Political Power and Social Theory
Varieties of what? Should we still be Using the Concept of Capitalism?
Fred Block

Article information:

To cite this document: Fred Block. "Varieties of what? Should we still be Using the Concept of Capitalism?" In Political Power and Social Theory. Published online: 09 Mar 2015; 269-291.
Permanent link to this document: http://dx.doi.org/10.1108/S0198-8719(2012)0000023013

Downloaded on: 30 January 2016, At: 07:36 (PT)
References: this document contains references to 61 other documents.
To copy this document: permissions@emeraldinsight.com
The fulltext of this document has been downloaded 187 times since NaN*

Users who downloaded this article also downloaded:


Access to this document was granted through an Emerald subscription provided by emerald-srm:188536 []

For Authors

If you would like to write for this, or any other Emerald publication, then please use our Emerald for Authors service information about how to choose which publication to write for and submission guidelines are available for all. Please visit www.emeraldinsight.com/authors for more information.

About Emerald www.emeraldinsight.com

Emerald is a global publisher linking research and practice to the benefit of society. The company manages a portfolio of more than 290 journals and over 2,350 books and book series volumes, as well as providing an extensive range of online products and additional customer resources and services.

Emerald is both COUNTER 4 and TRANSFER compliant. The organization is a partner of the Committee on Publication Ethics (COPE) and also works with Portico and the LOCKSS initiative for digital archive preservation.
*Related content and download information correct at time of download.
VARIETIES OF WHAT? SHOULD WE STILL BE USING THE CONCEPT OF CAPITALISM?

Fred Block

ABSTRACT

This article argues that social scientists should reconsider the analytic value of the term “capitalism.” The paper argues that the two most coherent definitions of capitalism are those derived from classical Marxism and from the World System theory of Immanuel Wallerstein. Marx and Engels’ formulation was basically a genetic theory in which the structure of a mode of production is determined by the mode of surplus extraction. During the course of the 20th century, however, Marxist theorists had to modify this framework and the result has been an uncomfortable hybrid. Wallerstein resolved these tensions by redefining capitalism in terms of the logic of a world system. However, his argument has difficulty in explaining the consequential variations over time in the specific rules and institutional structures that operate at the global level. The article goes on to argue in favor of Karl Polanyi's concept of market society because it focuses attention on the political governance of market societies at both the national and the global levels.
In the Fall of 2011, the Occupy Wall Street movement galvanized the long-dormant left in the United States by reframing politics as a battle between the 99% and the 1% of the population that had seen huge income and wealth gains over the previous 30 years. For the first time in decades, issues of economic inequality became topics of daily conversation. Frank Luntz, the Republican wordsmith and strategist, announced that he was “frightened to death” by this new movement’s impact on public opinion, and when the Republican Governor’s Association met in late November in Florida, he offered his 10 commandments on how Republicans should respond to this challenge.1

His first commandment to the governors was: “Don’t say ‘capitalism.’” He elaborated: “I’m trying to get that word removed and we’re replacing it with either ‘economic freedom’ or ‘free market.’ The public … still prefers capitalism to socialism, but they think capitalism is immoral. And if we’re seen as defenders of quote, Wall Street, end quote, we’ve got a problem.”

It is hard to tell whether Luntz’ advice was a deliberate feint to trick the left or actual political malpractice, but I have been arguing exactly the opposite point for more than a decade (Block, 2000, 2002; see also Graham & Gibson, 1996). My point is that at least since the 1970s, the political right has been strengthened by using the term capitalism and the left has been weakened. Luntz’ argument is certainly correct for the earlier period; for roughly a century from the Paris Commune to the rebellions of 1968, rallying against capitalism gave the international left the moral high ground, and defenders of existing property arrangements were well advised to talk instead about economic freedom or free markets. But in the 1970s, things changed because under the intellectual leadership of Irving Kristol (1978), the right self-consciously appropriated the term capitalism and insisted that they were pro-capitalist and proud.

Kristol’s maneuver helped create the context in which Margaret Thatcher could insist that: “There is no alternative” – meaning that we live in a capitalist society and we have to accept rules that require that we be extremely kind to the rich and cruel to the poor or we will destroy the incentive system that brings forth new investment from the former and greater work effort from the latter.2 And the right continues to use this rhetoric down to the present. In 2009, for example, the most conservative Republican members of the U.S. House of Representatives introduced a proposed constitutional amendment entitled the “Preserving Capitalism in America Amendment.” The measure was in response to the bailout of the U.S. auto industry; the proposal would prohibit the government from owning stock in any company. In a word, when the right transitioned
from a defense of “free markets” to a defense of “capitalism,” they gained the critical leverage of invoking a global system that would not tolerate deviations from its founding principles.3

Over these last 30 years of increasing economic strains in the developed market societies, this rhetoric worked very well to dampen challenges from the left. The right would repeatedly argue that the reason that the economy was not performing up to its potential was that there had been too many deviations from core capitalist principles – too much taxation, too much government regulation, too much welfare. Only when these were cut back sufficiently would prosperity return. At the same time, they could remind people that the only known alternative to capitalism was socialism and that system had failed spectacularly in the Soviet Union and its allies.

Moreover, during this same period, the left tended to gain the greatest political advantage precisely when it avoided invoking the duality of capitalism versus socialism. So, for example, the anti-globalization movement that produced the massive demonstration in Seattle against the World Trade Organization and that organized itself globally through the World Social Forum emphasized the slogan: “Another World Is Possible” – deliberately leaving ambiguous whether that other world was socialist or capitalist. That ambiguity allowed the movement to gather extremely diverse constituencies behind its banners (Santos, 2008).

Similarly, while some of the militants in the Occupy Wall Street movement talk about capitalism and socialism, the movement’s main rhetoric avoids those terms and focuses on the clash between the 1% and the 99%.4 Since many moderate and conservative citizens are disturbed by the deepening inequalities of income and wealth in the United States (Page & Jacobs, 2009), this has allowed the movement to generate a sympathetic response from people who have not the slightest affinity for socialism. In short, focusing attention on the greed and immorality of Wall Street operatives – rather than a label for the entire system – helped Occupy Wall Street to tap into deeply rooted distrust of economic elites.

But beyond the question that Luntz raises as to which term gives which political groups the most strategic leverage, there is also an urgent question for social scientists – what is the analytic value of “capitalism” as a concept? Does it help to illuminate key features of existing societies or does it carry with it burdensome associations from earlier historical periods? The question is complicated because the analysis of capitalism was pioneered by the Marxist tradition and the socialist movement.

And this legacy is itself complex. Marx began his career elaborating a critique of political economy that was intended to overthrow the categories
and assumptions of classical political economy – including the claim that society’s choices were dictated by the demands of an economic mechanism. But Marx is now largely remembered for developing his own political economy that he used to explain the internal contradictions of the capitalist mode of production. A number of insightful analysts have questioned whether the shift from the critique of political economy to a new political economy might have subverted that initial project (Gouldner, 1980; Polanyi, Arensberg, & Pearson, 1968; Sahlins, 1976). So for all social scientists – both those who simply want to understand contemporary societies and those who share the emancipatory aspirations of critical theory – there is an urgent need to interrogate the concept of capitalism.

“CAPITALISM” AND THE SOCIAL SCIENCES

In the decades right after World War II, the term “capitalism” had only a marginal existence in academic discourse in the United States; it was used by a relatively small number of scholars on the left whose views had been shaped by the socialist tradition. While such influential Central European thinkers as Max Weber (1998 [1904–1905]) and Schumpeter (1942) used the word in the titles of famous books in the first half of the 20th century, their example was not followed by most academics in the United States. Even those who celebrated the contributions of Weber and Schumpeter tended to avoid this terminology because it had been tainted by the Cold War. Capitalism was the epithet that the international communist movement used to denounce the United States.

This situation changed as a consequence of the New Left inspired revival of Neo-Marxism in the 1960s. Books such as Immanuel Wallerstein’s The Modern Capitalist World System (1974), Anthony Giddens’, Capitalism and Modern Social Theory (1971), and the edited volume by Edwards, Reich, and Weisskopf, The Capitalist System (1972), gave new legitimacy to the term. It was this new-found respectability that made Kristol’s initiative to appropriate the term for conservatives successful. Two radical defenders of free markets, Milton Friedman (1962) and Ayn Rand (1966), had anticipated Kristol’s move in the 1960s by using capitalism in the title of key works, but their effort was unsuccessful because the term was still so strongly associated with the communist left. Even New Leftists were initially reluctant to use the term; in his speech in 1965 at the first SDS March on Washington against the Vietnam War, SDS President Paul Potter proposed...
to “name the system” that had produced racism and the Vietnam War, but he still did not actually say the word capitalism (Potter, 1965).

The irony is that Kristol’s move to appropriate the term proved more durable than the efforts of academic Neo-Marxists. The influence of Neo-Marxism receded in most social science disciplines by the 1980s as the Thatcher–Reagan “Right Turn” came to dominate both political and scholarly debates. The term “capitalism” did not gain academic respectability until the 1990s when a number of scholars began to argue that capitalism was not homogenous, and that there were instead distinct types or varieties of institutional arrangements that fit under this rubric. This new perspective was a reaction to the Thatcher–Reagan rhetoric that claimed that there was just one set of options on offer and that every country had to put on what the New York Times columnist Thomas Friedman (1999) would later dub the “golden straitjacket.” An early contributor to this variety approach was Esping-Andersen’s influential 1990 book, *Three Worlds of Welfare Capitalism*, which documented the very substantial variations in public provision across Western Europe and North America. Another important strand was the body of scholarship that sought to make sense of the rapid economic rise of Japan and other East Asian economies that clearly diverged sharply from the Anglo-American economic model (Orru, Biggart, & Hamilton, 1997; Wade, 1990).

By the end of the 1990s and the early 2000s, this body of work had been consolidated under the framework of “varieties of capitalism” scholarship producing careful documentation of the ways that welfare systems, financial systems, corporate governance, employment relations, and innovation systems differed across market democracies. Important contributions to this body of literature were made by sociologists, political scientists, economists, and other scholars (Berger & Dore, 1996; Crouch & Streeck, 1997; Gray, 1998; Hall & Soskice, 2001; Hollingsworth & Boyer, 1997; Lundvall, 1992).

But what is striking about this significant body of work is that virtually all of the emphasis was on “variety” and there was very little discussion of why it made sense to see these all as variations of a single type – namely capitalism. This omission is understandable since this body of work was a response to the right’s embrace of the concept of capitalism and its insistence that there was one single model of how to organize an efficient and effective society. By stressing that there were “varieties of capitalism,” these scholars were challenging the right and arguing that there was significantly more policy space available to governments than free market theorists were willing to admit.
But at a certain point, it becomes necessary to ask: are these all varieties of the same species or could these be different species that have distinct internal processes and are on quite different historical trajectories? The question is important because for both Marxists and for capitalism’s conservative defenders, the term capitalism retains an irreducible teleology or belief about the direction of history. For Marxists, capitalism is an absolute constraint on human possibilities; it must be ended to create a just social order. For right-wing defenders of capitalism, eventually all societies will recognize the need for social arrangements that prioritize the accumulation of wealth and limit governmental “interference” in the operations of an autonomous economy.

In short, the term capitalism invokes the ideas of a system that has a fundamental unity or coherence (Graham & Gibson, 1996). And this, in turn, produces specific predictions about paths of development that are necessarily closed off because they are inconsistent with the system’s defining features. This is apparent when we look both at the classical theory of capitalism developed by Marx and Engels and at the work done by their theoretical followers in the 20th century. The stark reality is that there really is no widely influential theory of capitalism outside of those developed within the Marxist tradition, so it is only logical that the term still carries with it meanings that derive from that long history.

BACK TO MARX

In Marx and Engels’ theorization of capital, the class relationship between capitalist and worker in which surplus value is appropriated is the key driving mechanism. This is central to the way in which they understand both the rise of capitalism and the accumulation of contradictions that would ultimately bring capitalism to an end. It is after all the pressure on each particular capitalist to continue extracting more and more surplus value that explains both the extraordinary dynamism of capitalist enterprise and the emergence of periodic crises when the system’s ability to produce an avalanche of new commodities exceeds society’s ability to purchase them. But Marx and Engels also insist that the powerful force field created by the everyday process of appropriating surplus works to reshape ideology, culture, law, and politics to reproduce this core class relationship.

Let us call this argument a genetic theory of capitalism because it is fundamentally similar to the idea that the DNA encoded in each cell shapes the structure and development of the entire organism. Rather than the cell,
the basic unit is the production unit where surplus value is extracted. The dominant mode of surplus extraction, in turn, shapes the structure and development of the entire society. This kind of genetic theory can be elaborated in ways that look like crude economic determinism in which culture and politics play no independent role and in very sophisticated versions that recognize that culture and politics have a significant degree of autonomy. To avoid beating at straw men, we can stipulate that it is only the more sophisticated versions of this genetic argument that are being considered here.

Marx and Engels used this way of defining capitalism as a way to separate their politics and theories from those of their contemporaries. Specifically, they were differentiating themselves from both reformists and from “utopian socialists” and anarchists who, they thought, lacked a persuasive theory of how radical change would occur. The genetic theory insisted that reformism was doomed to failure; unless capitalism was torn up by its roots, the genetic code would continue to reassert itself. This required destroying the reign of private property, which could only occur when the working class had developed sufficiently. A proletarian revolution that abolished private ownership of the means of production was the only way to keep capitalism from reproducing itself.

This version of the theory was compelling during Marx’s lifetime since this new form of social organization was still reasonably young. But the persistence of these social relations created a problem for subsequent Marxist theorists who had to explain both the continued existence of capitalism and the expanding role of government in managing the tensions created by market economies.9 These theorists began to emphasize the strand in Marx and Engels’ work that described how problems generated by the accumulation process are ultimately managed by and through the state.

Marx and Engels had insisted, after all, that when capitalist class relations were developing within feudalism, there were growing tensions and conflicts that could only be resolved through state action. The bourgeois revolution used the state to dismantle feudalism and institute a new property regime that supported and encouraged the core process of accumulating surplus value from free laborers. Similarly, in Capital, Marx describes how the state intervenes to place limits on the length of the working day and that creates the critical turn to continuous technological improvement as the way to squeeze more surplus value from each worker.

Building on these arguments, subsequent Marxists have argued that the state imposes a variety of “fixes” that solve one set of problems in the
capitalist economy, but these fixes invariably generate new contradictions and tensions. While David Harvey (2006, 2010) has developed his own taxonomy of these different types of fixes, his theoretical move is characteristic of virtually all Marxist theorizing in the 20th century (from Lenin, Luxemburg, and Hilferding to Baran and Sweezy, Ernest Mandel, Arrighi, and the French regulation theorists). All of them seek to delineate different stages or phases of capitalist development by analyzing the different ways in which the state seeks to resolve and manage the underlying contradictions of the system. These analysts differ in how much they emphasize the complex process of political maneuvering through which these fixes come about, but none of them treat the solutions as emerging automatically from the contradictions. They also suggest that each particular fix or solution sets capitalist development along a particular path that will generate new contradictions and a need for new fixes. Solutions are only temporary; the fundamental contradictions will reassert themselves at one time or another.

But when they get to this point, these theorists are no longer working with the pure genetic theory of capitalism elaborated by Marx and Engels. What they have instead is a hybrid theory that says that at any moment in time, the structure of a given capitalist society will be determined by a combination of the fundamental class relations and the state-imposed fixes designed to contain the contradictions generated by those fundamental class relations. Moreover, it would seem that as time goes on, and a continuing series of new fixes have been attempted, the genetic theory – by itself – would account for a diminishing proportion of the institutional forms of any given capitalist society.

There is nothing, in principle, wrong with hybrid theories, but the problem here is that the process of theoretical fusion leaves the theorist with a very serious contradiction. One possibility is that the political fixes could actually change the underlying class relationships. So, for example, if a particular nation pursued a financial fix where capital is increasingly directed into acquisition of stocks, bonds, derivatives, and other types of paper and that process actually displaced the primacy of accumulation through the direct expropriation of surplus value, this would fundamentally alter the nature of capitalism. But this would eliminate the unifying element that Marx and Engels gave to their account of capitalism as a system; each of the different phases or different fixes could give you societies with different class structures, different dynamics, and different contradictions.

But most of these theorists steadfastly refused to follow this argument to its logical conclusion. Instead, they continued to invoke the classical
argument that underneath all of the diverse fixes, there are the same fundamental class relationships and the same core contradictions. In other words, the only fixes that are possible within capitalism are those that are consistent with the underlying laws of accumulation. But these claims seem more like declarations of loyalty to a dogma than analytically powerful arguments about the actual development of societies.

In sum, by the last decades of the 19th century, it was no longer possible to adhere to Marx and Engels’ initial genetic theory of capitalism in which the process of appropriation of surplus value in the wage relationship shapes the entire social order. But the later hybrid formulations by Marxist theorists fail to provide a persuasive explanation for the unity of the capitalist mode of production. It would seem that different fixes could allow societies to develop along different lines. In analogy with biological evolution, there could be the emergence of a new species of social order that was no longer capitalist and yet did not have the collective ownership of the means of production that defines socialism.10

THE WALLERSTEINIAN MOVE

With these theoretical tensions within the Marxist tradition, the concept of capitalism appeared on ever shakier ground as the 20th century progressed. However, a novel theoretical move gave the concept of capitalism a new vitality and coherence in the last decades of the 20th century. This was the appearance of Immanuel Wallerstein’s multivolume study of the modern world system that provided a way out of the theoretical dilemmas faced by Marxist theorists in the 20th century (1974, 1980, 1989). Wallerstein’s key move was to redefine the essential features of capitalism. While he followed Marx and Engels in emphasizing the initial importance of employers appropriating surplus value through the wage relationship, Wallerstein made the emergence of a global trading system the essential feature and principal disciplinary mechanism of capitalism. Wallerstein dispensed with the genetic theory of capitalism and solved the problem of the unity of capitalism by shifting the unit of analysis from nations to the capitalist world system itself.11

Wallerstein follows Marx in arguing that the initial breakthrough was the invention of capitalist agriculture in Northwest Europe that significantly increases agricultural productivity and profits. But the increased output creates the pressure for increased trade and this leads both Holland and
England to pursue overseas commercial advantage. These early capitalist powers build a world system that then transforms every society that is brought into it. European expansion imposes coerced labor on people in the Americas, Africa, and Asia, and the profits from plantations and mines then accelerate economic development in Europe.

Wallerstein’s innovation solves the problem that had plagued 20th century Marxists – how to resolve the tension between continuity and change. For Wallerstein, the continuous unchanging feature of capitalism is a world system that exerts unrelenting pressure on societies to obey its commands. While the nature of production can shift from agriculture to manufactured goods to services and global leadership can shift from Holland to England and then to the United States, the unchanging feature is that there is a capitalist world system that puts nations in a zero-sum competition with each other to squeeze more wealth out of their workers. Moreover, that world system will continue to be divided between a core of the richest countries, a periphery of poor nations, and a semi-periphery of those who are in between even though some of the incumbents of those different positions will change over time.

Wallerstein’s reformulation of the theory of capitalism preceded the greatly increased public consciousness of “globalization” that occurred in the 1980s and 1990s. As a consequence, his ideas very quickly turned into a common sense description of reality. People who have never heard of Wallerstein now routinely use the term capitalism to describe the core logic of a competitive world economy. Whether they are on the left, the right, or the center, they insist that nations are competing with each other for advantage in trade and capital flows, and this system then places dramatic constraints on what policies could and should be pursued at the national or even supranational level.

In fact, this is essentially the theoretical apparatus that is used – explicitly or implicitly – by most variety of capitalism analysts. They generally use capitalism not as a description of the economic arrangements of the individual cases, but of the competitive world economy in which nations are situated. It is this environment that is seen as placing distinct limits on how far they might evolve in one direction or another. While there are different institutional configurations that can lead to certain kinds of success in the world marketplace, it is extremely unlikely that any society will deliberately choose an institutional configuration that produces failure in the global competitive struggle. The collapse of the Soviet Union and the radical transformation of the Chinese Communist regime testify to the seriousness of these global pressures.
PROBLEMS WITH THE WALLERSTEIN SOLUTION

The idea that different nations are competing for advantage in the global economy which systematically rewards certain types of policies and practices and metes out pain and austerity to others is indisputable. But the question remains what makes these global structures capitalist? Would it still be a capitalist world system, for example, if the global trading rules required that all products be priced in accordance with their environmental impact?

This question is important because scholarship in political economy stresses the variability over time of the specific arrangement that governs global capital flows and global trade flows. For example, there is considerable consensus that the severity of the global crisis of the 1930s had everything to do with the breakdown of the 19th century gold standard because Great Britain was no longer able to fulfill the responsibilities of a global hegemon (Kindleberger, 1973; Block, 1977; Polanyi, 2001 [1944]). Similarly, the shift from the Bretton Woods regime of fixed exchange rates to the floating exchange rates agreed to in 1973 is generally seen as marking the shift from an era of “embedded liberalism” to the new era of unfettered neo-liberalism (Ruggie, 1982).

But if there are a wide variety of possible global regimes that depend on historical contingencies such as the rise and fall of certain global powers and there are a wide variety of national adaptations to these global rules, the idea that there is some unchanging capitalist essence to this global system becomes problematic. For example, it has been argued that the Bretton Woods era was a “golden age” for social democratic regimes because of the fixed exchange rates and institutionalized limits on capital controls, and that the demise of Bretton Woods placed severe strains on social democratic arrangements (Scharpf, 1991). This suggests that there might be an achievable global regime that would be even more favorable to social democratic policies than Bretton Woods had been. In short, without a genetic theory and with high degrees of contingency in the construction of the global regime, it is no longer apparent what makes the whole thing capitalist.

To be sure, Wallerstein also argues that the world system at any point in time rests on the power of a singular global hegemon (see also Arrighi, 1994; Arrighi & Silver, 1999). To be sure, there is a process of hegemonic succession with England succeeding Holland, and the United States succeeding England, and the period in which the hegemon begins to decline is generally a period of greater global conflict and instability. But part of
what assures that it remains a capitalist world system is that this hegemonic power is the most economically advanced nation and it needs to make the world safe for its own business firms.

Yet the precise way in which the economy of that dominant power connects with the rest of the global economy is variable over time. England began as “the workshop of the world” sending a flood of exports overseas, but with rapid industrialization in Germany and the United States in the late 19th century, England increasingly sent capital abroad. The United States followed the English model beginning with export dominance then turning to capital outflows, but in the most recent period, it has used its global dominance to be the world’s greatest debtor nation. Since hegemons will attempt to modify the global rules to fit their domestic economic needs, it follows that the mere fact of “capitalist” hegemony is consistent with there being considerable space for variation in the nature of the global regime.

It is also important to consider that in the 20th century constructing and maintaining a global regime has became a political problem that requires complex negotiations among multiple nations. In the same way that national states have a significant degree of autonomy from the existing class structure, global institutions and rules also can be expected to have some degree of autonomy from the interests of the hegemonic power. Shifting alliances within the state system might facilitate or block changes in particular rules and variations in institutional capacity and resources will have an impact on the ability of a global organization such as the International Monetary Fund or the World Trade Organization to exert pressure for a particular policy outcome.

In sum, Wallerstein is certainly correct to emphasize that nations must contend with an already existing world system that places limits on their options. But he gives insufficient attention to the way that the operation of the world system at any particular moment depends on the particular global regime or regimes that have emerged from the power relations among nations. As an activist and as a commentator on political struggles, he has embraced the fight for particular reforms of the global rules that would provide, for example, more policy space for developing nations to accelerate their economic development. But in his theory, there is no real acknowledgment that under a particular hegemon, there is a possibility of a variety of different regimes that would provide different levels of constraint on governmental choices. And some of these regimes could open up space for some societies to pursue greater equality and greater democratization of economic decision making than anyone associates with the idea of capitalism.
ANALYZING THE LOGIC OF FINANCIALIZATION

Whether we draw on the classic Marxist definition of capitalism or Wallerstein’s relocation of the capitalist imperative to the operation of a world system, the concept of “capitalism” has two connected weaknesses. First, it leads us to think that economic dynamics and processes are the key to understanding what is going on at any given moment. Second, it leads us to imagine that there is immense power behind that existing set of arrangements rather than understanding those arrangements as the contingent product of a particular historical moment. We can see this deficiency most clearly if we examine the process of financialization that led up to the 2008 financial meltdown on Wall Street.

We know that the dominant U.S. model of business made a significant shift toward finance in the three decades from 1978 to 2008 (Krippner, 2011). There was very substantial growth of employment and profits in the banking sector and related businesses, and many of the largest non-financial corporations expanded the share of their business that consisted of financial activities – lending money or investing in unrelated enterprises. Arrighi (1994, 2007), in particular, has emphasized that this is an expected pattern for a declining hegemon; it uses the power accumulated in the previous period to extract profits around the world through financial channels.

But how do we understand this accumulation of power and profits in the financial sector of the economy? In classical accounts of “finance capital,” people like J. P. Morgan accumulated vast amounts of wealth through exerting control over large industrial empires, and then were able to exert considerable additional power by either lending or withholding lending from potential borrowers in different parts of the world. In a situation where there was a scarcity of global financing, someone like Morgan was able to make his lending contingent on a significant share of the profit stream and that further enhanced his wealth and power.

Today, however, the figure who seems closest to the Morgan model is Warren Buffett who sits atop an empire of productive enterprises that generates enormous wealth which allowed him to bail out Bank of America and Goldman Sachs at the peak of the 2008 crisis. But Buffett has remained a critic of financialization famously denouncing derivatives as “financial weapons of mass destruction.” The remarkable thing about big commercial banks and big investment banks in the United States is that they maintain a considerable degree of distance from productive enterprises; they generally do not own them nor do they have direct ways to share in their profit
To be sure, they make some money from big corporations by handling their commercial paper and merger deals, by selling them complex derivatives, and managing their foreign exchange needs, but this represents a small share of corporate revenues.

In this recent period, it would also be mistaken to attribute the vaunted power of Wall Street to its stranglehold on the scarce supply of global financing. On the contrary, the distinguishing feature of this era has been huge pools of capital generated in other parts of the world such as the sovereign wealth funds of the oil-producing nations and the vast currency reserves accumulated by China, Japan, and other exporting nations in Asia. A significant share of Wall Street’s enormous profits came from borrowing or recycling these foreign flows of capital, most notoriously, by selling foreign financial institutions’ dubious bond instruments based on subprime mortgage loans.

In a word, it is difficult to trace Wall Street’s power directly to production relations in the United States or even to some durable features of the world system. On the contrary, this very real process of financialization seems to be dependent on a series of contingent political choices. First, the enormous size of the largest commercial banks can be traced to their ownership of a disproportionate share of domestic deposits which resulted from government policies that simultaneously privileged certain banks as “too big to fail” and encouraged a 30-year process of financial consolidation through mergers (Dymski, 2011). Second, extremely cozy relations between financiers – commercial bankers, investment bankers, as well as hedge fund and private equity managers – and government officials were driven by a campaign finance system that gave Wall Street unprecedented political influence (Hacker & Pierson 2010b). Third, when the U.S. government chose to force other nations to lend us money to finance our chronic current accounts deficit, they had no attractive alternative. This meant that it was an exertion of geopolitical power by the United States in defense of the dollar’s central role in the global system that pushed foreign capital into Wall Street’s hands (Krippner, 2011; Schwartz, 2009).

Furthermore, there are historical examples where the exercise of this kind of disproportionate power by financial institutions proved to be transitory. For example, the combination of New Deal reforms, World War II, and the Bretton Woods agreements significantly diminished the clout of U.S. internationally oriented banking institutions for a period of almost 40 years. Japanese banks dominated the rankings of the biggest global banks in the 1980s, but the bursting of Japan’s real estate bubble in the 1990s led to a rapid retreat in their global influence. And, of course, England’s great
banking houses that flourished under the 19th century gold standard shrank in power and influence as British global power receded.

In short, we simply do not know at this point whether the 2008 financial crisis will be followed by a reconsolidation of the power of U.S. finance or by a significant contraction of the financial sector’s power and influence. That will depend on a series of complex political dynamics both within the United States and between the United States and other nations. But if we define the financialization of the U.S. economy as the emergence of a new type of financial capitalism, it attributes to this development a power and permanence that might not be merited.

THE POLANYIAN ALTERNATIVE

A framework derived from Karl Polanyi’s book, *The Great Transformation*, is a much better analytic starting point than the concept of capitalism for social scientists to analyze dynamics within both national societies and the global economy. Polanyi had been deeply immersed in Marxist theorizing in the 1930s, but when he wrote the book in the early 1940s, he eschewed Marxist terminology and generally substituted the term “market society” for capitalism (Block, 2003). He did this, I think, precisely to emphasize the hugely consequential political choices that the world faced in shaping the post-World War II world. *The Great Transformation*, in fact, highlighted the mistakes that had been made by global leaders and diplomats in shaping the post-World War I world, and Polanyi was determined that the same mistakes not be repeated.

Polanyi’s theoretical orientation can be aptly summarized in the phrase – “the primacy of politics.” While much Marxist theorizing emphasizes the primacy of economics or of the accumulation process, Polanyi saw significant problems with this approach. His view was that Marx had begun by advancing a critique of political economy, but then had himself become a political economist, which meant that he became trapped within a set of ideas that attributed to the economy far too much influence in shaping social life. Polanyi’s alternative was to return to the critique of political economy, which meant liberating people from the belief that the economy should dictate how we live our lives.

For Polanyi, this meant challenging the view that socialism was only possible after decades of capitalist development had greatly expanded society’s productive capacity. Polanyi’s insisted that even in the period of England’s rapid industrialization, a more humane and decent society had
been possible. It was for this reason that he elevated Robert Owen, the English industrialist and theorist, whom Marx and Engels had derided as a “Utopian Socialist.” By making Owen the hero of The Great Transformation, Polanyi was signaling that the obstacle to creating a society in which the economy was subordinated to democratic rule has always been politics – not the maturation of the productive forces.

Finally, Polanyi agreed with Max Weber’s argument that Marx and Engels were mistaken in imagining that political power was ultimately reducible to class power. Weber’s understanding of the autonomy of state power had led him to predict that the Bolshevik Revolution would end in dictatorship (see his essay on “Socialism” in Weber, 1978). It was for this reason that Polanyi believed that the only path to a more humane society was through making democratic self-governance more effective, and this required a commitment to reformist politics. But recognizing the autonomous power of the state also led him to see that government could be used to tame the worst features of market society by protecting people from the market and by reducing the inordinate power of property holders.

The basic outlines of a Polanyian theory of market societies can be conveyed in three theses.14

**Thesis 1. Market economies are always and everywhere embedded.**

In order to return to the critique of political economy, Polanyi stressed that it was an illusion that modern societies were shaped by the logic of an economy that had become autonomous. He insisted that in both premodern and modern societies, economic arrangements were embedded in politics, the law, and culture. This was his way of escaping from the tendency toward economic determinism that he saw in the Marxist tradition; he preferred a more complex way of thinking that saw economic processes, cultural processes, and political processes as intertwined.

But he also put enormous weight on the project of creating a self-regulating market economy that was inspired by the writings of the classical economists in the late 18th and early 19th century. This project envisioned the creation of a “market society” whose structure and institutions would be built around a fully self-regulating set of markets for capital, for labor, and for products. Polanyi stressed that this project was inherently utopian; it could not possibly be realized since there can be no such thing as an autonomous economy. But he also emphasized that the pursuit of this project was hugely consequential; it would wreak havoc on nature and society and generate tensions that would lead to two World Wars.
At the time that Polanyi was writing *The Great Transformation*, he believed that this project of creating a self-regulating market economy had finally been defeated. But Polanyi’s analysis is so relevant today precisely because these ideas were effectively revived by Hayek and Friedman in the 1950s and 1960s and ultimately came to dominate U.S. foreign and domestic policies in the 1980s, 1990s, and 2000s (Mirowski & Plehwe, 2009; Phillips-Fein, 2009). As in the earlier period, it is not that the project came anywhere near succeeding; it is that policies derived from the project had disastrous consequences.

**Thesis 2.** Market society and the contemporary world economy are shaped by an ongoing double movement.

One side of the double movement is the effort to expand the scope of markets in allocating resources and organizing economic activity. It is often fueled by firms that are trying to find new markets for their products and work to eliminate overseas barriers to sales or push to dismantle regulations that interfere with their sales. But Polanyi stresses that other interests in society might periodically push in the same direction, especially to weaken the position of firms that have become entrenched through government subsidies or other types of support. So, for example, consumers might want to open a market to more competition to avoid paying a premium price to a firm that had won a government-enforced monopoly to sell a given medication.

But the project of creating a self-regulating market society gives this side of the double movement vastly enhanced power and influence. Specific policy debates shift from nuanced discussions of the costs and benefits of a particular proposal to highly polarized choices between free markets and heavy-handed government. This is precisely what happened in the United States from the late 1970s onward in debates about changing the regulations governing financial institutions. At almost every juncture, there was not a serious discussion of the merits of a particular policy proposal; choices were made on the basis of an ideological commitment to a financial marketplace that would be regulated by market forces.

However, Polanyi also insists that the movement in favor of expanded markets generates a countermovement that seeks to protect society from the market by using government to limit and restrict the scope of markets or to provide resources directly to citizens. Participation in this movement is also heterogeneous; it can include businesses that seek protection from foreign competition or from aggressive domestic competitors, professionals who employ the state to carve out monopolies, as well as farmers who seek
protection from the volatility of agricultural markets. But it has often been trade unionists and neighborhood-based activists who provide the backbone of the protectionist countermovement as they express a need to be insulated from a variety of market pressures.

For Polanyi, the emergence of a strong countermovement is not inevitable; he emphasizes that in the case of European colonialism, political repression effectively blocked the path to such movements. But when the project of imposing a self-regulating market creates greater turbulence and uncertainty for large portions of the population and there is an opportunity for political mobilization, Polanyi anticipates that people’s effort to protect themselves will generate pressures for new government policies. But he is also explicit, that the protective countermovement can generate either deeply reactionary state policies or policies that expand democratic control of the economy. In the 1930s, fascist mobilizations were part of the protectionist countermovement and put societies on a path that destroyed both democratic institutions and civil liberties.

**Thesis 3.** Political contestation at multiple levels – local, regional, national, and supranational – shapes the economic paths that are available to societies at any given moment.

Polanyi emphasizes that there is a global system that constrains the choices available within societies, and he stresses the central role that England played in shaping that order in the 19th century. But he also insists that there is a high level of contingency in constructing and maintaining this global system. England was not compelled to impose free trade and the gold standard on the rest of the world; it was rather the outcome of intense struggles in which the movement for laissez-faire was enormously strengthened by the arguments of Malthus and Ricardo that self-regulating markets were the only rational way to structure an economy. Moreover, rising powers such as the United States and Germany challenged some of these claims and did not hesitate to use government power to accelerate their industrial development (Chang, 2002). Moreover, geopolitical tensions and accumulating economic contradictions created a series of windows when the rules governing the global system could have been restructured.

In short, just as competing political forces struggle within nations to shape their institutions and their economic trajectory, so, also, there is an ongoing global struggle to shape and reshape the institutions that govern the global system. At the time that Polanyi was writing, the debate over the structure of the post-World War II order was still largely an elite conversation. But over the last three decades as the discourse of globalization
has spread, significant global publics now recognize that the specific rules of
the global regime have deep consequences for both their immediate
well-being and their long-term prospects (Evans, 2008). So we increasingly
see political parties, such as the Workers Party that has governed Brazil
for the last decade, engaged in a multilevel struggle that involves both
transforming Brazil’s economy and creating international alliances to change
the governance arrangements for the global system.

CONCLUSION

This discussion has come back to questions of politics and political choices.
This is inevitable because the concepts that social scientists use have real
consequences in the social world. As C. Wright Mills (1959) defined it, part
of the sociological imagination is to explain what kind of society we live in,
where it stands in history, and where it is going. The answers that social
scientists give to these questions help to inform the way both citizens and
elites think about the choices they confront.

Over the past three decades, as inequality of income, wealth, and power
increased dramatically in the United States and as processes of finan-
cialization careened out of control, the social science community failed to
provide the citizenry with the tools they needed to understand what was
happening or give them appropriate warnings of impending dangers.¹⁵
This failure cannot be attributed to the concept of capitalism alone but to
the broader weakness of the critique of political economy within the social
sciences.

Since we are now living in the immediate aftermath of a financial crisis
that brought the global economy to the brink of disaster in 2008 and 2009,
the urgency of reviving the critique of political economy should be obvious.
The aftershocks of that crisis continue to reverberate through the global
economy in 2011 and 2012, and it is uncertain when – if ever – the global
economy might return to a path of stable and predictable growth. In a word,
we are living through one of those historical moments when it is no longer
possible to ignore the operations of the world system or to sidestep
questions about how that system should be governed.

Collectively, the world faces a series of urgent questions. Can agreement
be reached to replace the dollar with a new global reserve currency that
would be managed by the International Monetary Fund or a successor
institution? Can global institutions expand the supply of capital to finance
green energy projects and other productive investments across the world
economy? Should there be an international financial transaction tax to dampen global capital flows and slow the growth of financial derivatives? How should the system of financial regulation be restructured to keep banks and other financial institutions from taking on system-destabilizing levels of risk? Can the rules governing the global trading system be revised to expand the capacity of governments to increase employment and build new economic capacities? And ultimately, can we shape global institutions and global rules that are both democratically accountable and consistent with stronger democratic decision making within nations?

Suffice it to say that the Polanyian framework gives us much greater leverage on these questions than the concept of capitalism that we have inherited either from Marxism or market liberalism. Our urgent task is to analyze the strengths and weaknesses of the varieties of global regimes that could replace the failed system that was based on the theory of market self-regulation. In contemplating these choices, the key issues are how those different possible regimes would block or enable different varieties of market societies and might some open a path to the creation of societies that subordinate markets to democratic control.

NOTES

1. Chris Moody, reporting for Yahoo News, was at this session. His piece, “How Republicans are being taught to talk about Occupy Wall Street” appeared on December 1, 2011.
2. For an account of how this rhetoric played out in shifting welfare policy in the United States, see Somers and Block (2005).
3. For example, in the 2012 Presidential campaign, when Mitt Romney faced criticism for the predatory practices of the private equity firm that he had headed, his main defense was that his critics did not understand how capitalism works.
4. A rough indicator is provided by a Google search for “occupy wall street” that produced 838 million hits. When both “occupy wall street” and “capitalism” were put in the search, the number fell to 21 million hits – a decline of 97.5%.
5. Some of my own contributions to this current of thought are in Block (1987).
6. For a different critique of this body of work, see Block (2007).
7. Other scholars, of course, have recognized the importance of this question. See especially Streeck (2011) for an argument that goes in a different direction.
8. While other important theorists such as Weber, Schumpeter, Sombart, and Veblen used the concept of capitalism, it seems fair to argue that they retained significant elements of the Marxist analysis and they did not elaborate a systematic alternative conceptualization (Marx, 1963).
9. In his writings on France, particularly the 18th Brumaire, Marx was acutely aware of the overdevelopment of the French state whose tentacles reached into every
corner of the economy. But he tended to see this as an anomaly with England’s less
developed state representing the purer case of a capitalist society.

10. It is beyond the scope of this paper to address the ambiguities of the concept
of socialism. But since Marxism posits socialism as the negation of capitalism, it
follows that if the concept of capitalism has lost its coherence, then we have little
guidance as to what constitutes a socialist society.

11. It was precisely this move that led Robert Brenner (1977) to label Wallerstein
as a neo-Smithian because he had shifted the central mechanism from production to
the circulation of commodities.

12. The exception here are the private equity funds that routinely buy up
productive enterprises, reorganize them, and then sell them back to others. But even
they generally make their money not by exploiting workers but by firing them – they
make businesses leaner and then sell them at a profit.

13. This is the title that Berman (2007) gives to her important account of the
development of European social democracy. See also Mason (1968).

14. This is a modification of the theses offered in Block (2007). See also Schrank
and Whitford (2009).

15. For some discussion of this neglect, see Hacker and Pierson (2010a) and Piven
and Block (2010).

ACKNOWLEDGMENTS

I am grateful to Matthew Keller and Magali Sarfatti Larson for comments
on an earlier draft.

REFERENCES

Arrighi, G., & Silver, B. (1999). Chaos and governance in the modern world system. Minneapolis,
MN: University of Minnesota Press.
Cornell University Press.
Block, F. (1977). The origins of international economic disorder. Berkeley, CA: University of
California.
(pp. 219–230). Walden, MA: Blackwell.
Block, F. (2003). Karl Polanyi and the writing of The Great Transformation. Theory and Society,
32, 275–306.
Block, F. (2007). Understanding the diverging trajectories of the United States and Western


This article has been cited by: