

## GLOBAL CAPITALISM AND DISCOURSES OF CAPITAL

Yrd. Doç. Dr. Meneviş Uzbay Pirili<sup>1</sup>

### Özet

1970'lerden bu yana, birisi akademik alanda ve özellikle sosyal bilimlerde, diğeri ise dünya ekonomik sisteminde olmak üzere iki önemli dönüşüm yaşanmaktadır. Akademik alandaki dönüşüm neoklasik iktisat paradigmasının sosyal bilimlerde hakim paradigma haline gelmiş olmasıdır. Dünya ekonomik sistemindeki dönüşüm ise kapitalizmin küreselleşmesi olarak ifade edilebilir. Bu makalenin amacı bir yandan akademik alanda ve diğer yandan reel hayatta ortaya çıkan bu iki dönüşümü analiz etmek ve iki dönüşümün eş-zamanlılığının bir tesadüf olup olmadığını araştırmaktır. Bölüm 1'de neoklasik iktisat paradigmasının temel varsayımları ve metodolojisi açıklanmıştır. Bölüm 2'de, 1970 sonrası gelişen ve neoklasik iktisadın temel varsayım ve metodolojisini kullanan, sosyal bilimlerde alanındaki yeni yaklaşımlar ve altdisiplinler incelenmiştir. Son bölümde ise kapitalizmin küreselleşmesi üzerinde durulacak ve bu iki alandaki örtüşmenin çıkarımları tartışılacaktır.

**Anahtar Kelimeler:** Neoklasik İktisat Paradigması, Küresel Kapitalizm, Sermaye, Sosyal Bilimlerde Söylem,

### Abstract

We have been witnessing two profound transformations since the late 1970's ; one in the academy particularly in social sciences, and the other in the world economic system. The transformation within the academy involves a paradigm shift in social sciences, as the neoclassical economic theory constitutes the dominant paradigm in social theory. The transformation within the world economic system involves the globalization of capitalism. In this article the question I would like to address is whether or not the

---

<sup>1</sup> EGE University, Faculty of Economics and Administrative Sciences, Dept. of Economics, Bornova/Izmir, Turkey. E.mail: [menevis.uzbay@ege.edu.tr](mailto:menevis.uzbay@ege.edu.tr)

*transformations at the economic level – capitalism becoming a global system, on the one hand, and the absorption of academic discourses in social sciences into the neoclassical economical paradigm on the other, is a mere coincidence? And if not, what are the implications of the parallels between the academy and material life. Section 1 involves explanation of neoclassical paradigm. Section 2 examines the new subdisciplines in social sciences. Section 3 addresses globalization of capitalism. The Conclusion is a discussion about the possible ways of looking at the similarities between what is happening within the academy and in the world.*

**Key Words:** *Neoclassical Paradigm, Global Capitalism, Capital, Discourses in Social Sciences*

## **1. Introduction: Two Radical Transformations Taking Place Since the 1970's**

**We have been witnessing two profound transformations since the late 1970's; one in the academy particularly in the discourse of social sciences and humanities, and the other in the world economic system**

Transformation within the academy **involves a paradigm shift in social sciences, as the basic assumptions of neoclassical economic theory came to be adopted by the whole of social sciences constituting the dominant paradigm in social theory. The dominance of neoclassical economics in social theory is evidenced by the birth of a whole range of new subdisciplines after the 1970's such as:**

- The New Political Economy
- The New Household Economics
- New Institutional Economics
- The New Regional Development Theory
- New Growth Theory
- Social Capital Theory and Economic Sociology

Where all use the basic methodology and assumptions of the neoclassical economic theory in their analyses<sup>2</sup>. In this regard the notion of “social capital” is an illuminating concept as it signifies the complete absorption of the whole of the social as well as personal relations into the economic paradigm of cost and benefit calculation of market relations. Fine, suggests that, “social capital and its expanding scope of application is in a sense the mirror image of an imperialistic economics. It seeks to colonize every aspect of social theory”<sup>3</sup>.

**The transformation within the world economic system** involves the globalization of the market which is also accompanied by notable changes at cultural and

---

<sup>2</sup> As a matter of fact most of the founders of these new disciplines have been awarded Nobel prizes for their contributions; *James Buchanan*, the founder of New Political Economy ; *Douglas North* of the New Institutional Economics and *G. Becker*, of New Household Economics are among them.

<sup>3</sup> Ben Fine, **Social Capital Versus Social Theory**, Routledge, London, (2001), pp. 98-99

---

discursive practices deemed by many observers to mark the emergence of a new era. The cultural, discursive and economic shift in material practices and ways of seeing and understanding have been described in various ways. Some who focus more on economic transformations, use concepts such as “late capitalism”, “globalization”<sup>4</sup>, “flexible specialization”<sup>5</sup>, “post Fordism”<sup>6</sup>. These descriptions have in common an emphasis on new technologies of information; new forms of organization of production and marketing particularly with an emphasis on the Transnational Companies; accompanied by, at the political level, new forms of governance that underline the reduced power of the nation-states due to the transfer of power to supranational organizations (such as the European Union, the IMF, the World Bank and the World Trade Organization).

At the same time, the cultural shift is described by some as a transition from ‘modernity’ to ‘post-modernity’<sup>7</sup>. Interestingly, as opposed to the increasing unification of a single global market, there is an increased fragmentation of values and questioning of authoritative discourses and meta narratives, as well as the dominance of national cultures, with a reoriented emphasis on ethnic, cultural, religious diversity and minority ‘rights’ at the social-cultural level.

Globalization of the market, in turn, refers to the fact that the basic dynamics of the market system have become universal with the implication that local economies and the actions of economic agencies are, not only determined by the basic logic and rules of the market but increasingly are invariably exposed to and affected by the fluctuations in dominant economies. Wood<sup>8</sup> describes these rules as “market imperatives” which are competition, accumulation, profit maximization, the quest for increase in productivity through innovation, and minimization of costs as much as possible.

In this article the question I would like to address is *whether or not* the transformations at the material and economic level – capitalism becoming a global system, on the one hand, and the absorption of academic discourses in social sciences and humanities into the neoclassical economical paradigm on the other, is a mere coincidence? And if not, what are the routes, mediations and implications of the parallels between what is happening in the academy and life in the so called ‘global village’.

The outline of the article is as follows: Sections I and II draw upon the discussion regarding the transformation within the academy – the unquestioning adoption of the neoclassical language with its paradigmatic assumptions by social sciences. As such, in Section I, the basic assumptions and methodology of the neoclassical economical paradigm

---

<sup>4</sup> A. Amin and N Thrift, “Living in the Global”, in **Globalization, Institutions and Regional Development in Europe** ed. A.Amin and N: Thrift, Oxford University Press (1996), pp. 2-19.

<sup>5</sup> P. Hirst and J. Zeitlin, “Flexible Specialization versus post-Fordism: Theory, Evidence and Policy Implications”, **Economy and Society**, 20, (1991), pp. 1-26.

<sup>6</sup> B. Jessop, “Regulation Theories in retrospect and prospect”, **Economy and Society**, 19 (1990), pp. 153-216

<sup>7</sup> D. Harvey, **The Condition of Postmodernity: An Enquiry Into The Origins Of Cultural Change**. Cambridge, MA: Blackwell, (1990).

<sup>8</sup> E.M.Wood, “Modernity, Post modernity and Capitalism”, **Monthly Review**, Jul-Aug (1996), [http://findarticles.com/p/articles/mi\\_m1132/is\\_n3\\_v48/ai\\_18484828](http://findarticles.com/p/articles/mi_m1132/is_n3_v48/ai_18484828).

are outlined. Section II then provides an examination and assessment of the broad outlines of the new subdisciplines in social sciences that have emerged since the 1970's. Section III, addresses the second transformation, the globalization of 'capitalism'. The Conclusion is a discussion on the possible ways of looking at and understanding the striking similarities and parallels between what is happening within the academy and in the world.

## 2. Neoclassical Economics Becoming the Dominant Paradigm in Social Sciences

Neoclassical economics becoming the dominant paradigm in social sciences means that the hard core assumptions and the basic methodology of neoclassical economics are accepted and applied in the whole of social sciences. These core neoclassical assumptions are:

➤ **Utilitarian conception of human existence:** This theory owes to Jeremy Bentham's utilitarian philosophy. Bentham was explicit about his belief that the pleasure-pain calculus is applicable to all human behavior: "Nature has placed mankind under the governance of two sovereign masters – *pain and pleasure*". It is for them alone to point out what we ought to do as well as to determine what we shall do"<sup>9</sup>. Bentham asserts that what ever is of interest or importance to us must be the cause of pleasure and of pain, and when the terms are used with a sufficiently wide meaning, pleasure and pain (in other words 'costs and benefits') include all the forces which drive us to action. They are implicitly or explicitly the matter of all our calculations. Hence human nature is such that all human beings seek to maximize their pleasure and minimize pain.

➤ **Economical conduct ('rational choice'):** Individuals are rational and as such they seek to maximize their utilities or gains. Economical conduct entails that agents act rationally in the sense that they 'calculate costs and benefits' in each and every step of their lives in order to maximize their gains. It should be noted here that economical conduct refers to the '*logic of maximization of gain*', therefore it is not confined narrowly to maximization of isolated individuals' separate egoistic interests. Individuals may have different aims, altruistic or egoistic or a combination of the two. The attitude is 'economic' only in that it assumes that individuals calculate their costs and benefits to maximize their gains, while not paying much attention to the interests of the *opposing agent* in their interactions. The typical agent of the neoclassical theory is the well known '*homo economicus*' – *the economic man*.

➤ **Methodological individualism:** Human beings are seen as the ultimate choice makers in determining **collective** as well as **private action**. This shouldn't be confused with 'individualism' in the sense of individuals necessarily acting alone, by and for themselves. Central to the understanding through this perspective is the assertion that as well as individuals achieving their goals individually, at times, it will be rational for them to join together with other individuals whose self interest corresponds with their own to press for the achievement of *both* individual and collective goals. So, under this postulate it is possible that rational individuals may cooperate with likeminded others if and when such cooperation results in a more optimal individual payoff than solitary action.

---

<sup>9</sup> J. Bentham, **An Introduction to the Principles of Morals and Legislations**, NewYork. Hafner (1963), pp. 24-25.

---

➤ **Exchange relations** or the logic of the market as a means of reconciling and furthering separate individual interests, whether the exchange takes place in the form of commodities or services as an exchange between self interested agents<sup>10</sup>. All human relations, all human interaction, not only those confined to the economic domain are assumed to be of this type, i.e. exchange between *self interested, gain maximizing agents*. Of course this principle is founded on the very hypothesis of the universal human nature given in the utilitarian concept of the essence of ‘man’.

The above assumptions which encompass the neoclassical economics’ methodology are aggregated under the concept, ‘the *economic approach*’ to human behavior. Gary Becker, one of the main contributors of the extension of neoclassical economic theory to all areas and levels of human behavior and social relations writes the following:

*“Everyone recognizes that the economic approach assumes maximizing behavior more explicitly and extensively than other approaches do, be it the utility or wealth function of the household, firm, union or government bureau that is maximized. Moreover, the economic approach assumes the existence of markets that with varying degrees of efficiency coordinate the actions of different participants, individuals, firms even nations – so that their behavior becomes mutually consistent.... I have come to the position that the economic approach is a comprehensive one that is applicable to all human behavior, be it behavior involving money prices or imputed shadow prices, repeated or infrequent decisions, emotional or mechanical ends, adults or children, brilliant or stupid persons, businessman and politicians, teachers and students...”*<sup>11</sup>.

## **2.1 New Subdisciplines in Social Sciences Adopting the ‘Economic Approach’ of Neoclassical Economic Theory**

Neoclassical economics, whose founding principles are the very principles of modern economics reigned as the dominant economic discourse till the late 1920’s. The founding principles of neoclassical economic theory are often attributed to its pioneers W.S. Jevons, A. Marshall, E von Böhm Bawerk and L. Walras in the nineteenth century.

With the onset of the 1929 crisis, neoclassical economics went out of fashion. It not only lost popularity but was rejected as a viable theory capable of explaining the main dynamics of the capitalist economy. Its assumptions underwent heavy criticism in all fronts. Regarding the developed capitalist countries of the West, mainstream economics in academic circles and macro economic politics as well, increasingly came under the sway of Keynesian principles. Parallel to this, ‘*development economics*’ which culminated after the second world war as a response to issues of economic growth in the newly independent countries of Latin America, Asia and Africa, also rejected the neoclassical paradigm<sup>12</sup>. The

---

<sup>10</sup> J.M. Buchanan and G. Tullock, **The Calculus of Consent**, Ann Arbor Paperbacks, University of Michigan Pres, (1965), p. 4.

<sup>11</sup> G. Becker, **The Economic Approach to Human Behaviour**, The University of Chicago Pres, London, (1976), p. 8.

<sup>12</sup> Hirschmann an outstanding pioneer in development economics characterized it as a field of inquiry which viewed underdeveloped economies to be very different from developed economies and therefore requiring a different analysis than that of the neoclassical approach - “rejection of the

result was, up to around the late seventies, what was left of the neoclassical economics was a mere theory of ‘the consumer’ and ‘the producer’, who both try to allocate scarce resources among competing ends to maximize utility/profit. Moreover, it was widely asserted among economists and nearly in all the economics textbooks that “efficient allocation of resources” as the assumed subject matter of neoclassical economists, is a ‘static’ theory and is unable to explain the main dynamics of capitalism which was ascertained to be ‘growth’ and ‘development’<sup>13</sup>. I will look more closely at what seems wrong to me with the “static/dynamic” opposition regarding neoclassical economics in the last section of this article.

Around the late seventies, a gradual but radical change began to take shape in academic thinking. Neoclassical economics which had been confined to the maximizing attitudes of ‘typical housewife buying groceries in the super market’ and that of the producer - ‘the firm’-, has reemerged with a vengeance, an emphasis on ‘the free market’ or ‘the free market forces’ ascending to the status of a *new deity*, supplanting the Keynesian economics and the welfare state. Since then, it has succeeded to become the dominant paradigm not only in economic science but also in other disciplines such as sociology, behavioral psychology and political science. The ‘**economic approach**’, the term which is used to indicate the basic methodology and assumptions of neoclassical economics, are adopted to explain maximizing attitudes of agents through exchange relations in social, political, psychological as well as anthropological contexts. Some critical writers propose to call this phenomenon, the “colonization of the other social sciences by neoclassical economics”<sup>14</sup>. In fact, much beyond the academy or social theory, its terminology and axiomatic idioms have become the most frequented clichés of popular discourse; ‘markets’, ‘market forces’ and ‘profit maximization’ are part of everyday language as the most unsuspected givens of every one’s life and aspirations.

### **2.1.1. New Political Economy – Neoclassical Political Economy (NPE)**

The term “new political economy (NPE)” refers to the extensive analysis done during the 1970’s under a variety of names such as ‘public choice’, ‘rent seeking’ and most recently ‘new institutional economics’. The pioneers have been Anthony Downs, *An Economic Theory of Democracy* (1952); J. Buchanan, G. Tullock *The Calculus of Consent : Logical Foundations of constitutional Democracy* (1965); Mansur Olson and others<sup>15</sup>.

NPE is the first discipline that used the ‘economic approach’ (neoclassical economical paradigm) to study the political decision making process in order to reveal certain systematic trends towards inefficient government practices. In NPE, neoclassical assumptions about the primacy of individual self interest, methodological individualism and others are applied with equal consistency to the political claims of citizens, the actions of politicians and policy makers, to the behavior of bureaucrats and the actions of the states

---

monoeconomics claim”. A. Dutt and A. Jameson, **New Dirrections in Development Economics**, ed. USA, Edward Elgar, (1992), p. 3.

<sup>13</sup> M. Blaug, **Economic Theory in Retrospect**, Richard D.Irwin Inc, Illinois, (1968), pp. 298-300

<sup>14</sup> Fine, (2001), p. 10.

<sup>15</sup> R. Findley, “The new Political Economy: Its Explanatory Power for LDC’s”, in **Politics and Policy Making in Developing Countries**, (ed), G.M. Meier, California, ICS Press, (1991), pp. 13 – 14.

---

more generally<sup>16</sup>. Through the lens of neoclassical paradigm's assumptions, politics also becomes a sphere of individuals acting to maximize their own self interests and the political process is modeled on exchange relations of the market where, rational political actors – citizens, bureaucrats and so on - each try to maximize their own gains in the political sphere.

From this perspective, political process is thus characterized by individuals and a variety of special interest groups *competing for access to the benefits* allocated by the state and government. The state from the NPE perspective is composed of bureaucrats and politicians and it assumes that their actions are based on a budget maximizing model in a self-interested way for the purpose of maximizing their own individual economic benefits (e.g. their personal wealth). The voting behavior of rational citizens (sic. 'tax payers') is also motivated by self interest, electing those who promise to provide them benefits and punishing those who fail to make good on them<sup>17</sup>.

Central to the understanding of politics through this perspective is the assertion that individuals can not always achieve their self interest on their own as single individuals, so, at times it will be rational for them to enter into collective action with others whose interests correspond to theirs. When such collective action results in more beneficial results, the basis for political action is laid. It is important to notice that even collective action is based on individuals' self interest participating in it, each seeking to maximize her/his own benefit collectively as an interest group.

*“Our purpose in this book is to drive a preliminary theory of collective choice that is in some respect analogous to the orthodox economic theory of markets.... Both the economic relation and the political relation represent co-operation on the part of two or more individuals. The market and the State are both devices through which co-operation is organized and made possible. Men co-operate through exchange of goods and services in organized markets, and such co-operation implies mutual gain. The individual enters into an exchange relationship in which he furthers his own interest by providing some product or service that is of direct benefit to the individual on the other side of the transaction. At base **political or collective action under the individualistic view of the State is much the same**. Two or more individuals find it mutually advantageous to join forces to accomplish certain common purposes. In a very real sense they exchange inputs in the securing of the commonly shared output”<sup>18</sup> (my emphasis).*

In the traditional understanding of political science, the state's function was basically seen as a benevolent guardian of public interest. Welfare state, for example, had been such an influential concept both theoretically and in its historical existence. State and politicians were relegated to have an 'ethically specified welfare function' and were expected to perform the tasks of providing public goods and offsetting market failures in the interest of the nation as a whole, as well as undertaking income redistribution through its tax and public expenditure policies. NPE takes a quite cynical view of the state

---

<sup>16</sup> M. Grindle, “Positive Economics and Negative Politics”, in G.M. Meier, (1991), pp. 42- 46.

<sup>17</sup> M. Grindle, (1991), p. 41-61

<sup>18</sup> J.M. Buchanan and G. Tullock, (1965), p.19.

and of the political process. Based on the utilitarian conception of human nature and therefore, of individuals, taken as rational, utility maximizers, NPE asserts that;

➤ government agents and politicians are also seeking market privileges (maximum gains) just like a self interested businessman in the market seeking maximum profit.

➤ politics is characterized by a plethora of special interest groups each competing for its own access to the state and government benefits.

➤ elected political leaders and politicians, in trying to pursue their self interest, desire to maximize their hold on power and in trying to achieve this end, use all kinds of ruse and manipulations in public relations for securing maximum public support.

Reconstructing the political decision making of agents and people based on the principles of neoclassical paradigm, means the ethical attitudes are also reduced to the outcomes of economic calculus of cost and benefit. James Buchanan, the pioneer of NPE was awarded a Nobel prize for this ‘insight’. It is worth noting here that, in the 1870’s, nearly hundred years before Buchanan was awarded the Nobel Prize, his predecessor Stanley Jevons, the pioneer of neoclassical economics had foreseen this victory. In trying to assert that the principle of “economical conduct” - calculus of cost and benefit for maximum gain- was implicitly or explicitly the essence of all our attitudes, Jevons based his argument on the hierarchy of human wants:

*“As it seems to me, the feelings of which a man is capable are of various grades. He is always subject to mere physical pleasures of pain and pleasure... . He is capable also of mental and moral feelings of several degrees of elevation. A higher motive may rightly overbalance all considerations belonging even to the lower range of feelings.... My present purpose is accomplished in pointing out this hierarchy of feelings, and assigning a proper place to the pleasure and pain with which the economist deals. It is the lowest rank of feelings which we treat here. The calculus of utility aims at supplying the ordinary wants of man at the least cost of labor. Each laborer in the absence of other motives, is supposed to devote his energy to the accumulation of wealth. A higher calculus of moral rights and wrong would be needed to show how he may best employ that wealth for the good of others as well as himself”<sup>19</sup> (my emphasis).*

### **2.1.2. New Neoclassical Growth Theory: Endogenous Growth Theory (P.Romer, 1986 )**

The central questions which contemporary economic growth theory tries to address are :

1. Why are we so rich and they so poor? It is a question about levels of development and the world distribution of per capita incomes

---

<sup>19</sup> S. Jevons, **The Theory on Political Economy**, Kelley and Millian Inc., NewYork, (1957), p. 24 – 25.



---

2. What is the engine of economic growth ? How is it that economies experience sustained growth in output per capita over long periods. (for instance US has grown 1.8 percent since 1870)<sup>20</sup>.

The modern examination of these questions dates back to the 1950's<sup>21</sup>. Initially Robert Solow (Mass. Inst of Tech) in the 1960's developed the *neoclassical growth theory* which is also called the “**Exogenous Growth Theory**”. Then in the late 1980's Paul Romer and Robert Lucas (University of Chicago) expanded and evolved the Solow growth theory thus developing the “**New Neoclassical Growth Theory**” also called the “**Endogenous Growth theory**”. Both models seek to address the question of ‘sustained economic growth’ in a capitalist market economy. Robert Solow and later on Paul Romer were both awarded important prizes in science for their contributions to knowledge. What is “new” about the endogenous growth theory then?

Literarily, it substituted “endogenous” for “exogenous”. What was previously thought to be external is now explained within the market system. In other words, ‘technological improvement’ - the source of productivity increase- which was thought to be external to the economic process in the *Solow model*, is now explained within the dynamics of the capitalist market. This has important implications in lifting some of the theoretical and empirical limitations of the old exogenous growth model<sup>22</sup>.

The Solow model of exogenous growth is built around two basic equations, (1) a production function and (2) a capital accumulation equation<sup>23</sup>. The production function

---

<sup>20</sup> C.I. Jones, **Introduction to Economic Growth**, USA, W.W. Norton and Company Inc., (2002), pp.18.

<sup>21</sup> The inquiry into the nature and causes of economic growth is not confined to the modern times. It has preoccupied economists for Centuries. The title of Adam Smith's famous treatise was *An Inquiry into the Nature and Causes of the Wealth of Nations*, while “*Das Capital*”, the famous book of K. Marx is also an inquiry into the accumulation of capital in a capitalist society.

<sup>22</sup> See C.I. JONES, (2002) , for a detailed expansion of Solow model.

<sup>23</sup> The production function is assumed to have the Cobb- Douglas form and is given by

$$(1) Y = F(K,L) = K^\alpha L^{1-\alpha}$$

Where  $\alpha$  is some number between 0 and 1 and shows the shares of labor and capital in total output. On the other hand the capital,  $K$ , in Solow model is assumed to include only the ‘physical capital goods’ such as machines, equipment, infrastructure and so on. When we rewrite the production function (1) in terms of output per worker (or per capita income),  $y = Y/L$ , and capital per worker,  $k = K/L$  the production function becomes:

$$(1.a) y = k^\alpha$$

According to the production function equation, the level of per capita output of countries depends on the amount of capital per worker in these countries. The second key equation of Solow model is an equation that describes how capital,  $K$  (Physical capital) accumulates and the capital accumulation equation is given by:

$$(2) \dot{K} = sY - dK$$

According to this equation the change in capital stock (accumulation of capital,  $\dot{K}$ , is equal to the amount of gross investment in capital goods,  $sY$  (where  $s$  = saving rate out of income), less the amount of depreciation of capital goods that occurs during the production process,  $dK$ .

describes how Physical Capital (Kp) such as, bulldozers, semiconductors, machines; and Labor (L) such as engineers and workers combine to produce output. On the other hand the capital accumulation equation states the conditions for accumulation of Kp and states that it depends on the saving/investment rates of countries. The results and implications of the Solow Neoclassical growth model can be stated as follows:

➤ The growth of output per capita depends on the accumulation of physical capital per worker. Therefore Solow model clarifies the role of Physical Capital (Kp), and states that those countries with high saving/ investment ratios accumulate more Kp and hence tend to be richer.

➤ In other words the Solow model's answer to the question "Why are we so rich and they so poor?" is that : countries with high saving/investment in physical capital goods tend to be richer, *ceteris paribus*. Such countries accumulate more physical capital, and countries with more capital have more output.

➤ And yet Kp has diminishing marginal productivity which means as Kp accumulates (more machines, more factories, more infrastructure) its contribution to output decreases

➤ This is indicated by the "steady state value" in the theory where the growth in output per person stops at some point in time. That means accumulation of Kp *does not guarantee* 'long run sustained growth' in per capita incomes.

➤ To generate sustained growth in per capita income in the model, Solow introduced 'technological progress' to the model.

➤ For countries to experience sustained growth per capita incomes in the long run, the driving force is **technological progress - A** . As technological progress increases over time, the productivity of inputs increase – a unit of labor, for example, is more productive when the level of A is higher. Therefore productivity increase through technological progress is the 'ultimate driving force' for sustained increases in the income levels of countries.

➤ However 'A' (level of technology) and the increase in A that is - technological progress- in Solow model is "exogenous": in a common phrase, technology is like "manna from heaven," in that it descends upon the economy automatically and regardless of whatever else is going on in the economy. Its progress is not explained within the model, it is *as if improving externally to the system*. Hence the assumption is that science, the progress in ideas and knowledge, and the development of new technologies are confined to the autonomous sphere of the science and academy. To put it differently, 'the academy' that is the source of production of knowledge is thought to be independent of the economic sphere and activities.

---

Inclusion of technological progress variable is accomplished by adding a technology variable, A, to the production function  $Y = A F(K, L)$

As A - the level of technology-, which is an exogenous variable – increases over time, the productivity of Kp and L increases and hence there is sustained growth.

---

## Endogenous Growth Theory's New neoclassical growth theory contribution to neoclassical growth theory

➤ The new neoclassical growth model introduced “Knowledge” as the *basic form of capital* . – ‘Knowledge capital’ (Kk), is seen as the main source of technological progress. To quote from P. Romer, the founder of new neoclassical growth theory:

*“The model proposed here offers an alternative view of long-run prospects for growth. In a fully specified competitive equilibrium, per capita output can grow without bound, possibly at a rate that is monotonically increasing over time.... While exogenous technological change is ruled out, the model here can be viewed as an equilibrium model of endogenous technological change in which long-run growth is driven primarily by the accumulation of knowledge by forward-looking, profit-maximizing agents. **This focus on knowledge as the basic form of capital** suggests natural changes in the formulation of the standard aggregate growth model”<sup>24</sup>. ( my emphasis)*

➤ Hence the “Knowledge sector”, the source of technological progress, is no longer *independent* but exists within the capitalist economy, one amongst other sectors in which “forward looking and profit maximizing agents invest in for the sake of higher profits”.

➤ ‘Accumulation of ‘*Knowledge Capital*’ is the source of technological progress and therefore of sustained growth by the increase in the productivity of inputs

➤ So, technological progress which was considered to be independent and exogenous in Solow model, is included and explained within the dynamics of the market- *it is endogenized into the system*. In other words, what rules the market - the logic of cost benefit calculation for maximization of gain - also rules the production of knowledge or the technological progress-. *Production of knowledge is now endogenous to the dynamics of the capitalist system*.

➤ Most importantly in contrast to Solow model in which physical capital exhibits ‘diminishing marginal productivity’, knowledge capital exhibits ‘increasing marginal productivity’. This means that as knowledge accumulates, its contribution to output does not decrease and therefore the growth of knowledge is boundless. Even if all other inputs are held constant, it will not be optimal to stop at some “steady state” where knowledge is constant and no new research is undertaken. It follows that the production of consumption goods as a function of knowledge capital and other inputs exhibits increasing returns<sup>25</sup>. For example, it costs a great deal to produce the first unit of a word processor software, however, once the product is developed additional copies can be produced very cheaply.

---

<sup>24</sup> Paul M. Romer, “Increasing Returns and Long Run Growth”, **The Journal of Political Economy**, 94, no. 5, (Oct., 1986), p. 1003).

<sup>25</sup> Romer, (1986), pp: 1003-1004

➤ Neoclassical growth theory was also extended to include ‘human capital’ - Kh - that involves the level of education and skills of labor<sup>26</sup>.

In summary The New Neoclassical Growth theory’s (endogenous growth) contribution made it clear that:

➤ Economic growth in a *Capitalist Economy* depends on the accumulation of all kinds of *Capital*: physical capital, (Kp), human capital, (Kh), and knowledge capital, (Kk). The driving force of sustained growth is productivity increase which is fuelled by technological progress, and technological progress in turn depends on the *continuous accumulation of knowledge capital, Kk*.

➤ **Growth in Capitalism means ‘accumulation of capital’** which in turn requires that societies *should convert everything they own into capital* so as to fulfill the endless quest for growth.

### 2.1.3. New Regional Development Theory and Social Capital

New regional development theory emerged as a response to the various problems raised by globalization. According to the new regional development literature the distinguishing features of globalization are :

➤ systematic competitive pressures as domestic markets are integrated into global markets

➤ integration of the production process on a global level which is organized by and within Transnational Companies (TNC’s),

➤ reduced power of nation states due to the transfer of authority to supranational organizations (European Union, World Bank, World Trade Organization)<sup>27</sup>.

This results in greater regional and social inequalities compared to the 1950’s and sixties. As P. Dicken et.al. says, the dilemma facing firms in today’s turbulent competitive environment is that, to succeed on a global scale, they must possess three capabilities simultaneously. They need to be globally efficient, multinationally flexible and capable of capturing the benefits of worldwide learning all at the same time<sup>28</sup>. New Regional Development Theory (NRDT) argues that in this environment characterized by global markets’ competition, **regions** have become the basic units of economic coordination and planning rather than nation states<sup>29</sup>.

---

<sup>26</sup> In an influential paper published in 1992, G. Mankiw, D. Romer and D. Weil evaluated the empirical implications of Solow model and concluded that it performed very well. They noted that the model can be improved more if human capital is included in the model. G.Mankiew, D. Romer and D. Weil, “A Contribution to the Empirics of Economic Growth”, **Quarterly Journal of Economics**, 107, 2. May (1992), pp: 407-437.

<sup>27</sup> B.T. Asheim and M. Dunford, “Regional Futures”, **Regional Studies**, 31, (1997), pp. 445-455.

<sup>28</sup> P. Dicken, M. Forsgren and A. Malmberg, “The Local Embeddedness of Transnational Corporation”, in **Globalization, Institutions, and Regional development in Europe** (1996), p. 30.

<sup>29</sup> B.T. Asheim and A. Isaksen, “Location, agglomeration and innovation: toward regional innovation systems in Norway”, **European Planning Studies**, 5 no.3, (1997), pp: 299-330.

---

The strategic question of NRDT is: how to increase competitiveness and thus sustain economic growth of *regions* in the face of increasing pressures from global competition.

The New Regional Development Theory rests on :

➤ **New Neoclassical Growth Theory (Endogenous Growth)** which asserts the importance of accumulation of knowledge capital (Kk) and investment in the knowledge sector as the main engine of technological progress which results in productivity increase- competitiveness and hence sustained growth as discussed above.

➤ **NeoSchumpeterian School on Innovations**, especially the Aalborg group who introduced a theory of innovations and tacit knowledge as the main strategy for technological progress and competitiveness for regions and nations.

➤ **The Economic Sociology and Social Capital Literature** which draws heavily on an analysis of the role of social and cultural factors in network formation and hence the 'social embeddedness' of economic action, which will be discussed below.

'NeoSchumpeterian school' suggests that '*endogenous regional growth and development*' is centered on a model of institutional network formation that is an associative "learning economy" where **innovation** is thought to be the basic engine of technological progress and hence economic growth<sup>30</sup>. The theory and strategy of endogenous regional growth and development can be outlined as follows:

1. The aim is to **increase competitiveness** of regions hence endogenous growth and development

2. Strategic means of increasing competitiveness are seen as "**innovations**" which involves 'technological improvement for productivity increase' at the **regional level**<sup>31</sup>. Lundvall and Johnson from the Aalborg school use the term 'learning economy' when referring to the techno-economic paradigm in the contemporary global economy. In the learning economy the competitive advantage of firms and regions is based on innovations as a strategic means of competition<sup>32</sup>.

3. The concept of innovations is initially introduced by Schumpeter as the driving force of economic development in a capitalist economy and then further advanced by the neo-Schumpeterian school<sup>33</sup>.

4. Innovations which involves all technological progress, may take various forms such as new marketing techniques, a new product, a new production process, a new technology, new organizations.

---

<sup>30</sup> B .A. Lundvall and B. Johnson, "The Learning Economy", **Journal of Industrial Studies**, 1, n. 2 (1994), pp. 23 -42.

<sup>31</sup> Asheim and Isaksen, (1997).

<sup>32</sup> Lundvall and Johnson, (1997).

<sup>33</sup> C. Freeman, "Critical Survey: the economic of technical change", *Cambridge Journal of Economics*, 18, (1994), pp. 463-512.

5. Innovation as such means “**accumulation of knowledge capital**” which is the main source of technological improvement, as suggested by the New Endogenous Growth Theory. However, knowledge is not confined to formal knowledge of R&D (Research and Development) in the New Regional Development Theory, because innovation is on the one hand, an interactive process and on the other, it is shaped by a variety of institutional routines and social conventions.

6. The accumulation of ‘knowledge capital’ is the source of innovations, and involves generation of (1) formal knowledge of R&D and (2) informal (tacit) knowledge.

7. Aalborg school, added “tacit knowledge” which refers to all the initiatives and innovations originating in *local* cultures. Accumulation of knowledge capital involves not only technologies produced in R&D centers and the university (formal knowledge) but *also informal knowledge* which originates from below, in existing cultural practices and ways of life. While ‘*formal knowledge*’ is embedded in machinery and knowhow produced in R&D institutes and the academy, and is usually patented, ‘*tacit knowledge*’ is much more fluid and is based on grass roots, in peoples’ living practices, institutional settings and culture.

8. The inclusion of ‘tacit knowledge’ implies that, *on the one hand*, innovation is an “*interactive process*” between firms and the basic scientific infrastructure, between producers and users at the interfirm level, and between firms and the wider institutional milieu as a process of *interactive learning*. It is shaped by the ‘networks’ of groups of firms and industries, of public and private institutions, universities, knowledge producing units and etc. in the region, also called institutional milieu or “institutional thickness”<sup>34</sup>.

9. On the other hand, innovations are socially and territorially embedded which means they are shaped by cultural factors and social conventions which foster ‘institutional network formation’ and **trust** among economic agents. In other words, the generation of innovations in the region depends on the existence of ‘**social capital**’ by which term is understood the extent of network and collaborative relationships among regional actors.

**Policy implications** of the new regional development theory for enhancing regional competitiveness are: besides enhancing human capital and physical capital and formal knowledge capital as new neoclassical growth theory suggests, it is crucial enhancing regional capabilities peculiar to each region. In short, besides promoting investment in other forms of capital, also promote investment in *social relations* with a view to developing ‘social capital’. These include, formation of clusters, promoting cooperation between private and public bodies, network building between regional actors etc. in order to help and enhance innovation in the region.

***“One of the key arguments of the Aalborg group of economists is that the nature of capitalism as a learning economy has arrived at the point where knowledge is***

---

<sup>34</sup> K. Morgan, “The learning Region: Institutions, Innovaitons and Regional Renewal”, **Regional Studies** 31, no. 5, (1997), pp. 491-503

---

*the most strategic resource and learning ( innovation) is the most important process...the important elements of tacit knowledge such as trust are collective rather than individual*<sup>35</sup>.

#### 2.1.4. Social Capital Theory

The major contributors of ‘social capital theory’ are, James Coleman, Robert Putnam and Gary Becker. The term ‘social capital’ was first introduced by Pierre Bourdieu albeit in a different context. The concept of ‘social capital’ first appeared in the context of social exchange literature in economic sociology during the 1960’s<sup>36</sup>.

Social exchange literature, whose main contributors are Homans, Emerson and Blau<sup>37</sup>, at root has always been a project to adopt methodological individualism in social theory. It was organized around two fundamental issues. First, how are social relations, structures, norms or institutions to be understood in the light of individual behavior. Second, what are the appropriate types of individual behavior that focus on addressing the first issue. As a theory of individual interaction, social exchange theory draws upon a generalized understanding of exchange, of which, for example, market relations are of a special type. In other words, economics studies individuals in the context of market parameters, social exchange studies them in their social relations<sup>38</sup>.

As the social exchange literature gave way to social capital theory, J. Coleman, R. Putnam and G. Becker, adopted methodological individualism as well as rational choice and market exchange as the basic principles governing both individual and social behavior in all aspects of life and elaborated the concept of ‘social capital’ within the parameters of neoclassical economic theory.

It is Gary Becker, however, who is mainly responsible for the assimilation of all social relations into the economic model, suggesting that all social interactions *simulate* those of the market, grounded on utility maximizing individual decision makers. He tried to explain as many economic and social phenomenon as possible on the basis of market principles. Becker’s use of what he, himself, terms “the economic approach” is remarkably simple: Assume that all individuals are the same and that they are motivated exclusively by the wish to maximize their own welfare or utility. On this basis and with externally given constraints, economic approach explains as many social phenomenon as possible without being confined to any traditional disciplinary boundary.

In his book, “The Economic Approach to Human Behavior” (1976) Becker, explains the putative power of the economic approach and uses it to shed light on issues as diverse as smoking, addiction, churchgoing, playing tennis, child abuse, violence, sexual abuse, government propaganda and patriotism.

*“I have come to the conclusion that the economic approach is applicable to all human behavior.... Subsequently, I applied the economic approach to fertility, education, the uses of time, crime, marriage, social interactions and other “sociological”, “legal”,*

---

<sup>35</sup> Morgan, p. 493.

<sup>36</sup> R. Emerson, “Social Exchange Theory”, **Annual Review of Sociology**, vol. 2, (1976), pp. 335-362

<sup>37</sup> For a critical review of Social Exchange theory see Ben Fine, (2001) chapter 5.

<sup>38</sup> Fine, 2001, pp. 66- 68.

and “political” problems. Only after long reflection on this work and the rapidly growing body of related work by others did I conclude that the economic approach was applicable to all human behavior.”<sup>39</sup>.

B. Fine, in his critical examination of Becker’s works, claims that nothing could illustrate better the imperialistic design of neoclassical economic theory over all kinds of social phenomenon.

*In short Becker’s economic approach seeks not only to deploy reductionism in a particular form of methodological individualism. He is also concerned to treat as much as possible as an as if market, as if life was a virtual world with individual choices being made in the context in which everything else is or is equivalent to prices or income. As a result the market is analytically privileged and unquestioned. It is always there to be used as a prism for understanding any social phenomenon”*<sup>40</sup>(my emphasis).

### From Social Exchange to Social Capital

In works on social capital, J. Coleman is almost always referenced as the initiating contributor . Most interest in his work focuses on his American journal of Sociology article *Social Capital in the Creation of Human Capital* (1988)<sup>41</sup> and his book titled *Foundations of Social Theory* (1990)<sup>42</sup>. He generalized his theory of social capital trying to explain differences in school or educational performance on the basis of differences in family and environmental circumstances.

Coleman defines social capital in terms of its function as that which facilitates certain actions of individuals within their own social milieu<sup>43</sup>. For Coleman, in this respect, social capital is neither physical, nor human capital. Social capital is involved in the structures of relations between persons and among persons. Social capital arises when people interact with each other in any number of social settings, ranging from memberships in an organization, to having dinner with a group of friends, from participation in the rituals of a religious community, to formation of associations in civil society . Coleman turned social exchange theory into social capital theory by adopting the rational choice theory and assuming that the principle of action for **all** people in **any** setting, depends on maximization of utility or interest. Hence social relations and the element of ‘trust’ between two or more people can be considered and used as an ‘asset’ – as capital – which may further mutual interest.

*“the principle of action depends... on maximization of utility...but I like to think of it in terms of interest because interest corresponds more nearly to the **natural** way in which we think about person’s orientation to action”*<sup>44</sup>.

---

<sup>39</sup> G. Becker, (1976), p. 8.

<sup>40</sup> B. Fine,( 2001), p. 42.

<sup>41</sup> J. Coleman, “Social Capital in the creation of Human Capital”, **American journal of Sociology**, vol. 94, Supplement (1988), pp. 95-120

<sup>42</sup> J. Coleman, **Foundations of Social Theory**, Cambridge, Harvard University Pres, (1990).

<sup>43</sup> Coleman, (1990), pp. 302 -304.

<sup>44</sup> Coleman, (1990), p. 52.



---

Putnam, who was inspired by Coleman's study of social capital on educational performance, shifts from education to politics and explains differences in economic development between regions on the basis of the availability of social capital. Putnam addresses the following question.: Why has the record of North Italy's development and growth proved superior to that of Southern Italy? His answer is: - because North Italy possessed higher levels of social capital. More specifically, social capital is identified with the formation of associations within civil society, in the relationships between government and the economy. These civic or horizontal associations prospered along with democracy and growth in the North as opposed to the South.

*“ By analogy with notions of physical and human capital – tools and training that enhance individual productivity – social capital refers to features of social organizations, such as networks, norms and trust that facilitate coordination and cooperation for mutual benefit...Stocks of social capital, such as trust, norms and networks, tend to be self reinforcing and cumulative ”*<sup>45</sup>.

Putnam's version of 'social capital' theory found wide application in the new regional development" literature that emphasizes the role of social and cultural factors on regional development, and especially in the generation of innovations for regional competitiveness. The social capital theory as applied to regional development, argues that economic development is in part determined by the cultural characteristics of a local community. Over long periods of time communities build up durable civic traditions. These may be either supportive of economic development or detrimental to it: Once established, however, these civic traditions are very difficult to change. According to Putnam, while communities in southern Italy, with their social structure entrenched in feudal relations and despotic government had poor social capital, the new industrial districts of Northern Italy benefited greatly from being located in communities which, as a result of a long history of independent city-states and civic government, had built up a stock of social capital<sup>46</sup>.

The notion of social capital has also found wide application in the World Bank's policy since 1998 towards attacking poverty and enhancing sustainable human development<sup>47</sup>. According to the World Bank, "Social capital refers to the institutions, relationships and norms that shape the quality and quantity of a society's social interactions. Social capital is not just the sum of the institutions which underpin a society – it is the glue that holds them together". And among its dimensions are *trust and solidarity, cooperation, collective action and social cohesion*.

---

<sup>45</sup> R. Putnam, **Making Democracy Work: Civic Traditions in Modern Italy**, Princeton, Princeton University Press, (1993), p. 177

<sup>46</sup> H. Armstrong and J. Taylor, **Regional Economics and Policy**, USA, Blackwell, (2000), pp. 295-296.

<sup>47</sup>A web site has been devoted to social capital which is organized around three themes: (1) the sources of social capital (such as families, communities, civil society, ethnicity and gender) (2) topics related to social capital such as poverty, education, economics, trade, development, environment, migration etc. And (3) the relevant policies for enhancing social capital. World Bank, <http://worldbank.org/poverty/scapital>., (2008).

*Trust* is the key factor in social capital according to all of these writers. Of course, the ‘trust’ that they are talking about is ‘trust’ that enhances self interest. It is not ‘trust’ in general and certainly not the trust that exists in communitarian societies where the individual is not independent, and where the function of trust is something very different than that of enhancing individual interest and economic growth.

In this literature, trust as such, for example trust between companies, customers and the labor force, reduces costs by removing the need for expensive contracting, monitoring and enforcement and is itself gradually built up through norms of reciprocity and networks of civic engagement.

### **Social relations transformed into Capital**

What determines the level of trust in a society is the amount of social networks and connections that people have which in turn depends on the prevailing culture and norms of that society. Social relations makes a person more trustworthy as a person is less likely to cheat someone who is a member of his social network. In a society where people have large circles of acquaintances and where people know each other, the high degree of trust is an *asset* compared to a society where people are isolated socially.

The distinguishing characteristic of the concept of social capital is that social relations and norms of trust, now considered as capital, are only valuable to the extent that they facilitate economic interest and generation of income. People invest in social capital just like investing in physical capital such as buildings or equipment in order to further growth potentials. In the literature of social capital, relations and networks are precious precisely because they involve relationships of **trust-as-an-economic-asset-that-reduces-cost-and-enhances-efficiency-and-economic-productivity**. In other words, trust and collaborative relationships among people and institutions are transformed into capital goods under the name of ‘social capital’.

Over less than a decade, the literature on social capital has grown explosively both in volume and scope across the social sciences. Woolcock<sup>48</sup>, for example, gives seven or more different areas of application of social capital – families and family relations, economic and social life, community life, schooling, organization, democracy and governance and collective action. Still others interpret social capital as a source of social inclusion or exclusion or even anything that constitutes civil society<sup>49</sup>. In this way social capital is understood as any social relationship across society ranging from family or neighbors (micro level) to networks between firms (meso level) and extends to all the relationships of civil society (macro level).

*“Social capital is a resource for individuals or collective actors located in the network of their more or less durable social relations”<sup>50</sup>.*

---

<sup>48</sup> M. Woolcock “Social Capital and Economic Development: Towards a Theoretical Synthesis and Policy Framework”, **Theory and Society**, 27, no:2, (1998), pp: 151 – 208.

<sup>49</sup> G. Hyden, “Civil Society, Social capital and Development: Dissection of a Complex Discourse”, **Studies in Comperative International Development**, 32, no: 1 (1997), pp: 12- 18.

<sup>50</sup> P. Adler and S. Kwan, “Social Capital: The Good, the bad and the Ugly”, **World Bank Social Capital Library, Papers in Progress**, (1999), in B. Fine, (2001) p. 111.

---

In conclusion, the notion of social capital reduces all social relations into a *resource* for people to further their interests. Social capital is “social” because it involves some non-market process which nevertheless has economic effects. The economic effects are, in the language of economics, *externalities*.

*It is clear that in the social capital literature the underlying fundamental assumption is again a certain universal human nature that is a rational, utility maximizing economic agent – homo economicus - for whom all that exists as well as other people in her/his social relations are a resource –social capital - to derive benefit for him or herself.*

## 2.2. What have we learned from the New Subdisciplines?

We have learned that:

**a) Economical Conduct** determines all our attitudes in all areas of life. “Calculating Cost and Benefit with the aim of maximizing utility” is the *natural state of humans in all areas of conduct*:

- economic relations
- social relations
- political relations and
- personal relations

**b) Market exchange** is the context in which all relations and the attitudes of agents in these relations are explained in pursuing utility maximization as in the market. These agents – the homo economicus - can be:

- The consumer and the private enterprise
- The regional agents
- The state officials
- Voters in political arena
- Persons in their private relations such as marriage, friendship, parenthood

etc.

**c) Endless quest for the accumulation of Capital** in all its various forms. The *struggle to survive* in the competitive environment of global markets, necessitates the transformation of *everything* we own into capital.

To recapitulate thus far: The various forms which capital<sup>51</sup> takes are:

---

<sup>51</sup> It is worth noting here the fluidity of the concept of ‘Capital’. Although there has been a proliferation of meanings of this term, numerous writers as well as many of the economics text books, capital is defined as something particularly physical and solid and always in relation to production. These sources define capital as a group of “products that serve towards production” or as groups of “produced means of production”. Capital is any physical thing (machine, equipment, building, or other objects) that aids in the production process.

- Physical capital : machines and factories
- Human Capital : labor force
- Social Capital : other people, all social relations
- Natural capital : nature as resource
- Cultural capital : culture as resource
- Knowledge capital : technology and know-how

### 3. Global Capitalism: The Second transformation since the 1970's.

Let us assume to agree with many observers that the changes taking place on a world scale since the seventies are significant enough to distinguish a new era and call for a concept to identify it. The major changes have been described at different levels and in

---

This is how capital is defined in the formal production functions. It is clear that the above definition of capital encompasses only physical capital (Kp.) And yet we know by now that there are many other forms of capital of which some are not solid at all - they are intangible and fluid - such as knowledge capital, social capital, cultural capital or human Capital and not always necessarily related to production. As capitalism expands into a world system, as it becomes global, things - tangible and intangible, which were not considered as capital before, are gradually absorbed into an interest or income generating asset, so, we have to create another 'capital concept' each time as a nother thing we own, is converted into capital. Thus, human capital, social capital, cultural capital and so on. We seem to be lacking a definition which encompasses all the different forms of capital. In fact, we don't need to invent a new definition. Such an encompassing definition of capital had already been given by the neoclassical economists of the 19th Century, Jevons, Marshall, Böhm-Bawerk and Walras. If only we just recall how they defined capital:

According to *Böhm Bawerk* , "Capital indicates a relation to an acquisition or a gain"...In the wider sense he states that " Capital is a means of acquisition and it embraces not only productive goods but consumption goods which their owners do not use for themselves, but employ by exchange (sale, hire or loan) in the acquisition of other goods". E. Böhm Bawerk, **Positive Theory of Capital**, Florida, New World Book Manufacturing Co.(1891), reprinted in (1971), pp. 39 -49. He gives the example of the dresses a woman owns. If she wears them her self they are not capital, they are consumption goods . But if she lends them out for money or for the gain of other goods, then they become capital.

L. Walras brings a similar definition: "It is of the essence of capital to give rise to income" he says. According to Walras, all those durable things that are used to generate an income are called capital. L.Walras, **Elements of Pure Economics**, Routledge Library Editions, London, (1954) pp. 213-215., Going into details he categorizes capital and includes land as 'natural capital'; labor as 'personal capital' and machines,equipment as 'capital proper'. Hence, if we stick to the original neoclassical texts, and make a true conception of capital we could say: 'Capital are all tangible or intable 'things' that are used *for the purpose of* generating income, acquisition or gain. Hence

Kp Machines and other solid objects

Kh human beings and their labour

Ks social relationships and trust among people

Kc the culture of societies

Kn nature and its riches

Kk knowledge and know-how; and why not? Infinitely many more, for example, names, designs, symbols, labels, appearance and gestures, bodies, body parts...etc.

---

various ways. As I mentioned in the introduction, some accounts emphasize cultural transformations and use the concept of post-modernity, while others that focus more on economic transformations, use concepts such as “late capitalism”, “globalization”, “flexible specialization”, “post Fordism” and possible others<sup>52</sup>. The latter, have in common a preoccupation with new technologies, new forms of production, of financial flows and communication and so on.

In line with Brenner<sup>53</sup> and Woods’s<sup>54</sup> arguments, I would suggest using the concept of “globalization of capitalism”. Brenner and Wood, argue that what underlies the profound transformations in the second half of the twentieth century is that capitalism has become a universal system. In other words capitalism – the capitalist market system- has become a world system with barely any rival.

*“If there has been an epochal shift in the latter half of the twentieth century, we are going to have to look for it somewhere other than in flexible accumulation, consumerism, information technology, the culture of postmodernism or any of the usual suspects.... What underlies this change is that this is the period when capitalism itself has become for the first time something approaching a universal system”*<sup>55</sup>.

If the epochal shift is characterized by ‘universalization of capitalism’, then it is necessary to say something about what the defining characteristic(s) of this ‘thing’ called Capitalism which has become global, may be. In this respect, Wood’s argument is organized around two themes.

Brenner and Wood<sup>56</sup> argue that capitalism, in the first instance, is a *market system which is based on competition*. Competition, they suggest, is the mechanism of capitalism’s basic law of motion or its constitutive element, because in capitalism, as in no other system, the irreducible condition of access to the means of self reproduction is *market dependence*. In other words, capitalism is a system in which “economic units” - unlike those in previous historical epochs - *must* depend on the market for everything they need. The capitalist *market forces* people to enter the market for the most basic conditions of survival and self-reproduction- and that applies to both workers and capitalists.

Second theme is the understanding of the capitalist market *not* as an *opportunity* but as an *imperative* or as market dependence<sup>57</sup>. What distinguishes capitalism from all

---

<sup>52</sup> Refer to the introduction section of this article for relevant references.

<sup>53</sup> R. Brenner, “The Economics of Global Turbulence”, *New Left Review*, Special Issue, I/229, May–June (1998).

<sup>54</sup> Wood, (1996).

<sup>55</sup> Wood, (1996), p. 3.

<sup>56</sup> The argument takes place in the context of a conversation between Brenner and certain Marxist left who are against Brenner’s insistence that the fundamental contradiction that produces economic downturn in capitalism is rooted in the “horizontal” relations of competition among capitalists, as distinct from the “vertical” class relations between capital and labor. Brenner’s critics claim that the primacy Brenner gives to competition as the basic law of motion of capitalism, is contrary to Marx, who insists that competition doesn’t cause capitalism’s laws of motion but is simply their external manifestation in the movement of individual capitals.

<sup>57</sup> It should be noted here that there is a fundamental difference between thinking of the capitalist market as an ‘imperative’ on which people are dependant for the most basic conditions of survival

other social forms is the “market-dependence” of all economic actors, and consequently, their subjection to the “market imperatives”. These imperatives are :

- accumulation and growth
- profit maximization
- increasing productivity and minimization of costs

which are all driven by *competition*? The result, of course, is a uniquely dynamic system which has produced a historically unprecedented tendency for self-perpetuating growth and capital accumulation. As Wood says, “Only in capitalism it is necessary to grow only to stay in the same place”<sup>58</sup>.

What I want to emphasize regarding the above argument is that, globalization of capitalism means that the basic characteristics –imperatives - of the ‘capitalist market’ have become universal; that the market, that is, the imperatives of *competition*, *productivity*, *endless quest for growth* and *capital accumulation* have become the organizing principles not only of the economic arena but the market has become the organizing principle of all aspects of human life. With the endless quest for growth, and accumulation, everything is transformed into a resource or means of acquiring greater material wealth, i.e. ‘Everything turns into capital’.

But how does everything turn into capital? I’ll let this question linger for a while.

### **Conclusion : Global Capitalism and Academic Discourse**

Now let me return to the question I posed in the beginning, namely, the relation, if there is one, between the academy and globalization of capitalism. How are we to interpret the conspicuous parallels between what has been happening in social sciences, that is, the fundamental principles of the neoclassical economics becoming the dominant paradigm in understanding all human relations in social theory, and capitalism becoming a global system. Globalization of capitalism means that its laws of motion, the logic of market relations, competition, the endless quest for the accumulation of capital – economic growth - have penetrated every aspect of life. As such, the colonization of social sciences by the neoclassical paradigm is neither a coincidence nor a conspiracy, because neoclassical economical paradigm is itself an inquiry about the process of capital accumulation within a market system<sup>59</sup>.

---

and to think of it as an ‘opportunity’: to understand the market as an imperative, “we have to understand not just how people have been *able* to respond to the capitalist market but how they have been *forced* to do so. Capitalism doesn't just *allow* people to avail themselves of the market in the pursuit of profit. It *forces* them to enter the market for the most basic conditions of survival and self-reproduction—and that applies to both workers and capitalists” Wood, (1999).

<sup>58</sup> E.M. Wood, “The Politics of Capitalism”, **Monthly Review**, Vol. 51, no: 4, (1999), <http://www.monthlyreview.org/999wood.htm>.

<sup>59</sup> The original writings of neoclassical economists such as Jevons, Böhm-Bawerk, Walras and others should be re-read and re-studied in order to see how they constructed a well defined theory of capitalism, of capital accumulation and the logic of the market.

---

However, it seems to me that we should avoid arriving at simplistic conclusions and assume a correspondence in the sense of, for example, a linear causality, such as material circumstances –globalization of the market - determining ideas or ‘superstructures’ – e.g. the social scientific discourse -. In other words, to interpret what takes place in the academy merely in terms of its truth or falseness, that is, as a true or distorted reflection of what is happening in ‘reality’, is a facile avoidance of examining the complexity of the relation between theoretical and material practices.

Let us take the ‘social capital’ theory and its expanding scope of application in understanding social relations. I think we should be mindful of interpreting social capital theory merely in terms of affirming or denying its verisimilitude. First of all, *in what sense is it true or false?* Neither attitudes and norms such as trust and reciprocity, nor social relations as such are ‘social capital’ **in themselves**, (as nothing is capital in itself, see below). The key to understanding how social relations can be transformed into ‘capital’ lies in the conception of these social relations as assets - resources - to be used in order to generate interest or gain. The fact that in the literature of social capital, even relations between family members, neighbors and friends can be called ‘social capital’ without hesitation, is certainly not without consequences. For one thing, academic discourses do not remain within the confines of the academy and academic texts. Not only do they inform policies that determine the material constraints and possibilities of how people regulate – **can** regulate - their lives. The language that gives meaning and understanding of what is what – what matters, what is significant, how things and people stand in relation to each other... all that permeates via media and in disparate ways into collective knowledge as an everyday understanding of people’s everyday lives.

To speak of a correspondence between the academy and ‘material reality’ is itself probably misleading. The concept of correspondence in this context is usually predicated on the positivist assumption that there is a reality which is supposed to be ‘material’, - in the sense of *physical* - and ideas that are reflections of that reality. But, if we are speaking of globalization of capitalism, what we are talking about is not an expansion in the way of a natural event as the widening or intensifying force of a hurricane or an earthquake. ‘Capital-ism’ that owes its name to ‘the thing called capital’ must also owe something essential about its nature to the nature of the ‘thing’ called ‘capital’. But capital is not a natural substance and it has no essential physical qualities.

The neoclassical economists once defined capital as<sup>60</sup>:

*“It will be apparent after a little reflection that there is really nothing which marks off certain commodities as being by nature capital as compared with other commodities which are not capital. The very same bag of flour may have to change its character according to the mental changes of its owner. Capital is the power of deferring the fruition of labor results”*<sup>61</sup>.

---

<sup>60</sup> See also footnote 51 above.

<sup>61</sup> Jevons, (1957), pp. 295-296.

As the neoclassical economists of the 19th century knew<sup>62</sup>, things are not capital due to their natural, physical characteristics. Things *become* capital according to the purpose we use them precisely because human and social reality is not composed of purely physical things without meaning on the one hand, and our ideas about them on the other. Only if we treat ‘things’ - material goods, skills, nature, culture or our social relations - for the purpose of generating income or acquisition of gain, that they become capital. Our understanding, of nature, of other beings, other people, what they mean for us, as well as what our own lives mean for each of us belong to reality as belonging to a specific historical human reality. And of course, how we think belongs to reality to the extent that we are the ones who make that reality. To the extent that human reality is the reality that *we* make, the way we think and understand life – ourselves the world and others – is itself both part of and the condition of what we physically do and make. So, it is by no means insignificant that all the assumptions of neoclassical economic theory have become the dominant paradigm not only in the whole of social sciences but also beyond the academy, even on the left, not to mention the media and popular discourses.

In politics, today’s dominant economic strategies and even strategies on the left are based on the principle of market opportunities. In one way or another, these policies seem to assume that what is necessary to do is to facilitate market opportunities, to make the markets work in a competitive manner or to enable people take the best advantage of it.

The left has invented “progressive competitiveness” or markets with a human face. Responding to the growing power of neoliberalism and the increasingly conservative political climate of the 1980’s, many left economists seem to have made a decision to begin framing policy analysis and policy alternatives in more ‘market friendly’ terms. The “progressive competitiveness” paradigm of the left argue that labor’s living conditions and work could be improved through greater success in the market, thus enhancing competitiveness of a country’s enterprises in the global marketplace<sup>63</sup>.

Now, let me try to rethink the question that I left to linger for a while: How does everything turn into capital?

Nothing turns into capital by an ‘invisible hand’, but ‘*in the hands*’ of the ‘homo economicus’, always trying to be efficient and maximize profit or utility. The ‘homo economicus’ is not a mere biological species, s/he belongs to a historically specific culture with its specific beliefs about his and her place in the cosmos, about the place s/he has in the society s/he lives and a culture specific in its values about what is good - admirable, desirable, what is socially rewarded – and what is bad – disapproved, unwanted, punished.

---

<sup>62</sup> Not only the neoclassical economists knew. So did Marx who, throughout his work, drew attention to the essence of capital as a relation rather than as a thing. Although discussion of Marx’s concept of capital is beyond the scope of this paper, I will suffice to mention that in *Capital*, Marx argues that not even money is capital if it is spent without engendering further accumulation or growth. A thought provoking idea given that capital is usually identified with money.

<sup>63</sup> P. Burkett, and M. Hart – Lansberg, “Progressive Capitalism, Crisis and Class Struggle”, **Capital and Class**, Spring (2003), pp. 1 - 2, [http://findarticles.com/p/articles/mi\\_qa3780/is\\_/ai\\_n9223659](http://findarticles.com/p/articles/mi_qa3780/is_/ai_n9223659).



---

On the other hand, the presentation or representation of what is historically and culturally specific as the *universal* or *natural* is one very common discursive or linguistic slant given to truth that imbues it with magical power.

What I am saying is, if anything, discourses are not merely a true or false reflection of something more fundamental that has its own independent dynamic, like the ‘invisible hand’ of ‘market forces’. The important question here is the *power* of discourses. If everything has turned into capital, if the endless quest for growth and productivity has become an unquestionable faith, this means that *we* – the so called homo economicus – have come to treat everything *as* capital; or to put it differently, we have *become* the ‘homo-economicus’. ‘Economical conduct’ has *become* ‘normal’ – both in the sense of normative and unquestionable - as an unavoidable fact of life. If all this is said and believed to be founded on ‘human nature’ or ‘market forces’, ‘human *nature*’, ‘market *forces*’ are the magical idioms of this discourse.

Now, the ‘deity’ – market – has crashed; and, strange is it not, there isn’t much talk of ‘*market forces*’ around. The ‘forces’ held to be responsible for the present situation, and the ‘forces’ called on for help are flesh and blood, thinking, feeling human beings: The bad guys high up in big banks who brought on the calamity by their shady financial dealings; ‘we’, – who are not bad guys – the public or the ‘tax payer’ that are the innocent victims; and the governments, that must punish the bad guys, bring in regulation and, hopefully, save us all. So, here is another common discursive wand that projects responsibility on *other forces*: ‘Them’, the bad guys.

I would like to end with a letter written to a British news paper that questions the alienating discourse that wedges a rift between ‘us’ and the making of the conditions in which we are active participants, by projecting causes onto forces outside us.

*“Sir, While it is clear that many financial businesses have acted irresponsibly in their pursuit of profits, driven by excessive bonuses, we should also accept that the majority of the population have created the demand that has led to the current situation. Many have trumpeted how well they have done with their property, supported by interminable property shows on television reinforcing how everyone with a bit of entrepreneurial spirit can get rich quick. This has been fuelled by the availability of cheap mortgages secured against non-existent earnings (...) mortgages for buy to let and the demand of those keen to get a hold on the property ladder. We as a nation have become financially irresponsible, with our endless appetites for credit cards, designer labels, smart cars and foreign travel, to be paid for sometime in the future when we would be wealthier and can pay off the debts.”<sup>64</sup>*

And last but not the least, in the present climate of *loss*, I think we need to think not only of *our* financial loss but beyond our own immediate self interest: the impoverished others, future generations and our blue planet that *pay the cost* of the quest for infinite gain and infinite growth. A loss, much more fundamental because insubstitutable and without compensation when all relations are treated as market exchange; everything valued only for its return as capital.

---

<sup>64</sup> Dr. A. Leigh, “Letter to the Editor”, **The Times**, October 2nd, (2008).

## REFERENCES

- ADLER, P. and KWAN, S., “Social Capital: The Good, the Bad and the Ugly”, **World Bank Social Capital Library, Papers in Progress**, (1999), in B. Fine, (2001) p. 111.
- AMIN, A. and THRIFT, N., “Living in the Global”, in **Globalization, Institutions and Regional Development in Europe** ed. A. Amin and N. Thrift, Oxford University Pres (1996).
- ARMSTRONG, H. and TAYLOR, J., **Regional Economics and Policy**, USA, Blackwell, (2000).
- ASHEIM, B.T. and DUNFORD, M., “Regional Futures”, **Regional Studies**, 31, (1997), pp: 445-455.
- ASHEIM B.T. and ISAKSEN A., “Location, agglomeration and innovation: toward regional innovation systems in Norway”, **European Planning Studies**, 5 no.3, (1997), pp: 299-330.
- BECKER, G.S. **The Economic Approach to Human Behavior**, University of Chicago, (1976).
- BENTHAM, J., **An Introduction into the Principles of Morals and Legislations**, New York. Hafner (1963).
- BLAUGH, M., **Economic Theory in Retrospect**, Richard D.Irwin Inc, Illinois, (1968).
- BÖHM BAWERK, E., **Positive Theory of Capital**, Florida, New World Book Manufacturing Co.(1891).
- BRENNER, R., "The Economics of Global Turbulence," *New Left Review* I/229 (May-June, Special Issue, (1998).
- BUCHANAN, J.M and TULLOCK, G., **The Calculus of Consent**, Ann Arbor Paperbacks, University of Michigan Pres, (1965).
- BURKETT, P. and HART – LANSBERG M., “Progressive Capitalism, Crisis and Class Struggle”, **Capital and Class**, Spring (2003), p. 1, [http://findarticles.com/p/articles/mi\\_qa3780/is\\_ai\\_n9223659](http://findarticles.com/p/articles/mi_qa3780/is_ai_n9223659).
- COLEMAN, J., “Social Capital in the creation of Human Capital”, **American Journal of Sociology**, vol. 94, Supplement , (1988) pp: 95-120.
- COLEMAN J. **Foundations of Social Theory**, Cambridge, Harvard University Pres, (1990).
- DUTT A. and JAMESON K., **New Directions in Development Economics**, (Ed.) Edward Elgar, USA, (1992).

- 
- FINE, B., **Social Capital Versus Social Theory**, Routledge, London and New York (2001).
- FINDLAY, R. (1991) The New Political Economy. Its Explanatory Power for LDC, in MEIER G.M. (Ed) *Politics and Policy Making in Developing Countries*, pp. 13-38, ICS pres California.
- FREEMAN, C., "Critical survey: the economics of technical change", **Cambridge Journal of Economics**, 18, (1994) pp.463-512.
- GRINDLE, M., Positive Economics and Negative Politics, in MEIER G.M. (Ed) **Politics and Policy Making in Developing Countries**, ICS Press, California, (1991), pp. 41-61
- HARVEY, D., **The Condition of Postmodernity: An Enquiry Into The Origins Of Cultural Change**, Cambridge MA, Blackwell, (1990).
- HYDEN, G., "Civil Society, Social capital and Development: Dissection of a Complex Discourse", **Studies in Comparative International Development**, 32, no: 1 (1997), pp: 3- 30.
- HIRST, P. and ZEITLIN J., "Flexible Specialization versus post-Fordism: Theory, Evidence and Policy Implications, **Economy and Society**, 20, (1991), pp. 1-26.
- JEVONS, W.S., **The Theory on Political Economy**, Kelley and Millian Inc. New York, (1957).
- JESSOP, B., "Regulation Theories in retrospect and prospect", **Economy and Society**, 19 (1990), pp: 153-216.
- LEIGH, A., "Letter to the Editor", **The Times**, October 2nd, (2008)
- JONES, C.I., **Introduction to Economic Growth**, W.W.Norton & Company, Inc, USA, (2002).
- LUNDVALL, B.A and JOHNSON, B. The Learning Economy, **Journal of Industrial Studies**, 1(2), (1994), pp: 23 – 42.
- MANKIEW, G., ROMER, P.M. and WEIL, D., "A Contribution to the Empirics of Economic Growth", **Quarterly Journal of Economics**, 107, 2. May (1992), pp: 407-437.
- MORGAN, K., "The learning Region: Institutions, Innovations and Regional Renewal", **Regional Studies** 31, (1997), p: 491-503.
- ROMER P.M., "Increasing Returns and Long Run Growth", **The Journal of Political Economy**, Vol. 94, no. 5, (Oct. 1986), pp. 1002-1037.

PUTNAM, R., **Making Democracy Work: Civic Traditions in Modern Italy**, Princeton, Princeton University Pres, (1993).

WOOD, E.M., “Modernity, Postmodernity of Capitalism”, **Monthly Review**, (1996) [http://findarticles.com/p/articles/mi\\_m1132/is\\_n3\\_v48/ai\\_18484828](http://findarticles.com/p/articles/mi_m1132/is_n3_v48/ai_18484828).

WOOD, E.M., “The Politics of Capitalism”, **Monthly Review**, Vol. 51, no: 4, (1999) <http://www.monthlyreview.org/999wood.htm>.

WOOLCOCK, M., ”Social Capital and Economic Development: Towards a Theoretical Synthesis and Policy Framework”, **Theory and Society**, 27, no:2, (1998), pp: 151 – 208.

WORLD BANK, Social Capital, <http://worldbank.org/poverty/scapital> , (2008).

WALRAS, L., **Elements of Pure Economics**, Routledge Library Editions, London, (1954).