membership with direct interests behind them; otherwise, they are fleeting.

The interesting questions for me are: Will capitalists still be opposed by social movements? Will they have to accept that social movements with an independent mass basis can be formed or will they colonise the aspirations in civil society to undermine the perception of solidarity at the lower strata of the society? I think the issue of the next few years is how these network social movements in society will function. There will be a permanent attempt by ingrained interest of the powerful to colonise social movements with two arguments: class movements are outdated, and it is chic to have one's activities outside of class movements.

**Do you advocate people organising along class lines, and, basically, should labour recognise its role in a class-based system?**

It is not that they should do it, they still do broadly but there are other tendencies today. In my view, in capitalism social movements should still concentrate on distributional issues and changing how capitalism works. Critics will accuse me of economism but it is my belief that the greater benefits for the population can only come from facing up to those still existing, albeit unfashionable, class divisions.

There are some highly sensible issues for which you have social movements and for which it is valuable to have them, but it is illusionary to contend they are altering the governing capitalist logic. The single-purpose movements cannot be theorised in a manifesto to change that wider logic; for example, the 1970s' struggle in favour of prochoice on abortion, or the peace movements that formed in reaction to the Vietnam war – justified and valid and important but separate when applied to altering capitalism.

Let's switch geographical focus away from social movements today in the West and look to social movements in the developing world now, which is an area you are more well known for. You developed a comparative and theoretical framework of specific social movements that you call New Cultural Identitarian Political Movements (NCIPMs), which analyses the rise and moderation of political movements in developing societies that mobilise popular support with references to conceptions of cultural identity. It is an unusual approach given that such movements are mostly analysed on a case-by-case basis and are not theorised together. Can you talk us through that theoretical framework?

I worked with Rachid Ouissa and we found many mass movements represented a certain form of protest by a coalition of different classes that were marginalised by the failing development state. The forces behind these movements were ideological people who existed all through the anticolonial resistance movements. In the anticolonial resistance movement, you have two types of people: one group that wanted a Western socialist revolution and who were very Occidentalised; and a second group who wanted to go back to traditions and cultural origins. I call the leaders of both of these groups 'ideological entrepreneurs'.

By themselves, these ideological entrepreneurs would be completely isolated if they did not find large groups within society that were discontent after the failure of the development state to create sufficient prosperity. The discontented could be categorised into three groups. The ones that the leaders found first were, in India, called 'traders'; this is the old private sector that has some capital and has desires of becoming producers. The second group is the jobless; the crisis of the development states has left a lot of people being blocked from any jobs – recent school-leavers without jobs are prevalent in this group. These people are in a state of desperation and try to find another ideological leaning. The third group of people are the existing marginalised, the poorest, and they have the least to lose. I saw this phenomenon first hand in the mid-1980s when I was working in Algeria, and also while teaching in Senegal in 1987.

I started by going to India in 2002 to write about the Bharatiya Janata Party (BJP), a type of NCIPM, as a case study but on analysis of other countries' movements it fitted with an overarching theory not determined by local or cultural or social context. Many people were researching socialist parties at the time; nobody had been researching these social movements, and I considered that there was a need to incorporate economic and class analysis in the study of political processes in developing societies that was missing amongst the focus on culture in

social sciences. My theory was different in that it gave economic and class explanations of what were subjects considered reserved for the domain of cultural studies.

When I met the leaders of the movements I found them to be highly contradictory people; they were very nationalistic but they would always ask you whether you could help them to escape the situation they were in, which I found ironic [chuckles].

### **Can you summarise these NCIPMs?**

For NCIPMs to succeed you have to have state import substitution that has partially succeeded in that it has created enough prosperity for there to be a middle class to speak of but has not achieved high levels of employment. The new private sector has to give their support, collusion with modern middle class, and the tipping point comes when the old cadres at the local level start flipping over to the new political forces which the NCIPMs represent. They mobilise opposition to a failed economy in a new moral economy narrative – an economy based on goodness, fairness and justice – which will be ingested with the relevant symbols and rituals of the context. Examples include the BJP in India, the Justice and Development Party [AKP] in Turkey, the Islamic Salvation Front in Algeria and the Muslim Brotherhood in Egypt.

I wrote about this in an article, 'The Rise of New Cultural Identitarian Movements in Africa and Asia in the Emerging Multipolar System'.<sup>1</sup> I basically show that these disenfranchised groups find no other political tendency capable of challenging the secular statist nationalists apart from being cultural nationalists themselves. We found that these movements are normally characterised by a loss of any belief in holistic explanations of the real economic world on which an improvement in the lot of its various constituencies could be based. They replace this lack of belief with a commitment to principles of moral economy, which can comprise anything from Gandhian promotion of the poor to allowing free enterprises.

Through such an economic analysis, I am presenting an opposition to the idea that these movements can be explained through culture. From culture they take identity-forming symbols, positions, rituals, and so on, which are distributed in society but the fundamental reasons are socioeconomic, not cultural. An example is that despite believing in the primacy of their religion in some cases, the NCIPMs do not adopt foreign policies that are aggressive in the main; they prefer to speak of the destruction of some mythical golden age for their country by the foreign powers instead of plotting a future caliphate or some other imagined future.



**It seems surprising to say these movements are not springing from culture or identity but they manifest as them. Your point is that they will reflect more on shared identities and traditions rather than saying the reason for the movement is a failure of economy ...**

All the interviews we conducted with the BJP in India were very clear on it being a failure of the economy that brought them to office. I spent one month in the central office of BJP and was allowed to interview many different leaders within the party. They all reflected on the influence of the economy strongly in the party's political journey.

In the membership of the NCIPMs we found there were no common economic positions of conviction, but there was an opposition against the exploitative character of this late secular development state. They told us endlessly taxes were too high, especially considering the wastage of the government with those same taxes and the perceived corruption of the elites.

**To clarify, they are a collection of people – the three categories of people you mentioned – that coalesce to launch a social movement against the establishment, using identity factors such as religion or cultural motives, and the condition from which it rises is state-led industrialisation failure?**

Broadly, yes: there are four constituents if you take the leaders, the political entrepreneurs, separately. A social movement is launched because the middle classes are able to mobilise the marginal ones; the poor have lost any hope for anything and are therefore willing to risk the most.

**Going back to the framework, you earmarked where cultural movements have success and failure. You have written that in sub-Saharan Africa there have been failures because there is a lack of middle class to provide leadership or orientation. In China, any NCIPM has been unsuccessful because of relative success in import-subsisting industrialisation and the shift to export orientation when the time was ripe. In North Africa and South Asia they have been successful because you have got these four categories of people in failed development states.**

In North Africa, take Algeria, you have middle classes. When the state for these middle class people fails in development, the state becomes resource scarce. When it is resource scarce, those who are managing the resources will pay those who are political friends first. This is not necessarily corruption – they are not handing over money to a cousin necessarily, but they will consider which district is most likely to vote

for them. As money is limited, money will flow towards the areas where they have a stake. This is seen as corruption by all those it excludes; therefore, the state appears as corrupt and all these movements lead a discourse of moral economy against corruption. A reinvigorated private sector and the most modern wing of the new middle strata constitute the backbone of the extension of the cultural nationalist political movement. But it is also their ability to build relationships with the intelligentsia and the old cadres, which is usually through a strategy of moderation and accommodation to widen their appeal.

When I started the empirical research in Algiers, I had suggested that Rashid conduct interviews in some localities of Greater Algiers, which I knew from our previous research on small-scale industries. The leaders of the parties, Hamas and *Islah wal Irshad*, told us they were not going to allow us to go there because even they themselves don't go and only send local people. You can see how there is an enormous resentment against the state, which has come to express itself in this Islamist outburst. India and across North Africa have the same dynamics at play; it is therefore a question of whether the social movements are able to channel this to their cause, which the NCIPMs have been able to.

They are failing in sub-Saharan Africa because there is no middle class, and Boko Haram shows it – they are only able to be terrorists. Boko Haram is unable to create political structures in society; it does not comprehend the internal resources on which an alternative project of mass-orientated development could be based, and the atomisation in society encourages violence wherever there are short-term advantages to looting. Take Borno, one of the states in the north of Nigeria where Boko Haram is based – nobody there is in favour of them. In India, the BJP was able to win local elections in many Indian states and became lord majors and so forth; Boko Haram in Nigeria is unable to replicate this so therefore it is a terrorist movement without support from the society.

In China there is no basis for a NCIPM because the unsatisfied classes in the middle of society are mitigated by their future prospects and there are no real marginals. There are many poor people in China but being poor in China is much more comfortable than being poor in India: China has massively reduced hunger and other forms of destitution. China has a past of relatively successful import-substituting industrialisation and it is on a path of export-orientated increases in employment. The middle strata still perceive enough possibilities for improvement in their situation and therefore avoid confrontation with the government. There are a lot of sects in society I am told – Falung Gong, and so on – but

they don't create movements; they are not able to recruit other people. The distinction I am making is these more cultural sects are not social movements.

You did not mention Latin America in your question, which is a curious case with regard to NCIPMs in that the resistance has taken the form of new populism without religious connotations; therefore, they do not qualify. The Catholic Church has reached out in important ways to protest movements like the *Movimiento Sin Tierras* [MST: Landless Workers' Movement] so that competing religious movements like the Pentecostals remain limited in their impact. There are still references to cultural traditions in movements like indigenism [Bolivia] and Bolivarism [Venezuela], but they imply more a manifesto for populist and social democratic reforms rather than a rejection of Western influence or a cultural renaissance.

**You have said the NCIPMs have contradictory economic programmes, and this stems from a strategy to prioritise pragmatisms and flexibility in the face of opposition forces. Can you talk about how these contradictions resolve themselves?**

If you want to dynamise any possible basis of successful movements – according to the definition which I elaborated – then the most important issue is your economic policy. What they are looking for is a mixed economy, not to have a full market economy, but something more moderate where the state administers on some core industries. The theoretical elaboration in NCIPMs is very weak on the economic programmes because they only draw some moral limits to the functioning of the market from Islam and adherence to a moral economy – it is less the case with Hindus but still influenced by their religion.

Successful NCIPMs have been those who have been able to apply a sort of efficient mixed economy, similar to what the social democratic parties did in the West in the 1970s. When the Muslim Brotherhood came to power in Egypt they were unable to succeed; they believed in the doctrine that you have to incentivise entrepreneurs in order for them to invest. They even wanted the secular entrepreneurs to invest but they did not; they lost a lot of money and in the process lost the support of the Islamic trade unions. They were warned to be careful in the revolution – not to put too much pressure onto the entrepreneurs, otherwise the revolution would fail. There you had a clear lack of understanding of how capitalism works which led to a political failure; it confirms the need for a mixed economy and not relying on the capitalists.

Currently, Prime Minister Modi in India is pursuing a totally different path. Modi has lengthy experience as a Chief Minister of the economically most dynamic state in Western India, Gujarat. He will go for a policy that will also pressure entrepreneurs to create growth; he will not only incentivise them, but attempt to link their performance with economic advantages, as you should do in a mixed economy – I believe it will work. It explains how Modi and the BJP in India have acquired long administrative experiences in many Indian states. They will let demand grow, perhaps more from the idle class than from the truly poor.

**When the NCIPMs gain power, do they uphold the identity discourse and the conservatism they advocated on their route to power?**

They can always revert to an identity discourse, but not indefinitely. I think the basic thing is if you take power you should have a set of clear ideas that are operational and also reasonable experience of how to run an administration. Mursi in Egypt had a lot of difficulties because if an administration is totally against you, it is very difficult to move it. If you want to replace people with your own people, then others will accuse you of nepotism. It is easier in a federal state like India as you may already have some states that have been governed by your party. Experienced cadres can be called from the state levels to a political function in the centre, and Modi did this because he had been Chief Minister for 12 years in Gujarat.

The new parties of government don't radicalise, they try to occupy the middle of the society and try to influence the society by gaining more approval for their identitarian symbols. Refreshing such cultural shibboleths is a convenient strategy of assembling support behind you. In Algeria today, even the secular nationalists use Islamic symbols, as they do in India.

**Could you elaborate on the case of Muslim Brotherhood in Egypt and how it was able to succeed initially, to become a government in the post-Mubarak era, albeit having been disposed since?**

On the same basis as I was describing – a delegitimised state. It became a normal catch-all party socially, like the Christian Democrats did in Germany and for the same reason the Christian Democrats took power across Europe – the failure of the secular social democrats.

In the failed development states, social movements operate within forces that can easily threaten violence, of fascist tendencies one may argue, especially from the educated semi-proletariat who are wage

dependent. On the other hand, you have very reformist intelligent people. My argument is the more the middle class-oriented segments are able to discipline these more violent tendencies of the marginals, the further they are able to penetrate into the middle of society – in other words, mobilise a large vote in their favour. It happened under the BJP in India as it happened under the Muslim Brotherhood and Mohammed Mursi in Egypt. The success of the election of Mursi was due to the Muslim Brotherhood representing reasonable tendencies among the Muslims. The real Salafi were different and more extreme, hence excluded.

There are a lot of wings within the Muslim Brotherhood, I met people who had worked as economists, as well as civil servants at the World Bank. What the Muslim Brotherhood had to do was forge a creative adaptation of the received tradition of economics. In India there is less religious content in the economic strategy; the moral economy argument is an influence of political pragmatism rather than a governing creed, as is the case of Islamic cultural nationalisms. It takes time to come up with an economic strategy, which is why they had no programme at the moment of the Arab Spring, but they gained governance because they were still the most coherent opposition force.

**Moving away from NCIPMs, let's talk about the Arab Spring as a social movement. One interpretation of the Arab Spring was that the raising of the food prices above what people could afford was the trigger; another much reported incident was the self-immolation of Mohamed Bouazizi in Tunisia in January 2011. What was your interpretation of how the uprisings came about?**

The case I know well is Algeria. Since the 1980s each August and September there were, without fail, such protests. Normally, the protests were in provinces and not in Algiers the capital, not because in Algiers such resentment did not exist but because the government held security tighter in Algiers. Incidents or events like a rise in food prices have always been there. The question is not which incident triggered it – the self-immolation was perhaps something very special – as big demonstrations were common.

In Algiers, the typical local rebellion was people getting together, going to the office of the Wali [government representative], occupying the office, throwing out all the good things, including the food, feasting and then perhaps burning down the office of the Wali. The police would finally come and the protestors would be sent home. There was such widespread discontent the chance to take aim at the

exploiting state garnered support rapidly and uncontrollably for the state forces.

**What was new, then, as this was on a different scale?**

There are two reasons, I think. Firstly, in Egypt there were young people who suddenly realised the power was no longer staunch. Mubarak was forced to liberalise and it revealed the fragility of his totalitarianism, given the widening societal cracks. Secondly, the army did not want to shoot, they wanted to let Mubarak fall.

There are parallels with what I saw in Algiers in 1988. President Chadli Bendjedid wanted to liberalise but some of the cadres of the state were against it. These same cadres of the state behaved in a way that made it known the state would not hit back against the protestors. Suddenly the demonstrations became immense, the fear dissipated and when some fissures in the repression system appeared it signalled an opportunity to change matters. It is not that they have nothing to lose, more that suddenly everything becomes possible. If you take the famous May 1968 demonstrations, the tipping point was people thinking anything was possible; the power was no longer with those in uniforms – it was on the streets. I speak from personal experience: I was in Paris in 1968 and I felt it, too, suddenly everything becomes possible, as it did in the Arab Spring.

What you had in the Tunisian, Egyptian and the Algerian cases before was a dissent in the main operators in the army against the state. In Tunisia and Egypt, the army was in a relatively popular position in the society; they were not directly enmeshed in this repression so the people thought the army was with them. The army did not defend the regime against popular uprisings and the generals had no reason to defend the corrupt regime. They intervened only in the Egyptian case when things became very dangerous, but, overall, they let the movement take its course. It was only when Mohammed Mursi began attacking the economic privileges of the army it changed, however, and they turned against him, which led to his downfall.

**Twitter was talked about as this new organisational tool, but you say it was a useful tool in opposition, but beyond that in the Arab Spring it has not achieved more, certainly not a ‘new democracy’.**

Yes, beyond initial organisation it did not do much. It was useful in coordinating protests and escaping the security service, like congregating in the street and liberating political prisoners, but its effects were

limited. It helps with the immediacy and uncontrollable nature of the protests certainly, but it did not prove useful as a tool for governance, only as a tool for protest.

**You wrote that the ideology of the ‘third wave of democratisation’ was an antidote against revolution. The bridgeheads, the government officials, the intellectuals, the United Nations, and so on, all of which are coming from the West, constitute additional obstacles for people to overcome. What did you mean by this?**

The ideology of the third wave of democracy [the transformations to democracy since 1974] was the belief that it was possible to channel those social movements for a sort of change conceived within the thinking of Western NGOs. The Western NGOs believed they were able to harness the discontent and vulnerability through their agencies, which they would gain legitimacy from, but, with millions taking to the streets, you can see this completely failed.

The ones who captured the movements in Egypt and Tunisia were the Islamists. All the Westernised parties in the first elections in Tunisia and in Egypt collected less than 20% of the vote, that’s fewer votes than the communists in the first free elections in the GDR [German Democratic Republic]. In the GDR you had 20% communist votes; we were all considering that this was a terrible defeat of the communists, but the defeat of the Western bridgeheads in these societies was actually worse. The Arab Spring represents a failure of Western attempts to encourage Western-style democratisation in developing countries with the Western-style protection of the property rights of the more wealthy.

**Why do these groups not even make a mark considering that ‘liberal values’ like freedom of speech and the rule of law, hallmarks of the third wave of democratisation, rank as motivations among the protestors?**

Democracy is of an instrumental character for large groups of people. I do not deny that the Western-orientated groups want to protect human rights and political liberties, but they do so because they need such rights for prevailing in their struggle against those in power where they are in minority.

The link between a social change objective and democracy is clear in the nineteenth-century democratic revolutions but with the third wave it is not. The political objectives in the struggle for revolution in the nineteenth century was extension of the vote because the social

democratic parties in the nineteenth century considered large groups in parliament an instrument to impose social reform – they campaigned on ‘more bread and less tax’. Most of the economic struggles in the nineteenth century are basically in parliaments – the struggle for the welfare state, for labour protection the whole question of the labour contract such as maximum hours, safety at the workplace, etc. In all these cases, the main thing that was very important for workers is what the capitalist can stipulate in a labour contract – these are fundamentally legal struggles.

The third wave was established to have democratic regimes where the property rights are sanctioned. If you take all the Latin American cases of leftist governments coming to power, this becomes possible because the leftist movements begin to respect property rights. In the absence of the agrarian reform in Brazil, the MST [Landless Workers’ Movement] has been totally incapable of changing the basic agreement between the Partido dos Trabalhadores [the labour party] and the establishment. The third wave brought to power parties that abstained from using majorities in parliaments for changing the fundamentals of their societies, as did happen in the parliaments of the French revolution. The third wave of democracy is a project that avoids deeper changes, like redistribution, class formation, educational upheaval, etc., and the result of it has been the relative visibility and simultaneous powerlessness of the Western NGOs. In refraining from taking up highly divisive issues they remain visible but their impact is low. They cannot take on any of these wider societal concerns [discussed more in Chapter 8, ‘Nongovernmental Organisations’].

**One explanation of these large-scale social movements would be there are such obvious and visual sectarian lines in North Africa and the Middle East. Those obvious sectarian lines don’t exist so apparently in European politics; for example, the thought of Christians on behalf of their religion revolting in Europe today seems far-fetched . . .**

In Germany the mobilisation took the form of fascism. The Nazis had a secular religion, not linked to Christianity, but a substrate with the same ideas: we have to turn back to the old order, all these medieval customs of the Nazis were very similar to how the NCIPMs work nowadays. If you look into the European case, a French author, Henri Brunschwig, wrote about the crisis of the Prussian state in the beginning of the nineteenth century.<sup>2</sup> That crisis leads to romanticism and rejection of rationality in the sense of Western Enlightenment, including constitutional thinking.



The book seems now to be read largely in India because of parallels in the development of the Indian NCIPM.

I think it is not true we have fewer division lines in Europe, fewer along religious lines as the Middle East or North Africa, but we have other lines – it's a European romanticism to say otherwise. If such a mobilisation did occur along religious lines then it would spell the end of secularism as a mobilising ideology in Europe, and the reactions to it would be just as significant as any initial mobilisation.

**The EU could be seen as a manifestation of our argument, that we are less divided politically along sectarian lines . . .**

But just 70 years ago we had a worse ideology. In France and Germany these sectarian lines were quite severe in the 1930s and 1940s. When I was in Paris in the 1960s I lived with a family during an exchange; they would never sing the French national anthem with the French official text, only with a Catholic text. These movements became prominent amid the minor crisis of the Algerian war; they were able to have a military putsch in France, which was not really resisted by the secular forces. It was left to de Gaulle to bring these coalitions down.

Marx, when writing about Louis Bonaparte 150 years ago, observed that in moments of 'revolutionary crisis' men borrowed from the past 'names, battle slogans, and costumes in order to present . . . a new scene . . . in time-honoured disguise and borrowed language'. Sure, we were not praying five times a day, but each morning in the Nazi regime people saluted the flag and one another. There are other symbols; clearly, we are less linked to Christianity and more linked to secular substitutes for religion. It is obvious that in Islamic societies religion plays a more important role and the overarching ideology is more important than in our societies. My argument is there are functional substitutes for them in Europe. Adherence to traditional values and morals, identities defined on the basis of the roles attributed to gender or age, are the sorts of things I would include in what I am saying.

**You are saying in Europe we had such identitarian movements, albeit along different lines, notably fascism in the mid-twentieth century. Could we see similar politics again?**

The next fascism, said Herbert Marcuse, will come on very silent soles. The degree of conformism in our society still threatens, and further distance in memory influences any recurrences. Germany is perhaps the least threatened because we have immediately in Germany the memory of fascism. I am not so sure if the same applies to other societies.

It is a normal phenomenon in crises for people to revert back to identity politics to varying degrees. For example, churches were never as full in Germany as in 1945–7, because all these disoriented fascists were turning to church for identification. Even the governor of Poland, Hans Frank, became a devout Catholic before the Polish hanged him. Although he did not think they would save his life because of his new conversion, he was in crisis and during crises people go back to what they have. Christian priests will tell you, if you are really in crisis, then you will remember religion. Although never with me [laughs]!

**Would it be worthy to bring up a figure like Marie Le Pen in such a discussion?**

I think to mention Le Pen in such a discussion of fascism is over the top. More important is the general rightist mood of which Le Pen is only an example. Fears fuel all these movements; these Pegida [the Patriotic Europeans against the Islamisation of the Occident] demonstrations in Germany are an example. These movements try to use that fear of decay and propose the solution of returning to old values. In our society, the old values are not so religiously based, whereas in the countries we discussed earlier they are, hence the different appeals, but they do not represent completely different phenomena. You begin to understand why I based my theoretical frameworks on socioeconomic factors and not cultural ones.

Today, the feeling of crisis currently is agitating most people; the European version of the Arab Spring – the ‘cost of living’ crisis you could call it. People want to know they are living in a fair state; they want to be able to develop a feeling of meaning of their activities. Le Pen and other rightist movements are trying to channel this discontent for themselves for their own purposes and a different kind of politics.

# 11

## Career, Criticisms, Creed and Other Issues

*This was our opportunity to explore areas of interest that Elsenhans has not been recorded on previously. He reflects on his career and life, which he is overwhelmingly content with. We present him with criticisms that his theories don't take into consideration cultural or environmental factors. In a conversation about environmental concerns, namely the fact he does not address them, he answers that capitalism needn't be destructive to the environment like communism overwhelmingly was if embedded within certain parameters. He also comments on his support of the minimum wage, how tax evasion can be overcome, how he envisages a more peaceful geopolitical future and what personal creeds he lives life by.*

**Your list of publications is tremendously long and you still continue publishing now you are in your 70s. You have been active in academia all your life and developed your own theory on capitalism. Still, you are not a well-known scholar. Could you reflect on why this is the case?**

I was recently in touch with an American colleague. He asked me why I published this article on the rise and demise of the capitalist world system in an unknown Algerian journal.<sup>1</sup> I told him the article was rejected in America. It surprised me but it shows one thing: I am not integrated into networks.

In the beginning, my work was well received. I rose relatively fast, especially on petrol-related issues. 'Rising Mass Incomes as a Condition of Capitalist Growth' was published in 1983 after the nomination in Konstanz.<sup>2</sup> I published articles on development, the Algerian war of liberation, some articles on Algeria, which I was relatively successful in –

I had not yet developed my thinking on the state class, rent and globalisation. Of course, one wants the widest possible audience, but I have not made decisions based on career perspectives. Working in academia, I have seen that once you are integrated in networks you have to follow their logic. You have to talk as the audience expects you to. I was never willing to do that. Therefore, when I started in Konstanz, my programme was to develop on academic markets that I couldn't control. And that was the reason for the decision to go abroad.

### **Where did you move to?**

I went to the US. There, I perceived American academia as characterised by highly oligopolistic power relations. After I published the article 'Rising Mass Incomes as a Condition of Capitalist Growth', a second article on the state was planned, but Professor Keohane wrote me a kind letter. He said first the article was quite nice but that it wouldn't get published as they had now other priorities; the third world no longer mattered. That was in 1985. It was all about the competition between the Soviet Union and the US. They were solely looking at the third world to understand how to use their power.

I generally had difficulties publishing my work in the US. In America I had great difficulties in placing my articles. Sometimes it worked, for example, this article on the 'New Cultural Identitarian Movements' and now, obviously, the two books show that the rejections are less.<sup>3</sup>

Then I thought, if not America, you go to the second largest English-speaking market and I was invited to India, where I have published more easily. All these contacts did not require connections. There, I am viewed as a somewhat exotic novelty – nice, interesting, provoking, but not in a network formation. However, being integrated in networks comes at a price as I have described it – a price I wasn't willing to pay.

**Another reason could be you have a single-minded vision; you are a very old school intellectual in that you are promulgating your theories and are unwilling to compromise on them.**

Naturally. I did not want to compromise; I wanted to develop my theories. I have seen colleagues who loved to relate to the audience, saying what the audience wants to hear, almost like a preacher, but not being analytical all in all. This is what I did not want, which is why I went the other way. I have never given the audience what they wanted or expected.

**These networks or audiences you refer to are certain schools. You don't seem to belong to a specific school, even though you share certain agreements. For Marxists, you are too much of a capitalist; neoclassical economists don't agree with your redistributive interventions or socialists goals; and you accuse modern-day Keynesians of concentrating too much on monetary policy. Is it fair to say your thinking does not fit in anywhere?**

I have no school, yes, but the quality of my work is that I did not narrowly subscribe to a school. I use different elements from different schools in a coherent way.

Also, I never had this career idea. I did not feel like I had to impress everybody; it wasn't in my mind. In terms of academic perception of my work, I could wait . . . actually I am still waiting [laughs]!

I am still working on my life's work – a series of six books called *Aufstieg und Niedergang des kapitalistischen Weltsystems* [*Rise and Demise of the Capitalist World System*]. As a temporary compromise I wrote *Kapitalismus Global* [*Capitalism Globally*],<sup>4</sup> so the main argument is now spelled out, but finishing it . . . I will do slowly in a way I can.

I now also have this perspective of being at the end of my life. My ideas have been accepted by many of the students who have been studying with me, and the feedback shows they have taken it in. Unfortunately, many of those students think it is not very realistic that things can change in the way I propose. They are talking about it like a sort of knowledge bank but they are in a society where they feel what I advocate will have no chance of coming to fruition.

I will not be the only one to write such views; and the more there are other people who have similar ideas, those people who have adopted ideas from me directly or indirectly, the more there will be the realisation we are not alone. Today, people with ideas like mine feel relatively alone but I realise that other people have also developed similar thoughts. I have no jealousy if someone else has the same ideas as me; I have never claimed I am the guy with the answers for this or that.

Therefore, I think I make a contribution but I am not any sort of reference point. I am actually very happy about my name, I am absolutely on the safe side – nobody will make an *-ism* out of my name [laughs]!

**When did you arrive at your positions? Were there any special influences that impacted your work in particular ways?**

When I conducted the study of the Algerian war, I realised how development politics should be done. I was comparing the case of independent

Algeria and the case of French colonial policy in Algeria with regard to import substitution. There, I had an insight that I developed further. At the same time, I realised the importance of the oil question, I saw that there was more money available and very early on I saw that the money was misappropriated and not used in a meaningful way. And by the end in 1973 I had formulated two sentences on the state class in the Algerian war of independence, with the concept of state class being formulated on the basis of rent. The main elements were all already there in 1974 and 1975, when I was in my early 30s: equality and development, change of the social structure, agrarian reform.

I elaborate on all of this, together with the habilitation thesis,<sup>5</sup> *Geschichte und Ökonomie der Europäischen Welteroberung [History and Economy of the European World Conquest]*,<sup>6</sup> Based on the empirical evidence I saw in the Algerian case, I had formulated the basic elements in a relatively short period of time – not everything, but the basic elements, and since then it has been a process of developing on those existing insights and trying my best to distribute them.

**In the following we would like to address two issues on which you have been frequently criticised for not taking into consideration in your theories – culture and environment.**

**You have been much criticised for the lack of culture in your theories. You don't see culture as a determining factor. You say capitalism is a-cultural and the transition to capitalism was a-cultural. How do you answer people who say your analysis is flawed, considering the omission of culture?**

Most people think that capitalism discriminates against culture. I don't think it discriminates. Capitalism, as I describe it, does not discriminate against people of different circumstances. It does not require any special culture to exist – that is my point; this is why I do not agree with Max Weber [discussed in Chapter 9, 'Europe, the European Union and the Eurozone Crisis']. Naturally, we have the emergence of the working class, which has a certain culture that is different from the peasantry, but that has to do with the social position of the working class.

All the people in the world have a certain amount of resources at their disposal and everywhere in the world people have to allocate these resources wisely – unless they are so rich they don't have to care about behaving economically. Outside the family, we are interacting with others, with the objective of improving our economic situation. In tributary modes of production [highly hierarchical economic and political systems; discussed in Chapter 2, 'Rent'], you have

to be more aware of the power of the powerful than in capitalist environments, but a specific rationality in dealing with these challenges is not really a determinant for the development of a capitalist mode of production. Poor people on all continents are very rational with respect to their struggle for economic survival. People worldwide have a relatively comparable mix of strategies to improve their material well-being, to maintain their dignity, not to be put down and to maintain a certain social embeddedness where they are relatively secure.

I don't say there are no differences in culture. Rather, I think that people are intelligent enough to develop the cultural terms suitable for the strategies they consider as rational. And these strategies, in turn, are only partly influenced by culture. It is the rich who use culture in order to create and maintain a distinction between themselves and the poor, in order to justify that distinction over cultural contents their own positions through culture. Poor people in any culture share an economic rationality, this is why I assume that capitalism is a-cultural, as it can function within any culture.

**What would you say about all those scholars who explain changes in politics through culture?**

I have never read people like Samuel Huntington, who look into structural characteristics of the collective consciousness of different cultures by scientifically describing contents of popular culture, in serious detail. I wouldn't consider their findings meaningful because they did not have the empirical means. What they were doing was more or less looking into intellectual productions of authors in other geographic and cultural areas, who might often not even be representative of the respective cultures. Within a relatively large range of options, production of culture on the side of intellectuals has a very limited influence on the pragmatic behaviour of poor people.

**You have suggested cultures around the world are more similar than we think. It seems quite a bold stance to downplay cultural differences between continents...**

I don't think there is a special European culture to the difference of Asia. Some things differ, of course, but explanations can be found in power relations. Some people are more submissive than others, but the submissiveness, to use this example, of poor people has very much to do with the existence of marginality.

The real cultural differences in my view are two things on which people do not communicate and therefore have no feedback from the

society. The first one is sex and the second one is child rearing. On both issues, people have too little intersubjective communication outside their nuclear families to be able to evaluate their feelings and experience in the light of the experience and feelings of others. People have to draw on the scarce knowledge conveyed in family traditions. Also, for me, I had to deal with a very sick child. And who did I contact? First, my sister because I assumed she would talk openly to me.

These are things that vary within cultures, as well as between them, but I don't find these sweeping connections between culture and economic development/history convincing or relevant for a theory of capitalism.

**Let's move on to the subject of the environment. You have also been criticised for not addressing the environmental dimension in your theories.**

Those who criticise the fact that I do not really work a lot on the environment are right to the extent that I prefer not to write on things on which I am not a specialist, even though the topic is *en vogue*.

**Most people believe that environmental concerns are pressing, and more than just a situation of being *en vogue*. The issue for your development theory is addressing problems that can be linked to the externalities of industrialisation.**

There are two arguments why I would reject the criticism that I do not care about this. First of all, those who claim that capitalism destroys the environment are wrong. Capitalism is growth, and growth has an impact on environment – any growth has an impact on the environment. If growth were only demographic it would also impact the environment. Capitalism requires growth, but capitalism also implies a massive reduction of pollution and the use of resources because all input factors represent costs in capitalism, which entrepreneurs are constantly under pressure to minimise.

The specific resource consumption of capitalism has always been lower than any comparable mode of production, especially in nonmarket ones like planned economies in real socialism. The Soviet Union was much worse in environmental protection than the West because planners could solve each quantitative growth problem just by increasing the resource consumption. The Soviet Union's record on the environment is appallingly destructive, whereas in the capitalist calculation resources cost something and the capitalist tries to reduce the specific resource, namely the consumption per unit of output.



### **Were the German Democratic Republic and the Soviet Union polluting more in relative terms or in absolute terms?**

Both, and by some distance. Today's Germany has a marked comparative advantage in environmentally friendly industries which remove the environmental consequences of growth. We have a market south of where we are sitting, in Leipzig, of at least €14 billion in restoring all the effects of the pollution. And industries are developing on the basis of this market and they are now starting to export massively. Germany is a leader in environmental technologies aiming to repair the environment. Argument number one is that capitalism generally uses fewer resources than other modes of production.

Point two is more important. Protecting the environment is also good for capitalism. If we agree to produce in a more environmentally friendly way, we impose regulations on production, for instance less emission, less resource input, etc. This requires the producer to invest in new technologies that allow him to produce in accordance with the new legislation. As this affects the cost of production, the price for the product will increase, which, in turn, will lower the end-of-the-pipe output, the quantity of units produced in relation to labour input.

### **How can lower output be good for capitalism?**

The increase in demand for better technologies will result in growth in the investment good sector. As I have described [in Chapter 2, 'Rent'], the investment sector is responsible for the additional demand in the consumption good sector. With this mechanism at work, the drop in demand for products due to the higher prices is balanced as there are more wages paid in the investment goods sector. Depending on the branch, between 10% and 20% of the net investment today in Germany is already due to environmental legislation as companies have to adhere to standards imposed on production by the German government.

We as individuals in many consumption decisions can decide what we like, but macroenvironmental decisions should be made at a collective level. Decisions like, for instance, reducing pollution concern the collective consumption; they require a collective decision-making process. If we see a need to change our mode of consumption we have to decide about our consumption options in a collective way.

### **How would that collective decision-making on consumption be organised?**

There needs to be an institution with the power to impose environmentally friendly rules onto all producers. This is what the European Union

[EU] is already doing. The most efficient processes of the EU are on industrial norms. The EU implements a lot of industrial norms, many of them, of course, being very controversial and conflictive. To harmonise different interests of different stakeholders will be the main challenge in this regard for national or – as in this case – supranational governments.

**Your point is that capitalism is actually the favourable system as it treats the environment better in the sense that, contrary to other ways of production, it saves resources in relation to the output. What really stands out, in your thinking and in your argumentation, is the focus on mass consumption and mass production. Even if capitalism might be more favourable in relative terms, against the backdrop the global expansion of mass consumption you advocate it is hard to believe the system is able to be environmentally friendly in absolute terms.**

It is not mass consumption, it is growth and about whether you want growth or not. This is a question where I think the minority that is well off cannot impose its preferences onto the majority that is not well off. The great mass of people can and should decide on whether or not to pursue more growth. I have no problem if the consumption of the richest strata of society is reduced but I don't feel that I have the right to say to already poor people that they cannot increase their consumption, especially if it's within the environmental legislation we just spoke about. What I am saying – and this is the second part of my answer – is that there are models that show that you can have zero pollution and zero environmental destruction but still with zero resource growth given the restrictions – not many, but there are a few.

**Another concern would be that mass consumption and industrialisation would lead to dangerous depletion of resources? You are advocating growth against a backdrop of resource depletion . . .**

This 'end of the resources' premonition is problematic. The point about the depletion of resources comes up regularly. When Germany had lost one-fourth of its territory after the First World War, everybody thought the Germans would starve from hunger. The Germans waged the Second World War; Hitler certainly for other reasons, but all his followers thought that Germany was a country without sufficient space. Turns out Germany had enough land as the land was made more productive. Today people say that humankind is on a planet that does not have enough resources. That is not so different. These are more or less the

same romantic people who claimed Germany did not have enough land and now say we are running out of resources.

At the end of the nineteenth century everybody was afraid that there would be an end to coal because coal mines in England were mining coal of worse quality. Resources are concentrations of material in the earth. We are not using up the resources in the capitalist process – rather we are exhausting the concentration of resources. Take copper: the copper content of the world has not changed through our use of copper. The mining areas in which copper is obtained in high concentrations have been slowly exhausted. We are actually at 1% copper per stone that we extract. There is the difference: we are not eliminating the resource, we are decreasing the degree of concentration available. That means the more we are increasing the productivity of extraction, the easier it is for us to deal with concentrations that are very low. The argument about the depletion of resources, except for energy, in my view does not factor this in.

My argument is that we will be able to mine more and more average earth to get special products, albeit at potentially high costs. Copper is available all over the globe. The content of copper in soil or stones is often very low, which is why we are not trying to extract it, but that would probably be possible if you accept the cost of it. Therefore, I am very sceptical about the resources argument.

**But there are certain resources that will be depleted eventually. You already mentioned your argument about resources doesn't necessarily apply to energy. We have passed peak oil . . .**

No, we have not passed peak oil. I don't think that we really know all maritime deposits; we have not yet explored all land-based oil deposits even. If 40 years ago somebody had predicted that we would use mobile ships to extract oil from 200 meters below the sea surface, everybody would have said it was technically impossible. Now it is even possible to go down to 600 meters in the North Sea. Why should we not be able to cover, say, 20% of the oceans with islands where we have wind turbines? Then suddenly there is no limit to wind turbines. The argument will certainly be there is not enough steel for this. Well, we will have the steel to do this and if not, then we will put them on wood.

Alternatively, we have other sources of oil, like fracking. The arguments against fracking are no different to the arguments against oil production. Fracking industries imply pollution but I wonder if this pollution cannot be mastered. We are already working on technologies to reduce CO<sub>2</sub> emissions through changing the method of combustion.

I am not saying that these aren't problems; I am saying these are not insurmountable problems that should prevent seeking a massive new source of energy.

But, once more: the problem isn't capitalism, it is growth. If you didn't have capitalism – if we all had real socialism or anything else where only political groups decide – you would have a much worse situation. Therefore, I think that the general polemics against capitalism are misdirected.

**A country nowadays with serious environmental problems that clearly stem from the type of industrialisation it has experienced is China.**

Naturally; their performance can still be enhanced. However, they have been making major efforts, much more than India, much more than Brazil and, in my view, also much more than the US.

Again, the problem is growth. I said environmentally friendly production requires sacrificing parts of your productivity growth in favour of less polluting technologies. If you have a population that pushes only for material growth then it is difficult to implement that politically. That has nothing to do with whether you are in capitalism or whether you are in socialism or whatever. Growth is the problem.

**Presumably, you would not want to limit growth, though, as it is a vital part of your theory ...**

You cannot impose a growth limit onto countries with much lower per-capita consumption as long as the countries with high rates of per capita consumption refuse to limit their growth. People from the developing countries will tell you: 'Don't tell us which levels of production we should achieve, if you want this, then you pay for it!' The US rejects any attempt to pay for or subsidise in order to incentivise these more environmentally friendly productions and, consequently, all other industrial countries similarly refuse in order to maintain their competitive position with the US. Only Germany, to a limited extent, is willing to pay more.

Some third world countries probably say the North should be thankful each day because for the first time energy consumption and growth are delinked. Until the oil price crisis in 1973, all economists would have argued that energy consumption grows at the same rate as growth. Only after 1973 was it delinked. I am not denying what you are saying about the problem, but I am saying is that making capitalism responsible for it keeps you from understanding the real problem.

**This willingness to change consumption patterns might be materialising slowly in postindustrialised countries but, again, on a global scale, we don't see that happening. Developing countries are claiming their right to pollute in order to develop...**

Sure, China and India had the position all countries have the same right to pollute as the developed countries did freely, saying: 'As we have developed later, we can pollute just as you did in the nineteenth century'. And the industrialised countries say: 'We are willing to impose fewer restrictions on you'. And then developing countries respond: 'Listen, you have polluted, the stock of pollution is due to you'. I think that is a normal negotiating position and I think that the West should change its position fundamentally. We should, for example, stop protecting our patent rights in pollution-friendly procedures and instead say the developing countries are free to imitate pollution-friendly procedures. We would be responsibly sharing in the environmental protection of their growth.

**The main argument about patent rights is that without these guarantees companies don't invest in research and development [R&D]. Can we somehow ensure R&D spending if patent rights are no longer protected?**

The profits the innovative companies make due to the patents are technically rent. We could substitute this rent by a public fee we pay in order to maintain the innovation stream. This would have much more effects than these endless negotiations. Patents are a major barrier to a more environmentally friendly world given how they are being used.

Obviously, that would have to be paid out of public budgets, which is why our politicians do not allow even the possibility of this to be mentioned. Public opinion could end up being in favour of such subsidies and the abolition of the patent rights for environmentally friendly products. However, for politics it is more convenient to nurture the idea we are doing a little bit more than the rest. This way you can point fingers: 'They should do something, we are already making an effort!'. In that sense, our public debates are really not of higher quality than what in German is called the Stammtisch-level [pub conversations].

**One could argue that patent rights are, again, problems of capitalism, that capitalism depends on what prevents the problem of these technologies from being imitated by other producers.**

The TRIPS [Agreement on Trade-Related Aspects of Intellectual Property Rights, international trade agreement administered by the World

Trade Organization (WTO)] is an attempt of soon-to-be rentier capitalists to secure the rent by high protection for patent rights. Historically in capitalism, patent rights for intellectual property were limited but it's changed of late.

I find this scandalous as the WTO does not build in expiration dates for the patents. People did not understand at their inception and the third world didn't have sufficiently competent negotiators.

We created totally different regimes. In the West patents had been given for limited periods, less than two decades, whereas under the TRIPS there are guarantees of at least 20 years. We have applied things we do not apply in our countries in order to feather-bed our industries in this part of the world. And they are not even necessary; neither the Netherlands nor Switzerland has patent rights, so it is possible to develop without them.

**Our discussion has already moved on from the field of environment to potential policy changes. We still have a few questions that we are curious to ask and that have not yet been covered in other interviews. Some argue the biggest obstacle to a fair economy is a lack of tax oversight, particularly tax havens that exempt the richest from paying their share. What are your general thoughts on tax evasion and tax generally?**

The problem is the rich use the decentralisation of powers at the national and international levels to their advantage. Authorities are accustomed to dealing with the national situation where you have one uniform tax rate.

Firstly, you have these tax havens; the European states Luxembourg, Monaco and Liechtenstein are easier to deal with if the European leaders have the gumption to talk a little bit louder and agree on strict measures together against them. It is beginning to happen now. The real tax havens are those which, security wise, are not dependent on you, a prime example being the Cayman Islands, and these are not easy to deal with.

**Do you see a possibility of how to address the more difficult problem of the Cayman Islands and Virgin Islands, etc.?**

Naturally you cannot occupy the Cayman Islands but you can establish a monetary barrier. You allow anybody to bring their money to the Cayman Islands but to repatriate money from there you can impose a significant fee for such a transfer. That is, you tax any import of capital from the Cayman Islands. The property laws and so on keep you from

decreasing that one must keep their money inside the country of production but it is possible to say 'you can't come into this country with your money'. It's a clear principle; you can always say to someone outside 'you can't come inside' but it's a lot more difficult saying to them 'don't go outside'. We are doing this with immigration policies, so why can we not do this with capital transfers?

Naturally, you have to block not only from the Cayman Islands directly but from any country that receives the Cayman Islands' money. For example, Portugal can also not send money to Britain if Portugal allows the Cayman Islands to send money. The only necessity is having the courage to do it but obviously those receiving the money have no interest in pursuing this, which is why there is faint political momentum in this direction.

**We would like to address the issue of a minimum wage. In Germany it has only recently been implemented after a lengthy political debate. What is your position on minimum wage?**

I have always been in favour of the minimum wage on account of a minimum wage corresponding to a period of weakness of labour. We have a minimum wage not because we want to substitute the market, but because we have partial markets where labour is very weak. Basically, the model functions according to the following lines: the ultimate factor of determination of wages is the marginal product of labour but this can be evaluated only in the case of full employment. Therefore, we need unions that go for a tit-for-tat process with capital on finding out what will be the marginal product because basically what unions and capital do is decide how much the wage can increase in order to have high levels of employment.

If unions behave responsibly, they will not negotiate for wages where employment is destroyed. They try through tit-for-tat to find an equivalent for the marginal product of labour in a situation where there is not full employment, where the neoliberal wage theory does not apply because the system is not at full employment. We have situations where unions are no longer strong because of battles against them from SMEs [small-to-medium-size enterprises], corporations and right-wing governments; if it is known as a worker you are in a union they will probably replace you. Therefore, if there are no unions that can negotiate then you have to pass through the state as a replacement, which is the enactment of a minimum wage. The state will patronage negotiations of the employers and some unions that are close to this branch, and will make

the decision as the union has no power of contestation; unions can give advice only, which the state may employ after long deliberations.

**Usually, the argument against minimum wage is that it hinders full employment . . .**

That is simply wrong. The wages in a Keynesian model follow the increase in production; that is the wage fund. Workers do not receive wages according to differentials in their productivities but to the national wage level. That national wage level is influenced by those with social power, for instance wage increases are led by the metal workers in Germany.

To summarise, one of the good German economists, who is chief of a state bank, wrote a paper showing that the determination of the marginal wage contains a contradiction as the total product produced by labour is also the result of the wage. In other words, the wage appears on both sides of the equation, so cannot be eliminated. I know a lot of economists who will agree with this but only when they lose their influential jobs!

**We would like to move in a completely different direction now to geopolitics. You have written ‘we head for a world of diverse cultural identities that do not clash. As the powers, they serve as a force of cohesion, will tend to be self-restrained creating something resembling a multi-ethnic empire. We are heading towards something like the Vienna system of 1815 but actually more stable’. That is quite a bold statement . . .**

First of all, that is at the end of an article in which I predict that cultural identitarian movements [covered in Chapter 10, ‘Social Movements and New Cultural Identitarian Political Movements’] will take power in many of these crises-hit societies. I foresee the degree of nationalism and identity politics in China will begin to share some similarities. I argue these new forces will not clash because the real composition of these states is ethnically heterogeneous, and rarely, except in Pakistan for example, are there important ethnicities living on both sides of the border. There are overlaps, but the ethnic groups that overlap in Asia or Africa rarely constitute the main corpus of the population. For example, the Kurds are living in four states, but are a repressed minority in all of them. In these regions you don’t have what you had in previous centuries in Europe: Poles living in Germany so that Poland had different political wishes, French people in Alsace-Lorraine with a German dialect,



the constant quarrelling over regions – this overlap does not exist to the extent it once did.

Around the India–China border are Tibetans. The Indians allow the Tibetans to raise complaints, while the Chinese are only concerned with the Tibetans living in Chinese jurisdiction, but there are no major Chinese communities living in India nor are there Indian low-land populations living across the border. Therefore, I don't think they will clash. They will just be living side by side, very careful not to raise the boundaries problem too much because that would provide leverage for those boundary populations. It is also present on the boundary of Iran and Pakistan, where you have Balochs, which are on both sides, but both Iran and Pakistan consider them as nationally not trustworthy so they both limit all the possibilities of the Balochs. The strategy of mutual containment by state powers will become commonplace.

**You are looking at a system where the states are secure in terms of the boundaries that have been agreed upon, but within these boundaries they are becoming more multiethnic. Is that the Vienna system of international relations [1815–1914] you are talking about?**

The future international state system could be like the system that Prince Metternich [Foreign Minister of the Austrian Empire] envisaged for Vienna – no country questions the boundaries of others, we are defending each other, and nobody really wants to destabilise their neighbour. The Vienna system was considered as a system where ethnicities don't play a role. Ethnicity is associated with the French Revolution so has come to be known pejoratively. Therefore, the boundaries of the Vienna system were drawn by dynastic legitimacy – boundaries matching national legitimacy.

The Han Chinese are in the majority but they are not the total of China; the people in the south of China speak another language; they only have the same scripture. In China, I haven't seen that they are suppressing what they call the dialects, although you have to write correctly. In India, if you would impose Hindi as more than a link language, then you would have total revolt in Tamil Nadu, where they speak Tamil. One learns Hindi in India as people learn English in our societies; language is not enough to form an identity. In Brazil it is a bit different, but if you argued for a Brazilian nation, one of common descent, I don't think that the slave population in Brazil would be too happy. You don't have this hyperidentification as you have in Europe.

The absence of ethnicity stabilises the system, and in the twenty-first century, the absence of ethnic-based states is likely because nobody will mobilise large states on the basis of ethnicity any longer, as happened with disastrous consequences in the twentieth century. Even with the growing power of China it will not necessarily weaken rival countries' sovereignty; it is more important to have somebody you can talk to and is more secure than somebody who takes charge from a revolutionary movement. The West will use its influence to stop any uncontrollable people transforming these demonstrations into a power grab unless they are convinced it is a reasonable alternative. That is what I would call a Vienna System II.

**You are making the connection that this hyperidentification of ethnicity and state contributed to war in twentieth century Europe, and as we will no longer have ethnic-based states, state wars will be less likely?**

Indeed, these large countries will not posture towards war and therefore there will be very little general conscription. The Indian army doesn't have general conscription, although the Chinese army does. Given the technologies of modern warfare, we will not have the arguments of the nineteenth century in Europe – this belief to be a Frenchman and a German and that you have to die for your fatherland. I don't see any of these non-European countries having this type of belief, not least because it is futile.

**The increases in migration must factor into such predictions, in that they are contributing to the weakening of an ethnic nation state.**

My argument is that migration causes multiethnic states, which makes them less nation-based. In Germany, with 10 million immigrants, it will be very difficult to proclaim we are the descendants of the Teutonics or another of the Germanic tribes. Migrants cannot identify with this so it would be farcical to raise it.

**Let's end this interview by turning to philosophy and any personal philosophies you have. Can you give us some insights?**

I don't see any superiority of modern philosophical thought in relation to other philosophical thoughts. For me, the last real important philosophers have been Nietzsche, Sartre and Camus. The rest, I think, are rubbish!

Nietzsche is a philosopher who sees the problem of balancing yourself; he concerns himself with projection of human aspirations onto god. The popular description of this is 'Zarathustra', the man-made god.

Sartre is the radical prophet of advocating there is nothing in the world outside your own mind, your own position that can save you. This is encapsulated in the sentence 'Man comes from nothing and man goes to nothing'. This implies that life has no meaning. The start of wisdom is when you have understood that life has no meaning, which is a basic Buddhist understanding that is 2500 years old.

### **Would you call yourself an existentialist?**

No, Sartre and Camus were very important writers, and probably existentialism and Buddhism have very much in common, but I would not label myself. What I have shown you and what is important for the book is that even though I provide a key to understand capitalism I don't consider capitalism the non-plus-ultra of human progress. That is absolutely not my position.

I am now old and I happen to talk to a lot of other old people: 99% are afraid of death and would do everything to escape this. You cannot be happy if you cannot accept death. That is one of the conditions of life. This is also why I think that some cultures are more developed than others. In the Tibetan culture, fear of death is not an issue. You live your life in order to be happy in the moment of death. That is the definition of how you should die. When my wife died there were Tibetan monks there by coincidence who did the first services. Our child was crying so they brought her to another room because if my wife's dead spirit saw the crying child, she would be unhappy and this would make the period until she is reborn difficult. These are very high civilisational achievements: to understand that you have to accept your own condition and you have to influence your own emotional situation accordingly.

Personally, I am really proud of my life, not even so much of my writings, but I am proud of my life for the fact that I have extremely good relationships with my two children. This and several other aspects I consider achievements in line with East Asian philosophy: understanding the limits of our possibilities, the necessity of understanding situations and the necessity of maintaining dignity, to never be absorbed by feelings of hatred or fear, but to always keep yourself in balance. It's what I admire in East Asian thinking. I don't argue overall that Tibetan or East Asian culture is superior to any other, more that it is a tradition from which we can learn important things, as you can learn something important from Nietzsche, Sartre and Camus.

**Given this philosophical insight and particularly that you adopt some East Asian spirituality in how you live your life, is there not a contradiction between this and advocating mass consumption, mass production and mass markets? Particularly, you don't seem to be putting any limits to consumption while at the same time acknowledging it's a spiritual dead-end.**

We already have limits in consumption otherwise we would not have increasing saving rates.

However, you are implicitly asking me for a moral assessment and there the question is: 'Does an intellectual, like me, have the authority to determine which means to pursue well-being are legitimate'? I don't think so, because you have no scientific criterion. As an intellectual you can formulate a critique, a cultural critique of the state of society. We have addressed some elements and being in my house you can see for yourselves I don't have most of the things people usually want to buy.

What are the possibilities in a democratic process to go beyond cultural critique and forge a 'new culture'? I admit that, personally, I am very sceptical. Everybody's need to impress one another, the search for status that favours a type of consumption, is ultimately based on fear. All advertising plays on that. That comes back to what I said previously: the real Cultural Revolution is our capacity to liberate ourselves from fear. That is a very big programme and it has nothing to do with capitalism.

The basic theoretical underpinnings of my theory have something to do with very fundamental philosophical opinions, which I never write about. So I am also happy we are addressing this because I normally do not write about things I have not carefully checked. You, however, have the right to include issues in this book that are more of a proposal than a result. You are free to do so because in this context I am not the scientist that claims he knows, but I am the object of research. The scientific criterion is given by the fact that you have asked me and you have faithfully recorded what I am saying. And if things are more putative than formative, that's okay. It is a very nice division of labour. I think that it greatly contributes to the book.

# Notes

## 1 Introduction

1. See Nolte (2013).
2. See Lobe (2011).

## 2 Rent

1. See Elsenhans (1985).

## 3 Marginality

1. See Lewis (1954).
2. See Elsenhans (2004).

## 4 Overcoming Underdevelopment

1. See Rostow (1960).

## 5 A Convoy Model of Globalisation

1. See Krugman (1994).
2. See Hein and Truger (2012).

## 7 General Thoughts on Capitalism

1. See Rajan and Zingales (2004).
2. See Keynes (1936 [2007]).
3. See Luxemburg (1913).
4. See Piketty (2014).

## 8 Nongovernmental Organisations

1. See Kothari (1986).
2. BRAC (formerly Bangladesh Rural Advancement Committee) is a non-profit development organisation based in Bangladesh. Grameen Bank is a community development bank and a microfinance institution founded by Muhammad Yunus. The Bank and Yunus were awarded the Nobel Peace Prize in 2006 for pioneering the concepts of microcredit and microfinance.

3. The Friedrich-Ebert foundation is a German political foundation associated with the Social Democratic Party of Germany (SPD). The Hans-Böckler foundation is a German political foundation associated with the German Trade Union Federation.

## **10 Social Movements and New Cultural Identitarian Political Movements**

1. See Elsenhans (2012a).
2. See Brunschwig (1947).

## **11 Career, Criticisms, Creed and Other Issues**

1. See Elsenhans (2011).
2. See Elsenhans (1983).
3. See Elsenhans (2012a, 2014) and Elsenhans and Ouaisa (2015).
4. See Elsenhans (2012b).
5. Postdoctoral thesis; a prerequisite in Germany to receiving a full professorship.
6. See Elsenhans (2007).

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