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BEYOND ECLECTICISM: A SURPLUS-ORIENTATED APPROACH TO POLITICAL ECONOMY

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Political economy needs to be something more than a critique of neoclassical economics and the associated neo-liberal economic policy prescriptions. It needs to present a coherent view of the functioning of the economic system and its relationship to social and political processes. For this purpose it is useful to construct the discipline of political economy around the core notion of a social surplus. As Robert Heilbroner (1985) notes, every economic system beyond the hunter and gatherer society has been designed to ensure the creation of some portion of social product beyond what is needed for the sustenance of the population and its productive apparatus. The social surplus is what is produced over and above the necessities for economic reproduction. Understanding its size, disposition and distribution is the central politico-economic concern, because this is the key to understanding what shapes economic growth, periodic crises, the distribution of income and wealth and the essentially political nature of the allocation of economic resources.

Joan Robinson used to speak (somewhat inelegantly) of neoclassical and non-neoclassical economics¹. The former, orthodox approach to economic analysis has no place for a notion of surplus. It is centrally concerned with optimisation problems in a hypothetical static world,

1 Mauro Baranzini and Roberto Scazzieri (1986) among others, have drawn the divide between economics and political economy in terms of exchange versus production - or catallactics versus production in the language of John Hicks (as quoted by Baranzini and Scazzieri).

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involving the allocation of time between leisure and work, of resources between different production activities, of income between different items of consumption, and of output between present consumption and savings (from which investment flows). The allocative decisions are said to be made ultimately by individuals pursuing private interests and interacting essentially in exchange relationships. That saving and subsequent investment in expanding capacity do occur is serendipitous: nothing is seen to drive an economy to produce a surplus.

Sensibly wanting to have nothing to do with neoclassical economics, a modern political economist then has to confront the question of how to crystallise the essential elements from a diversity of non-neoclassical perspectives in order to tell the story of the production and deployment of a social surplus. This can be done by drawing on analysis developed by Michal Kalecki, in post-Keynesian thinking, by the *Monthly Review* school of neo-Marxism and American 'radical political economy', and by the 'French Regulationist' school.² What follows is an attempt to describe such a politico-economic perspective, ending with a set of propositions showing the significance of this alternative approach.³

2 Some indicative works include Malcolm C Sawyer, *The Economics of Michal Kalecki*, Basingstoke UK, Macmillan, 1985; John Bellamy Foster, *The Theory of Monopoly Capitalism: an Elaboration of Marxian Political Economy*, New York, Monthly Review, 1986; Paul Sweezy, *The Theory of Capitalist Development: Principles of Marxian Political Economy*, New York, Monthly Review, 1970; Samuel Bowles and Herbert Gintis, *Democracy and Capitalism: Property, Community and the Contradictions of Modern Social Thought*, London, Routledge and Kegan Paul, 1986; Robert Boyer and Yves Saillard (eds), *Regulation Theory: the State of the Art*, London, Routledge, 2002

3 This perspective informs the approach of one of the units of study within the Political Economy program at the University of Sydney. The students take two introductory units of study, one of them dealing with the history of economic ideas and the other with how national economic policies are to be understood. Hitherto, all students proceeding beyond these first year units have had to study two further units, one of them with the title 'The Surplus Approach to Political Economy', the other 'The Social Foundations of Modern Capitalism'. The first of these units will be renamed 'Economic Foundations of Modern Capitalism' as of 2003. In future students undertaking majors will be required to take at least one of these units, while Honours students will continue to be required to take both. Students not seeking to major in Political Economy need take neither. From what I have written in this paper, it will be clear that I think that the change is a retrograde one. It has been forced upon the Discipline of Political Economy in the main by moves

How Basic is Marx?

The development of a surplus-oriented approach can sensibly begin with Marxian economics, although there are problems in taking the Marxian story too far. Marxian analysis emphasises the origin of the surplus product in the process whereby capitalists hire workers for less than the product of the labour they perform. The amount of the surplus product in relation to the total value of capital advanced to pay workers and to maintain plant and equipment is the rate of profit appropriated on average.

There are some well-known problems with this Marxian view. The averaging of the rate of profit where degrees of mechanisation and automation differ markedly between industries raises the 'transformation problem'; and discussion of how to cope with this typically drives both students and teachers to distraction. A process of competition, between capitals and between workers and the agents of capital in the workplace, drives capital into every possibility for the generation of a greater surplus product and maximises the ratio of surplus to payments to workers. And here too there is a problem, as to whether the process of competition in both realms is as robust and dependable as it is supposed to be.

It is possible to retain the general notion that human effort is the basis of the exchange value of a commodity, without attempting to make particular long-term prices (or prices of production) consistent with labour value. It is also possible to associate surplus product with the notion that some part of the human effort expended in productive capitalist enterprises is not remunerated. Similarly, one may distinguish between labour or human effort that is productive (in that it does contribute to social production) as opposed to unproductive labour (that is, merely concerned with transfers of the ownership of capital and the direct regulation of the system within which production and distribution of the product are organised). Essentially, though, the distinction between productive and unproductive labour, as that is drawn in Marxian writings, is secondary to the issue of whether any surplus available

to make all majors more flexible. Senior units other than the two mentioned above will no longer assume a knowledge of the content of what used to be core units.

within an enterprise can be appropriated directly by capital owners (as distinct from being transferred through the terms of trade between enterprises).

There is no subliminal ('inexorable') logic that drives the economic system forward, only the strategic thinking and action of human agents managing the system, more or less wisely, and controlling the workforce. No enterprise is undertaken unless its conduct yields a profit; and over time people do not commit themselves to private enterprise unless in general it yields a surplus product and thus profit in the aggregate. All of this is contentious, but it is a précis of a fairly recognisable neo-Marxism. And that is how we enter a modern account of surplus-orientated political economy.

Beyond Marxism

Modern capitalism is a negotiated world in which human agency is not circumscribed except by the most basic logic of capitalism, namely the exploitation of human labour and the need for a positive rate of profit. Human agency is calculated and strategic. The individual or corporate agent may be self-serving in the first instance but is capable of acknowledging the need to cooperate, through associations and networks of corporations (the latter possibly spanning boundaries between industries - the Japanese *keiretsu*, for example) or - if needs be - through deference to state authorities and with state agencies. Corporations are not ignorant of contradictions that may occur between the interest of the individual corporations and their interests as a collectivity, and do concede the need for coordination because markets sometimes fail.⁴

In this negotiated-world, self-serving behaviour must have regard to the productivity and efficiency (or 'cost effectiveness', in a general sense) of enterprises; but it has to have regard as well for the means of enhancing negotiating strength and of undermining the negotiating strength of those

4 In passing it may be noted that, while modern diverse conglomerates may themselves seem capable of coordination, what they can in fact achieve must be as arbitrary as the composition of the conglomerates.

corporations with which one does business. The means employed are whatever it takes, although there are limits, of course. The need to retain trust for the purposes of coordination is one of them. The legality of 'whatever it takes' is a constraint but not necessarily an absolute constraint. However, legitimacy may be an issue and that depends on the skill of the ideologues at work and on the acuity, energy and weapons of the people. In the final analysis, that a negotiating party it is undermining is already weak to the point of being destitute is no problem for a corporation *per se* (although it may be for individual managers who have to live with their consciences).

The 'bottom line' may well be profit; but that says little. Is short-term profit the only driver; or can some profit in the short term be invested in strategies which enhance profit or make it more certain over the period of the next decade or so? Someone who understands management as not only the coordination of enterprises but the management of differing demands of the various constituencies of a large modern corporation would stress that the answer has to be a negotiated one.

In a *negotiated* world conflicts are often contained rather than settled. Politico-economic affairs are stabilised by the various parties entering into what are in effect *contracts* with each other. The parties involved in any one issue may include, for example, various corporations whose enterprises have a direct economic involvement, the unions of workers in the enterprises, a local environment group, a local government authority, and a central government authority responsible for some infrastructural project. In the current popular terminology, there is a range of 'stakeholders'. The state is likely to be involved additionally as the broker of the negotiations; and it will conduct the negotiations in accordance with rules the legislature has laid down if it is concerned to appear to act legitimately.⁵ We can describe the contracts as 'politico-economic contracts'. Whether they stabilise politico-economic affairs

5 What has been said of negotiations will strike a chord with those who remember the debates some years ago about structuralism and instrumentalism, the primacy of 'the economic' in the last instance, the contradiction between state support for accumulation and its role in legitimising the capitalist production system. See, for example, Claus Offe (1984).

depends on how well they accommodate for the time being the interests of the most powerful parties.

The growing international integration of the production of large corporations presents difficulties for negotiations over these politico-economic contracts. In the first place, it may be more difficult for weaker parties to bring corporations to the table: the latter may get away with delivering *ultimata* or demands that are declared to be non-negotiable. In the second place, whether the local office of a multinational corporation or the head office has *locus standi* in a conflict may be a moot point. Moreover, the capacity of nation-states to broker negotiations may be eroded as neo-liberal governments zealously destroy inherited state apparatuses.

On the other hand, the international integration of production does not diminish the need for the capacities of nation-states. What is loosely described as 'globalisation' is a process that is principally regulated by negotiations between nation-states, despite what the protagonists for the market would have one believe.

There is, superficially, a high degree of fit between this emphasis on negotiations and a proposition articulated recently by Higgott and Payne (2000) about the relationship between 'globalisation' and the state. Higgott and Payne are concerned with what they represent as the emergence of a 'new political economy' in the tradition of 'comparative political economy' and 'international political economy' (as those fields of study have emerged from the disciplines of politics and sociology). They clearly approve of the view that the state is changing in the course of globalisation and that, in the course of their changing, nation-states together remain critical in the very evolution of 'globalisation'. However, this view of the state in the 'new political economy' is unrelated to social class: seemingly the state is directed by some team whose political history and interests are unexamined and which is thus apparently above social conflict. From the vantage point of a surplus-oriented political economy, this 'new political economy' begs too many questions.

More Specific Propositions

What follows from the general surplus-orientated approach to political economy outlined here, emphasising as it does the strategic and contingent character of economy activity, contracts and negotiations? Set out below is *one set* of propositions which will serve to focus on some implication of the previous discussion.⁶

- Large corporations can achieve significant degrees of monopoly power, or power to determine the terms on which they trade with trading partners.
- Income can be transferred between trading partners through the terms of the trade between them. Profits generated by enterprises in one corporation can be thereby appropriated by another corporation through inter-corporate trade.
- Individual capitalists' efforts to increase the surplus or profit they appropriate (over some time horizon) are at the expense of other capitalists and/or of the total real wage payments to workers, however they run the enterprises they own.
- An individual corporation has two sources of profits, namely the generation of profit by the enterprises it owns and profit that can be appropriated from trading partners (customers and suppliers).
- There is an essential arbitrariness in the outcomes of the exercise of bargaining power in negotiations. Negotiations between corporations with differing bargaining strengths produce an essentially arbitrary distribution of investible surplus product. That is why it is necessary for some coordinating authority to coordinate the outcomes of negotiations dominated by negotiations involving large corporations (having monopoly power, of some degree or other).

⁶ There are many propositions that might suffice to do so, including sets of propositions that demonstrate more palpably the role of gender in the political economy. For example, there are propositions about the design of the workplace and the control of labour; there are propositions about what are held to be the principles of good management and about the business of marketing; and so on.

- Arbitrariness may be understood in relation to opportunities for monopoly rents. Given that it is rarely possible to distinguish rent-free prices (or to know what proportions of profit margins reflect monopoly rents), arbitrariness may be judged better in relation to an input-output map of the economy that distinguishes where bottlenecks in supply chains are likely to occur.
- The initial corporate and individual recipients of investible funds are able to lend within the capital market. However, this may not be able to correct the fundamental arbitrariness of the initial distribution of investible funds. Whether it can do so depends on the diversity of dealers and instruments, the quality of the information in the market place (and this depends largely on whether information comes from outside the corporations themselves) and on the potential lenders' assessments of risks and their preferences as to the time profiles of returns. There is thus considerable room for patterns of investment that are not consistent with the requirements for economic growth.
- Crises can occur within capitalist economies for several reasons. Important among these is the collapse of investment that may come about because of bottlenecks within an economy, that is because rates of investment in linked industries do not conform with the degrees of interdependence indicated by input-output coefficients. A lack of correspondence of rates of investment reflects the possibility that large corporations with substantial degrees of monopoly power can ignore opportunities for the generation of surpluses at the level of enterprise. It also reflects inappropriate price formation, either because of externalities or because prices set by corporations with significant degrees of monopoly power include monopoly rent elements.

Conclusion

The view of the economy sketched above stands in striking contrast to the neoclassical concept of the system as efficiently self-regulating and productive of outcomes that are essentially non-arbitrary. The emphasis of a surplus-orientated political economy, incorporating considerations of

monopoly power and of politico-economic contracts involving both state and non-state institutions, is on balances of bargaining power and human agency in determining the bases of such power, rather than on the equilibration of individuals' choices within an impersonal market.

Such a surplus-orientated approach helps to illuminate the sources of recurrent economic crises. However, it stops short of addressing the source of what is perhaps an even bigger problem for modern industrial society – ecological crisis. We need to understand the links between how capitalist economies work and the natural base of human activities. The impact of economic activities on the degradation of the essential biological processes of renewal in the natural environment (and *vice versa*) is only very poorly recognised in any traditional perspective in political economy. Indeed, it may be that the most fundamental contradiction of all is that between an economic system geared to the production of a surplus and a natural world in which such relentless surplus-generation is unsustainable.

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