UNEVEN GLOBAL DEVELOPMENT
Origins and current developments

Schwerpunktredaktion: Rudy Weissenbacher

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Editorial

If ‘development’ in and between capitalist societies were just, equal, and peaceful, neither development studies nor a journal bearing this name would exist. If the capitalist world economy/society provided decent lives for all its members, there might not be much talk about inequality and unevenness in today’s world. But quite the opposite is true. It can be trusted that readers of the Austrian Journal of Development Studies have a rather good idea of the appalling circumstances many people in peripheral countries are confronted with, and are familiar with estimates of victims of hunger, malnutrition, and diseases. Neither has poverty been absent in rich societies. Increasing polarisation has become the paradox of rich societies unable or rather unwilling to take care of all their members. Recent turmoil in the financial markets has increased the awareness of the structural imbalances of the global economy, which is on the brink of a worldwide recession.

The Mattersburg Circle for Development Policies at Austrian Universities has a long-standing record of tackling problems and discussing aspects of uneven development. This issue of the Austrian Journal of Development Studies (AJDS) approaches uneven development from different perspectives. Peer Vries, who has recently been appointed full professor at the University of Vienna, is a renowned scholar in the field of social and economic history. He does extensive research on the origins of uneven development and the origins of modern economic growth. In his contribution to the AJDS, he critically assesses a relatively recent but already influential ‘school’ of historical research, the so-called ‘California School’, which, as he put it, “has changed the way we look at the economic history of the world, especially the pre-industrial world of Eurasia”.

The second contribution is written by an equally distinguished scholar. Vishnu Padayachee is Senior Professor and Head of the School of Development Studies at the University of KwaZulu-Natal, Durban. From his
various fields of research (including macroeconomic policy in Africa; finance, banking and monetary policy; and the politics of sport in South Africa), he offers AJDS readers his expertise on capitalism in South Africa, which is amongst the most unequal societies in the world. In his paper, which is rooted in ‘comparative political economy’, he explores the specificities of South African capitalism before and after democratic change in 1994. What are the continuities and disjunctures running through South African capitalism operative before and after democratic change? The findings seem to disappoint hopes for a more equitable society held during the change from Apartheid to a democratic system.

The third article is by Rudy Weissenbacher, who took care of the edition of this issue. It tries to embed a discussion of uneven development (from a political-economic and historical-geographical point of view) into the current events of the unfolding crisis, and the changing discourse on capitalism and its structural imbalances, respectively. The contribution revisits origins, main arguments, and contradictions of the dominant theory of development in recent decades, and contrasts it with an approach that allows us to see the current crisis as a “result and symptom of an over-accumulating world economy”, and not merely as an instance of a regulatory failure. Moreover, the paper offers arguments as to why this world system under US hegemony has shown such remarkable stability despite decades of crises.

In editing this issue of AJDS, I owe gratitude to my colleagues Joachim Becker, Lukas Lengauer, and Oliver Schwank for discussions and comments, to Keri Jones who edited and streamlined the (English) language, to Bettina Köhler, the AJDS’ managing editor, and last but not least to six anonymous reviewers.

Rudy Weissenbacher
The biggest challenge for global economic historians is to explain the huge differences in wealth between rich and poor countries that began to emerge with the industrialisation of parts of the Western world. If they want to explain what, since the appearance of Pomeranz’s book, is known as ‘the Great Divergence’, they would actually have to tackle four questions (Pomeranz 2000). The first one concerns the introduction of steam-power in production and transport; this, during the Industrial Revolution in Britain and parts of Western Europe enabled societies for the first time in world history to escape from Malthusian constraints. Then there is the question as to why the momentum of this first industrial revolution did not end in stagnation at a higher level but became a ‘take-off’ into sustained and substantial growth. Next there is the question of catching up: how did less developed countries catch up with or even overtake more advanced ones? Finally, there is the question as to why so many countries failed to do so, as a result of which the gap between such countries and developed countries was perpetuated and even widened.

In this article only the first question, dealing with the First Industrial Revolution, will be discussed. Why did the first escape from the Malthusian ceiling occur in Western countries, first and foremost Britain, and not in other parts of the world? That is one of the classic questions in economic history. With the emergence of the so-called California School of economic historians however, it has been posed in a new way by framing it explicitly in a context of global comparisons and connections, and it has received answers that are often quite different from the traditional ones. This text is
meant as an attempt to offer a critical, constructive evaluation that indicates what we can learn from the Californians, where they may be wrong, and what promising paths for future research they have neglected.

The reference to global comparisons and connections does not mean that I will discuss the entire globe. I will focus on only Britain and China. The decision to do so is, to some extent, pragmatic. It keeps the topic manageable. Yet there are also scholarly reasons. If we are to believe Jared Diamond, people of Eurasian origin, especially those living in Europe and Asia and those who migrated to America, had far better chances of becoming rich and dominant than those living someplace else, because different natural resources were available to the people of different continents (Diamond 1997). Although not everyone would so easily write off the Americas before Columbus, to me his main arguments sound plausible (Mann 2006). In Eurasia, at the eve of the Great Divergence, Britain and China are normally regarded as the most developed and richest countries. It is not by accident that in the work of the California School these two countries hold centre stage.

Comparing only two countries may look like evading the discussion on the origins of the great divide between rich and poor on a global scale. Personally I prefer to focus on countries as opposed to simply contrasting, as is often done, ‘the West’ with ‘the Rest’. Differences in the West and even more in ‘the rest’ of the world are too great to make that, intellectually speaking, a very promising endeavour. When it comes to comparative analysis, I prefer studies in which a couple of historical cases are analysed in depth and compared as a whole, over comparative studies in which large numbers of cases are compared variable by variable, looking for statistical correlations (for this distinction see Ragin 1987: chapter 3 and 4). One can and should in the end always add more cases.

My comparison will be synchronic and will focus on ‘the very long eighteenth century’, roughly the period from the 1680s to the 1850s, in which the great diverging of Britain and China actually took place. In the literature I review, this has become by far the most popular way to proceed. This does not mean that diachronic comparisons would not make sense. Personally, I’m increasingly inclined to think it would also be quite interesting and pertinent to analyse why Sung China (907–1276) did not ‘take off’ instead of focusing so exclusively on Qing China (1644–1912). Sung
China in many respects was more developed and more dynamic than Qing. Mark Elvin, in his pathbreaking *The pattern of the Chinese past*, contrasts the dynamism of China under the Sung and partly even under the Yuan (1278–1368) dynasties with what he regards as the beginning of technological stagnation and decreasing dynamism as early as in the fourteenth century (Elvin 1973: chapters 2 and 3, 1996: chapters 2 and 3). Eric Jones is even more explicit and claims that China came within a hair’s breadth of industrialising in the fourteenth century (Jones 1988: 160). The question as to why there was no breakthrough under the Sung and why (probably) the Sung achievement was not even repeated, is still open and to my view simply neglected, also by the Californians (Jones 1988, 1990).

2. Eurocentric approaches

The debate on the causes of the Great Divergence is as old as the social sciences. Until quite recently, two or, if one regards dependency-theory and modern world-systems analysis as distinct approaches from ‘ordinary’ Marxist analysis, three ‘schools’ have dominated it. The most popular approach is still the one that builds on the legacy of Max Weber and his claim that the West underwent a uniquely intense process of rationalisation that resulted in the emergence of capitalist market economies, bureaucratic states and a disenchanted culture that was ideally suited to produce science, technology and a methodical way of living (Schluchter 1983, 1984, 1987, 1988, 1998). Although not many scholars would actually describe themselves as Weberians and hardly anyone would deny that in various respects Weber was simply wrong, he is still setting many research agendas. For example, David Landes’ enormously successful bestseller on the wealth and poverty of nations has a strong Weberian flavour (Landes 1998). In this line of thinking the economic ‘rise of the West’ is almost identified with ‘the rise of the market’, a thesis that mainstream economist as well as increasingly popular ‘institutionalist’ colleagues, enthusiastically support (for institutionalist economics see Thomas/North 1973; North 1981, 1990, 2005). Weberians focus on developments in Europe. They regard its history as structurally and fundamentally different from that of the rest of the world. To them, the Great Divergence is the culmination of a long process, not something fairly
contingent that could have occurred anywhere. They regard what happens in ‘the rest’ as of no fundamental relevance to the main direction of modern Western history.

The second approach is the classical Marxist one that, notwithstanding its evident differences from the Weberian one, also shares a number of fundamental features with it. The differences are well-known. More interesting in the context of this article are the many similarities. Both approaches regard capitalism as the motor of modern economic development and as a Western invention. They both claim that its emergence in Europe explains the economic primacy of the West. They share the idea that Europe was different and more dynamic than the rest of the world over which it, not by accident, came to rule. From a Marxist perspective, though, the main challenge is not to analyse ‘rationalisation’ but to explain the transition from feudalism to capitalism (Holton 1985). Although that actually is hard to square with Marx’s overall philosophy of history and so required ad-hoc constructs like the Asiatic mode of production and Oriental despotism, most classical Marxists came to the conclusion that the world outside the West lacked the internal dynamics to manage a transition to capitalism on its own (see Avineri 1969; Krader 1975).

Dependency theory and world systems-analysis are often regarded as neo-Marxist. They do indeed build on elements of classical Marxism, such as its focus on exploitation and ‘unequal exchange’ and on the history of capitalism as central to any understanding of the modern world. There clearly also exist major differences between these approaches and the classical interpretation of Marx’s work. I will not deal with them here and will simply assume that the readers of this journal are familiar with the various theories about the “development of underdevelopment” that have been formulated by proponents of dependency theory and world-systems analysis. For adherents of these ‘schools’ too, capitalism functions as the lever of global development. What they have in mind is not a Smithian capitalism of fair and free competition but rather one of monopoly, collusion and even coercion, in which there is intense interaction between those who hold political power and the capitalists who are looking to find protection against the market. Braudel, whose influence on Wallerstein’s historical analysis is not always sufficiently appreciated, even defined ‘real’ capitalism as an ‘anti-market’ (Braudel 1979, 1981, 1984). According to him, capitalism only
triumphs when it becomes identified with the state, or rather when it is the state (Braudel 1977: 64-65). Though not entirely enthusiastic about what the West did and does on the global stage, both ‘schools’ present capitalism as a dynamic force that from its very beginning was trans-national and, originating from the West, created the modern world-system by incorporating a fairly passive and non-developing ‘Rest’. In that sense they too are clearly Eurocentric.

Those following in the footsteps of Weber and Marx as a rule have not focused on demographical and geographical factors but reference to them has never been entirely absent from the debate. When it comes to demography, the Hajnal-thesis, referring to a Western European marriage pattern and its direct and indirect consequences for the economy, continues to be discussed (Engelen/Wolf 2005; de Moor/van Zanden 2005). There have always been scholars who attribute an important, ‘autonomous’ role in history to the natural environment, – think for example of Braudel and Jones, and recently Diamond. At the present moment in global history, the role of ecology is clearly quite prominent (Bentley 2005).

The reader will have noticed that up until now the word ‘China’ has not been mentioned. That is not unintentional. In Weberian and (neo) Marxist stories alike, Qing China received hardly any serious attention, in stark contrast to an industrialising Britain that figured as ‘the spearhead’ of the West. If it was mentioned at all, it was as the almost archetypical ‘non-developer’. It tended to be described as a rather immobile and closed economy; a specimen of oriental despotism with an Asiatic mode of production (see Du-Yul 1972). Until late into the twentieth century, with some rare exceptions, scholars agreed that Qing China was so backward and immobile that it did not even occur to them to seriously study why the first industrial revolution did not take place there (Blue 1999; Ho-fung Hung 2003).

3. The California School

Recently things have changed tremendously. Various scholars have almost completely re-written the economic history of China in the early modern era. They have found a willing audience. Their revisionism has had a major impact on debates on ‘the rise of the West’. It was often explicitly
meant to have that effect as it was part and parcel of an effort to combat Eurocentrism. The best-known amongst these scholars are Kenneth Pomeranz, Roy Bin Wong, Jack Goldstone, James Lee, Dennis Flynn and Arturo Giráldez, Robert Marks, John Hobson, Jack Goody, and of course the late Jim Blaut and Andre Gunder Frank. They are often called ‘the California School’ because many of them worked at universities in California. For the sake of convenience, I will also use this label, introduced by Jack Goldstone, in my text. Goldstone has just published a comprehensive account of the Californian interpretation of ‘the rise of the West’. To show the Californian ‘creed’, I can do no better than quote him: “Instead of seeing the rise of the West as a long process of gradual advances in Europe while the rest of the world stood still, they have turned this story around. They argue that societies in Asia and the Middle East were the world leaders in economics; in science and technology; and in shipping, trade and exploration until about AD 1500. At the time Europe emerged from the Middle Ages and entered its Renaissance, these scholars contend, Europe was far behind many of the advanced societies elsewhere in the world and did not catch up with and surpass the leading Asian societies until about AD 1800. The rise of the West was thus relatively recent and sudden and rested to a large degree on the achievements of other civilisations and not merely on what happened in Europe. Indeed some of these scholars suggest that the rise of the West may have been a relatively short and perhaps temporary phenomenon” (Goldstone 2008b: VIII). I will repeatedly refer to Goldstone’s book, as it is a fine summary of Californian thinking. In my critique of that thinking, I will use and often support the analyses of Joseph Bryant, who has given a much more critical summary (Bryant 2006, 2008).

The rise of the California School is part of a widespread dissatisfaction with Eurocentrism. Some members of the school can be quite extreme and more than anything else emphasise Europe’s backwardness. Until late in the early modern era, Europe was a backwater, so they claim. Its rise to primacy, moreover, was not only late and contingent but would have been unthinkable without Europe borrowing or outright stealing from other parts of the world, and without sheer luck. Until the Great Divergence of the late eighteenth century turned the tides, the really advanced societies of the world were to be found in Asia, first and foremost China.
An exponent of this extreme view is John Hobson, author of a book with the telling title *The Eastern origins of Western civilisation* (Hobson 2004). This book contains a systematic effort to ‘provincialise’ and ‘primitivise’ Europe. No opportunity is missed to point out that Europe was peripheral and marginal, a late-developer that actually profited from the advantages of its backwardness. Britain’s industrialisation is said to have Afro-Asian origins. A pivotal role in helping Europe to rise is accorded to China. If there is any original, home-made contribution of Europe to its own rise, it would be its expertise in using violence and manipulating the economy and, later on, its racist feelings of superiority.

Focusing on the economy, but definitely no less anti-Eurocentric, is Andre Gunder Frank. His *ReOrient. Global economy in the Asian age* i.e. the period 1400–1800, hammers home one clear message. Economic historians studying the early modern era must focus on the East, in particular on China, the world’s most developed economy. To focus on a ‘rising’ Europe for that period is a Eurocentric mistake: “[…] Europe remained a marginal player in the world economy until the second half of the eighteenth century with a perpetual deficit [i.e. in its trade with Asia, Peer Vries] despite its relatively easy and cheap access to American money, without which Europe would have been almost entirely excluded from any participation in the world economy” (Frank 1998a: 75). To make sure everyone gets the message, Frank even claims “[…] the Europeans did not do anything – let alone ‘modernize’ – by themselves” (Frank 1998a: 259). When the Europeans in the end rose, they did so by “climbing on Asian shoulders” with money they had somehow found, stolen, extorted or earned (Frank 1998a: 277). Although Frank still repeatedly and emphatically refers to Europe’s exploitation of the Americas, he fiercely rejects what he had still believed when he propagated dependency-theory: the idea that the Europeans by their activities there and in parts of Africa and Asia created a global economy of which they themselves were the centre.

Frank’s plea for all-out Re-Orientation has not fallen upon deaf ears, even though many of his claims are patent exaggerations. To claim that Europe’s role in the world economy was marginal, to give just one example, is absurd. Let me quote Victor Lieberman: “One may well ask how a region that conducted an intensive internal commerce and that in 1750 dominated the trade of West Africa, the entire New World, and much of maritime
Southeast Asia and coastal India could have been marginal to the world economy” (Lieberman 2003: 74). Robert Marks, however, as with many others, seems convinced, and writes in his popular textbook that Europe was “[...] a peripheral, marginal player trying desperately to gain access to the sources of wealth generated in the East” (Marks 2002: 43).

Less vociferous Californians confine themselves to emphasising that ‘the Rest’ was not backward, and ‘the West’ not that different. Again, some scholars take quite radical positions, developing a real allergy to any claim of difference (Goody 2004, 2006; Langlois 2008). That is not very convincing: no one living at the time would have mistaken London for Peking. Nevertheless, the idea that at least in many respects Europe and Asia were much less different than is claimed in traditional historiography (the so-called ‘Eurasian similarity-thesis’) has a wide appeal, also amongst people who are not Euro-bashers, like Jack Goldstone (Goldstone 2008b) and the even more nuanced John Darwin (Darwin 2007). I will discuss this thesis extensively later on in this article.

4. China as the centre of an early modern global economy?

In varying ways, all Californians ‘rehabilitate’ early modern China and thereby change the parameters of the debate on the Great Divergence. Some of them claim that China held a central position in what they regard as an already integrated global economy; others that its economy was one of the most highly developed, and definitely the biggest one at the time; some combine those claims. The study of China has now acquired a central place in the field of early modern economic history. Probably the best way to dissect their ideas and their relevance for the debate on the Great Divergence is to set them alongside the four concepts of centrality that Samuel Adshead uses in discussing Gunder Frank’s position (Adshead 2004: 16-17).

One reason to give pride of place to China might be the observation that it was the world’s biggest economy at the time. I don’t think anyone would want to argue with that. In the second half of the eighteenth century China alone was home to about one-third of the globe’s inhabitants. Suggesting that it would also have been the economy with the biggest GDP is then not exactly a wild hypothesis. Various authors would go further and claim
that it was also the country with the highest standard of living in the world. That too may be a good reason to focus on its economy. Pomeranz, whose ideas on this subject have had the widest resonance, is actually somewhat more cautious. The core of his ‘surprising resemblances-thesis’ consists of the claim that on the eve of the Great Divergence, differences in wealth between the most advanced parts of the globe, i.e. Western Europe, the Yangzi Delta, and parts of Japan and India, were minor, if not negligible. Some regions of Asia may well have been somewhat richer than Western Europe.

This allegation may sound quite sensational, but actually it is not that new or controversial. Even some well-known ‘Eurocentric’ historians think it might be correct. Paul Bairoch defended a comparable claim more than two decades ago (for a recent synthesis see Bairoch 1993: chapter 9). Fernand Braudel quotes him approvingly (Braudel 1984: 533-535). Eurocentric par excellence David Landes thinks that at the end of the eighteenth century the gap in real income between Western Europe and India and China was not bigger than 1.5 or 2 to 1 (Landes 1998: XX). Angus Maddison, to give one last example, is not so confident about the wealth and level of development of Qing China and not very positive about Pomeranz’s work, but still thinks that in 1820 Western Europe was ‘only’ about twice as wealthy as China (Maddison 2004, 2007).

Pomeranz’s views on the wealth of the East have ignited a debate in which his ‘confidence’ has been qualified by authors who claim that at least in parts of North-western Europe real wages were higher than in even the richest parts of Asia. Yet in their estimates too, differences are not huge, especially not when compared to those that originated with industrialisation. Moreover, what, in particular for the Chinese side of the equation – where wage labour was almost non-existent – is actually needed, is information on incomes rather than wages (Allen/Bengtsson/Dribe 2005; Allen et al. 2005; Broadberry/Gupta 2005, 2006; for more detail on the China-Britain comparison see Journal of Asian Studies 61 (2) 2002 and 62 (1) 2003). In that respect the comparative analysis, by Bob Allen, of rural incomes in the Lower Yangtze Delta-region and Britain in the eighteenth century is interesting and promising (Allen 2004a). Anyhow, considering the Malthusian constraints that existed in all pre-industrial societies, differences in wealth simply cannot have been very big.
The question of course is what this might mean for the debate on the Great Divergence. It undoubtedly is interesting and important to try and assess the differing levels of wealth of the various countries that figure in that debate. For too long, apodictic claims have been made in that respect without a solid empirical basis. One, however, has to be careful not to assume too strong a relationship between wealth and (potential for) development. The chances of a country becoming the first industrial nation need not systematically increase with its wealth. The Dutch Republic, whose wealth in all probability was second to none until the 1820s, industrialised quite late. On the other hand, the costs of being the first industrialising nation à la Britain were quite low and could, in principle, have been covered by quite a few nations.

A third possible reason to focus on China and its economy might be that China actually dominated the global economy at the time. Personally I am anything but convinced that this was the case. Whatever the actual importance of early modern China in the economy of the world, it would in any case be far-fetched to claim it did actively and consciously try and set the pace of the global economy. The Chinese under Ming (1368–1644) and Qing rule did not make many lasting initiatives on a global scale. They all but stopped travelling to other continents, whether it was for trade or to invest. Nor did they settle there in substantial numbers. If so much silver ended up in China, this was not due to any effort by the Chinese. It was because others brought it. China’s government was rather reticent when it came to contacts with non-Chinese, in particular when they came from non-tributary countries. All this makes early modern China a very unlikely candidate for being the active trade centre of the globe, notwithstanding the existence of many private initiatives and huge Chinese intra-Asiatic trade networks. The chances that China would in one way or another have passively dominated economic life on the globe by means of the sheer size of its economy also look very slim. Size and the characteristics of its intercontinental trade connections simply rule that out. What is clear is that even if China did ‘dominate’ the early modern global economy, that apparently did not create the right preconditions for an early take-off.

Finally, one may conceive of the centre of the global economy – at least in the early modern context – as the country that attracts the largest amount of bullion. It is this claim in particular – that in practice cannot easily be
distinguished from the form of centrality we have just discussed – that has become popular with regard to early modern China, with the not irrelevant restriction that one tends to exclusively focus on imports and exports of silver. For the sake of brevity, I will refer to this thesis as ‘the silver sink thesis’. It has two components. Firstly, the claim that from the end of the sixteenth century till the 1820s, China had a huge import surplus of silver. Secondly, the claim that this was a clear indication of the strength of its economy and of its involvement in global exchange. At the time bullion was widely considered as the measure of wealth par excellence: the country that accumulated most of it via its trade must therefore have been the wealthiest one with the most efficient economy. At least, that is, according to the defenders of this thesis.

With characteristic vigour, this thesis has also been propagated by Andre Gunder Frank (Frank 1998a: 75, 117, 127-128, 148, 175, 177-178, 185). For example, in a barrage of superlatives he writes: “China’s even greater [i.e. than India’s, Peer Vries], indeed the world economy’s greatest, productivity, competitiveness, and centrality were reflected in its most favorable balance of trade. That was based primarily on its world economic export leadership in silks and ceramics and its exports also of gold, copper-cash, and later of tea. These exports in turn made China the ‘ultimate sink’ of the world’s silver, which flowed there to balance China’s almost perpetual export surplus. Of course, China was only able to satisfy its insatiable ‘demand’ for silver because it had an inexhaustible supply of exports, which were in perpetual demand elsewhere in the world economy” (Frank 1998a: 127-128). Frank regards global trade as a game with winners and losers. He is convinced its winners lived in Asia, to be more precise in China (Frank 1998a: chapter 3).

The silver sink thesis was already cherished by Flynn and Giráldez before Frank promoted it. They think it is likely that two-thirds or maybe even approximately three quarters of all the silver produced in America between roughly 1492 and the 1820s, ultimately settled in China (Flynn/Giráldez 2004: 88, 1999: 23). For them too, this is an indication of China’s dominance and primacy (Flynn/Giráldez 2006: 240). It will not come as a surprise that Hobson and Marks support such claims. Hobson refers to “its perennial trade deficit with Asia” as “the clearest sign of Europe’s backwardness” (Hobson 2004: 171, 72, 77-78). Marks, who, as we have seen, regards
Europe at that time as being backward, claims that “[…] approximately three-quarters of the New World silver production over the three centuries from 1500 to 1800 eventually wound up in China” (Marks 2002: 80).

This view has found its way into textbooks. John and William McNeill, for example, consider the period from 1450 to 1800 as one in which a global trade system emerged and write that “[…] until about 1750, China remained at the centre of this system. […] More than three-fourths of the silver [from America and Japan, Peer Vries] went to China or India” (McNeill/McNeill 2003: 201-202). David Christian voices a similar opinion: “That surpluses of silver gravitated toward Asia throughout this period also suggests the centrality of Asia in the emerging world system of trade.” To him Asia, and in Asia China, was the centre of the existing world system of exchange (Christian 2004: 385-386, 390, 404). Many more such quotes could be given. Even Pomeranz, who thinks the early modern global economy was polycentric, in a popular book written with Steven Topik explicitly points at the fact that: “New World gold and silver were shipped in huge quantities to Asia – perhaps fifty percent of these metals found their way to China alone” (Pomeranz/Topik 1999: 103).

Despite its popularity, this thesis is indefensible. An extensive rejection would require much more space than is available in the context of an article like this, so I can only refer to a forthcoming publication of mine, but it boils down to the following arguments (Vries forthcoming b). Firstly, close reading of the existing literature shows that the amount of silver that ended up in China was much smaller than proponents of the silver sink thesis claim; roughly one third of Latin American production in the eighteenth century in an extremely optimistic estimate. Silver remained very scarce in China as, for instance, shown in the fact that one could buy far more with it than in Western Europe. Moreover, much silver was brought to China because it yielded Westerners huge arbitrage profits when they exchanged it for gold. This reference to gold makes one wonder why one would have to focus so exclusively on silver. What about gold, copper or paper money? Of the globe’s gold production, the bulk went to Western Europe and stayed there. Britain for most of the eighteenth century was on a gold standard and it was a major copper exporter. The products that China exported in the second half of the eighteenth century when trade between China and Britain took off, either increasingly were not real manufactured
goods (e.g. gold and other metals, raw silk and drugs) or, in the case of tea (which by the end of that century had become by far the most important export commodity), a very peculiar kind of manufactured good that the British simply could not produce as it did not grow in their country, nor in any other country they had contacts with except China. This means that Sino-British exchanges do not provide relevant information on the relative productive efficiency of China's economy as compared with that of Britain. And then finally there is the fact that even if trade between China and Britain as such resulted in a drain of silver from Britain to China, the British earned a great deal of money by transporting and selling what they bought in China, far more than the Chinese did. Can one seriously expect them to have traded for decades with China without making any profit? These comments are not meant to re-install traditional Eurocentrism. In my view there definitely were important intercontinental trade flows, but not a global division of labour with a clear centre. Intercontinental exchange was simply too tiny for that: for a country like China it certainly was less than one percent of its GDP. The most important of those intercontinental trade flows and the one that grew fastest was that across the Atlantic that in the 1770 was about three times as big as that between Western Europe and the whole of Asia (see Vries 2003: 91-93; de Vries 2003: note 101).

Far less silver ended up in China than defenders of the silver sink thesis claim. The silver that did end up there often did so for reasons other than that of any kind of Chinese economic superiority. Nevertheless, China's silver imports were still huge. What exactly that means for the Great Divergence debate is unclear. While believing that its permanent silver influx did indeed, amongst other things, point at the strength of China's economy, Flynn and Giráldez think that the economy in the end would have been better off had the Chinese not exported so much of their products to acquire silver. Had they (re-)introduced a paper currency, all the inputs that were now used to acquire silver might have been used for producing something they could actually have consumed themselves (Flynn/Giráldez 2000).

Frank too, thinks those silver imports in the end had negative effects for China. They fuelled economic dynamism and economic growth. That led to population growth, which in turn brought about what Elvin calls a “high-level equilibrium trap”, a situation where labour is cheap and resources expensive and where opportunities to profitably invest capital in
labour-saving technology are lacking (Elvin 1973, 1996). Whatever the value of Elvin’s explanation of China’s predicament – on which more will be said later – to connect it to silver imports the way Frank does, is to seriously overestimate the impact of such relatively tiny intercontinental trade on China’s huge economy.

5. A world of surprising resemblances

Radical Californians may have a tendency to exaggerate the level of China’s development and in particular its role in the economy of the early modern world. Their work, however, has forced even their fiercest opponents to admit that China’s economy was much healthier and its global importance much bigger than traditional Eurocentric stories suggest. To find out how healthy and how healthy and how important, a detailed analysis is needed of China’s domestic conditions and dynamics. In that respect Pomeranz’s work, which as we will see is definitely not blind to global political economy, is quite helpful, in particular his effort to describe the economies of Western Europe and China in terms of “a world of surprising resemblances” (Pomeranz 2000: Part I).

Although that phrase is frequently quoted, it is not always interpreted in the same way. In Pomeranz’s book it often refers to the supposed absence of big differences in levels of wealth between various advanced early modern economies. Looking at real wages and income, as indicated, this claim is probably somewhat overstated but not terribly controversial. Including other indicators, like life expectancy, does not really change the picture, although here too, Californians tend to be somewhat overly positive about China.

It can also refer to a claim that there were no big differences in the level of development between various economies in Eurasia, which are supposed to have found similarly effective solutions to their problems. Pomeranz himself refers to “a series of balanced comparisons (that) show several surprising similarities in agricultural, commercial and proto-industrial development […] amongst various parts of Eurasia as late as 1750” (Pomeranz 2000: 8). Here too the revisionists have an undeniable point. Too many claims about European ‘exceptionalism’ were nothing but a measure of the existing igno-
rance with regard to the history of the rest of the world. Early modern China had very sophisticated systems of production and trade. It was home to many innovations. It did know private property and property rights and had well-functioning commodity markets that came closer to Adam Smith’s ideal than most of their counterparts in Western Europe. It was a highly developed commercial society. Its government clearly was not constantly interfering and thwarting development. It had a huge foreign trade. It went through a kind of consumer revolution and had an equivalent of what in European economic history is called ‘the rise of domestic industry’. In agriculture, land management, the efficient use of fuel, and the production of textiles and ceramics, it was in many respects more, rather than less, advanced than Britain.

Fundamental in this respect is the fact that before the first industrial revolution, all economies, even the most advanced ones, were Malthusian, i.e. dependent for their wealth on the quantity and quality of their land. They all faced the same constraints. They did not massively use fossil fuels and what use they made of them was for heating, not as a power source. According to Wrigley (1988), the Industrial Revolution as it occurred in Britain was a process that ended this direct and full dependency on the land. Californian critics endorse his characterisation of the first industrial revolution as the emergence of a mineral-based energy economy (Goldstone 2002). Without it, both Britain and China, according to Pomeranz, would sooner or later have reached the Malthusian ceiling.

6. Problems with the surprising resemblances-thesis

We now have a much more positive view of China’s economy on the eve of Western industrialisation. This is not ‘unproblematic’. The more ‘Eurasian’ resemblances and equivalents are brought into prominence, the more miraculous if not downright inexplicable becomes the enormous gap that emerged during the nineteenth century between Britain and China. How can situations that are surprisingly similar produce such huge differences? If resemblances really were so striking, why did not an eastern society, e.g. China, ‘take off’, or at least find it easy to catch up when others did? The rise of the West does not exactly become less ‘miraculous’ either, if one,
like radical Californian critics do, constantly reiterates that it was poor and underdeveloped and could only become richer and more developed – and in the end industrialise – by stealing from the Americas and borrowing, copying and free-riding in Asia. If that were true, why did the ‘East’ lose its advantage and why did not the ‘West’ end up being like that more advanced ‘East’?

Joseph Bryant rightly feels uncomfortable with this urge to remove “all potentially invidious distinctions” between West and East (Bryant 2006: 417). For an author like Jack Goody, the distinct qualitative difference between East and West came only with industrialisation (Goody 2004: 60). In Bryant’s words such a “[…] world flattened of determinant social differences makes the local emergence of any historical novelty structurally inexplicable and restricts explanatory options to conjunctures aleatory or incidental” (Bryant 2006: 418).

One indeed finds many references to ‘luck’, of all sorts and varieties, in the works of the Californian critics. John Hobson believes that explaining the rise of the West requires reference to no less than five cases of Western luck (Hobson 2004: 313-316). Rosaire Langlois claims that “Europeans weren’t just lucky; they were lucky many times over” (Langlois 2008: 141). When Frank points at the windfall the West had when it acquired the silver and gold of Latin America or at ‘the decline of the East’, from which it profited, he also is basically referring to luck. These references to luck are usually accompanied by taunts at Eurocentric scholarship for interpreting the rise of the West in terms of ‘inevitability’ (Hobson 2004: passim, e.g. 3, 10, 11, 15, 18, 19; Marks 2002: 10-15; Darwin 2007: X, 50, 57). This is setting up straw men. I have never come across any serious historian who does so. Moreover, is everything that is not ‘inevitable’ thereby ‘luck’? The quite depressing implications for the poor of the world of the ‘fact’ that the rich would have become rich by sheer luck, apparently escapes these Californians.

Pomeranz is too serious a scholar to be as apodictic and polemical as some of his colleagues, but in his work references to ‘fortune’, ‘luck’, ‘accidents’, windfalls and the like also abound (Pomeranz 2000: the flap text and 12, 16, 62, 68, 241). The luck he has in mind is of a specific kind, namely the ‘fortuitous’ availability for Britain of extra resources in the form of coal and colonies. Explanations that refer to resources and the environment have become quite popular. They are also quite problematic. By their very
nature they are incomplete as the actual importance of resources depends on whether they are recognized as such; whether they are actually used, and on how they are used and to what purpose. Resources as such do not do anything. If only for that reason, there is no clear correlation between having ample resources and being rich. In the early modern era the Dutch Republic and Japan, to give just two examples, were not blessed by nature. They nevertheless were rich. The wealth of regions often was, and is, inversely related to their natural wealth (Reinert 2007: chapter 3). Spain and Portugal amassed enormous amounts of bullion and land over centuries. They continued to be poor and underdeveloped, which suggests that easy money can even be bad for an economy (Landes 1998: 171-173). It is not some abstract, overall category called ‘resources’ that in the longer run decides a country’s wealth, but its productivity. Britain was indeed in a position to import a great deal of cotton from the periphery, but that would not have been much of a windfall if it had not been able to efficiently turn that cotton into cheap textiles (Goldstone 2008b: 67-70).

Frank came up with an explanation, before Pomeranz did, in which resources play a fundamental role, so I will first comment on his ideas. For him, Europe’s luck in laying its hands on American resources is subordinated to what he calls ‘a global economic-demographic explanation’. He claims that China, because of its overall wealth, became densely populated and ended up in a high-level equilibrium trap. I do not exclude the existence of such a ‘trap’ in China. Yet more is involved in it than just a dense, growing population and relative factor costs, as Elvin, who introduced the concept, admits (Elvin 1996: 64-100). Nevertheless, even if China’s economy, for whatever reason, indeed got stuck, how can this, or for that matter India’s troubles, which were also quite real, in any meaningful sense of the word have caused Britain’s industrialisation, the decisive element in the great diverging? How can one, with Frank, claim that ‘the decline of the East’ somehow explains the ‘rise of the West’? (Frank 1998a: chapter 5)

I will not discuss Franks ‘explanation’ of the decline of the East, which refers to the fact that the region had entered a contractive B-phase of a long Kondratieff cycle. I simply fail to see what that in practice can mean and how it can explain the very different crises and their timing in, for instance, India, the Ottoman Empire or China and why in a supposedly globally-
integrated economy Europe would not be hit by that contraction. For more extensive comments I refer to my review (Vries 1998a, 1998b).

Frank's comments on the effect of global competition for European and Asian economies look more enlightening in that respect. The British had good reasons to try and do something about the fact that Asians were such highly efficient producers of goods that they, the British, wanted to consume themselves or sell to others. One such product would be Chinese porcelain. That challenge, in principle, had already been successfully dealt with by the 1750s, when the British produced and began exporting porcelain themselves. Silk textiles from China were less of a challenge; the bulk of British imports consisted of raw silks and those imports, moreover, tended to decline after the 1750s. By far the most important import from China at the end of the eighteenth century was tea. That simply could not be produced in Britain. Here import substitution could only work if the British found someplace in their empire where it could be grown. In the end, from the 1840s onwards, India would become that place.

The product at the heart of Britain's industrialisation was cotton. The main competitor in this case was India. Mechanisation of British cotton production, which, important as it may have been is not identical to 'the British industrial revolution', definitely was (amongst other things) a response to that challenge. But that, of course, only provides a very partial 'explanation'. History is replete with efforts at import substitution that did not work. How could Britain respond so successfully that cotton textiles became its major export product? Here Frank claims that Britain, because of its relative under-population would tend to choose labour-extensive options in which machines would replace people. China, to refer to the other country central to my analysis, in contrast would, because of its 'relative' overpopulation, tend to select labour-intensive options, going down an 'involutionary' road.

This can only mean that Britain, which, according to Frank, was poor and backward and constantly sent huge amounts of silver to China, must have had high real wages and a sufficient amount of, actually quite cheap capital: All this notwithstanding its very heavy taxation and its enormous national debt. In China, that according to Frank was the most efficient economy of the world and its silver sink, real wages then apparently must have been so low and capital so expensive that it was not profitable to invest
in labour saving. Apparently, these contradictions do not bother Frank. It should, because it actually destroys his main thesis about China’s centrality (Frank 1998a: chapter 6).

High wages in Britain indeed have provided an incentive to cut labour costs but the high level of these wages can not be explained by simple reference to demography. From 1750 onwards population increased sharply and labour still continued to be expensive. British wages were high because of high productivity in tradables and services. On top of that there was a long tradition of experimenting with mechanical solutions to problems in production, and coal was already widely used. Low interest rates facilitated borrowing for those who wanted to invest in machinery. Import substitution on this scale required a very complex and efficient system of manipulating supply and demand. In this case that meant keeping Indian textiles out, importing cheap cotton, increasingly from America, supporting exports of domestically produced cotton textiles, and so on and so forth. Such policies are only feasible in a well-organised mercantilist state (Allen 2004b). The weakening of India to which Frank refers, did indeed provide Britain with cheaper cotton imports and with a wider protected market; however, that weakening was caused, to a large extent, by British interference and could only be exploited with the support of Britain’s rulers, which again shows that one can not simply ignore the role of politics in global economic history. For various other products and various other countries, including China, one could make similar comments. Being challenged and having high labour costs is only part of the story. A global economic-demographic explanation does not suffice: one must also take on board human agency, i.e. culture, institutions and politics.

My comments on Pomeranz’s resource-based explanation have already been published. I will not extensively repeat them here (Vries 2001a). Pomeranz does not endorse Frank’s idea of a “fall of Asia” that would have been “ecologically played-out” versus a Europe that still had “plenty of room left to grow” (Pomeranz 2000: 12). He denies that China at the end of the eighteenth century was already ‘trapped’ or in a worse predicament than Britain. My reading tends to claim that China at the time was closer to its Malthusian ceiling than Britain. I am ambivalent, though, about what that means: the closer one is to the Malthusian ceiling, the stronger the pressure
becomes to do something about it. The further one is from that ceiling, the more room one has to manoeuvre.

Whether Britain actually had more ‘slack’, i.e. unused resources or not, it definitely was much more actively engaged in using and finding resources, nearby in its Gaelic periphery, further away from home in Central and Eastern Europe, in the Americas and, in the end, in all corners of the world. Western overseas imperialism as compared to Chinese overland imperialism was much more focused on exploring, controlling and *utilising* the regions it incorporated, and it incorporated more of them (Abernethy 2000). China did hardly anything with the new territories it acquired in the eighteenth century. Its rulers even left their homeland, Manchuria, almost completely unexploited. Again proof, if proof is needed, that resources are not something one simply ‘has’ or ‘does not have’. One cannot escape from studying society if one wants to know their impact. I will revert to this topic later on in my general critique of the way Californians approach the past.

7. A world of surprising resemblances? A closer look

Looked at more closely and shifting from a static to a dynamic analysis, the ‘surprising resemblances’ thesis loses much of its lustre. It turns out to deal rather loosely with time and place. With regard to place, I pointed at ambiguities in my review of Pomeranz’s book (Vries 2001a). It is not always clear whether he is talking about Europe, Western Europe or Britain. At the other side of the equation, one finds references to Asia, parts of Asia, China and the Lower Yangzi region. What is clear is that he often switches. In the work of Wong, where the European state is compared to that of China, whereas there are enormous differences between state-formation in various regions of Europe, and in that of Hobson, where the East, meaning the Ottoman Empire, The Safavid Empire, India, China, Japan plus even parts of North Africa, is simply presented as one region to be contrasted to the West, one is struck by the disturbing vagueness when it comes to the regions with which one is actually dealing (Wong 1997; Hobson 2004). There is no such thing here as a perfect choice, but one should not switch as suits the argument. Differences between various parts of the ‘East’ as well as the ‘West’ were often enormous, so one has to be specific. When it
comes to chronology, Californians can be rather sloppy. The early modern era – with which most of their publications deal – was not an era of steady progress. Even in ‘rising’ Western Europe, improvement was neither continuous nor general (Goldstone 2008b: 79-83). Californians are easily seduced into selecting examples from different places and times to then put them all in one bag called ‘early modern Western Europe’ or ‘early modern China’. That can be quite deceptive and forms one of the main reasons I plead for comparing specific countries in precisely demarcated periods of time, in my case China and Britain in the ‘very long eighteenth century’.

Let us focus on chronology. In ‘Californian’ publications one constantly comes across references to the huge amounts of porcelain the Chinese exported to the West, mostly with the comment that Westerners did not even know how to produce it. That is a correct observation, but was no longer the case after 1750. Westerners by then had managed to produce porcelain and substitutes themselves, and imports from China would soon plummet. When it comes to silk textiles, China’s advantage had also disappeared by the 1750s. That is before one can find any serious sign of industrialisation anywhere in Europe. What continued to be exported, and increasingly so, was raw silk. Chinese cotton exports rose temporarily in the eighteenth century but could not stand up to British competition any longer, even before the end of the century. The importance of coal and iron for industrialisation can hardly be overestimated. It is often pointed out that Sung China had known an impressive coal and iron production (Hartwell 1967). In the period we discuss here, production of both, however, was at a lower level and showed no increase. In Britain the production of both coal and iron constantly increased.

Californians are rightly fond of calling attention to China’s high level of technology and its many inventions and innovations. Yet they tend to ignore that in this respect too, dynamism clearly abated. During the Qing dynasty, the number of discoveries in science and technology decreased very substantially, as Joseph Needham acknowledged and tried to explain (Cohen 1994: chapter 6.5). Goldstone is well aware of this: he actually mentions the fact in his book, but he does not really address its implications for his optimistic thesis about China (Goldstone 2008b: 122, table 7.1). Before 1800, as a rule, technological, ‘scientific’ and organisational knowledge did not accumulate. Change tended to be scattered and isolated. For China, that by
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and large continued to be the case. Goldstone shows that Britain became an exception to this rule after 1688 (Goldstone 2008b: 26-29, chapter 8). I would go further and claim that Western Europe as a whole from at least the Renaissance onwards in this respect was on a different trajectory from China. Knowledge accumulated and progress became normal. Actually, the contrast was even bigger. Not only was dynamism slacking in Mid-Qing China; there are various examples of technologies and knowledge that disappeared. In the production of silk and cotton, with the passing of time, fewer machines were used and they tended to become simpler (Elvin 1973, 1996; Chao/Chao 1977; Li 1981).

One can find examples of changes over time and, more importantly, of relative or even absolute regress in other sectors of Chinese society too. All Californian critics refer to a huge increase of population under Qing rule as a sign that China’s economy was doing very well. This is somewhat rash. There is much debate on the exact development of China’s population at that time and population growth need not mean economic growth in terms of increasing wealth. It can also simply mean more people or even more poor people. Still however, no one can deny that China managed to decently feed an enormous population of over 300 million people around 1800. It did so, however, with an increasingly rural population. Goldstone claims that, for the early modern era, the level of urbanisation is an excellent indicator of the strength of an economy. He then mentions that China had a couple of huge towns and concludes that it must have had a vibrant economy (Goldstone 2008b: 83-84). That is somewhat rash too. Urbanisation in China in 1800 was substantially lower than in Western Europe. Only three per cent of its population lived in cities of over 10,000 people. In Western Europe this was over ten per cent (de Vries 1984: 349). The contrast with Britain is striking: in 1750 more than sixteen percent of its total population lived in towns of over 10,000 inhabitants. In 1800 that was over twenty percent. China’s level of urbanisation between the Sung era and the beginning of the nineteenth century actually decreased. Population increases during that period were fully absorbed by the countryside (Chao 1986: 60-63). Things were very different in Britain.

Comparing the Qing state with Britain, we again see different routes. Californians like Perdue and Goldstone describe Qing China as a part of a state-system having to compete with surrounding states and suggest that the
supposedly unique European state-system was not unique at all (Goldstone 2008b: 100-101; Perdue 2005: chapter 15). Again, one should be careful not to overlook differences over time and, more importantly here, in orders of magnitude. Qing China’s ‘competitors’ until the beginning of the nineteenth century were not serious threats. China’s biggest military effort in the eighteenth century consisted of the campaigns against the Zunghar Mongols, who in the end were crushed. At the time of final confrontation under the Qianlong emperor (1736–1795), there were some 600,000 Zunghars against over 250 million ‘Chinese’. The arch-enemy of Britain during the eighteenth century was France, whose population over the century increased from over twenty million to about thirty million, confronting some five, to, at the end of the century – excluding Ireland – ten million Britons. These are entirely different kinds of competition with entirely differing effects. Britain developed an ever-stronger fiscal-military state, engaged in conflicts all over the globe. China had trouble defeating even quite small opponents. The Qianlong emperor, for example, was not successful in his campaigns against Vietnam, a country with only a couple of million inhabitants.

In the 1300s, China’s government could indeed raise a fleet of 400,000 soldiers and sailors, as Goldstone points out. That of course is impressive. As is the fleet of Zheng He, which consisted of enormous ships manned by thousands of sailors and travelled half the globe in the beginning of the fifteenth century (Goldstone 2008b: 101, 27-28). At the beginning of the nineteenth century, however, there no longer existed a Chinese Navy to speak off. In 1809–1810, central government had to ask the English and the Portuguese for help in combating pirates (Antony 2006). The contrast with Britain and its Royal Navy couldn’t be bigger. Between the beginning of Qing rule and the first half of the nineteenth century, China’s army tended to become smaller rather than bigger, in any case in comparison to total population. In comparison to what was the norm in European states, where the size of armies had increased enormously and permanent change in organisation and armaments had become the norm, it had become small and inefficient. When it comes to expansion one sees a similar trend: China did expand over time, but as compared to Britain, its expansion was small.

In revisionist literature it has become common usage to refer to China’s efficient bureaucratic rule. Over time, however, this bureaucracy, relatively speaking, became much smaller. From the beginning of Qing rule onwards,
it never counted more than a mere 20,000 to 30,000 officials for China as a whole, whereas total population increased sharply. Considering the growing complaints about corruption towards the end of the eighteenth century, one may also query its supposed efficiency. Here too the direction of developments in Britain was different. The Chinese state did not become stronger over the seventeenth and eighteenth centuries, in terms of ‘hard power’ at least. Important European states did.

Let me just give one final example of differing trends. Paper money was invented in China under the Sung rule. Under the Qing dynasty, the state no longer issued it. Neither did it coin any silver or gold currency. In the eighteenth century the importance of copper as currency increased. Again, developments in Britain went in an opposite direction. In the eighteenth century the country was on a gold standard and had a central bank. Overall, Qing China seems to have undergone far fewer institutional changes than Britain, which had its financial and military revolutions.

A fundamental problem with the ‘striking resemblances’ thesis is that, in trying to establish the relative efficiency of various economies, it tends to concentrate on providing a static cross-section at a specific moment in time. Various indicators used to show ‘surprising resemblances’ or even Chinese ‘advantages’, however, do not fare well over time in Qing China in absolute or in relative terms, i.e. as compared to Britain. That means they cannot provide satisfactory answers to questions one has to address when trying to solve the riddle of the Great Divergence. Questions like: on what trajectory is an economy? What options are open to it and how easy or complicated is it to choose them? How much ‘potential’ does it have? A static analysis is not capable of providing answers to such questions, particularly not when that analysis tends to be rather ‘loose’ with regard to time and place, as Californian analyses often are. On top of that, there are differences that are not mentioned (enough) but do deserve close attention.

8. Neglected differences and differing trajectories: modes of production

Resources and trade, I would say, get more than their fair share of attention from Californians. The importance of trade tends to be greatly
over-rated when it comes to the amounts of traded commodities, but more analysis of trading as a generator of income would be welcomed; that is, of trading as providing a service for which one gets paid. In early modern mercantile capitalism – as I would claim in all capitalism – big profits are made not in producing something but in buying and selling it and in financing. If one depicts the British as mere middlemen or transporters and the Chinese as actual producers and if one then suggests the Chinese would somehow profit more and have a stronger economic position, one misinterprets the logic of mercantile capitalism. Giving an extended analysis would of course lead us too far afield. So let me just give one example, the tea trade. The Chinese produced tea whereas the British ‘only’ transported it. But in the process, in the end, the British traders (and the British state), earned much more than their Chinese counterparts, let alone the Chinese producers. For the British economy income from services was enormously important: even in the nineteenth century, the first industrial nation normally had a deficit in its balance of trade that was more than compensated for by its income from services and by income from foreign assets. Even an industrialising Britain was about as much a service economy as it was a commodity producing economy, earning a great deal of money as carrier, insurer, financier and investor (Cain/Hopkins 2001). Comparative studies would be most welcome here.

The phenomena normally associated with the first industrial revolution, however, primarily concern changes in the mode of production. Whatever may have been their effects, differences in this respect between pre-industrial China and Britain were enormous. They ought to be a central topic in the debates. In the past they often were analyzed, mainly but not exclusively by Marxists when they discussed China’s ‘household mode of production’ or ‘involution’. They still are. However, modes of production no longer seem to really be ‘en vogue’ (Gates 1996; Brenner/Isett 2002; Huang 2002; Isett 2007). This is a very complex and wide-ranging topic that can only be treated very cursorily here. For further information I have to refer the reader to the literature.

For the sake of brevity and argument, one might construct the following, extremely simplified and stylised dichotomies in a comparison of the way in which production was organized in China and Britain. China’s agriculture by and large was much more land- and labour intensive than that of Britain.
Whereas in Britain most agricultural production took place on large farms, in China farms almost without exception were very small (see e.g. Huang 2002; Brenner/Isett 2002). Let me just give one example: in around 1800, an average farm in Southern Britain was about 150 acres; in the North that was about 100 acres. In rice-growing regions in China it would be roughly some 5 acres. In 1750, the amount of agricultural land in Britain per agriculturist was about forty-five times as big as in China’s Lower Yangzi region. In China’s energy system, the relative importance of human labour was much bigger than it was in Western Europe, and that of fuels much smaller. In absolute terms the importance of animals for the economy of Western Europe, and in particular Britain, was striking and much bigger than it was in China (Malanima 2006; Wrigley 1988: chapter 2). Production in China, in particular in agriculture, looks less capital-intensive in terms of implements and animals than in Britain, in particular in rice-growing regions where, in Francesca Bray’s terms, it was very ‘skill-oriented’ (Bray 1986).

In China the household continued to be by far the most important unit of production. In Britain waged labour became increasingly important. Whereas the percentage of proletarians in China’s total labour force was negligible and certainly amounted to no more than five percent, waged labour in Britain was becoming the rule rather than the exception. In the countryside it was already more than fifty percent at the end of the seventeenth century and about three-quarters around 1850. Landlords in China were not managers of large farms but ‘tenurial landlords’, i.e. landowners who rented out their land in small parcels to peasants (Chao 1986: chapters 7, 8). One finds this overwhelming predominance of small peasant cultivators in China as compared to Britain, not only in rice-growing regions, where according to Bray it would be logical, but also in places where other grains and, even more surprisingly, products like tea, sugar, tobacco, cotton or silk were grown. For all these crops, one never finds any reference to plantation-like cultivation, either inside or outside China Proper (Gardella 1994; Mazumdar 1998; Chao/Chao 1977; Li 1981; Xu Dixin/Wu Chengming 2000: chapter 10). In the regions from which the British imported these goods, inside as well as outside their empire, large-scale, centrally-coordinated growing and processing on ‘plantations’ was the rule.

Those Chinese families of small peasants, especially the women, spent substantial amounts of their time producing goods, especially textiles, for
the market. This domestic industry as a rule was organised as a ‘Kaufsystem’, with each stage of production and distribution being dealt with by an autonomous ‘entity’ that bought its raw materials and sold its products. These petty-commodity producers fell back on large numbers of middle-men and brokers. In comparison to the situation in Britain, putting out production was exceptional (Eastman 1988: chapters 6-8; Li 1981; Rowe 1998; Zelin 1997). There are examples of a putting-out system in China in silk textiles production and of big manufactories in silk textiles as well as porcelain production, but that is quite exceptional. In Britain co-ordination via management and concentration of capital were on the increase. In China, co-ordination via the market and the substitution of commerce for management continued to be the rule (Elvin 1996: 20-63). Its commercial organization was very sophisticated and shaped the patterns of commodity production as it was buyer-driven and extremely flexible but based on small producers (Hamilton/Chang Wei-an 2003).

The market clearly was very important in Qing China’s economy. The total amount of goods traded was, of course, enormous, as Californians love to point out. Yet, as a percentage of total production I think it must have been less than in Britain. Producing for subsistence was more common in China as there were more peasants who shied away from producing only for a market. Cash crops of course were grown, but their importance continued to be relatively small (Xu Dixin/Wu Chengming 2000: chapter 6). The amount of fertilizer that entered interregional markets was much smaller than Californians claim (Yong Xue 2007). The decreasing level of urbanization must have had its effects on the sale of agricultural products. When it comes to factor markets, China’s labour market was definitely less developed and less important than that of Britain as a much smaller number of people were working outside their home and outside any family setting. Considering its much higher interest rates, its capital market does not look very efficient. There was a lively market for land.

It may very well be that ‘the Chinese mode of production’ yielded about as much per capita as that of Britain over the eighteenth century and even later. But did it have the same potential for further growth? Are there not inherent limits to increasing productivity in a system based on a household-mode of production? There is less ‘free labour’ that can be hired and ‘fired’ as one pleases. Does that not set a certain limit to efficiency? People
focusing on subsistence in all probability will buy less in markets. Does that not restrict specialisation? Will not households tend to avoid investing in labour-saving implements, in particular when they are big and expensive?

These are hard questions to answer. What is clear, however, is that in China’s economy dynamics were at work that differed from those at work in Britain’s economy, as already demonstrated in previous comments with regard to changes that occurred between the Sung and the Mid Qing eras. The Industrial Revolution in Britain has traditionally been associated with breakthroughs in the use of energy and in technology, and with ‘the rise of the factory’, which counts as a symbol for concentrated production and the use of wage labour. Compared to China, Britain was already on a much more energy-intensive route before industrialisation. It made far more use of animals than China did and was already the biggest coal user in the world in 1700, in all probability burning five times as much of it as the entire rest of the world. There was an inclination to look for mechanical solutions and utilise implements in production, even before industrialization is supposed to have started. In manufacturing, large-scale, centrally co-ordinated production too was on the increase, whether it was in the form of putting-out or manufactories. It seems that even before the eighteenth century, China had chosen a different path, which of course created certain path-dependencies and lock-ins. We see no increase in the use of coal and iron, no improvement in the quality of iron utensils and implements (Xu Dixin/Wu Chengming 2000: chapter 16), a decreasing importance of sophisticated machinery and a continuation of decentralised modes of production, with peasant households continuing to be by far the dominant productive entity.

This means that the developments we traditionally associate with industrialisation were less improbable as a continuation of ongoing developments in Britain than they would have been in China. This, I want to emphasise, does not imply that industrialisation as it occurred was a necessary or even a logical outcome of preceding developments in Britain or would have been impossible in China. Britain simply had already been experimenting for quite some time with a type of solution that might more easily lead to an industrial revolution.

Things of course look different in case the traditional image of Britain’s industrialisation has been revised, or the way in which Britain industrialised has turned out to be merely one of various possible ways, not the only and
necessary one. Actually, both of these developments happened. The image of the first industrial revolution in Britain has been revised substantially over the last decades. It apparently was less revolutionary than previously thought, both in its pace of change and rates of growth. The role of steam and steam engines was less prominent than traditional stories suggested, as was the importance of big factories and other big units of production (Floud/Johnson 2004). Moreover, it is no longer widely held that there is ‘a model’ for nineteenth-century industrialisation, let alone for industrialisation in general (Cameron 1985; O’Brien 1986; Verley 1997). A growing awareness has emerged of the importance of flexible and dispersed production in industrial societies (Sabel/Zeitlin 2002; Hamilton/Chang Wei-an 2003). The concept ‘industrious revolution’, originally meant to be quite distinct from that of ‘industrial revolution’, is quickly gaining popularity with various scholars now trying to blur, or in any case tone down, the distinction between the two (De Vries 2008). Much thought is given to the idea that there might be a labour-intensive form of industrialisation (see Sugihara 2002). The phenomenon is not unknown in Europe, but is especially suited for Asian conditions of high population, low wages and small entities of production. It is even supposed to have stood at the beginning of a specific East Asian path of economic development (Pomeranz 2001; Sugihara 2003).

Nevertheless, even if we take on board new perspectives on how countries might industrialise, as we should, and which opens many venues for interesting comparative research, one cannot deny that technology, increasingly science-based, as well as steam-power and factories, did play a substantial role in Britain’s industrialisation and in the end in all nineteenth-century instances of industrialisation. Coal, steam and factories did make a fundamental difference for Britain, as Californian critics explicitly underline. The steam engine, however, was not an ‘accidental’ solution to a ‘Malthusian’ problem. Britain had a tradition of trying to harness energy in production. One must, moreover, not lose sight of the fact that in Britain: “Innovation was a broad process, pervasively embedded in many industries, even those that were essentially matters of hand technology (and) [...] present across virtually all activities that comprised the British economy at that time” (Kristine Bruland in: Floud/Johnson 2004: 186). This broad process of innovation that had already started decades before actual industrialisation
contributed substantially to total economic growth in Britain. Up until the second half of the nineteenth century fifty percent of all growth in productivity came from non-mechanised sectors of the economy. It was a precondition for its industrialisation and had no parallel in China. Neither do we see the kind of interaction between scholars, engineers, tinkerers, artisans and entrepreneurs and the ‘Baconian’ efforts to try and apply science in China (Cohen forthcoming; Goldstone 2008b). Anti-Eurocentric historians eager to point at similarities in science and technology between Britain or rather Western Europe on the one hand and Eastern societies, especially China, on the other hand, easily tend to exaggerate this point. Frank’s claim that there was no such thing as a Scientific Revolution, that it definitely was not European and that in any case it did not matter for industrialisation, is one of the many examples in his work of revisionism being pushed too far (Frank 1998a: 186-205).

In this context more attention might be given to what one may anachronistically call ‘social science’, or rather ‘social engineering’, i.e. all those ways in which one can try and organise things and people more efficiently. It would be interesting and relevant to know more about the macro-economic effect of institutions and institutional innovations in the early modern era. Here too one sees the application of knowledge, the effects of which are still underestimated as scholars studying industrialisation tend to focus on ‘hard science’ and ‘hard technology’.

9. Neglected differences and differing trajectories: culture, institutions and politics

In all these respects, Britain had developed a culture of innovation. Apart from Goldstone, there are not many Californians who discuss this. On the whole, they hardly discuss culture at all. Some don’t because it simply is not their field; the majority because they do not like cultural explanations, in particular when they imply there is something ‘special’ to Westerners. Frank, as usual, is quite extreme: “A derivative observation is that Europe did not pull itself up by its own economic bootstraps, and certainly not thanks to any kind of European ‘exceptionalism’ of rationality, institu-
tions, entrepreneurship, technology geniality, in a word – of race.” (Frank 1998a: 4; for a similar line of reasoning see Blaut 1993, 2000).

Why pointing at some European ‘exceptionality’ would have to imply racist thinking, fully escapes me. While in many branches of history ‘culture’ has become the all-encompassing key concept, and it has become impossible not to talk about it, many Californians and global historians in general tend to shy away from it. To claim with Landes “[…] that culture makes all the difference” is an obvious case of exaggerating (Landes 1998: 516). There clearly are good reasons to be careful with assuming the existence of fundamental, structural and long-lasting differences between cultures. Cultures change, as do the perceptions of their impact as can be observed in the fascinating career of the concept ‘Confucianism’, regarded by some at some moment in time as the main hindrance to China’s development, by others at other moments in time as its main support, and by yet others as simply irrelevant. (Pye 2000; Zurndorfer 2004). Yet to neglect it as many Californian critics – again not all – do, is a big mistake (Vries 2001b). It eliminates all ‘agency’ from history. As Adshead correctly points out: in Frank’s Sinocentric ReOrient there actually is no attention whatsoever paid to Chinese history or Chinese geography: China is nothing but a place. What the Chinese actually do and think plays no role whatsoever (Adshead 2004: 17-18). Apparently the old Marxist habit of denying any real autonomy to the ideological superstructure lingers on: “[…] technological progress […] even more than institutional forms, is a function of world economic ‘development’ much more than it is of regional, national, local, let alone cultural specificities” (Frank 1998a: 186). One can only be surprised that so active an activist as Frank ends his career as a global historian by almost entirely ignoring agency.

This lack of attention to agency also shows in a certain reticence to talk about the importance of institutions, whereas amongst economists such discussion has become quite fashionable. Frank thinks that their importance is over-estimated. A major thesis of his book is “[…] that institutions are not so much determinant of, as they are derivative from, the economic process and its exigencies, which are only institutionally instrumentalized rather than determined” (Frank 1998a: 206). For him the dynamics of human history are driven by fundamental economic forces to which institutions respond. One wonders what “the economic process” and “its exigencies” can
refer to if not to institutions and agents. Others simply do not pay much attention to them as they happen to be interested in other things or because they think that in the field of institutions too resemblances are surprising. Roy Bin Wong does point at substantial institutional differences between Western Europe and China but thinks that macro-economically those differences did not make a real difference before industrialisation and were not “designed to promote industrialization” (Wong 1997: 151). Yet, even so, they may still have had positive effects for economic growth in general and played a part in the coming about of industrialisation (van Zanden 2008)

Is it really probable that institutions like Britain’s national bank, its funded public debt, its chartered companies, its Parliament – all with no equivalent whatsoever in China – made no difference to the economy? What about its systems of law and taxation, its monetary and financial systems?

Referring to these institutions means referring to the state. When it comes to their political organisation, differences between Britain and China could hardly have been bigger, no matter whether one looks at its structure, policies or trajectory (Vries 2002; forthcoming a). Till at least the 1820s, Britain’s state was first and foremost a fiscal-military state. Taxes were much higher than in China and increased continually. Its tax system was completely different. It had a huge national debt, something unknown in China. Relatively speaking, its army and especially navy were much bigger. The navy was far bigger even in absolute terms. Those parts of government that dealt with finance and the military were much better developed. To any impartial observer it was clear that in the case of a clash, the British state would defeat the Chinese state (Arrighi 2007).

Even before industrialisation, Britain’s state had acquired much more 'infrastructural' power than the state in China (see for that expression Mann 1993). Central government played a large role in the economy and actively supported certain developments (Daunton 1995; Ron Harris in: Floud/Johnson 2004 chapter 8). It was fiercely mercantilist, focusing on creating a strong state and a strong economy which in contemporary thinking implied having an empire. Britain clearly did not have its colonies by accident, let alone they were ‘a windfall’. Pomeranz emphasizes their importance: “[…] the fruits of overseas exploitation were probably roughly as important to at least Britain’s economic transformation as its epochal turn to fossil fuels” (Pomeranz 2000: 23). He, however, never analyses how Britain got its
overseas possessions and, more importantly, what it took to exploit them. Frank ignores the role of the state completely (Frank 1998a). Hobson does provide an excellent analysis of the workings of Britain’s fiscal-military state in his co-production with Linda Weiss (Weiss/Hobson 1995), an analysis he synthesises in his book of 2004, without however indicating what that means for his overall view on Eastern and Western civilizations.

The costs in people and resources of Empire for Britain were enormous, so enormous that various scholars claim they, at least in direct monetary terms, surpassed the benefits (O’Brien/de la Escosura/Engerman in: O’Brien/de la Escosura 1998). The direct and indirect benefits, however, were also significant. In that respect, one clearly finds new and more ‘positive’ interpretations of British mercantilism that, ever since attacks on it by Adam Smith, has had a bad press amongst mainstream economists and economic historians considering it as inefficient and as an obstacle to development. The line of reasoning that was already prominent in the work of Braudel and Wallerstein, namely to see it as a strategy to successfully strengthen the economy of Britain as a state and country, is now continued in publications that present much more detailed analyses (Ashworth 2003; O’Brien 1998; Ormrod 2003; Reinert 2007; Winch/O’Brien 2002). Perspectives have changed so much that in some of these publications mercantilism is almost presented as a predecessor to the policies applied in so-called ‘developmental states’ (Amsden 2001; Ha-Joon Chang 2002, 2003; Johnson 1995; Lindert 2004; Reinert 2007; Schwartz 2000; Wade 2004; Weiss/Hobson 1995; Woo-Cumings 1999).

The policy of China’s government can best be described as ‘agrarian paternalist’. Rulers wanted to govern lightly, focusing on providing security and wealth for their people. They only interfered when they thought that security and wealth, and the existing social order were endangered, for example by miners who were regarded as very unruly people or by foreign traders who might have a bad influence on their subjects. They were in no way dependent on merchants for their income. They could rely on their land taxes for income. The typical Western alliance between power and profit was absent (Antony/Leonard 2001; Dunstan 1996, 2006; Leonard/Watt 1992; Rowe 2001; Vries 2002, forthcoming a; Wong 1997, 1999). The same goes for the ongoing and fierce interstate competition that was the
motor behind economic development and imperialism in the West (Greenfeld 2001; Arrighi 2007).

The approach of the Californian critics is innovative, but as with all innovators they tend to neglect what they probably regard as old-fashioned. Classical topics like the study of modes of production and especially of culture, institutions and politics get quite short shrift in their work, which is a pity. If culture and institutions and the state indeed matters so little, one wonders why in all countries where industrialisation was on the agenda, one sees these fierce debates between ‘modernisers’ and ‘conservatives’ about cultural and institutional change. In this respect I can only fully endorse the following observation by Elvin: “Most Chinese thinkers of the key transitional decades, roughly 1890–1920, saw the West as qualitatively and challengingly different, no matter whether they were conservatives or radicals […] it is hard to see how one could argue that, in general, they were mistaken in their virtually unanimous basic evaluation of the old social and ideological patterns as being in some regards incompatible with modernization” (Elvin 2008: 181).

10. Concluding remarks

The California School has changed the way we look at the economic history of the world, especially the pre-industrial world of Eurasia. It has rightly pointed at the enormous importance of Asia in the economy of the early modern world and at its very high level of development. It has done so in a couple of years. It is no longer possible to write a book on the rise of the West like the one David Landes wrote only ten years ago, with immense success. That alone is a major feat. One should not, however, thereby be tempted to confront it uncritically. The biggest compliment one can make colleagues in scholarship is to seriously engage with them.
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The California School and beyond


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Abstracts

In this article the author presents a description, analysis and evaluation of the fundamentally new interpretation of the economic history of the early modern world that is defended by authors who have collectively become known as the California School, the most important among them being Kenneth Pomeranz, Roy Bin Wong, Andre Gunder Frank and Jack Goldstone. The author in particular analyses their claim that in the period from roughly 1400 to 1800 the most advanced economies of Eurasia formed a world of ‘surprising resemblances’ and that the Great Divergence between ‘the West’ and ‘the Rest’ only originated with industrialisation and must be interpreted as a fairly contingent and recent phenomenon, basically due to differences in the availability of resources. The author claims that ‘the Californians’ have a tendency to exaggerate the resemblances between Western Europe and East Asia and should me more specific when it comes to time,
place and the differing historical trajectories of various regions. Finally, he claims they should pay far more attention to political and military developments and to the role of culture and institutions.


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1. Introduction

Is there anything about South African capitalism now or in the past that is distinct or special? How has the structure and character of South African capitalism evolved over the ‘long’ 20th century? What are the continuities and disjunctures running through the forms of South African capitalism operative before and after democratic change? Indeed, can one even talk about a model of South Africa capitalism at all? Are the rhythms of South Africa’s capitalist development determined by capitalist accumulation on a global scale? Or does this exist alongside a set of institutions and a history that are national in character?

The study from which this paper is derived is rooted in “comparative political economy”, an approach requiring scholars to “conceptualise the more abstract universal characteristics of capitalism as a specific historical form of organizing societies” and to “investigate singular – or comparative – cases of class relations and social formations in their many concrete patterns of determination” (Coates 2005: 67). My approach stresses a non-reductionist use of power and class, and the importance of changing global locations, as well as of history and institutions.

I will look at the origins and evolution of capitalism in South Africa; its hybrid financial system; the basis of corporate power built around the mineral-energy complex; the changing role of conglomerates within and outside the country; the emergence of an empowered, black capitalist elite; changes in corporate governance; the labour and industrial relations system, including the National Economic Development and Labour Council (NEDLAC). Throughout, I will try to make sense of the relation-
ship between the democratic state and various fractions of capital, old, new, black and reconstituted.

This paper will not address issues of policy; its focus is rather on systemic and institutional issues and on changes in social relations in the construction of South African capitalism, with a special focus on the last 15 to 20 years.

2. Varieties of capitalism

Since the late 1990s a vigorous debate has emerged about the different varieties of capital. It may be argued that this debate has precedents in the work of Polanyi (1944) and Shonfield (1965), and follows three major theoretical currents: Marxist, institutionalist, and structuralist.

Firstly, Greg Albo, the leading Marxist contributor to this debate, argues that capitalism develops and changes “within a world that is already differentiated into many complex social formations” (Albo 2005: 74). For him, “economic imperatives always spread and universalize certain features of development across world markets, but these features are never emulated or settle in exactly the same way in the differentiated spaces of capitalist social relations” (Albo 2005: 75). One national mode may be distinguished from another by various features:

- The labour process and relations of production associated with new technologies not only allow for greater extraction of value from each worker, but also expand managerial control over the workplace, and create new stratifications within the international division of labour.
- A spatial dispersion of production processes from traditional manufacturing regions into new sites, with a reverse concentration of financial and retail services into core ‘city-regions’.
- An explosion in financial activities, encouraged by policies of deregulation, including new alliances between fractions of capital and the state, and the formation of new power blocs within each nation state.
- Integration into world markets through an intensified circulation of capital in all its forms: “the internationalization of capital internalizes foreign capital as part of the power bloc of national states, while domestic capital seeks to internationalize and no longer acts like a ‘national bour-
- A realignment of state policies and institutions to advance economic internationalisation at the expense of welfare and labour. Regulatory economic agencies, like central banks, have been granted increased autonomy, further insulating them from democratic oversight.

- The emergence of new hierarchies within the world system, with the US attempting to reassert its supremacy in relation to Japan, Europe and, after them, China and India.

“Specific histories, places and class conflicts need to be explored as concrete cases of the modalities, social relations and class struggles of the ‘new capitalism’” (Albo 2005: 82). Henry Bernstein asks: “What are the prospects and opportunities of capitalist development in different regions, and for different classes, in the South? […] [the] research agenda for Marxists concerned with development is to investigate, understand and grasp what is ‘changing before our very eyes’ in the world of contemporary capitalism” (Bernstein 2005: 127f).

A second strand or variety is that of the ‘institutionalist approach’ which includes the highly influential work by David Soskice, who develops a binary classification of coordinated market economies (CMEs) and liberal market economies (LMEs) based on differences in production and market institutions (Hall/Soskice 2004). CMEs have the following features:

- In industrial relations employee organizations play a key role in national, industry wide, wage determination, and within firms employee-elected bodies play an important, often statutorily based, role in decision making, through, for example supervisory boards.

- In education and training, firms and unions promote vocational training, and higher education provides a steady supply of scientists and engineers.

- Banks finance and monitor companies, including small firms, in some countries such as Japan, through full representation on company boards.

- Inter-company relations are characterized by consensus and co-operation, with few hostile takeovers.

- Corporate governance is broad-based (often with dual boards and veto rights for unions on the supervisory board) – limiting shareholder wealth maximization and managerial prerogative and discretion.
In LMEs the situation is as follows: wage bargaining is company based and employees have few rights to workplace decision-making or board representation; there is little emphasis on vocational training; company financing is secured through stock market issues; strong anti-collusion competition law discourages inter-company coordination, and hostile takeovers are more common; corporate governance aims to maximize shareholder value, and boards have a majority of non-executive directors.

There is, third and finally, a structuralist approach based on a comparison of three national models of capitalism: Anglo-American; Continental European; and East Asian. The Anglo-American model (similar to that of the LMEs above) includes flexible labour markets; close integration into global markets; privatisation; the absence of industrial policy; limits to welfare provision; a focus on growth; equity markets as a source of capital; and shareholder wealth dominated by corporate decision-making. This category includes the US, UK, Canada, Ireland, Australia and New Zealand.

The European or Continental approach (like the CMEs) stresses national innovation; high levels of social cohesion and consensus at national, industry and firm levels; and greater reliance on banks for finance. This category includes Germany, Austria, Switzerland and the Benelux nations.

The Development State model, exemplified by Japan, Korea and Taiwan, is characterized by strong state intervention in industrial policy; extensive cooperation between firms and suppliers; and paternalist employment practices, such as life-long employment and pay based on seniority, though with limited trade union and employee rights.

Many authors point to continuities in the face of globalisation, the post-1990 crises in employment and growth, and subsequent reforms. Thus, for all the ‘Anglo-Saxon’ influences from the EU regulatory framework or US institutional investors, the French model is still strongly etatiste (Clift 2004: 109). Germany and other Rhineland countries, according to Perraton and Clift (2004: 257), are not inevitably converging toward an Anglo-Saxon model. In Germany and Japan also, Anglo-Saxon influences, especially in terms of the labour market, corporate governance and the pursuit of shareholder values in company decision-making, should not be underestimated. What matters is the “dynamics of change in national capitalism” whatever the originating source or influence (Perraton/Clift 2004: 258).
3. How does South Africa fit in here?

What relevance has any of this to South Africa after apartheid? Perhaps the stakes are not as high as they appeared to be in the 1970s and 1980s. Recall Magdoff and Sweezy’s Monthly Review editorial of 1986: “the stabilization of capitalist relations in South Africa, even in a somewhat altered form, would be a stunning defeat for the world revolution”. Capitalist relations have indeed stabilised in post-apartheid South Africa, but in how altered a form? I will draw eclectically on the three approaches cited above when looking at areas such as the South African financial system, the internationalisation of capital, and new alliances between fractions of capital and the state’s role. I would begin however, by making the point that post-apartheid academic literature has paid little or no attention to capital, capitalism and what capital is doing, a point also made by Fine (2008).

Of those who have reflected on these issues, some have argued that there is indeed something different about capitalism, and about business relations and ethics in post-apartheid South Africa. It is in this view more community-based, collective, compassionate: humane capitalism, a ‘gentler’ capitalism, stakeholder capitalism, ubuntu capitalism, shosholoza capitalism.

The current ANC, black majority government of South Africa has of course been keen to refute any charge that 14 years after the first democratic elections the path of capital accumulation remains the same as what was set in place after the gold discoveries in the mid-1880s. This touches the core of its analysis of apartheid as constituting ‘colonialism of a special type’ (CST) requiring a two stage theory of revolution. The first stage, enshrined in the Freedom Charter of 1955, was to establish the economic, social and legislative foundations from which the drive to socialism (stage 2) would unfold. Suttner and Cronin (1986) argued that the charter was essentially ‘anti-capitalist’. The South African Communist Party (SACP), which has historically been an integral part of the ANC revolutionary alliance, understood the Charter as ushering in a national democracy, located chronologically between capitalism and socialism, and its path of development would be ‘non-capitalist’ (or ‘putatively protosocialist’).

Ashwin Desai has pointed out that the current government claims as indicative of a different accumulation path “the full protection of trade union rights, health and safety regulations, minimum wages, employment
equity and basic conditions of employment, the abolition of migrant labour, the NEDLAC process, and the system of taxation.” However, these claims have not, he argues, been backed up by effective policy. To take just one of these, migrant labour: “Property relations, job opportunities, and industrial strategy all conspire to have the migrant worker still very much among us, not housed in barracks or bantustans, but in the squalid mjondolos (shack settlements) on the outskirts of our cities” (Desai 2006).

Leonard Gentle characterises contemporary South Africa as ‘neo-apartheid’, arguing that black economic empowerment is “based on the same regime of accumulation as that espoused by the white capitalist class – cheap labour power”, now secured on “neo-liberal prescriptions of labour flexibility, externalisation of labour contracts, informalisation and increased labour segmentation” (2006: 132).

Bill Freund (2005: 16) has argued that the African National Congress (the black-led political party formed in 1912 and which is now in power) has to some extent nurtured a new capitalist class that will have an embedded relationship to development in the country, and is directing resources to large scale infrastructural projects such as the Gautrain (high-speed rail network) and the 2010 soccer world cup stadia, roads etc. However, it would also appear that “the picture is very much murkier when one questions the capacity of this class to take South Africa forward to a more successful set of niches in the globalised world. Even more serious is the failure thus far to transform the lives of the masses through the set of deep institutional and social interventions that can be associated with the most successful Asian developmental states.” (Freund 2005: 16)

4. The origins and development of South African capitalism

South Africa has been at the centre of world historical trends for a century and a half, initially through trade in agricultural products, but since around 1885 because of its diamonds and gold and the significance of these products in the global trade and financial systems. When the world market was opening up under the stimulus of imperialism (1860–1914), South Africa contributed the gold which underpinned its monetary mechanism and pioneered a distinct form of racial (or as some would prefer,
racist) exclusion in the Union of 1910. When the world turned inwards to state capitalism between the wars (1914–1945), so too did South Africa. In 1948, the Afrikaners achieved their own version of an anti-colonial revolution. The subsequent economic boom, rising to remarkable growth rates in the 1960s, and based in part on a successful strategy of import-substitution-industrialisation (ISI) of the Latin American type, was accompanied by escalating repression. However, from 1973, and not just coincidentally in line with changes at a global level, the South African economy went into a decline which was exacerbated by increasing global isolation and internal resistance. The crisis came to a head in the late 1980s with the result that we all know, a government which has been dominated by the ANC since 1994 (Hart/Padayachee 2000).

A critical component in the making of modern South Africa has been the relationship between the giant mining houses, the state and imperialism. Writing in 1900, the liberal British historian John A. Hobson described the adventurous spirit and business acumen of the men who headed these companies as follows, and in so doing gives us a glimpse of the character of that early phase of South African capitalism, and he hints that this model differed from other varieties operative in the world at the time: “Never have I been so struck with the intellect and the audacious enterprise and foresight of great business men as here. Nor are these qualities confined to the Beits and Barnatos and other great capitalists; the town bristles and throbs with industrial and commercial energy. The utter dependence upon financial ‘booms’ and ‘slumps’ [and the political situation] […] has bred by selection and by education a type of man and of society which is as different from that of Manchester as the latter is from the life of Hankow or Buenos Ayres” (Hobson 1900: 13).

The modern state and economy was shaped within what JA Hobson called the age of imperialism. For Hobson “imperialism was due to the rise of what we now call oligopolies […] and the tendency for these […] large enterprises to influence their governments to secure particular advantages, which were best secured through colonial-type relations” (Jomo 2002: 1).

A handful of conglomerates, the mining finance houses, which were established in the decades around the turn of that century, shaped the level, rate and rhythms of South African economic activity – and the way in which this impacted upon the country’s global economic relations for most of the...
20th century. As Ann Seidman and Neva Seidman-Makgetla note: “a century after the gold rush of the late 1880s, South Africa’s mining industry was openly controlled by seven major groups of finance houses” (1980: 94).

Three of these were Consolidated Goldfields of South Africa (GFSA), founded by Cecil John Rhodes in 1887; Central Rand Mines, founded by another two of the diamond magnates, Alfred Beit and Julius Wernher in 1893; and Johannesburg Consolidated Investments (JCI), which Barney Barnato and the Joel family established in 1889. Beit, Wernher and Cecil Rhodes were life governors of the diamond mining giant, De Beers Consolidated Company. German banks, including Deutsche Bank and the Berliner Handesgesellschaft, controlled two companies founded in the days when Namibia (then South West Africa) fell under German control. These included Union Corporation, established as Goerz and Co in 1897, and General Mining and Finance Corporation (see Kaplan 1977: Appendix to Chapter 7).

Of the seven, the Anglo-American Corporation (AAC) founded as late as 1917 by Ernest Oppenheimer, with support from the US bank, Morgan Guaranty, the US firm, Newmont Mining, and the National Bank (a former Boer Republic central bank which was confiscated by the British after the Anglo-Boer Wars of 1899–1902 and was later to be swallowed up by Barclays Bank DCO), was “destined to grow into the largest of them all” (Seidman/Seidman-Makgetla 1980: 94f). This remained true until the early years of the 21st century.

The huge profits of the diamond mining companies meant that after an initial injection of foreign capital – estimated in 1938 to be less than 20 million pounds in total compared to the total value of diamonds mined of some 320 million pounds (First et al. 1973: 111) – most capital needs for that industry were thereafter met from internal company sources. Although some of these diamond profits found their way into the expansion of gold mining, technical and geological problems, coupled with the fixed price of gold, necessitated a new ownership structure and new foreign investment. As a result, syndicates and new corporations (including Rand Mines Ltd, Rand Deep Level Ltd and the Rand Consolidated Deep Levels Ltd; de Kewiet 1946: 248), began to emerge, precipitating massive new foreign investment. According to Frankel, between 1887 and 1932, the gold mines absorbed 200 million pounds of capital, of which 120 million came from
abroad, and most of this took place before 1913. Britain alone had just 34 million pounds invested in South Africa in 1884 and this jumped to 351 million pounds by 1911 (First et al. 1973: 116).

However, the time lag between these major investments in deep-level mining and reaping the dividends of such investment was lengthy and required certain and stable economic and political conditions, which the mine-owners felt the Boer government in the Transvaal did not guarantee.

At about this time, with the support of the banks, the more powerful and globally-connected mining companies led by Rhodes and Barnato gradually began to swallow up smaller mining companies and an intense period of both concentration and centralisation followed. The weakness of the agricultural elite, and the absence of attractive industrial opportunities, facilitated these centralising tendencies in mining. This development was mirrored in finance, as the larger imperial banks, Standard and Barclays, all but put the smaller banks out of business within a few years of Union (that is, after 1910).

This British imperial dominance in finance was to weaken by the end of the First World War. Pressures on the Gold Standard, the growth of New York as a rival to London as a financial centre, inflationary pressures in the UK, and the devaluation of the pound, were among the factors that forced the imperial banks and London-based mining companies to focus on their own concerns. As a result, the South African branches of these companies secured more space to consider investments in South Africa that were less driven by metropolitan concerns and priorities. Two developments related to this new focus of South African branches of London finance houses and banks on the local economy are of note in the context of this paper. Firstly, National Bank (which was shortly to become part of the Barclays Bank stable) helped to establish the state-owned National Industrial Corporation in 1919 to support the growth of a local manufacturing capacity. Secondly, as evidence of New York’s growing interest in South African mining, the JP Morgan financial empire assisted in financing the founding of Ernest Oppenheimer’s Anglo-American Corporation, the activities and fortunes of which were to shape the development of the entire sub-continent (Bond 2001: 256-261).

Afrikaner hostility towards foreign capital penetration, an early indicator of local discontent with imperialism, has a long history. American mining
engineer, John Hays Hammond, who along with other Californians were managing "half the mines on the Rand" (Brechin 1999: 54), and who shared Rhodes’ dream of a worldwide Anglo-Saxon supremacy, played a “starring role in events leading up to the Boer war, running guns and providing other useful services for the mines’ owners” (Brechin 1999: 55), and barely escaped capture and imprisonment by the Boers. General Jan Smuts had “reservations about the Americans moving in for a fat profit” (Pallister et al. 1988: 54). Oppenheimer had to re-assure Smuts about his commitment to South Africa by stating his intention to register the company in South Africa rather than London. As Duncan Innes has suggested, the decision to register in South Africa rather than in London, may have had more to do with the more favourable South African taxation rate, compared to the English Companies Tax at the time, than as evidence of some kind of economic nationalism or patriotism (1984: 109).

Oppenheimer’s new company Anglo-American Corporation (AAC) was eventually formed in September 1917, and had on its board such heavyweights as William Thompson, the founder of the giant US mining company, Newmont; and Hamilton Sabin of Guaranty Trust, who represented the interests of JP Morgan. Significantly from a political perspective, the board also included, and with General Smut’s blessing, a member of Parliament and National Bank of South Africa representative, Hugh Crawford (Pallister et al. 1988: 54). Ernest Oppenheimer himself won the election in the town of Kimberley for Smut’s South African Party in 1921, and played an important insider role in support of his diamond interests.

Afrikaner nationalist concerns about AAC and its disproportionate influence over South Africa’s economy (and politics) did not diminish over the following decades. By the late 1930s, Oppenheimer realised his dream of taking complete control of de Beers and the London-based diamond syndicate, and AAC significantly extended its operations in mining, finance and industry across the whole of Southern Africa. Oppenheimer skilfully managed his Corporation through many political minefields, even through the depression years when threatened production cut-backs in diamonds and gold were fiercely resisted by the Nationalist Government of Hertzog, because of the unemployment that would result among its Afrikaner mine-working supporters. Oppenheimer was able to ignore or circumvent these tensions, relying on the strength of English capital, especially in
gold-mining, which was the single most important source of government revenues, and his direct and “considerable influence at the political centre” (Pallister et al. 1988: 60).

Despite some suspicion and antagonism between a more internationalist ‘English’ or imperial capital, led by AAC, and Afrikaner ‘nationalist’ interests, these economic and political differences did narrow in the interwar years and even in the early apartheid years. Part of the reason for this was that companies like AAC sold off parts of these interests to emergent Afrikaner groups (eg Gencor), and also because, despite their residual suspicion of AAC and English capital, the National Party apartheid government realised the importance of English capital for economic success. The National Party government, for example, worked closely with AAC in the further development of electricity provision, both in South and southern Africa, and in the diversification of the local capital market, a point developed below.

The period 1930–1960 was a remarkable period in the history of the mining industry, which extended into and restructured both manufacturing industry and finance. The most significant event was the discovery of new gold fields in the Orange Free State province in the 1940s. AAC was in the forefront of these developments. As Innes remarks, “Anglo’s take over of groups like SA Townships and Lewis and Marks was an important manifestation of the growing tendency towards increasing centralization of capital and control in the industry” (Innes 1984: 137).

In the late 1940s and 1950s the AAC, with state support, became active in developing the local money market in South Africa, through the creation, for example, of the National Finance Corporation (1949), which was designed to smooth the flow of mining funds into industry. In 1955 AAC set up its own private merchant bank, Union Acceptances Ltd (UAL), and further developed and diversified its industrial interests.

Despite the involvement of international finance, technology, and skilled human labour in the early years, the large mining-finance conglomerates grew to become increasingly South African. Their contribution to output, employment, exports and state revenue was crucial to the modernisation and growth of the national economy. By the 1920s, a growing secondary industry largely revolving around the mining industry developed, at the same time as some major new state corporations were set up;
by the 1950s, Afrikaner capital inserted itself into this milieu; in an era of
growing isolation in the 1970s and 1980s, large scale investments by the
state, parastatals and private corporations in strategic economic activities
in energy and heavy industry took place; throughout this long period, a
growing centralisation and concentration of capital occurred, combining
with earlier developments to give South African capital a very distinctive
character, what Fine and Rustomjee (1996) have referred to as the Mineral
Energy Complex (MEC).

The contribution of the mining and energy sector to the economy
has declined since the early 1990s and the big houses have unbundled and
restructured in significant ways, but their power and influence endures. Fine
and Rustomjee (1996) refer to the centrality of the Mineral-Energy Complex
(MEC). In a 2007 conference paper, Fine characterises the MEC as follows:
“[…] the MEC is to be understood as a system of accumulation specific to
South Africa and its history. At the simplest level, it comprises a core set of
activities organised in and around energy and mining. Contrary to majority
opinion, these core sectors continue to carry a, if not the, major determining
role in the economy. Further, they have been attached institutionally to a
highly concentrated structure of corporate capital, state-owned enterprises
and other organisations such as the IDC [Industrial Development Corpora-
tion] which have themselves reflected the underlying structure and balance
of economic and political power […]. The current structure and dynamic
of the MEC has changed again. For it is [now] heavily dependent upon the
globalising strategies of South African conglomerates” (Fine 2007: 11).

Fine (2008: n.pag.), has argued that “there are indications of a resump-
tion of a state-led strategy around core MEC sectors to provide secure
domestically-based surplus for on-going internationalised financialisation,
but with continuing disregard for broader economic and social develop-
ment other than as a fortunate spin-off or unfortunate constraint. In short,
there is the prospect of a renewal of the state-led expansion of the 1970s,
with financialisation and BEE (Black Economic Empowerment) as two new
features.”

Evidence for this is to be found in many parts of this paper. At a general
level it appears that the momentum of economic activity around the MEC
appears to have carried through the transition almost seamlessly. Early in
the life of the new government, the cabinet enthusiastically approved mega-
projects such as Alusaf (Aluminium smelting) and Columbus (stainless steel). Both projects received substantial financial support from the Industrial Development Corporation (IDC). In fact, an examination of IDC investments since, say 1990, clearly demonstrates the dominance of mega-projects, despite the nominal commitment to small business development (Fine 1997: 136-140).

Thus, speaking in Parliament recently, Public Enterprises Minister Alec Erwin outlined his vision of a multiplication in the number of state-owned enterprises: “which would drive a strategic plan to re-industrialise parts of the economy […] Erwin was unrepentant yesterday, arguing that the new enterprises would be ‘the vanguard of the developmental state’. […] Erwin vehemently rejected as ‘gloomy and depressing’ suggestions made at a media briefing that his plan would see the tentacles of the state extended octopus-like into every corner of the economy, squeezing out the private sector. He argued that the involvement of state-owned enterprises in big investment projects underpinned by a long-term, state-devised growth plan would be a catalyst for private sector engagement” (Business Day, 15.5.2008).

This pre-occupation with mega-projects also extends to regional and local government. The KwaZulu-Natal (KZN) government’s massive investment, through its own development finance corporation (Ithala) in the Dube Trade Port, is a case in point. My argument is not that these projects are not worthwhile or successful, but is rather to demonstrate that substantive continuity with the past exists in a key component of the make-up of the political economy of contemporary South African capitalism.

Zav Rustomjee has recalculated the growth of the MEC and non-MEC manufacturing sectors in relation to real (2000) GDP over the period 1970–2004. Although both have grown in a relatively robust economy, “non-MEC manufacturing is still well below the MEC contribution in absolute and relative terms. Despite the erosion of group holding structures the MEC sectors are still the locomotive. Group holding power may have morphed into a slightly more diffuse form – but the same business characters and groups (with a few additional domestic and global players) continue to determine the course” (Rustomjee, personal communication, January 2007).
5. The changing face of finance and corporate power in South Africa

South Africa's financial system has its roots in the British market-based tradition. Commercial banks with an extensive branch network tend to focus on short-term finance, while the stock exchange raises long-term equity finance.

South Africa's private banking and financial system, shaped by the needs of the gold-mining industry around 1900, has failed to channel funds into the two essential areas: investment in competitive industries (small manufacturing, engineering and IT, including new black businesses) and in social and economic infrastructure. Rather, its relative insulation has fostered the servicing of the conglomerates and soft options in the financial and real estate markets. I have no evidence to suggest that this situation has changed in any significant way; even development finance institutions such as Ithala, which I know well, lend on virtually identical terms (cost, maturity structure) as private banks.

The advent of democracy, an opening out to global competition and the scale of vision and ambition of key figures have, however, led to a strategic restructuring of some corporations, with implications for financing options: “A decade ago, the six mining finance houses – corporate structures peculiar to South Africa, though reminiscent of the Japanese pre-war Zaibatsu, and formed under similar circumstances – dominated the economy. Today, the mining finance house no longer exists. Along with its demise, two of its widely imitated characteristics – diversified holdings and the entrenchment of control through pyramid structures – have fallen from favour” (Malherbe/Segal 2001: 1).

The main reason for this, they argue, has been market discipline imposed through falling equity prices and the role played by foreign institutional investors, who robustly criticized corporate structure, governance and performance upon their return to South African markets in 1994 (Malherbe/Segal 2001: 4).

However, South African conglomerates, especially in the resource sector, partly under Black Economic Empowerment (BEE) imperatives, partly to stave off the perceived threat of rising foreign competition, have unbundled, then rebundled within more focused areas of economic activity,
and have come to dominate their sectors globally. Anglo (mining), BHP Billiton (mining), SAB Miller (beer) and Standard Bank Liberty (finance) are prime examples.

There is little or no empirical work on the sources of new finance used by corporations to fund capital expenditure. My own research of a few years ago, which focused on medium and large establishments in Durban, suggested that the big South African banks, unlike their European, Japanese or Korean counter-parts do not have an appetite for anything other than short-term lending. More and more companies, including medium sized firms, either have to raise funds from retained earnings or are listed on the main or development board of the Johannesburg Securities Exchange (JSE).

6. Conglomerates in the transition to democracy

The *Varieties of Capitalism* literature stresses the importance of understanding the nature of a country’s global integration, its trade and capital flows and their volatility and sequencing in relation to growth. This can suggest the extent to which global capital, especially through transnational corporations, shapes national capital and in whose interest it does so. Do these corporations receive preferential treatment with regard to tax, pricing policy, the environment, labour standards, and empowerment? Here we should examine the global strategies of South Africa’s conglomerates as well as changes in the role of foreign capital in South Africa.

South African corporate giants such as Anglo American Corporation, Goldfields, and De Beers operated in the international arena long before the apartheid era and continued to do so afterwards. Without fanfare, some of them – together with state corporations, including railways and electricity supply – operated in other parts of Africa during this period. However, they had to restructure and reposition domestically and globally, after apartheid ended and a highly competitive global economy loomed, and after they had become somewhat frustrated in further globalising their operations after the debt crisis of the mid-1980s. Yet, the advent of democracy was to prove a windfall for many. Ben Fine, in fact has argued that macroeconomic policy
after 1994 has been managed “in large measure […] to allow for […] capital flight on favourable conditions to the conglomerates” (Fine 2008: n.pag.).

These conglomerates moved aggressively into the rest of the continent. South African companies are now prominent in Mozambique, Namibia, Lesotho, Swaziland, Botswana, Uganda, Kenya, Tanzania, and even in Nigeria and Ghana, especially in retail, communications, hotels, breweries, and finance. This has been met with some local resistance.

More significant has been the listing offshore of some major corporations since the late 1990s, mostly on the London and New York Stock Exchange, including Billiton I (now Melbourne-listed), South African Breweries, Anglo American, Dimension Data and SA Mutual. Their market capitalisation amounted to 22 billion pounds sterling, with the impact felt sharply by the JSE.

Their reasons for doing so included the improved prospects for raising capital, particularly from ‘index funds’ that track the hundred most capitalised companies of the London Stock Exchange (FTSE 100) by investing in all its components; freedom from South Africa’s remaining exchange controls hindering foreign investment; and the poor growth rate of the South African economy (ABSA 1999: 6). Most claimed that an overseas listing would allow them to raise funds cheaply, thereby allowing them to expand their investments at home.

The benefits to the companies and to South Africa are debatable. Apart from Billiton and Anglo-American, companies listed abroad have failed to make much headway in global markets and still derive most of their revenues from South African activities. Even so, both Billiton and Anglo now focus their exploration efforts and new investments on base minerals in Russia, Peru, Brazil, Australia, Canada and China, and elsewhere in Africa, such as Mozambique.

The negative impact on the Rand of large financial outflows, including dividends, and branch profits, may be considerable. I have calculated that net dividend outflows have increased dramatically since the major conglomerates went off-shore, rising from just under a billion rands in 1998 to about R9 billion in 2000, R17 billion in 2001, and R24 billion in 2005.

Many of these off-shore South African companies have increased their foreign shareholding since the millennium. While BHP Billiton, for example, has the second highest market capitalisation on the JSE, this is
only half of the total entity, and only 22 percent of its shareholding is South African based. Anglo-American has just 26 percent local shareholding; Old Mutual 32 percent.

Whereas the last century saw increasing South Africanisation of ownership and activity, with some positive implications for the apartheid economy, many of these conglomerates are now rapidly globalising their ownership, activities and networks, with less and less connection to South Africa – even though a major portion of their global profits derive from their South African operations.

7. Black Economic Empowerment (BEE)

One key characteristic of post-apartheid South Africa is its affirmative action programme, meant to address the legacy of racist inequality. This is known as ‘black economic empowerment’ or BEE. The new government’s initial approach to BEE was a moral one, encouraging the white conglomerates to un-bundle and sell off parts of their business empires to aspirant black capital. When the pace was too slow, government took a more assertive and regulatory stance, issuing charters that established ‘voluntary’ targets for change in ownership, participation, training etc, as well as developing a code of practice, monitored by the Department of Trade and Industry and aimed at sectors such as agriculture, transport, autos, information, and communication.

The pace of such empowerment is still slow, if judged by the share of JSE market capitalization under black control. This rose rapidly to about 10 percent in the mid-1990s following the initial period of heightened expectations. It fell to less than 1 percent in 1999. In 2004, the BEE stake was under 4 percent (70 percent of which is accounted for by one firm, the media and communications giant, MTN), despite the stock exchange boom of these years. Other indicators, however, suggest that the impact of empowerment policy has been greater.

The beneficiaries of BEE are a small elite, closely linked to the ruling ANC and the trade unions. Most have accumulated their wealth through boardroom deals, and a few have started large new businesses. Self-enrichment is the rule of the day rather than broad-based empowerment.
The President’s brother (Moeletsi Mbeki) has been one of the most strident critics of BEE, arguing that it was invented by South Africa’s mega mining and finance corporations in the 1990s, as a kind of reparation in response to what they believed was possibly a far worse outcome – the nationalisation of the commanding heights of the South African economy (Mail and Guardian, 28.4.2006). An early example of BEE was the sale of Sanlam’s Metropolitan Life (Metlife) to a black consortium that included the Mandela family’s doctor and the Secretary-General of the ANC, with a loan from the IDC.

Emerging black capital has not expanded the nation’s forces of production, nor has it typically accumulated its own capital. It relies on special share deals, affirmative action, quotas, fronting, privatisation and trading on its one real piece of ‘capital’ – access to state power – to establish itself, a point made by the South African Communist Party and by others.

Some of the larger BEE deals have been concluded in sectors such as telecommunications, media, entertainment and financial services – all vulnerable to global market fluctuations. Many did not survive the 1997 stock market crash. Freund observes: “it is an interesting and cautionary tale that [the] early projects, such as the two companies [called] NAIL and Johnnic, ultimately proved failures” (Freund 2005: 218).

The finance needed for BEE deals relies heavily on the ‘once empowered’, the merchant bankers and others who lie just below the surface of these transactions, but some BEE parties have quickly sold off some of their shares. Unless the new Broad-based empowerment code (BB-BEE) closes off such options (how to do so in a free market economy?), it is hard to see the government’s objective of driving towards a truly non-racial South African capitalism being achieved in this way.

It could be argued that foreign companies entering South Africa at this time would have been more receptive to transformation and empowerment than their white South African counterparts. Stephen Gelb’s (2002) study of 162 foreign firms entering South Africa since the 1990s reveals a mixed picture. Foreign investment has not expanded BEE ownership levels, but has promoted black participation in high skill job categories more effectively.

In March 2007, two Italian granite firms sued the South African government, arguing that BEE laws violate international investment trea-
ties. They claimed that South Africa’s mining charter, which seeks to boost involvement of blacks in the sector that excluded them during apartheid, amounts to expropriation. Their lawyer asked, “why are foreign investors, who never invested here before 1994 and never benefited from the apartheid system, why are they subjected to this form of redress?” (Weekend Witness, 10.3.2007). The case is ongoing.

Sean Jacobs has argued that “black capitalism arrived too late on the stage of capitalist economic development in South Africa […]. Unlike the growth of Afrikaner capital earlier, which was strongly supported by various state corporations, the state today cannot do much to support black capitalism when it is shedding its assets to market forces” (Jacobs 2001: 11).

There is little evidence of a new generation of business(wo)men of Indian origin emerging to take advantage of black economic empowerment – certainly none in the league of African recruits to South Africa’s new corporate elite. Do they not bring enough political clout and connections to the boardrooms? Or have they been content to grow more gradually using their own business experience and capital?

A notable exception is the firm ‘J&J’ – initially a technology and finance services business established by Big J Naidoo (the first Secretary General of the Congress of South African Trade Unions – COSATU, a Cabinet Minister in the first Mandela government, and currently the Chair of the Development Bank of Southern Africa) – and Small J (once a high-profile trade unionist and the first executive director of the National Economic Development and Labour Council – NEDLAC). This company has expanded rapidly into other areas, including a partnership with India’s Tata Group in energy development. Its venture into the health sector has secured agreements with two major Indian generics companies. The group has a strong relationship with the London-listed Old Mutual plc. It launched what was then the largest e-procurement company in South Africa.

8. Developments in corporate governance

Numerous models of corporate governance are to be found, but the Anglo-American version has come to dominate debate and practice. Corporate governance according to the Anglo-American model means that firms
should strive to maximise shareholder wealth or value. This requires effective boards, with an adequate number of appropriately qualified and experienced outside directors (non-executive, independent), management compensation aligned to shareholder interests, and a market for corporate control. Yet this is not the only way to corporate success. Toyota’s board of directors has 60 people and only one outsider! Its management is paid less than in the US, and traditionally the members don’t have stock options. There are no hostile takeovers to speak of. And they out-compete their American rivals in the global auto market.

France’s ‘financial network economy’, in which Chief Executives (PDG) wield enormous power, remains largely intact. Here, boards tend to be rubber stamps for the largely autonomous actions and decisions of the CEO. The French system is also characterised by “small groups of investors, drawn from the same elite, [who] control one another through interlocking shareholding. Building upon the elite’s informal networks, such close relations between firms, boards and large shareholders provide a degree of coherence and direction to France’s [network] economy” (Clift 2004: 93). In 1995, the 300 board seats on France’s top 40 companies were held by just 75 individuals.

South African companies have over the last 10 to 15 years increasingly shifted to an Anglo-American corporate governance model, practise what Goldstein (1999: 1) calls the “new global management mantra of shareholder wealth maximization.” South African companies continue to be influenced by developments in the UK (the Combined Code updated in January 2003) and US (where the Sarbanes-Oxley Act of July 2002 was passed in order to prevent situations such as the Enron scandal). This practice stresses a unitary board, avoidance of conflicts of interest, independence, accountability and transparency. In contrast to the French model, the boardrooms of South Africa’s major corporations contain a far wider number of individuals, with the qualification that an elite group of black and/or women non-executive directors serve on a multitude of boards, as previously white companies attempt to meet the demand for transformation. A more thoroughgoing ‘democratic South African capitalism’, even for the benefit of shareholders, let alone a broader community of stakeholders, is still some way off.

The dramatic growth of the private equity industry in recent years is already narrowing the beneficiaries of capitalism in post-apartheid South
Africa. Though there are many new South Africa players (Brait, Ethos, AMB Private Equity etc), most of the private equity firms with real financial clout are foreign owned. The value of assets under management by private equity firms in South Africa stood at about R55 billion at the end of 2006, compared with R44 billion one year earlier. The number of private equity (PE) buy-outs for 2006 alone stood at 761! As a result, “some of the JSE’s top 40 companies could disappear from the exchange and into the portfolios of foreign private equity funds, reducing investor choice, depriving existing shareholders of future earnings growth and transferring ownership” (Directorship Magazine, 4th Quarter 2006: 6). Among the local targets identified for buyouts then were Edcon, Shoprite, and Alexander Forbes. Edcon, which first listed on the JSE in 1946, was recently bought out by US PE firm Bain, and will soon be delisted.

The beneficiaries of this growing practice include the investors in private equity firms, the professional fund managers, and the country (through capital inflows where the private equity firm is foreign owned); but the model is partly driven by the possibility of circumventing corporate governance guidelines and other regulatory obligations applying to public companies. Critics have pointed to how PE firms fiercely resist greater transparency and public scrutiny. They in turn argue that greater transparency will ‘rob them of their magic’.

There is not yet much sign of shareholder or stakeholder activism in South Africa. The private equity industry, like hedge funds before it, will not improve this situation and may even reverse the expectation of spreading the benefits of corporate capitalism to broader sectors of society. One inevitable victim will be the goal of greater economic democracy that South Africans hold dear.

By February 2007, black people held 180 out of a total 603 directorships of the top 40 companies listed on the JSE, but about a third of these are held by just 22 individuals. They include Cyril Ramaphosa, Ruell Khosa, Danisa Baloyi (who sat on over 100 boards until her recent troubles), and Khaya Ngqula (who sits on 38 boards while running SAA full-time).

Women in chair positions on JSE-listed company boards represent just 1 percent, or just two individuals. Only 5 percent of all executives and 8.2 percent of non-executives on the JSE are women. This last figure is in line
with the US and Australia, and is significantly below Norway and Sweden, where the comparable figures are in the 15 to 20 percent range.

The country’s largest global corporations have changed little at the top, remaining overwhelming white and male. Anglo-American Public Limited Company has just one black non-executive and one woman executive on its main Board. Canadian-born Cynthia Carroll will break the mould somewhat when she takes over at Anglo-American plc, becoming the first female CEO of a top 40 company. BHP Billiton has no blacks and just two (white) women on its Board. Richemont has no black directors, Liberty International has just one non-executive director who is not white. SAB Miller has a Board of 16, of whom two are (white) women and one, Cyril Ramaphosa, is the only black (non-executive) director. Old Mutual plc had just two blacks on its 11 member Board in December 2005.

9. Labour process and workplace restructuring

Is the racist-based, authoritarian workplace of the apartheid era changing at all? Webster and von Holdt (2005: 27) suggest that “instead of a decisive break with the apartheid workplace regime, there is a more complex pattern of continuity”, including a reconstitution of an “authoritarian post-apartheid workplace order in which work organization and worker attitudes are less important than new forms of control and higher workloads.”

The negotiations leading up to 1994 and after placed much store on ‘institutionalised social dialogue’, on a social accord to ensure that the various stakeholders, such as the trade unions, businesses, government and community organisations would play a role in shaping the key economic institutions of the post-apartheid economic system. NEDLAC came into being in February 1995. Its mandate centred around negotiations, participation, consensus seeking and co-ordination, being modelled “to a large extent on successful institutions of social dialogue in other parts of the world, notably Holland and Ireland, but with adaptations to take account of the development challenges of South Africa” (Parsons 2006: 10). Compared, say to Italy and Mexico, its mandate “does not encompass macroeconomic concertation [co-ordination].”
Parsons identifies around 50 other countries, mainly in the developing world, with NEDLAC-type institutions. Its ‘engine room’ consists of four chambers (Labour Market, Trade and Industry, Public Finance and Monetary, and Development) with the ‘community’ represented in the dysfunctional ‘Development Chamber’.

NEDLAC has limitations, as the experience around the formulation of the new government’s neo-liberal Growth, Employment and Redistribution Strategy (GEAR) demonstrates. Parsons observes: “Initially, government indicated that the basic policy lines of the GEAR strategy were not negotiable, even within NEDLAC. This was partly because implementation of the strategy was deemed to be urgent, partly because some elements like interest rates, taxes and fiscal deficits were not practically negotiable in any modern economy, and partly, it seems safe to say, because the Government surmised (correctly) that organised labour would strongly oppose GEAR. Whatever the reasons, it put considerable strain on the NEDLAC processes.” (Parsons 2006: 13). In short: an important component of co-ordinated market economies is now missing from South Africa’s capitalism, even compared to the late apartheid period!

10. Conclusion

Since 1994, as argued powerfully by Roger Southall: “South African capitalism has become more rather than less like the contemporary capitalism of the western world: no longer contained and protected by state-imposed barriers, domestic conglomerates have increasingly ‘unbundled’ and internationalized; international and domestic finance capital is increasingly dominant over manufacturing; shareholding is concentrated in the hands of the institutional investors, whose fates are determined by managers who are less and less accountable [even ] to shareholders […] few women are smashing through the ‘glass ceiling’ and corporations remain overwhelmingly male territory; and the gap between the financial rewards to top management and their workforces is widening alarmingly in a country where patterns of inequality are already deeply entrenched” (Southall 2006: 198).

If I am right, South African capitalism is less different from the old model than most would have hoped for not long ago. It is dominated by
a powerful mineral-energy complex whose principal actors now play on a
global economic stage; it has, more generally, assumed an increasingly global
character in contrast to a long period of South Africanisation going back at
least to the founding of Anglo-American Corporation in 1917; corporatist
institutions such as NEDLAC exert less influence over economic and social
policy than was originally envisaged; capital has found new and different
forms of cheapening labour power; and, despite talk of changing the racist
structure of post-apartheid capitalism, corporate control and decision-
making still rests with the old guard – male and white. Where South African
capitalism has changed, as in corporate governance and to some extent in
the finance system, it has led to it being placed even more firmly within an
Anglo-American variant of capitalism.

In short, any claims that South Africa is now a more gentle, humane
place, more stakeholder-oriented, more transparent and democratic, more
caring and more connected to society, let alone ‘proto-socialist’, ‘non-capita-
talist’ or ‘anti-capitalist’, would appear to be somewhat exaggerated.

1) I would like to acknowledge the advice of my friend and mentor, Professor Keith
Hart, with whom many of the ideas in this paper have been debated for an extended
period.

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Abstracts

This paper aims to explore the specificities of South African capitalism before and after democratic change in 1994. It draws on the growing European literature on the “varieties of capitalism”. Marxist, institutionalist and structuralist approaches are introduced and eclectically drawn upon in order to describe and assess the South African case, both historically and in the contemporary period. Throughout, the paper tries to get to grips with the relationship between the democratic state and various factions of capital – old, new, black and reconstituted. South African capitalism is less different from the old model than most would have hoped for not long ago. It is dominated by a powerful mineral-energy complex whose principal actors now play on a global economic stage; it has, more generally, assumed an increasingly global character, in contrast to a long period of South Africanisation going back at least to the founding of the Anglo-American Corporation in 1917; corporatist institutions exert less influence over economic and social policy than was originally envisaged; capital has found new and different forms of cheapening labour power; and, despite talk of changing the racist structure of post-apartheid capitalism, corporate control and decision-making still rests with the old guard – male and white.

rativistische Institutionen üben weniger Einfluss auf die Wirtschafts- und Sozialpolitik aus als ursprünglich vorgesehen. Das Kapital hat neue und unterschiedliche Formen gefunden, die Arbeitskraft billig zu machen. Der Rhetorik über eine Veränderung der rassistischen Struktur des Post-Apartheid-Kapitalismus zum Trotz verblieb die Unternehmenskontrolle weiterhin bei der alten Garde: weiß und männlich.

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Keeping up appearances: uneven global development in a system of structural imbalances

Structural imbalances in the capitalist world economy cause socially and spatially dispersed developments. They can display convergent or divergent tendencies, with a resulting production of space and socio-spatial developments. In the 21st century, these developments continue to be highly uneven and polarizing. Uneven development has a variety of facets, which express socio-economic inequalities. The current financial crisis seems to be an expression but in some respects also a turning point in the global system of uneven development. It has affected the real economy: “A mild global recession is the best that can be hoped for” (Economist 2008). The widely used model for comparison of current events appears to be, however, the Great Depression of the 1930s. Economic crises like this bear a chance for regions in the periphery, because they may gain room to maneuver for more independent developments (Becker 1999: 46ff). In times when system contradictions affect regions in the centers of capitalist developments more severely, the predominant ideologies and theories of development are being questioned more widely.

In this paper I will revisit origins, main arguments, and contradictions of orthodox economic theory of development, and contrast it with approaches of radical geography. I will depart from the unfolding current crisis (chapter 1). In chapter 2 I will assess the origins and underlying assumptions of orthodox economic theory, as it has built the base for mainstream development discourse in recent decades. It constitutes the background for chapter 3, which presents approaches to uneven development, on the one hand the neoclassical theoretical conception of regional development, on the other hand, in contrast, the more historical and empirical theory of radical geography (and some of its Marxist influences). I will refer to theories of uneven
development, although strictly speaking orthodox economics does not need a theory of uneven development (because orthodox economics implies equilibrium anyway), and radical geography deals with a theory of uneven development still in the making (Harvey 2006). The approach of radical geography suggests that the unfolding current crisis is rooted more deeply than just a failure to regulate the financial markets. It can be seen as the result and symptom of an over-accumulating world economy. The United States have dominated the world economy. Although US American hegemony was impaired in the 1970s, the power formation after World War II has shown remarkable persistence, despite decades of crises. In chapter 4, I will offer a few possible explanations for this. In the final chapter 5, I will present a brief outlook.

1. **A brief sketch of the current crisis**

“It is tempting […] to see this all as some prelude to a financial crash that would make 1929 look like a footnote in history.” This is not a current quote from 2007 or 2008 but from 1989 (after the severe stock market crisis of 1987), when David Harvey analyzed the political-economic capitalist transformation from the early 1970s on, leading to an era of flexible accumulation (Harvey 1989: 194). A decade later, the economic historian Harold James drew parallels between the ‘current crisis’ and the world economic crisis before World War II (James 1999). The inherent instability of the current capitalist system was labeled a ‘globalization crisis’ but, as Peter Feldbauer and Gerd Hardach (1999: 18) point out, a crisis that lasts for 25 years cannot be called a crisis if one follows habitual language use, but rather a ‘condition’. This “Condition of Postmodernity” (Harvey 1989) is based on deep structural changes in capitalist production, alongside the rise of postmodernist cultural forms.

With the current financial crisis, severe turmoil has returned to the countries of the capitalist center of world development, and justifies analogies to the Great Depression. “The financial market crisis that erupted in August 2007”, wrote the International Monetary Fund (IMF 2008) in its *World Economic Outlook*, “has developed into the largest financial shock since the Great Depression, inflicting heavy damage on markets and insti-
tutions at the core of the financial system”. The economist Paul Krugman (2008) calls it “willful amnesia”: “We chose to forget what happened in the 1930s – and having refused to learn from history, we’re repeating it. Contrary to popular belief, the stock market crash of 1929 wasn’t the defining moment of the Great Depression. What turned an ordinary recession into a civilization-threatening slump was the wave of bank runs that swept across America in 1930 and 1931. This banking crisis of the 1930s showed that unregulated, unsupervised financial markets can all too easily suffer catastrophic failure.”

The current crisis originates in a US housing boom financed by cheap loans (with low interest rates), a consequence of policies by the US Federal Reserve Bank after the Dotcom-Bubble that burst in 2001. Investors borrowed money cheaply and poured it into the real estate market; people borrowed in order to buy homes, or speculated on higher prices for easy profit. When demand slowed down, riskier loans were offered to home buyers without reasonable securities. Some home buyers were lured into taking mortgages by offers of no or low interest rates in the early period of the loan. Only in a later stage were steep increases in repayments and interest scheduled, a strategy that was, it was claimed, low risk, since prices would increase, houses could be sold or credits rescheduled. Banks often did not know the credit takers, while real estate agents made Ninja deals to people with no income, no job or assets. The business of subprime mortgage was born. The cycle worked as long as prices increased, which they did as long as there were enough buyers. The logic of this snowball-system became known as Ponzi’s Law of speculation, named after a con man in the 1920s who promised high profit without having any capital base for it. Frédéric Lordon (2007) has concisely analyzed the phases of the current financial crisis, and the transmission mechanism from the real estate bubble to the financial crash, and argues that the miraculous transmission instrument that makes credits tradable on financial markets is derivative products. “Wall Street […] was transforming the mortgage business from a local one, centered around banks, to a global one, in which investors from almost anywhere could pool money to lend” (Leonhardt 2008a: 10). Derivatives are instruments that are used, for example, to secure present deals against future insecurities (weather conditions etc.). They make uncertainties tradable and promise high profits compared to the real value of the ‘underlying asset’. The English term is
‘securitization’. In the case of the real estate market in the US, the risk was the loan repayment. Many economists proposed that, in this case as well, securitization would add to the stability of the system (Schuberth 2008: 35). Banks sold their loans in the form of derivatives and thus removed risks from their books. Bonds with risky loans (‘junk bonds’) where bundled together with safe bonds, and still acquired AAA-trading status from rating agencies. (These were in close contact with market institutions, made money assessing derivatives, and seem to have chosen to ignore the risk). These Residential Mortgage Backed Securities were again traded as ‘debts on debts’ in so called Collateralised Debt Obligations. The most risky and profitable tranche of these bonds (so-called ‘toxic waste’) would be hit hardest in case the actual debtors would not be able to repay their loans. This global distribution of risks among very many financial institutions created the illusion that this snowball system could prevail, and further loans could be offered.

‘Toxic waste’ bonds infected sectors originally unrelated to the bubble. Furthermore, companies in the real sector became subjects of buyouts or takeovers by private equity companies/funds (Huffschmid 2007: 31ff; Köppen 2007) which take companies from the stock exchange, ‘restructure’ them, and resell them at a profit. The bill was paid with credit; it was intended that current payments would be taken from the companies’ accounts. With the market turbulence, some of these companies got into trouble alongside the financial funds. Moreover, the contraction of the credit market severely impeded the real economy (IHT 2008b).

The morning after the party started with a hangover. The financial crisis has spread globally, led to the socialization of banks in Europe, and has added pressure to countries that had already been vulnerable, due to current account imbalances (cf. Becker 2007; Landler 2008). So far, there is no account of exactly how much money has to be written off or how many ‘toxic waste’ bonds are still not accounted for. The numbers that circulate are beyond an average person’s imagining. In April 2008, the IMF talked about losses of one trillion US dollars (IHT 2008b). Other estimates suggest several trillion US dollars (Blackburn 2008: 71f). G-7 governments (Canada, France, Germany, Italy, Japan, United Kingdom, USA) discussed concerted action in spring 2008, including buying ‘toxic assets’ with public money. Ad-hoc interventions of national banks were undertaken in order to pump liquidity into the contracting credit markets and to save or support
banks and financial institutions that had tumbled or crashed (Blackburn 2008; Waki 2008). When this was not enough to stop the domino effect, a concerted cash infusion of 180 billion US dollars into the drying-out US credit market by the US Federal Reserve Bank, the European Central Bank, and other central banks was announced on September 17, 2008. Carter Dougherty (2008) referred to a “lesson rooted in the Great Depression”: “[u]nlike the approach in the 1930s, it is a global effort, driven by a close-knit community of central bankers who are aware that the mistakes of the Depression era erased their credibility for years afterward.” Nevertheless, another bank (Lehman Brothers) crashed. When American International Group (AIG) threatened to collapse, it seemed clear that a major bailout was unavoidable. AIG insures financial market transactions but is also home to many US workers’ pension funds. The Wall Street Journal called the consequence of the recent US government’s action the “end of traditional investment banking” (Hilsenrath et al. 2008).

For the most part, radical market approaches seem to have lost momentum during current events. “Adam Smith’s invisible hand has a puppeteer: the U.S. Federal Reserve”, wrote Sorkin (2008), reporting the fire sale of an investment bank (Bear Stearns) on the verge of bankruptcy. It became evident that a) the moral hazard that rewarded bad lending practice (Leonhardt 2008b) could not be avoided (if measurements to save the system as a whole were undertaken), and b) that state intervention and state ownership has returned to the agenda (Andriani 2008). “The gamblers bet on the state”, as Frédéric Lordon (2008) puts it. Governments and central banks are leaving market rhetoric behind, and are subscribing to the political regulation of financial markets (Phillips 2008; Steinbrück 2008; Vucheva 2008; IHT 2008f). While euro-zone governments are proposing securities for interbank loans, many of them are also considering the socialization of banks. “I have never been a proponent of intervention”, said US Treasury Secretary Henry Paulson at a Senate Banking Committee hearing to defend his bailout plan of 700 billion US dollars, but “[t]here’s no way to stabilize the markets other than through government intervention” (Scannell et al. 2008: 1). Interestingly, Henry Paulson had played a role in the subprime debacle, working for more than three decades at a major US financial institution (Goldman), and profiting from selling subprime mortgages. As a reaction to criticism against speculators, he was quoted as saying that
penalizing Wall Street for packaging mortgage loans “is not the answer to the problem” (Pittman 2007: 16).

The dominant narrative for the current crisis seems to run along the following lines: unregulated financial markets have enabled irresponsible behavior and speculation on the part of financial investors. Politicians and economists must now contain the crisis by using public money. Otherwise, the real economy will be seriously impaired. When the crisis has been mastered, international “traffic rules” must regulate the financial sector; the current situation shows that *laissez faire* capitalism is an outdated concept, as the German Secretary of Finance, Peer Steinbrück (2008), pointed out in the German *Bundestag*. This would not lead, however, to the end of market societies but might even strengthen the idea of a (regulated) social market economy. Since the center of world finance was hit hard this time, some regulation is already following the rhetoric (for example, some speculative deals are being outlawed).

The last time around, this appears to have been different. The Financial Stability Forum (FSF) has been playing an important role in the coordination (and re-regulation) of international financial policy since 1998 (FSF 2008: 1; IHT 2008d). FSF was founded as a response of G-7 finance ministers and central bank governors to the Asian and Russian Crises a decade ago in order to *prevent* another crisis (FSF n/y a and b). The FSF intended to examine “the scope for strengthened prudential regulation in industrial countries to encourage sound analysis and careful weighing of risks and rewards, including consideration of appropriate transparency and disclosure standards for all financial market participants” (FSF n/y b). Politicians of the center may not have been sufficiently concerned. The rhetoric was in part directed towards emerging markets. After all, the crisis of 1997 had been mostly limited to countries in the periphery.

2. The allocation promise

There seem to be conflicting approaches as to whether the world heads for more *convergence* (more equality) or *divergence* (more inequality). Judgments seem to depend on the data one employs, the methods, and the definitions of inequality. Branko Milanović (2007) from the International Bank
for Reconstruction and Development (IBRD, ‘World Bank’) has published a critical and instructive overview. Bob Sutcliff (2007: 67f) has pointed out that the “debate is undoubtedly infected with a good deal of inequality denial. This is what is behind the considerable interest shown in suggestions that divergence has been replaced by convergence in the last two decades. Even if this was true, it is important to stress that there are signs that it will be shortlived, and world inequality, however measured, remains very close to its highest historical levels.” To put it more pointedly: how well organized or socially advanced is a global society that sends missions to Mars but does not provide decent lives for many of its members? I don’t think that the basic data are disputed: “The extent of global inequality is breathtaking. The income of the world’s 500 richest billionaires exceeds that of its poorest 416 million people. Every minute of every day, somewhere in the developing world, a woman dies needlessly in childbirth or pregnancy, and 20 children are killed by avoidable diseases such as diarrhoea or malaria.” (Green 2008: 2) The allocation of resources is still hugely shaped by priorities of military spending. The president of Costa Rica, Óscar Arias Sánchez (2008), described it in a recent speech to the United Nations General Assembly as follows: “World military spending has reached $3.3 billion per day, but international aid continues to reach the poorest countries at a snail’s pace, while failing to reach middle-income countries altogether. [...] On a planet where one-sixth of the population lives on less than a dollar a day, spending $1.2 trillion [a year] on arms and soldiers is an offence and a symbol of irrationality, because the security of a satisfied world is more certain than the security of an armed world. [...] I know no greater perversion of values, and no greater misplacement of priorities. With a small percentage of world military spending, we could give potable water to all of humanity, equip all homes with electricity, achieve universal literacy, and eradicate all preventable diseases.” A trillion is a fascinating figure. In US-American English it’s a one with twelve zeros: 1,000,000,000,000. As we have seen, this is also the amount the IMF has estimated (in April 2008) as what has been lost in the current financial crisis. The director of the United Nations Food and Agricultural Organization (FAO), Jacques Diouf, also used the figure US$1.2 trillion spent on arms every year to contrast – in an appeal to world leaders – the need “for US$30 billion [30,000,000,000 or 1/40] a year to re-launch agriculture and avert future threats of conflicts over food” (FAO 2008a).
However, the story is also about the allocation of existing production. While from “an aggregate perspective, there is enough food available to feed the world” (FAO 2008b: 4), allocation by ‘the market’ still seems to have widespread appeal.

The way we look at uneven development is shaped by knowledge production and communication in social science. It is important to remember that many of the difficulties in today’s development discourse stem from the perception that the social science discipline with the utmost influence – economics – does not belong to social science, and therefore stands outside its theoretical framework. From the 19th to the 20th century, political economy turned into economics and was related to nomothetic sciences (dealing with abstract, general, universal statements or laws). Social science and humanities were deemed idiographic sciences (dealing with concrete, individual, unique knowledge, processes etc.). Nomothetic neoclassical economics has been defined much the same as mechanics in physics (Rothschild 2002: 438; Pirker 2004: 91; Fullbrook 2005: 2c). In the process and aftermath of the “dual revolution” (French Revolution and British Industrial Revolution, Hobsbawm 1996a: 2), science took the role theology used to have in pre-industrial times under hereditary (religious) rules: it coins and helps to establish/justify ideologies. Political economy was at the heart of the matter, because it dealt with the economy, the central phenomenon of industrial society (Zinn 1987: 20; Fullbrook 2005: 1f).

2.1 Some features of neoclassical economics

Neoclassical economics is by no means a uniform theoretical concept. Interestingly, it has been argued that anti-classical economics could have been a more appropriate name, due to its anti-Ricardian character (the reference is to the classical political economist David Ricardo [1772–1823]). “Instead, the definition of ‘neoclassical system’ originated with reference to the work of [Alfred] Marshall, from which it spread to embrace the whole modern world of orthodox theory; and it is an independent definition from the Marxian one of classical economics. Marshall wished to stress the continuity of a tradition which linked him to [John Stuart] Mill and [Adam] Smith without excluding Ricardo” (Screpanti/Zamagni 1993: 150). We will return to the preoccupation of contemporary mainstream economics with Ricardo in a moment. Here are six main characteristics of neoclassical thinking as
put forward by Screpanti and Zamagni (1993: 147-149): the “marginalist revolution”, as the neoclassical success story has been labeled, was characterized by (1) a “disappearance of interest in economic growth, the great theme of Smith, Ricardo, Marx, and all the classical economists. Attention, instead, was focused on the problem of the allocation of given resources”; (2) “human behavior is exclusively reducible to rational calculation aimed at the maximization of utility”; (3) the “substitution principle”, that is, “the substitutability of one basket of goods for another”, is assumed; (4) the economic agents who were to maximize individual goals (utility, profit) were “individuals, or at most, ‘minimum’ social aggregates characterized by the individuality of the decision-making unit, such as households and companies. Thus the collective agents, the social classes and ‘political bodies’, which the mercantilists, the classical economists, and Marx had placed at the centre of their theoretical systems, disappear from the scene”; (5) as already mentioned, “Economics was likened to the natural sciences, physics in particular, and economic laws finally assumed that absolute and objective characteristic of natural laws”; (6) “the substitution for the objective theory of value of a subjective one”. Individuals can accept or reject values but are “not able to establish their cogency”. “[D]istribution of income becomes a special case of the theory of value, a problem of determining the prices of the services of the productive factors rather than of sharing out income among social classes.”

Here is not the place for a detailed analysis of problematic neoclassical assumptions and emphases, or the variety of approaches and differences in the different branches of neoclassical economics, let alone adaptations (for a detailed insight: cf. Screpanti/Zamagni 1993). I will pick instead briefly and very generally a few aspects that seem relevant to the general discourse of uneven development. For one, the emphasis on growth has all but disappeared from the economic discourse. Neoclassical theory seems to have difficulties, however, in explaining growth. Long-term growth in the neoclassical model is only guaranteed by technological progress, which “appeared like manna from heaven” (Maier et al. 2006: 57). This led to attempts to improve the basic model (i.e. new growth theory). The production of technological progress is dependent on external effects. While in the basic model of neoclassical theory technological progress could only be introduced via capital (investments) over a period of time, later attempts were made to
insert another factor (human capital as the carrier of knowledge) into the endogenous growth model (or externalities model). The theoretical problem appears to have remained the same: human capital is not compensated (only capital and labor are) in this growth model; therefore, it must be available free of charge externally. Technology cannot be treated as a market good but does have characteristics of a public good; knowledge used by one company can be used by another without the need to reproduce it (it is 'non-rivaled'), developers are limited in their attempt to prevent competitors from using it ('non-excludable') (Maier et al. 2006: 56, 95). However, intellectual property rights represent an effort to make knowledge/technology a market good.

Regarding the ‘rationality’ of ‘utilitarian’ humans, Kurt Rothschild has pointed out that “the concentration on egoistic and competition-oriented incentive and motivation not only underestimates the human predisposition to solidary and altruistic behavior but also obstructs them in their development” (Rothschild 1980: 32). For anyone interested in human development, the contradictions that found their ways via neoclassical thought into today’s mainstream (sometimes also into ‘common sense’), the following assertion must be mind-boggling. “Whereas Newton”, as Fullbrook (2005: 2) put it bluntly, had been “backed by a century of empirical research” before he “identified fundamental properties of the physical universe and then modeled them, [William] Jevons [1835–1882] and [Léon] Walras [1834–1910] set about defining a set of concepts that could be combined in a manner formally analogous to the physical relations modeled by classical mechanics.” Jevons and others seem to have constructed (neoclassical) economics from the drawing board, following their respective logic(s), in the process incorporating or repudiating arguments from the classical tradition. It was thus legitimized mathematically. Jevons perceived economics as belonging to the class of sciences which “besides being logical, are also mathematical”; “our science must be mathematical simply because it deals with quantities” (quoted in: Screpanti/Zamagni 1993: 155). Walras saw “this pure theory of economics [as] a science which resembles the physico-mathematical sciences in every respect” (quoted in Fullbrook 2005: 3).

Equally startling for scholars interested in the development(s) of societies are the two characteristics Jevons used in order to define individuals as economic agents: they derive utility from the consumption of goods, and act “on the basis of a rational plan aiming at the maximization of utility”
If we take the words of Jevons, a member of the English 19th century elite, it does seem to make a lot of sense that neoclassical economic thinking fitted so well with neoliberalism and postmodernism (chapter 4): “To satisfy our wants to the utmost with the least effort … in other words to maximize pleasure, is the problem of economics” (as quoted in: Screpanti/Zamagni 1993: 156).

2.2 Allocation in the free market universe of the rational individual

Distribution of wealth in a society, or between societies, or in a global society is one of the major issues in today’s world, and for scholars dealing with its problematic aspects. Classical political economists (like David Ricardo) had seen distribution between social classes as an important part of their theories. Neoclassical economists disregarded classes (and distribution between them), and concentrated on the allocation of resources for the well-being of the individual. The edifice of neoclassical allocation as distributive means operates on the assumption that economic agents (households and companies) act rationally to reach maximum utility. They are perfectly informed about all relevant prices. The prices, which indicate and communicate scarcity of resources, are flexible and adapt to the market situation immediately. The market, finally, is one of perfect or atomic competition. No single competitor can influence the market price (Maier et al. 2006: 55).

The theoretical structure of neoclassical general economic equilibrium originates with Léon Walras, and again we find a set of defining assumptions: “(1) in each market the demand equals supply; (2) each agent is able to buy and sell exactly what he planned to; (3) all the firms and consumers are able to exchange precisely those quantities of goods which maximize, respectively, profits and utilities” (Screpanti/Zamagni 1993: 166). Marginalists satisfied their utility via the perfect market, and considered utility ‘diminishing’: the more of a good one consumed the less pleasure would be created, ultimately turning into complete satisfaction. “[T]he whole of this brilliant construction is based on one crucial assumption: that the utility an individual derives from the consumption of a good is a quantity that can be measured cardinally – a value that is unique in regard to linear transformation” (Screpanti/Zamagni 1993: 204). Vilfredo Pareto (1848–1923), who
succeeded Walras into the chair of economics at the University of Lausanne, introduced a distinction between utility as a “property of an object which is beneficial to society” and ophelimity, which is beneficial to the individual. “[H]e put forward”, as Screpanti and Zamagni (1993: 205) succinctly write, “the argument that an individual (or a group) always chooses, among the accessible alternatives, that which is preferable to all the other alternatives; the idea did not even cross his mind that the individual may not be able to choose”.

By the end of the 19th century, however, human needs and pleasure were stripped from the neo-classical theoretical framework but the alleged rational behavior motivated by utility prevailed: the “foundation of utility was placed in the virtual behaviour of an individual who has to choose. This behaviour is defined only in terms of certain conditions of consistency. All references to happiness and individual satisfaction of needs disappear, while the underlying motivations for the choices lose their importance” (Screpanti/Zamagni 1993: 206).

However, measuring and comparing the utility of individuals did not work out and had to be abandoned in this process. But Pareto thought of a new criterion in order to be able to advance welfare propositions. Pareto-efficiency labels a situation when no economic unit can be enhanced without reducing another. In the case of social welfare, “it is impossible to improve the welfare of an individual without worsening that of another” (Screpanti/Zamagni 1993: 206). One can picture, however, many situations that might fit Pareto’s criterion; above all it seems to preserve existing structures and only gives the individual (limited) room to maneuver.

2.3 Monopoly capitalism: market society becomes marketing society

The basic model of neoclassical economic growth is described (Maier et al. 2006: 56) by an aggregated production function, a formula that shows output (Y) as a function of capital (C) and labor (L) input. The assumption of a perfect market leads to a situation of constant scale in production, which means no production unit or region has an advantage of size. Technological progress, new financing options, and a tendency towards cost-reducing mass production lead, however, to a situation which favors the advance of large and market dominating production. (Rothschild 1980:...
18) Most neoclassical economists were most likely not unfamiliar with this process. Karl Marx (1967: 626) had, as early as 1867, analyzed the ‘scale of production’ phenomenon, and the tendency of capitalism to concentrate and centralize (Marx 1967: 628).

The reality of capitalism changed in the last decades of the 19th century. Germany had passed through a period of growth in industrial production before World War I, characterized by an ‘organized capitalism’. It was second behind the USA in the world’s steel production with a share of 25 percent. The success of German industry was based on regional and organizational (vertical and horizontal) concentration, new inventions and technologies (not as strong after as before 1880), and a new type of managerial corporate leadership (Feldman/Homburg 1977: 27ff; Weissenbacher 1993: 5f). In the US, the first anti-trust law was introduced in 1890. Gabriel Kolko pointed out that in the following decades “[c]ompetition was unacceptable to many key business and financial interests, and the merger movement was to a large extent a revolution of voluntary, unsuccessful business efforts to bring irresistible competitive trends under control” (Kolko 1972: 22). He considers anti-trust laws and federal government’s intervention into the economy as driven by big business (“political capitalism”) (Kolko 1972: 23). Lenin, a contemporary of this early monopoly phase of capitalism, emphasized the co-existence of monopoly and competition: “Monopoly is exactly the opposite of free competition; but we have seen the latter being transformed into monopoly before our very eyes […]. At the same time, monopolies do not eliminate the free competition they accrued from, but exist over and beside it and thereby cause a series of jagged contradictions, frictions, and conflicts” (Lenin 1988: 270). Market economies, however, have turned out to be resistant against a linear development towards monopoly in the classical sense (concentration of production of a commodity in one company or a few companies) (Rothschild 1980: 22).

Screpanti and Zamagni (1993: 249f) argue that a contradictory empirical reality was less a challenge to neoclassical economics than theoretical defiance. The attack of Piero Sraffa (1890–1983) in 1925 “on the logical coherence of the Marshallian edifice was more devastating than criticism concerned with its scarce empirical relevance”. The “Marshallian theory of competitive equilibrium cannot escape from the following dilemma: either it is contradictory or irrelevant”. If the costs of production were not
constant, the results were similar to the thesis of classical political economists: prices are determined by the cost of production, “while the conditions of demand only contribute to determine the quantities produced”. Sraffa abandoned free competition and turned to monopoly production. Market imperfections were not simply frictions but forces by themselves, producing “cumulative effects on prices and quantities”. He opened a new field of research that tried to adapt theory to the shortcomings: the theory of monopolistic competition (Edward Chamberlin, 1899–1967) and the theory of imperfect competition (Joan Robinson, 1903–1983).

The existence of monopolies allows regional price differentiation (different prices for the same product), a practice which clearly undercuts allocation efficiency. Equally important and dominant phenomena that run against the model of the atomistic market economy are advertising and marketing. The assumptions of neoclassical economists had envisaged the well-informed consumer who bought homogenous (undistinguishable) goods at a uniform market, deciding between different producers. If there is no multiplicity of producers (but an oligopoly), or if commodities are differentiated or discriminable, price loses its absolute (determining) nature, and sales can be stimulated by marketing. Competition changes from price to marketing, while extensive marketing leads to further oligopolistic tendencies because high marketing costs impede entrances for new companies. The manipulation of consumer preferences causes further distortions, and consumer sovereignty is being breached. These distortions also create a gap between the private sector (pushed by marketing) and the public sector (less or no advertising) (Rothschild 1980: 22ff). When market society turns into marketing society, there is still more at stake. With the ever-growing importance of advertising in financing media, businesses distort not only the ‘perfect information’ of consumers but basically each and every aspect of public life concerning citizens.

2.4 Power promotes models of powerless societies

This very brief sketch indicates a few theoretical and empirical contradictions in the neoclassical model. One has to accept far-fetched assumptions in order to work with it, and often ignore empirical reality. We have seen that this theory was constructed as a natural science with its own inner logic. However, even early neoclassic scholars seem to have had an ideolog-
ical agenda, one that was aimed against socialism and its scientific foundations: “In order that the criticism of socialism, and of Marxism in particular, should not seem too ideological, it was necessary to focus on their scientific foundations. But these were the same as those of classical economic theory. It was necessary, therefore, to ‘re-invent’ economic science, reconstructing it on a foundation which would allow the deletion of the concepts themselves of ‘social class’, ‘labour power’, ‘capitalism’, ‘exploitation’, ‘surplus’, etc. from the body of science. […] There is no doubt that, when Jevons, Menger, and Walras presented a theory capable of averting attention from unpleasant problems, they were launching onto the market exactly the theory that was demanded” (Screpanti/Zamagni 1993: 154). In his paper on The Absence of Power in Contemporary Economic Theory, Kurt Rothschild (2002: 440) suggests that the success story of neoclassical theory is based on the “utility maximization” of economists: “The ideological preference of powerful socio-economic groups for a neoclassical type of theory is, of course, not the cause of the existence or even the dominance of the neoclassical theory, but it would also be naïve not to see that adherence to that theory eases acceptance in influential circles and secures additional funds for research. […] Extremely formulated, one could say that societal power promotes the study of models of powerless societies.”

3. Theories of uneven development: contradictions and convergence

The study of uneven development is about the comparison of and the differences, relations, and processes between entities. However, these ‘entities’ are not static but dynamic, since they constitute developments in and of societies. Social sciences, which include development studies, face an immense task when trying to analyze uneven development (Weissenbacher 2007: 38f). Uneven development includes a variety of social phenomena. In contemporary society, it gives social inequalities in capitalism a spatial dimension (Wissen/Naumann 2008: 88). Dominant development theories after World War II tended to focus on the development gap between regions (countries, states, nations), insinuating that socio-spatial differences can be overcome. Less fortunate societies would have to close gaps to achieve
wealth and decent lives for their members. This would happen by applying the right economic policy. Models that proposed stages of development had a special appeal, and offered conservative solutions in the sense that they postponed the remedy of current contradictions (Fischer et al. 2007: 13ff). Historical research has shown, however, that the recipes that have been described during recent decades in order to reach socio-economic nirvana contradict the very reasons behind the success of today’s rich nations. Some of the ingredients of success were conscious state development and the protectionism of infant industry rather than laissez faire and free trade (Halla-Joon Chang 2002). Moreover, it does not seem to have been ingenuity and a particular social formation alone that initiated the dynamics that caused such an impact after the dual revolution. Janet Abu-Lughod (1989) has described as restructuring the mutual influence and incorporating of influences from different parts of the world: the West European success story – uneven development inside Europe has a long story, too – had been based on layers of Arab and Chinese culture, knowledge, and technology that lived on (cf. Weissenbacher 2007: 38ff).

After the end of the bipolar system of the cold war, history certainly did not end and with it the search for explanations of contradictions in contemporary capitalism. ‘Contemporary capitalism’ might be the more appropriate term, if one follows the (heterodox) varieties-of-capitalism approach that critically focuses on different national capitalisms and their relations and developments. It seems to touch essential areas of development studies: “With neoliberalized capitalism – in the form of a stylized rendering of both ‘the market’ and the American model – as its foil, the varieties rubric helped establish positive notions of ‘regulated capitalism’ […] This defined the light side to the American model’s dark side” (Peck/Theodore 2007: 737). The speech of the German secretary of finance (Steinbrück 2008) suggests that a ‘regulation’-paradigm is being formed to overcome what is considered an unethical excess of speculative capitalism, and to stress the benevolent form of tamed regulated capitalism and social market economy. Such a paradigm could obstruct a confrontation with underlying contradictions. Peck and Theodore stress, however, that differences are in form not degree, and that they are part of a joint evolution (Peck/Theodore 2007: 752f, 761).

I am returning to the incumbent hegemonic theory, and contrast it with one of the most challenging explanations from radical geography, and
approaches of the Marxist tradition in which it is rooted. The neoclassical tradition originally departed from the idea that regions with different factor endowments would converge, predicting mutual benefit as the outcome of trade and exchange. Later theory development accepted that divergence was possible. Regional policy in older neoclassical models was expected to furnish a working market, while newer neoclassical models demanded from politics to enable the development of endogenous potentials of regions (Wissen/Naumann 2008: 90f). Approaches of radical geography derive from a Marxist tradition. They started from contradictions in the capitalist system that perceived convergence (if at all) as the final stage of capitalism. Later attempts included a dialectic of differentiation and evening out, which enabled the capitalist system to continue despite severe frictions.

Neoclassical approaches use a formalistic image vision of relations between regions. Factors (capital, labor) can move without restrictions, and so can goods and services. It is a world, as Maier et al. (2006: 72f) describe it, that does not know distance (between regions) and the costs of overcoming this distance: “the curious phenomenon of a theory of regional development without a spatial dimension”. More sophisticated models try to integrate costs to overcome distance. They tend to ignore, however, the fact that markets are then being spatially segmented which can produce spatial oligopolies or monopolies (contradicting neoclassical atomic competition). Moreover, the assumption of perfect information eliminates spatial differentiation. All individuals (‘labor’, ‘employees’) are thought to have the same information on the state of other regions, far or near in spatial and temporal terms. The basic neoclassical model suggests a convergence between regions even if they do not trade or exchange factors. It is assumed that poorer regions with lower capital endowment grow faster. Without technological progress there would be, however, a ‘natural’ end of growth. The endogenous growth model (or externalities model) employs, as we have seen, the factor human capital that grows with the factor capital. This seems to give the technologically advanced region an advantage, and opens different development paths in addition to neoclassical convergence, from not changing development gaps to divergence. As a consequence of these findings, the “question of convergence cannot be answered by theory but must be passed on to empiricism” (Maier et al. 2006: 101).

It had been exactly such empirical observations that led to a heterodox critique of neoclassical orthodoxy very soon after World War II. Observing
a different empirical reality than the promise of an evening out, these critics have become known as polarization theorists. They assume uneven political-economic dynamics that become visible in polarized developments (Becker et al. 2008). One common element of this approach constitutes the claim that non-economic factors (including power that is excluded from orthodox theory: Rothschild 2002) are necessary and essential factors in treating development issues. Gunnar Myrdal talked of circular causation as a vicious circle, when negative backwash effects (which are seen stronger than positive spread effects) of a more advanced region on a less advanced region are cumulating. If free market forces were left unregulated (his vision was a democratic world government, presumably similar to the social welfare regime of Sweden), regions would become more socially and economically polarized. Another example is François Perroux, who focused on a sector analysis of companies that led to agglomeration effects and respective dominant positions. Paul Krugman has attempted to mathematically formalize suggestions of polarization theory and approaches of monopolistic competition. An empirical reality conflicting neoclassical theory making was to be combined into a 'new economic geography'. “To make sense of the world, we need to have a story about how nations that participate in the same markets can pay wages that differ by a factor of five, ten, or twenty” (Fujita et al. 2001: 263). However, the “analysis depends crucially on what might perhaps best be called modeling tricks: assumptions that reflect not so much a realistic view of how the world works as a judgment about what will make the analysis of geographic issues manageable without doing too much damage to the relevance of the analysis” (Fujita et al. 2001: 6). Using ‘modeling tricks’, the ‘new economic geography model’ allows a combination of polarization and equilibrium. Again, this model uses a variety of assumptions: perfect monopolies (sectors), transport costs, a two-sector model (manufacturing-agriculture), comparative advantage, and equilibrium as a starting point. Much of the historical, geographical, and social reductionism of neoclassical theory seems to apply to new economic geography as well (Goodacre 2006: 25ff; Frieling 2008: 178ff).

Polarization theory influenced structuralism and dependency theory, the “first significant contributions to political economy to arise from the Latin American periphery” (Saad-Filho 2005: 128); the former “claims that capitalist development is possible in the periphery through industrialization...
and comprehensive social reforms", while the latter “is more pessimistic, arguing that capitalism systematically underdevelops poor countries” (Saad-Filho 2005: 128).

3.1 Comparative advantage: whose benefit?

The mutual benefit of free trade between regions is one of the best-known theoretical approaches in orthodox economics, and one that turned into contemporary common sense. It is still present in more recent theory developments; as Fujita et al. (2001: 309) argue, “comparative advantage still explains much, perhaps most of world trade”. The theory of comparative (cost) advantage has derived from classical political economy (David Ricardo) into neoclassical theory building (Maier et al. 2006: 69). The theory assumes that trade (two commodities) between two regions (same technology but different factor [C,L] endowment) is beneficial for both regions even if one region can produce both commodities cheaper than the other. The less privileged region should concentrate on the commodity that it can produce with less disadvantage as compared to the other region. The more privileged region would concentrate on the commodity that has a larger cost differential, and neglect the other product. Both regions would gain output (welfare) benefits from trading with each other. Utsa Patnaik (2005) has disputed the apparent logic behind this argument. She argues that the logic only works for two regions with a similar production structure, which means that both regions can actually produce both goods: “It becomes an inapplicable argument when considering trade between temperate advanced countries and tropical developing countries, because such trade involves goods which cannot ever be produced at all in temperate regions, and for which cost of production and transformation frontiers cannot even be defined” (Patnaik 2005: 32). There is no ‘cost of production’ for tea, coffee, sugar cane, or natural rubber in Germany or the United Kingdom, she argues. Ricardo had used in his famous example the production of cloth and wine in Portugal and England. A commercial production of both is possible in Portugal but England can only, because of climatic reasons, produce cloth. What Ricardo did to the argument was a) assuming that both products could be produced in both countries, and b) “failing to distinguish between production of the agricultural raw material and processing of the raw material” (Patnaik 2005: 34). He used the phrase
“growing wine” for “growing grapes and then processing grapes into wine”, but a country can no more “grow wine” than “grow cloth”, or “grow shoes”. Patnaik also refutes the argument that Britain could have had an technological advantage and so process raw material more efficiently: (1) Grapes had been too perishable to transport to Britain and then produce wine; (2) the technology of processing cloth only developed during a 150 year period of British protectionism that prohibited imports of cloth from Asia; Ricardo’s advocacy of free trade was aimed only at tariff free import of raw material and corn; Portugal, the ‘mutual benefiting’ country, had not been part of a free trade agreement with England based on Ricardo’s theory but was rather forced to open its markets to British goods, leading to a deindustrialization: “Improvement did not and could not take place for both countries, only for the one that was militarily and politically the more powerful. In fact, an actual welfare worsening is very much on the cards for the country that is obliged, owing to extra-economic pressure, to specialize as primary goods exporter. To the extent that it faces a land constraint, increasing the output of primary traded crops very commonly has an adverse impact on availability of non-traded crops like domestically consumed foodgrains, and undermines nutrition levels of its population […]” (Patnaik 2005: 37). Departing from ‘Ricardo’s Fallacy’, the theory of comparative advantage has been further abstracted (i.e. Paul Samuelson), and accepted as a general theory. This must be understood, stresses Patnaik, “in terms of the important apologetic function it continues to play in the modern world. By positing necessary mutual benefit from all trade without exception – thereby tacitly including trade between advanced countries and developing countries – the theory helps to intellectually rationalize and justify all those past and present actually existing trade patterns that have been in fact the outcome of the asymmetric exercise of economic and political power, and which have served to widen the economic distance between nations” (Patnaik 2005: 40).

3.2 Uneven development in the marxist tradition
Radical geography has made more visible threads of Marxist and neo-Marxist theory regarding uneven development. Karl Marx (1818–1883) had observed a progressive – if polarizing – tendency of capitalism. With new means of communication and transport, more and more regions were included into the sphere of capitalist production, and non-capitalist condi-
tions were destroyed. The new conditions of production are, however, producing new spatial hierarchies, lifting new places and locations, and downgrading older ones. The capitalist development is differentiating space. Marx is often viewed as an analyst of 19th century capitalism with not much to say about the interdependence between advanced and less advanced regions. Prabhat Patnaik (2005) stresses the “dichotomy between the developed and the underdeveloped segments of the world” in the writings of Marx. Continuous expropriation and centralization has a spatial dimension: the “expropriation is spread over a large universe” while “the employment of labour for capitalist production occurs over a smaller area, confined only to the metropolitan countries, leaving a vast pauperized mass outside in the ‘outlying regions’”. The reason why Marx never drew systematic attention to this dichotomy lies in his preoccupation with a European revolution: when Marx made his famous remarks in the preface of Capital, Volume I, arguing that the more developed country showed the less developed the image of its own future, he was referring, so Patnaik, “exclusively to the metropolitan countries”, talking to an “audience that could work for a European revolution”. While Marx was already working on Volume I of the Capital, stresses Patnaik, he was writing – in 1853 – a series of articles for the New York Daily Tribune dedicated to subjects related to development economics. Marx had argued that the British rule in India had a destructive and regenerative effect, turning India in a reproductive country that produced raw material for Britain in exchange for imported manufactured goods. By intruding into the colony, Britain laid down the material premises for eventual developments in India that might lead to a non-European anti-colonial Bourgeois revolution (predating a European socialist revolution). All in all, he observed a surplus drain from India to Britain that resembled a primary accumulation that continued even after capitalism was established in Britain, damaging prospects of capitalist development in India itself.

Rosa Luxemburg (1871–1919) pointed out that the extended reproduction makes an expansion into non-capitalist regions necessary: competition forces capitalists to invest parts of the surplus they generate in order to produce more varied products in higher quantity and more cheaply; this transformation from surplus into capital is called accumulation. Extended reproduction depends on pre-capitalist societies that consume products from capitalist societies. Following Luxemburg, capitalism needs expansion and
so converges ever more areas into capitalist societies. The end of expansion would also mean the end of capitalism. (Luxemburg did nor foresee, for example, the ability of capitalism to advance ‘domestically’ into non-fully capitalized areas of capitalist societies, as happened after World War II, or into sectors of society that have been restricted from capitalization (as in the privatizations of health care, education etc. in recent years). Vladimir I. Lenin (1870–1924) focused, as we have seen, on the concentration of capital. While Luxemburg emphasized commodity export, Lenin argued that capital in advanced societies of monopoly capital lacked utilization, and that hence concentration, integration with bank conglomerates, and export of excess capital were shaping an expanding process of imperialism that at the end of the day led to war between competing imperial powers. Luxemburg’s theory of capitalist development was based on the existence of non-capitalist regions; Lenin’s theory included a dialectic of differentiation and evening out. Capitalist expansion included ever more regions but Lenin held that a new distribution of power was also possible, as was a balance of interest among imperialist powers. This opened a backdoor for a continuous instable existence of capitalism although the highest stage of capitalism had been reached (Wissen/Naumann 2008: 92-99).

Around 1905, Leon Trotsky (1879–1940) began to develop a theory concentrating on the interdependence between regions of different political-economic levels. He called it uneven and combined development. Trotsky (1932: chapter 1-3) tried to explain developments in Russia, which was backward compared to countries of Western Europe but exposed to their influence: “A backward country assimilates the material and intellectual conquests of the advanced countries. But this does not mean that it follows them slavishly, reproduces all the stages of their past.” Global capitalist development has a converging tendency, in the sense that once a backward country is exposed to capitalist influence, the path of development is being changed, a society ‘leaps forward’. He calls it “the privilege of historic backwardness” that “permits, or rather compels, the adoption of whatever is ready in advance of any specified date, skipping a whole series of intermediate stages”. This would lead to a “peculiar combination of different stages in the historic process. The development of “backward nations […] as a whole” would acquire “a planless, complex, combined character”. But the “skipping over intermediate steps is of course by no means absolute”, as can
be seen in Russian history, when Western technique and training, and loans strengthened “serfdom as the fundamental form of labour organization”. “The laws of history have nothing in common with a pedantic schematism. Unevenness, the most general law of the historic process, reveals itself most sharply and complexly in the destiny of the backward countries. Under the whip of external necessity their backward culture is compelled to make leaps.” From unevenness “derives another law which, for the lack of a better name, we may call the law of combined development – by which we mean a drawing together of the different stages of the journey, a combining of the separate steps, an amalgam of archaic with more contemporary forms”.

The theory of uneven and combined development as put forward by Trotsky opens up different possible development paths. “Backward” countries can have an advantage “but ‘not infrequently’ the result is only a form of modified backwardness” (van der Linden 2007: 149). Van der Linden calls the development of this theory the “Trotsky-Novack-Mandel approach”. Ernest Mandel (1923–1995) and US philosopher George Novack (1905–1992) have further developed the theoretical framework. Mandel observed that inter-imperialist competition would cause further differentiation. With the rise of imperialism, however, the advantage of leaping forward and repeating completely the process of industrialization (as Germany had done), seems to have disappeared (van der Linden 2007: 151ff). Whether (the development of) China and India will belie this latter perception remains to be seen.

3.3 Radical geography

Capitalism has persisted despite frequent crises and restructuring. David Harvey has traced this endurance. He explored the way capital produces space, and integrated the findings into the Marxist theory of capital accumulation (cf. Harvey 2004). Harvey calls the core concept of his theory “spatio-temporal fix”. Wissen and Nauman (2008: 103) argue that today’s double meaning has developed through a genesis in Harvey’s work. A ‘fix’ in Harvey’s theory means two different things: ‘to repair’ (or ‘stabilize’) and ‘to localize’ (or ‘lock in a position’). Harvey departs from the observation that capitalist production is plagued by over-accumulation crises. We have already seen that in Marxist terms transformation from surplus into capital is called accumulation. These crises are marked by an excess of capital (in the form of commodities, unused productive capacities, and money capital that
cannot find profitable investments) and labor (unemployment) that cannot be employed profitably in order to pursue necessary tasks in a society. In order to avoid the devaluation or destruction of assets, ways must be found to absorb excess. Harvey observed two solutions: geographical expansion and spatial reconstruction. Absorption of this excess in a capitalist society works via (1) a temporal postponement into the future, which means investments in long-term projects or social expenditure (education, research); (2) a spatial expansion into new markets, or outsourcing of production capacities into other regions, or investment into new fields of employment in other regions; (3) a combination of both; hence the phrase ‘spatio-temporal fix’. The notion of fixing (locking in a position) capital is more than the immediate Marxist idea of fixed capital (in combination with variable capital or labor) in the production process but also (long-term) investments in the built environment (infrastructure, train tracks, airports, hospitals …). Investments in the built environment (by society/the state) stimulate economic activities and create demand. They are financed via loans on the financial markets. Capitalists that use the infrastructure pay a rent for the use of the infrastructure. If ends meet, the debt-financed investments are paid off; if not, the state acquires a higher debt (up to insolvency) or has to increase taxes. In any case, there seems to be a built in contradiction as well; temporal fix most of the time means that the amortization period of investments into the built environment lasts longer than in the usual ‘primary circulation’ of capital.

The concept of spatio-temporal fix is a way to demonstrate how the underlying problem of the current crisis is more than just regulatory failure. The transmission of credit to ‘fix’ over-accumulation is a strategy followed via financial markets. While the distribution of loans is a necessary mechanism, the excess of virtual capital has led to recurring speculative booms. It thus seems as if immense profits can be made by speculation. This makes early participants in the gamble rich, yet the snowball scheme has a natural flaw. The rate of profit is becoming decoupled from accumulation, as Michel Husson (2004: 136) has pointed out: capitalization and securitization can fluctuate and be traded but real value is only produced by labor (= the ‘real’ economy). Virtual wealth can grow as long as it does not claim conversion into real purchasing power. With the current situation, we can now study what happens if it does.
There are strategies to temporarily prevent (or postpone) a meltdown on financial markets. If sufficient money supply is available, one speculative bubble can re-inflate another. This is what happened when the Dotcom-bubble turned into the real estate-bubble, which then tried to inflate the agrofuel/food-bubble when the markets crashed. The regular business of late financial capitalism sounds less idyllic. The basic idea is to incorporate sectors of a society into the capitalist production system that have had up to then been public domains. These sectors are the product of past collective efforts and include health, water supply, education, state pension funds, energy sector and electricity, and public transportation.

Debt obligations have traditionally been the mechanism with which to implement privatization policies at the periphery. The energy sector in California and the English or New Zealand railway system are acknowledged examples in the center, however, for what happens if investments are curbed (and prices for once ‘public goods’ rise) for profit. This strategy has been observed for a while. “The adjective neo-liberal expresses well the dialectics between the old and the new”, as Michel Husson (2004: 148) argues: under the pretense of modernity, capital turns back the clock and applies methods similar to those used in the early days of capitalism. Harvey (2004: 195f) takes up Marx’ analysis of this primitive or original accumulation, a use of force that needed state power to enforce and safeguard it. This process involved (1) the commodification and privatization of land (farmers were expelled – ‘freed’ – from their land); (2) the conversion of public/collective property into private property; (3) the commodification of labor and suppression of alternative forms of production; (4) colonial, neocolonial, and imperialistic processes of appropriation; (5) monetization of trade and taxation; (6) the slave trade; and (7) extortion. Harvey argues that these processes can be observed also today. He calls them accumulation by dispossession. He follows Lenin, Luxemburg, and Rudolf Hilferding with the observation that fraud, Ponzi-financing, intended devaluation through inflation, dispossession of assets (pension funds) and so on, are characteristics of contemporary capitalism. Examples are the collapse of Enron in the US or speculative manipulations before the Asian financial crisis of 1997, a prelude to massive dispossession.

The whole arrangement is embedded in inner-imperialist competition. The establishment of the powerful alliance between financial markets and
the US government is a result of the hegemonic weakness of the US in the 1970s. The quick economic recovery post-1945 in Europe and Japan does not seem to be out of the ordinary. As the Hungarian economist Ferenc Jánossy (1971: 9ff) pointed out, “all economic miracles are reconstruction periods”. Wars and severe crises would sometimes break the regular tendency of production. A post-war (post-crisis) development would then take an above average course (if the necessary knowledge of workers for production was still available). This would last not only until a pre-war (pre-crisis) level was reached, but until the respective economy arrived at the point it would have reached without an interrupted pace of development. For David Harvey, the US Marshall Plan for Europe after World War II is a typical example of how regions are capitalized to pay for commodities or repay capital investments in a *spatio-temporal fix*. (Another one was the accumulation of debts in peripheral countries, leading to the debt crisis in the 1980s.)

Ernest Mandel (1987: 34) pointed at another ‘norm’: he counted 21 over-accumulation crises since the development of the industrial capitalist world market, from 1825 until the second global recession after World War II, in 1980–1982. He reasoned that it was illogical and implausible to diagnose particular and unique causes for a disease that has occurred more than twenty times. With the end of the postwar ‘miracle’ and the first postwar global recessions, imbalances again produced more severe instances of friction. The US government was pressed to give up the regulated Bretton-Woods System, enforcing a world-wide system of liberalization and privatization.

4. The consolidation of uneven development

The spatial construction of uneven development in the capitalist world economy is one of the most important topics in the field of development studies. I use as a point of departure discussions from the 1960s/1970s, when structuralists pointed out that the strength of the working class in the center enabled it to benefit from unequal exchange on a global level. As Saad-Filho (2005: 134) put it: “in the centre, unemployment is low, the workers are unionized and they resist nominal wage cuts. In this case, productivity growth reduces unit costs but prices do not fall: the gains are appropriated
by the workers and their employers through higher wages and profits. Since primary product prices tend to fall while the prices of manufactures remain constant, the periphery’s terms of trade tend to decline over time.” While structuralists maintained that the problem of uneven development (backwardness of the periphery) was a lack of capitalist development, dependency theorists saw the problem in an ongoing subordination and exploitation of the periphery by the capitalist center. “Therefore, the periphery can develop only after radical political change including, for many dependistas, the elimination of relations of dependence (and the comprador class) and the institution of socialism” (Saad-Filho 2005: 139). The focus on revolutionary change in the periphery alone (because the working class in the center was too reformist, i.e. weak or socio-economically corrupted) has been countered by contemporary criticism.

The economist Ernest Mandel (1970) described as “Third Worldism” the approach that perceived the dependent relation between imperialism and the peoples of the Third World as the main contradiction of the time. He agreed that “national liberation movements in colonial and semi-colonial countries” were “part and parcel” in a process of change. He doubted, however, that “loss of an important or even a decisive part of foreign colonial domains will automatically create a revolutionary situation inside the imperialist countries” and therefore argued that the focus should be on the center. Imperialism had united “the world economy into a single world market” but not “world society into a homogeneous capitalist milieu”. He argued that “to speak of the world as one society, as one single framework for political action, is an impermissible metaphysical abstraction”.

Why was there no decisive action in the center against global inequalities? As with the English working class in the 19th century, the US working class benefited from advanced productivity, argued Mandel, and enjoyed the highest standard of living in the world. The “relative social and political quiescence” in the US was the base that enabled global inequalities to be upheld. This could only be upset by two factors: “absolute impoverishment” and “increasing insecurity and instability of employment” in the US. But US imperialism would neither threaten “the standard of living of the working class, nor shatter the relative stability of employment” as long as international competition operated in its favor. Although the common
enemy at that time (state socialism) united the capitalist camp, competition prevailed among the capitalist rivals.

The current financial crisis has sparked the idea of an end of US hegemony (Duménil/Lévy 2008). This notion is rooted in the 1970s, when the US countered hegemonic difficulties by supporting and furthering global financial markets and policies of liberalization and privatization. Because the US identified itself with globalization and supported it, argues Bob Jessop (2001: 156), it could manage to increase its global influence after its hegemonic position had been endangered. US allies, especially Germany and Japan, had caught up as economic rivals to the US. Anton Kausel (1985: 27) offers GDP statistics that document this change. Until 1973, the European Community (EC) safeguarded a Keynesian development model which was heavily regulated (in the monetary sector) and protected (in the farm sector). The industrial development of Western Europe caught up using US-American technology (‘catching up Fordism’) and some protection against the world market (Ziltner 2000: 85ff). Andrew Glyn and Bob Sutcliffe (1994) analyzed export and productivity: if development trends had continued linearly after 1973, so their argument goes, Europe would have overtaken the US in productivity no later than 1988, and Japan even earlier in 1983. The changes that saved US relative superiority were enforced at the expense of the more socially embedded and state supported capitalist systems of continental Europe, and had severe consequences for countries in the periphery. It is worth noting that this situation of hegemonic challenge began before the disintegration of the state socialist world system. The effects of these liberalization and privatization policies that were permeated worldwide are still being felt today. Meanwhile, Russia and China, the US’ main former ideological rivals, became competitors within the logic of the capitalist world market. It remains to be seen whether these countries, plus India and Brazil, are becoming the primary challengers of US supremacy.

Mandel (1970: 38) argued that stability in the US society was a prerequisite for the ability to keep a contradictory world system stable. It depended on the “capacity of the system to ‘deliver the goods’”. With the policies that have become known under the catchphrase “neo-liberal globalization”, this stability has certainly been impaired. The Reagan administration “shifted government spending away from social spending and toward defense spending (all told, government spending increased); [...] the Reagan admin-
administration sought to ‘deregulate’ the economy wherever possible […]” (Duffey 1988: 83). The social consequences of the Reagan years have been described: social indicators deteriorated (child mortality, poverty, and so on), while income was redistributed from the lower strata of society towards the rich and wealthy sector (Martin 1990; Phillips 1990). It is widely agreed that the US has experienced a deterioration of income equality since the 1970s, and “the highest dispersion of wages and earnings and the highest inequality of standards of living in the industrialized world” (Gangl 2005: 142). Since 1913, there seems to have been only one year that saw an unequal wealth distribution in the US equal to that of 2008: 1928, the year before the stock market crash (Anderson 2008).

4.1 Consolidation despite polarization

Several factors seem to have added to a relatively consolidated situation despite growing social polarization. Firstly, we know that the US had become the world’s biggest debtor nation (and acquired a trade deficit) during the Reagan years (Lamm 1988: 15). With growing inequality in the US, consumption should have declined. On the contrary, inequality seems to have “given way to an endogenous development of credit markets, increasing the credit supply in response to rising inequality”, and the credit supply “was most notable among low-income households” (Boushey/Weller 2007: 195f). This credit-financed demand stimulated the world economy but also seems to have fed the current financial crisis: “the vital ingredient in consumer buoyancy was build-up of personal debt” (Blackburn 2008: 66). This cannot be seen as ‘sustainable’, either for the US or the world economy. Secondly, globalization seems to have curbed domestic frictions at the expense of workers abroad. A good deal of unskilled mass production has been transferred abroad. This situation has left working conditions to the regulatory system of the respective regions (out of sight of the domestic consumer), and has ‘imported’ stability via low import prices and inflation. In the language of a study by the Organization of Economic Cooperation and Development (OECD), this reads as follows: “The empirical analysis highlights a number of important ways in which the behaviour of consumer prices appears to have changed over the past decade. Of these, the most notable is the extent to which import prices have become a more important determinant of consumer prices over time in all OECD countries, implying
that foreign economic conditions have become a more important influence on domestic inflation. At the same time, domestic inflation is found to have become less sensitive to temporary changes in the domestic output gap. Other notable changes include evidence that inflation persistence has declined in most OECD countries and that the speed of adjustment towards the ‘desired’ price level has slowed over the past decade” (Pain et al. 2006: 34). This situation has also contributed to the current financial crisis: “The maintenance of the boom”, as Blackburn (2008: 66) put it, “was made a little easier by cheap Chinese imports”. Only with recent hikes in food and energy prices has the situation changed. “The free ride is ending”, writes Keith Bradsher (2008b): “For decades, Westerners have imported goods produced ever more inexpensively from a succession of low-wage countries – first Japan and Korea, then China, and now increasingly places like Vietnam and India. But mounting inflation in the developing world, especially Asia, is threatening that arrangement.” Meanwhile, however, the recession on world markets seems to be producing again contrary effects, easing inflation in China and lowering some commodity prices. (Jacobs/Barboza 2008, BBC 2008) Thirdly, for the US, a decades long subsidized gasoline price has enabled cheap individual mobility to be a base for its development model. Fourthly, the US development model is supported by the most extensive military and armament production system in the world (Cerfati 2004). Fifthly, a study conducted at the University of Princeton suggests that “rising economic inequality is not only associated with higher rates of imprisonment, it is also associated with increasing inequality in imprisonment”. It envisages “two kinds of collective experience: one among college-educated whites who were largely unaffected by the prison boom, the other among non-college blacks, for whom imprisonment became a common life event” (Western et al. 2005: 28). Recent figures show that the US is in first position in the world as far as number of prisoners are concerned (751 per 100,000, compared to 222 in Iran, 119 in China, 151 in England, 91 in France, and 32 in India) (Liptak 2008). Last but not least, the fabric of hegemonic ideology has bequeathed a severe legacy to global development. It is widely accepted that the crisis of capitalism in the 1970s was informed and structured by neo-liberalism. Joachim Hirsch points out that neo-liberalism was “rather a battle ideology than a consistent project for society”. It consisted of a complex mixture of neoliberal, neoconservative, and neo-social demo-
cratic patterns of regulation for societies (Hirsch 2001: 194). Paul Treanor talks about neo-liberalism as ideology, philosophy, and economic structure. (Treanor n/y) David Harvey (2005: 19f) puts it as follows: “Neoliberalism as a potential antidote to threats to the capitalist social order and as a solution to capitalism’s ills had long been lurking in the wings of public policy. […] The neoliberal label signaled their [the neoliberal avant-garde Mont Pelerin Society’s] adherence to those free market principles of neoclassical economics that had emerged in the second half of the nineteenth century (thanks to the work of Alfred Marshall, William Stanley Jevons, and Leon Walras) to displace the classical theories of Adam Smith, David Ricardo, and of course, Karl Marx. Yet they also held to Adam Smith’s view that the hidden hand of the market was the best device for mobilizing even the basest of human instincts such as gluttony, greed, and the desire for wealth and power for the benefit of all.”

We saw in an earlier section the way neoclassical economics was shaped; with neo-liberalism, it married another pragmatic approach. The hegemonic neo-liberal doctrine was enforced in countries of the periphery via IMF and IBRD (‘Washington Consensus’), using weak positions caused by the international debt/credit crisis. However, this pragmatic approach allowed the countries of the center to apply protectionist policies themselves if necessary (Weissenbacher 2005: 134ff). The influential ideas behind the Washington Consensus have been reproduced by education and employment. The Canadian economist Michel Chossudovsky argues that it was a main function of universities to produce loyal and trustworthy economists (Chossudovsky 1996: 42). Studies from the 1990s showed that 90 percent of IMF employees with a PhD had graduated from a university in the US or Canada, and more than 80 percent of high-ranking IBRD employees in the departments politics, research, and external affairs had received their education in economics or finance from a US or UK school (Woods 1998: 100). Ben Fine (2006: 12) talks of an “Americanization” of economics: “This is not simply the excessive and irrelevant use of mathematics, statistics, methodological individualism of a special type, and obsessive preoccupation with equilibrium and efficiency. It is marked by the excessive command of a limited range of institutions and individuals.” When the Washington Consensus finally lost some of its credibility, critics like Joseph Stiglitz and Paul Krugman (meanwhile both honored by the ‘Nobel prize’ for economics, which is in fact sponsored
by the Swedish National Bank) grew out of this very system. They helped to shift it towards a *post*-Washington Consensus more oriented on market failure but avoiding fundamental criticism, as Fine (2006: 15) argues: “For, at the level of scholarship and the general rhetoric, the *post*-Washington Consensus helped to extract the Washington Consensus from its crisis of legitimacy by offering a more state- and poverty-friendly approach. [I]t could do so without necessarily departing significantly from the policies of stabilization and adjustment.”

After the turmoil of the late 1960s, neo-liberalism was used to protect or even restore the position of the capitalist class, as Harvey argues. Ideals of individual freedom were turned against the interventionist state. But neo-liberalism “had to be backed up by a practical strategy that emphasized the liberty of consumer choice, not only with respect to particular products but also with respect to lifestyles, modes of expression, and a wide range of cultural practices. [It] required both politically and economically the construction of a neoliberal market-based populist culture of differentiated consumerism and individual libertarianism. As such it proved more than a little compatible with that cultural impulse called ‘postmodernism’ […]. This was the challenge that corporations and class elites set out to finesse in the 1980s” (Harvey 2005: 42). Postmodernism seems to have broken up some overly conservative structures (in so far as it gave people at the fringe of society room to manoeuvre) but it also ascribed to society the politically paralyzing idea of the consuming individual as main protagonist. Thorough ‘saturation’ of consumers was made possible by television, while global communication systems seem to have spurred a kind of combined development on the cultural and ideological level; these ensured “an incomparably greater degree of cultural penetration of the former Second and Third Worlds by the First” (Anderson 2002: 121). In his analysis of postmodernism, Frederic Jameson (1984) based his conception of a new stage of capitalist development on Ernest Mandel (1972), and called it *consumer or multinational capitalism*. 
5. Summary and outlook

Many of these issues are valid for the European Union as well. The combination of neo-liberalism-neoclassicism-postmodernism has produced a powerful paradigm that still influences the perception of capitalist societies. The paradigm was created in a time of capitalist world crisis and the hegemonic weakness of its leading power. It helped to restore relative US hegemony. The structural imbalances, however, have not disappeared. Before the current financial crisis, the decline of the US dollar presented a challenge to US power. While its economic rivals China and Japan produce massive surpluses, and Germany sustains its position as export world champion, the US “must attract some $3 billion every working day to finance a gaping current account deficit that in 2006 amounted to 6.5 percent of gross domestic product. [...] Since Americans also spend more than they save, the money to cover the U.S. deficit must come from foreign lenders like central banks” (Johnson 2007). The euro has shown remarkable strength recently but the US dollar is still backed by the staying power of the incumbent global currency. Before the current crisis, the US dollar maintained some strength relative to the euro. Countries were only cautiously diversifying into the euro, argues Howard Wachtel, professor of economics at American University: “It is costly to diversify out of the dollar. Any sharp movement will cause the dollar to fall even faster and further, hurting the dollar holders even more than the United States” (Wachtel 2007). Above all China, which has more than a trillion dollars in currency reserves, will try to avoid policies that depreciate such reserves. However, the slump of the US dollar has led to consequences: some Chinese exporters are trying to switch into euro-earnings, while others turn to the domestic market (Bradsher 2008a). Iran, fourth largest oil producer in the world and major opponent of the US, has dealt a blow to the standing of the US dollar as world currency. In December 2007, it stopped selling oil for US dollars. Most of the earnings of the National Iranian Oil Company are now in euro, some of them in yen. Iran has promoted the idea of oil trading in euro since the early 2000s. In 2008 it seems to be getting down to business by starting to implement an international oil exchange trading predominantly in euro (Reuters 2007; IHT 2008a). To improve returns and diversify its holdings of US dollar reserves, China has begun to invest into international compa-
nies, banks, and funds (Barboza 2008). This all happened before the meltdown of the financial markets, which has made markets more volatile. The credit crunch seems to have stimulated demand for US dollars. “U.S. investors […] bring overseas money back home” (IHT 2008e). US investments abroad have begun to disengage and are feeding a – presumably temporary – recovery of the US dollar in relation to other currencies.

The countries of the European Union are at the time of writing being hit by a wave of turbulence from the crisis’ epicenter New York. And so are Asian markets. Whether US competitors will come out of the crisis with a stronger position remains to be seen. Strategic forecasts by the United States National Intelligence Council (2008: 2, 7) seem to have become more cautious as far as US dominance is concerned, envisaging for the year 2025 a “multipolar future, and therefore dramatic changes in the international system”. This situation is being described as representing a movement “back to the future”; “Asia’s economic powerhouses – China and India – are restoring the positions they held two centuries ago when China produced approximately 30 percent and India 15 percent of the world’s wealth.” Per capita, these regions are widely seen as continuing to lag behind, making “many individual Chinese or Indians feeling relatively poor compared to Westerners”.

It seems likely that the current crisis will affect the world economy for years and will be accompanied by a change of paradigms. When countries in the periphery were running into crises during the last decades, socialization and state intervention were largely prohibited by the Washington Consensus. With the meltdown in the center, much seems different. Socialization is back on the mainstream agenda, and so is government intervention. It will be up to political struggles (presumably depending on how severe the crisis may turn out to be) to determine whether discussions will stop at regulatory issues or if they will also impinge on the underlying structural imbalances of a system relying on exploitation and uneven development. After all, the existing paradigm has shaped emerging competitors in China, India, Russia, and elsewhere. “Neoliberalization has not been very effective in revitalizing global capital accumulation, but it has succeeded remarkably well in restoring, or in some instances (as in Russia and China) creating, the power of an economic elite” (Harvey 2005: 19). The success of more state-oriented development models seem to be gaining momentum.
due to the apparent failure of the current ‘Western’ models: “Ironically, the major enhancement of the state role in Western economies now under way as a result of the current financial crisis may reinforce the emerging countries’ preference for greater state control and distrust of an unregulated marketplace” (United States National Intelligence Council 2008: 9).

Moreover, the Chinese success story seems to have taken up habits of the ‘Western’ way of living (a synonym for the utility-seeking individual in a capitalist society) in terms of meat and milk consumption, resource demands for production, and growing internal inequality. In contrast to Indonesia and the Philippines, however, China seems to be able to cushion the current food crisis by small-scale regional production, part of the heritage of a socialist system of land reform (Ceballos/Fischermann 2008). The current Chinese model depends on exports to the US and Europe. If the trade links to China should be impaired (exports already seem to be slowing: Bradsher 2008c: 14), and if Chinese dollar reserves are being devaluated, the Chinese development model might have to take a different path, eventually more inward oriented. This in turn will affect consumption patterns in Europe and the US.

The theories I have briefly discussed in this paper would only in part be able to explain a shift of power towards Asia. The neoclassical logic would assume convergence, and therefore might have been able to predict the case of China. Questions emerging from a neoclassical framework would be, however: why do regions of Africa not follow such a success story, and why does a country show economic success that behaves more like a state interventionist model of the 19th century than a free market laissez faire type? The absence of non-economic factors seems to impair the ability of the neoclassical model to function as a ‘general theory’ of development. Radical geography in the Marxist tradition does not seem to foreclose a certain outcome developments but it can hardly be used to predict changes. Diverging and converging socio-spatial developments can be explained, albeit based on the underlying structural imbalance: they depend on struggles between different groups, factions, and agents. These struggles will include the question of the emergence of a new paradigm. Such an endeavor will depart from assessing the yet prevailing neoclassicism-neo-liberalism-postmodernism paradigm. Moishe Postone sounds a note of caution for those dealing with critical theories of capitalism. Emancipatory elements which capitalism has produced
should be separated from those that are anti-emancipatory. He argues that postmodernism could be interpreted as a premature form of post-capitalism that points to future development paths born in the capitalist system. At the same time, however, postmodernism is an ideology that legitimizes capitalism (Postone 2008: 22f). Moreover, caution seems also necessary in assessing these dialectical developments. Certainly, all scholars mark their research through their own ‘subjectivity’, and ‘objectivity’ in social science is, at its best, merely a form of inter-subjective verifiability. Nevertheless, at the end of the day, they should reach an understanding of an empirical reality, not merely different “objective truths” interpreted by respective identity groups (Hobsbawm 2004). Scholars of development studies will be players in the shaping of a future ‘development paradigm’ and future developments, and most of all in the “greatest global challenge of the twenty-first century” (Green 2008: 3): ending inequality’s ‘lottery by birth’.

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Abstracts

In this article the author tries to embed discussions of uneven development into the current events of the unfolding financial and economic crisis,
and the changing discourse on capitalism and its structural imbalances, respectively. He does so from a political-economic and historical-geographical point of view. He revisits origins, main arguments, and contradictions of the neoclassical theory, the theory that seems to have dominated discourses on development in recent decades, and contrasts it with an approach – radical geography – that allows us to see the current crisis as a result and symptom of an over-accumulating world economy, and not merely as an instance of regulatory failure. Moreover, he presents arguments to explain why the current political-economic world system has shown such remarkable persistence despite decades of crises.


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Jože Mencinger zeigt in einer kritischen Analyse des Transformationsprozesses Osteuropas nach Ende des Sozialismus, dass aus einer klassisch makroökonomischen Perspektive (Inflation, Arbeitslosigkeit, Fiskalpolitik, Direktinvestitionen, Zahlungsbilanz) lediglich Slowenien eine wirtschaftliche


Özlem Onarans Beitrag erhält durch die derzeitige Finanzkrise ebenfalls zusätzliche Aktualität. Sie arbeitet die Struktur der Finanzmärkte konzeptionell heraus, die sie als systemisch spekulativ und daher als intrinsisch instabil bewertet. Sie zeigt die Verbindung zwischen finanzieller Fragilität und dem eingeschlagenen neoliberalen Wachstumspfad. Sie geht dabei insbesondere auf Verschuldung, Zahlungsbilanzdefizite, Direktinvestitionen und Geldpolitik ein.


Joachim Beckers umfangreiche polit-ökonomische Ausführungen über die informellen und formellen Mechanismen und Hintergründe der Währungssubstitution in Lateinamerika und Osteuropa fassen die Grundthesen der einzelnen Beiträge abschließend zusammen: Die neoliberale Wirtschaftspolitik der vergangenen zwei Dekaden hat keine stabile ökonomische Entwicklung in den Schwellenländern hervorgebracht. Die einseitige Fixierung der Wirtschaftspolitik auf Inflationsbekämpfung und Währungsstabilisierung, die durch die Anbindung an harte internationale Währungen vollzogen wurde, hat zwar dazu
beigetragen internationale Kapitalflüsse anzuziehen und die Inflation zu senken. Dies hat die Wirtschaft bis zu einem gewissen Grad angekurbelt, die erhofften nachhaltigen positiven Effekte blieben jedoch aus. Im Gegenteil, nicht die internationale Wettbewerbsfähigkeit der Industrie wurde durch diese Politik nachhaltig erhöht, sondern die Zahlungsbilanzzüge und Auslandsverschuldung, die durch stetige Außenhandelsdefizite verstärkt wurden. Dabei trug das Ausmaß der Währungssubstitution dazu bei, dass so genannte Devaluierungsschocks zu Krisen führten. Beckers Ausführungen bestätigen die Hypothese, dass ökonomische Krisen in Schwellenländern durch plötzliche und drastische Einbrüche der Währungsparität – und nicht etwa durch den Fall des Bruttosozialprodukts – ausgelöst werden.


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