Institutional Marxian Political Economy:
A Conceptual Marriage between Marx and Veblen

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Introduction

This paper attempts to rehabilitate a historical and theoretical method of political economy. Geoff Hodgson (2001) in his work, How Economics Forgot History, has emphasized the importance of historical analysis and its conceptual framework. In the history of capitalism, political economy has largely been both a historical and social science: for example, Adam Smith, Karl Marx, Max Weber and Thorstein Veblen studied capitalism as a historical and social entity. Hodgson singles out two reasons why historical theory was abandoned after World War II. Firstly, historical economists “failed to acknowledge fully that statements concerning the (historical) relativity of theory must themselves rest on more enduring and trans historical meta-theoretical principles” (p. 61). Secondly, neo-classical economics won the battle against historical and institutional economics, then “simply redefined economics in terms that would exclude institutionalism and historicism” (p. 207). I agree with Hodgson on the importance of a general theory in a historical and institutional theory. Although Hodgson (2004, pp. 131-4) emphasizes the difference between Marx and Veblen in their general frameworks, I consider a conceptual ‘marriage’ between Marx’s historical and theoretical political economy and Veblen’s institutional and evolutionary economics is possible and most promising as a framework of political economy. Since Marx’s original intention to dedicate Capital to Darwin¹, the two schools have long history to integrate each other. Bernstein attempted to revise Marx’s theory by replacing Marx’s neo-Hegelian dialectics with Darwinism. Veblen had strong interest in Marx’s theory and he was very sympathetic to Bernstein’s attempt. I attempt to build a new framework for the political economy of capitalism, integrating Marxian economics, institutional economics, and Keynesian economics. I start with Veblen and Bernstein’s revision of Marx’s theory, Hilferding and Lenin’s attempts to elaborate historical theory, and then examine Kozo Uno’s three-level economic analysis of capitalism. Finally, I propose a new framework for historical and theoretical political economy.

1. Marxian Political Economy and Veblen’s Evolutionary Economics

(1) Marx’s General Theory of Capitalist Economy

Marx (1976, 78, and 81) developed the theory set out in Capital on the basis of his experience of mid nineteenth-century British capitalism. At that time Britain was the only developed capitalist economy that he could observe. It was neither a “pure” capitalist nor a closed economy. It still relied on pre-capitalist provisioning institutions such as the family and state. And it also relied on pre-capitalist economies as sources of raw materials and as markets for manufactured goods, just as other capitalist economies such as Netherlands had done in previous ages. In other words, the British economy was far from being a perfectly “commoditized” economy. Marx, however, believed that mid nineteenth-century England, with the formation of a three-class society and free market capitalism, would

¹ Gay (1970, p. 87) wrote “Marx originally wanted to dedicate Capital to Darwin.”
become a “pure” capitalist economy by eventually eliminating the pre-capitalist residue and commodifying labour with the creation of a relative surplus population through cyclical crises. Marx was quite successful in abstracting a “pure” capitalist economy from tendencies capital exhibited in his time, which helped Marx to formulate a general theory of capitalist economy. On the other hand, Marx did not distinguish between the laws that operate in any capitalist economy in general, such as the law of value and the law of accumulation of capital, and those which operated only in mid nineteenth-century England, such as the law of immiseration and the law of the falling rate of profit. Inability to distinguish historically specific laws (or tendencies) from the more general laws induced him to believe that all capitalist economies would follow the pattern of British capitalist development. Thus Marx’s historical and theoretical political economy was established with his belief that all capitalist economies eventually converge to the pure capitalism.

Marx did not foresee the historical evolution of the capitalist economy and its international diversification. Quite naturally, therefore, some of his conclusions concerning the historical predictions of the capitalist economy were made obsolete by the changes in capitalism as it evolved into a new stage at the turn of the century. The law of accumulation of capital is a good example of this confusion, and it is the main field of controversy between Marxists and institutional economists. Accumulation of capital is a law which individual capitalists cannot ignore. It enables firms to introduce more productive method and increase market share. If a capitalist firm falls behind of other firms in accumulating capital the firm cannot survive\(^2\). Accumulation of capital in prosperity is necessarily followed by a crisis and then by depression when wages are reduced. This law works in capitalist economy in general. On the other hand, Marx might have observed that wages were reduced to subsistence minimum in the 1840s when there was a rapid technical change in such industries as cotton and railways increasing the organic composition of capital, and primitive accumulation of capital were still going on increasing available source of laborers. It is wrong to formalize this observation as the law of immiseration since it operated only in the mid 19 century in Britain. When primitive accumulation of capital was over and technical changes slowed down toward the end of the 19th century in Britain, the tendency of falling wages was reversed. As the conclusion of his analysis of the law of accumulation of capital with immiseration, Marx further insisted that when the impoverished workers filled the majority of the society, they would eventually establish social revolution. These two conclusions (the law of immiseration and following revolution) attracted criticisms from revisionists such as Bernstein and institutional economists such as Veblen.

\(^2\) Accumulation of capital introduces new varieties of firms and only the fittest survive. In this sense Marx’s theory is compatible with Darwin’s theory of variety and natural selection.
(2) Karl Marx’s Socialist Economics and Revisionism According to Veblen

Veblen\(^3\) (1919) observed that Marx’s theory was transformed to Darwinian evolutionary theory by a group of Marx’s followers (revisionists) in his time. Veblen observed three factors that made this evolution inevitable: changes in economic situation, practical request from socialist movement, and changes in the theoretical postulate.

1) Veblen wrote: “The industrial (economic) situation . . . has also in important respects changed its character from what it was when Marx first formed his view” (ibid. p. 447). Changes in economic situation outdated Marx’s prediction. Then a group of Marx’s followers (revisionists) lost confidence in Marx’s predictions and threw away Marx’s view of capitalism.

2) Practical policies of socialist party and labour union enhanced influence of social democracy at the expense of revolutionary socialism. Veblen wrote: “since Marx’s time his doctrine have come to serve as the platform of a political movement and so have been exposed to the stress of practical party politics dealing with a new and changing situation.” Veblen emphasizes influence of the union movement on the socialist theory: “The union movement grew to be a serious feature of the situation that the socialist found themselves obliged to deal with unions” (ibid, p. 449).

3) Veblen’s most original and important observation on the changes of Marxist methodology is the postulate of knowledge. Veblen argues that Marx’s theory is based on two distinct and incompatible lines of postulates: English Liberal-Utilitarian theory and the Hegelian dialectics (ibid, p. 471). Veblen’s observation and criticism on Marx’s methodology starts with the labour theory of value and theory of surplus value (ibid, p. 419). However, his main interest is Marx’s teleology in his law of accumulation of capital: “which must lead to the collapse of the system and of the manner in which the collapse will come” (ibid, p. 424). Teleology is defined in *Britannica* as “explanation by reference to some purpose or end; also described as final causality, in contrast with explanation by efficient causes only.” Veblen identifies Marx’s materialist concept of history with Hegel’s dialectics, and argues that it shares teleology with Hegel’s dialectics in three respects: three-phase dialectics, final causality, and assumption of final goals.

Firstly, He points out that Marx’s law of accumulation assumes Hegelian three-phase dialectics that is thesis, antithesis, and synthesis. Explaining Marx’s doctrine of increasing misery (ibid, p. 427) and following revolution (ibid, pp. 427-8), Veblen points out that immiserization is required before the final solution “as the last and most dreadful phase of antithesis” (Veblen op. cit. 430). Veblen argues that immiseration is not requirement for the revolution, and supports his argument by the fact that “It is now not an unusual thing for orthodox Marxists to hold that the improvement of the conditions of the working class is a necessary condition to the advance of the socialist cause,” (ibid, p. 450).

\(^3\) Originally published in 1906 and 1907 *in Quarterly Journal of Economics*. 
Secondly, in Marx’s materialist conception of history, final causation is class struggle “which is conceived to cease in the classless economic structure of the socialistic final term” (ibid, p. 417). Veblen argues that economic theory must be constructed by efficient causes only without relying on final causes.

Thirdly, Marx’s law of accumulation of capital predicts a socialist society as the final goal. Veblen criticizes that “In Darwinism there is no such final or perfect term, and no definitive equilibrium” (ibid, p. 417).

It must be noted that Veblen’s criticism of materialist conception of history is related only to its teleological aspects. We will construct a teleology free materialist conception of history in this study.

Fourthly, the role of conscious class struggle is emphasized in Marx’s theory (ibid, p. 426-7), and he predicts that the “proletariat” will logically calculate and establish the socialist revolution (ibid, p.441). Veblen criticizes that Marx’s conclusion depends on both teleology and the hedonistic calculus of English Liberal-Utilitarian theory. Firstly, Veblen criticizes Marx’s teleology that “It is quite impossible on Darwinian ground to foretell whether the “proletariat” will go on to establish the socialist revolution or turn aside again”, (ibid, 441). Secondly, he criticizes Marx’s hedonistic calculus that “It is a question of habit and native propensity and of the range of stimuli to which the proletariat are exposed and to be exposed, and what may be the outcome is not a matter of logical consistency, but of response to stimulus” (ibid, 442).

In conclusion Veblen insists that Marx’s Hegelian final causality must be replaced by Darwinian efficient cause, and that Marx’s hedonistic calculus must be replaced by Darwin’s habit of thought.

Veblen’s criticism of Marx’s methodology is limited to the presupposition of final goal and final causality (in other words Hegelian teleology) and English hedonistic calculus. From this point of view Veblen appreciated revisionists’ attempt to make Marx’s theory to evolutionary theory explaining only by efficient cause. He does not recognize the importance of trans-historical general theory of capitalist economy, and shares the same weakness with Bernstein.

In the beginning of 20th century, attempts to revise and reinforce Marx’s theory of socialism were made among Marx’s followers. We examine these attempts made by Bernstein who championed to develop evolutionary socialist theory, Hilferding who studied changes of economic situations most carefully, and Lenin who criticized Burstein’s revision of Marxist theory. We will examine their theories from the three respects: changes in economic situation, practical political requirement, and theoretical postulate.

(3) Bernstein’s Evolutionary Socialism

Bernstein is one of most important theorists who developed theory of modern European communism based on Social Democracy. Bernstein (1911) explains his aim in Evolutionary Socialism as follows: “I am obliged, if I am to maintain my opinions, to show them the points
where the Marx-Engels theory appears to me especially mistaken or to be self-contradictory” (ibid, p. xvii).

1) Changes in economic situations.
As capitalism evolved into a new stage at the turn of the century, some of Marx’s conclusions concerning the capitalist economy were made obsolete by the changes in capitalism. Bernstein argued that, although Marx had predicted the impoverishment of workers, productivity growth, labour union movement, and social policy improved their living standards (ibid, p. 213); that, although Marx had predicted that large firms would absorb medium and small firms in manufacturing, the latter nevertheless survived⁴; and that, although Marx predicted more severe and cyclical crises, the development of the credit system and the formation of oligopoly reduced the acuteness of such cycles⁵. These facts destroyed Bernstein’s confidence in Marx’s predictions.

2) Practical policy requirements.
Bernstein criticized Marx’s argument of the absolute immiserization of workers as a precondition to establish socialism: “The fault lies in the doctrine which assumes that progress depends on the deterioration of social condition” (ibid, p. 213). He gave preference to lawful and evolutionary means over violent revolution to achieve social democracy (ibid, p.145), and expected that legal labour movement would establish socialism: “Feudalism, with its unbending organizations and corporations, had to be destroyed nearly everywhere by violence. The liberal organizations of modern society are distinguished from those exactly because they are flexible, and capable of change and development. They do need to be destroyed, but only to be further developed. For that we need organizations and energetic action, but not necessarily a revolutionary dictatorship” (ibid, 164).

We will see that more careful analysis of industrial relations and labour union movement by Hilferding and Lenin show that Bernstein’s analyses are rather one sided and his prediction too optimistic.

3) Changes in theoretical postulates.
Bernstein gave up Marx’s theory of capitalist economy by the fact that Marx’s historical predictions were out-dated. He further argued the postulates of theory (Hegelian dialectics) were wrong. Bernstein wrote: “The great things achieved by Marx and Engels they achieved not by the help of the Hegelian dialectics, but in spite of it” (quoted in Veblen ibid, p. 439). Evolutionary in the title of his book means that he gave preference to Darwin’s theory of evolution over Marx’s neo-Hegelian dialectics as the postulate of knowledge.

⁴“The increase of social wealth is not accompanied by a diminishing number of capitalists of all degrees,” (Bernstein, ibid, p. 51)
⁵“Cartels can work as a modifying influence on the nature and frequency of crisis.” (Bernstein, ibid, p. 90)
It is a serious methodological problem that Bernstein did not distinguish historical analysis and trans-historical meta-theory. Bernstein’s historical theory lost meta-theoretical foundations.

(4) Hilferding’s Finance Capital

Hilferding’s *Finance Capital* (1981) is one of the most substantial studies of the transformation of capitalist economy in the beginning of the 20th century. Among many interesting topics covered, stage theories of social structure of accumulation, classes, and crisis are most interesting and relevant to our inquiries.

1) Economic situation (The stage theory of social structure of accumulation).

Turning point of early twenty century saw Financialization and globalization as we are experiencing in the turning point of the 21 century. Financialization took different forms in the three leading capitalist countries, Britain, Germany and the USA. Hilferding discuss mainly German financialization which is characterized by the central role of big banks. The German banks “were the sources of capital credit and not only of circulation credit” for German industrial corporations (ibid, pp. 306-7). The banks held a larger part of total available loan capital in the society as their own capital, and invested it in industry on its own account (ibid, p. 175). If the yield on the newly formed joint stock company is higher than the current rate of interest on investments, Banks can obtain substantial ‘promoter’s profit’ (ibid, p. 141) by the difference between high share prices and actual investment, which further increases Bank’s own capital. Banks has become from financial intermediary to co-owner of the industrial enterprise (ibid, p. 177), which Hilferding named finance capital. “An ever-increasing proportion of the capital used in industry is finance capital, capital at the disposition of the banks which is used by the industrialists” (ibid, p. 225). Hilferding’s important methodological achievement is characterizing financialization as a stage of capitalist development. In many countries finance capital was dominant until 1945, and in the process of industrialization it still plays dominant role as is exemplified in East Asia after World War II.

The first globalization (i.e. increase of global flows of commodity, capital, and people) at the turn of the 20th century also took different form in the three leading capitalist countries. Hilferding argues again from the German experience. In the end of the 19th century dynamic industry changed from cotton industry to heavy-industry, which has strong economies of scale. With the help of finance capital concentration of production progressed forming combinations and cartels. In this period protectionist Germany and the USA became the model states of capitalist development (ibid, p. 304), where protective tariff policy changed.

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6 The importance of financialization as a stage of capitalist development was underestimated by Sweezy (1942, pp. 267-9) who pointed out “Hilferding mistakes a transitional phase of capitalist development for a lasting trend”. Once a large corporation is established, it can rely upon reserved profits for further accumulation of capital, and becomes less independent on banks (quoted by Bottomore in Hilferding, ibid, p.6 and p. 373).
from infant industry protection to promoting cartels (ibid, p. 307). Under this environment globalization took following forms. Firstly, in order to increase economies of scale oligopolistic firms used a part of oligopolistic extra profits “to expand its sales abroad by underselling competition” (ibid, p.309). Secondly, oligopolistic firms tried “to overcome the harmful effects of a protective tariff by means of the export of capital” (ibid, p.310). Thirdly, “capital attempts to solve the labour problem by importing foreign labour” (ibid, p. 320). Thus global flows of commodity, capital, and workers increased significantly.

2) Practical Policy requirement.

Hilferding examines practical policy requirement not only from the labour side but also from capital side. From capital side the most important new policy is imperialism. Globalization under protectionist systems eventually took the form of imperialism: “Expansion is the common interest of all capital, and in the era of protectionism it is only possible in the form of imperialist expansion” (ibid, p.343). He pointed out two causes of imperialism: market for manufacture products and sources of raw material. Imperialism requires the power of state which changed character of both state and the capitalist class: “The demand for an expansionist policy revolutionizes the whole world view of the bourgeoisie, which ceases to be peace-loving and humanitarian” (ibid, p.335). Hilferding’s analysis of imperialism shows that Bernstein’s prediction of peaceful transition toward social democracy was too optimistic.

Stage theory of classes in the stage of imperialism is Hilferding’s another important contribution when demise of class consciousness changed labour movement. Marx observed formation of three classes which were clearly distinguished by sources of income as the typical capitalist class system. However, in the stage of imperialism, class distinction became unclear again. Firstly, distinction between capitalists and landlords become unclear, since “The desire of urban capitalists to enhance their social standing has led them to acquire landed property,” (ibid, p.342). Secondly, income of old middle classes (petty bourgeoisies) have been equalised to that of employees by oligopolistic price mechanism, since they have to buy “their raw material at prices determined by the cartels of large-scale industry” (ibid, p.218). Thirdly, on the other hand, new middle class are created as

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7 “The larger and more populous the economic territory, the larger the industrial plant can be, the lower the costs of production, and the greater the degree of specialization within the plant, which also reduces costs of production.” (Hilferding, ibid, p.311) and “the export of capital extends the limits arising from the new market’s capacity to consume” (ibid, pp.317-8).

8 “The rapid expansion of capitalism since 1895 has brought about a price increase especially in metals and cotton, and has thereby intensified the drive to open up new sources of the vital raw material” (Hilferding, ibid, p.318).

9 “When capital first encounter conditions which contradict its need for valorisation, and could only be overcome much too slowly and gradually by purely economic means, it has recourse to the power of the state and uses it for forcible expropriation in order to create the required free wage proletariat” (Hilferding, ibid, p.319).
managers in commerce and industry: “Every one hopes to rise above the others and to work his way out of his semi-proletarian condition to the heights of capitalist income” (ibid, p.347). As a result class antagonisms and class struggle have disappeared (ibid, p.336).

Hilferding’s stage theory of classes made it clear that neither Marx’s prediction of socialist revolution by impoverished and unified workers would be possible, nor Bernstein’s prediction of social democracy by the lawful socialist movement would be possible.

3) Theoretical postulate (The stage theory of crisis)

Facing a new variety of crisis, Hilferding distinguished inherent nature of crisis and changing pattern of crisis in the stage of Imperialism\(^\text{10}\). It is Hilferding’s most important contribution to develop a stage theory distinguished from the general theory of capitalist economy. Marx’s law of accumulation of capital is restructured in two analytical levels as the theory of business cycle in “pure capitalism” and that in the stage of imperialism. Historically specific law of accumulation of capital is restructured as the stage theory of business cycle.

Firstly, as a stage theory of business cycle he introduces exogenous causes of business cycle.

Every industrial cycle begins with an expansion of production, the causes of which vary according to particular historical circumstances but which in general can be attributed to the opening of new markets, the establishment of new branches of production, the introduction of new technology, and the expansion of needs resulting from population growth. (ibid, p.258)

Secondly, he introduces the concept of the leading or most dynamic industry.

There is a general tendency for prices to rise more steeply where the organic composition of capital is most highly developed. Since capital flows into those sections which have the highest profit, the new capital which is being accumulated will be largely diverted into them, (ibid, p. 263)

He constructed a theory of business cycle basing on the accumulation pattern of the dynamic industry.

This explains why crises are most severe in those branches of production which are technologically most advanced: for example in the textile (cotton) industry at an earlier time, and subsequently in heavy industry. (ibid, p. 263)

The cotton industry was the dynamic industry in the mid-19th century Brittan, and accumulation of capital in the cotton industry dominated business cycle. A stage theory of business cycle in liberalism is formulated basing on the accumulation pattern of cotton industry. The heavy industry was the dynamic industry in the early 20th century in Germany (also in the USA), and the business cycle was dominated by the accumulation of capital in the heavy industry. Accumulation pattern of heavy industry become the base of a stage

\(^{10}\) “They (cartels) are supposed not only modify the effects of crises, but to be able to eliminate them altogether, since they regulate production and can always adjust supply to demand. This view ignores completely the inherent nature of crisis” (Hilferding, ibid, 295).
theory of business cycle in imperialism. The stage theory of business cycle is further elaborated in Yokokawa (2012).

Hilferding distinguished historical theory and trans-historical meta-theory, and concentrated in elaborating historical theory. His stage theory is based on inductive method rather than deductive method of neo-Hegelian dialectics. His stage theories of social structure of accumulation, classes, and crisis explained changes that took place at the turn of the century only by efficient causes without relying on final causes. His stage theory is more Darwinian than Bernstein’s analysis that optimistically and teleological predicted establishment of Social Democracy.

(5) Lenin’s Imperialism

Lenin’s Imperialism, the Highest Stage of Capitalism (1916) first defined imperialism as the highest stage of development of capitalism\(^{11}\) (ibid, p. 59). He defended Marx’s theory and rehabilitated Marx’s materialist conception of history.

1) Economic situations.

There are three distinctive features in Lenin’s characterization of imperialism. Firstly, Lenin saw capitalism as a world system: “the main purpose of the book was . . . a composite picture of the world capitalist system in its international relationships at the beginning of the twentieth century” (ibid, p. 9). Secondly, Lenin is the first to define Imperialism as the highest stage of the development of the capitalist world system. Thirdly, Lenin distinguishes three national types of imperialism within the capitalist world system, German, American, and British types. Britain had been the hegemonic state in the capitalist world system, while German and American had been catching up states and grew up as the challengers to the hegemonic state.

Lenin argued that uneven development among the imperialist states is the cause of rivalry in Imperialism, and theorized rivalry between imperialist states by the theory of uneven development. Lenin considered uneven development on the levels of firms, industries, and states (ibid, p.62). On industry level, Hilferding had elaborated concept of dynamic industry and its shift from cotton industry to Heavy industry in the end of 19th century. The change of dynamic industry increased dynamism of capitalism and the rate of growth also increased. As a world system, capitalism grew far more rapidly than before. Lenin further elaborated Hilferding’s concept on the level of states. In the early 20th century, when dynamic industry shifted from cotton industry to heavy industry, centers of production

\(^{11}\) Lenin defines imperialism by its five basic features: “(1) the concentration of production and capital has developed to such a high stage that it has created monopolies which play a decisive role in economic life; (2) the merging of bank capital with industrial capital, and the creation, on the basis of this “finance capital”, of a financial oligarchy; (3) the export of capital as distinguished from the export of commodities acquires exceptional importance; (4) the formation of international monopolist capitalist associations which share the world among themselves, and (5) the territorial division of the whole world among the biggest capitalist powers is completed” (ibid, p. 89)
also shifted from Britain to Germany and the USA. Growth is becoming more and more uneven among states: “its unevenness also manifests itself, in particular, in the decay of the states which are richest in capital (Britain)” (ibid, p.125). Lenin’s theory of uneven development is one of the most important theoretical achievements to clarify historical evolution of capitalist world systems.

It must be noted here that Lenin’s theory of uneven development was formulated within the framework of the neo-Hegelian dialectics. Lenin considers it as the final antitheses in the three-phase dialectics (ibid, p. 125). Lenin’s theory of uneven development is elaborated as a theory of non-linear development path without relying upon dialectics and teleology in Yokokawa (2013).

2) Policy of imperialism.

In order to characterize Lenin’s analysis of imperialism, it is useful to compare it with Kautsky’s “ultra-imperialism”. Kautsky did not see the significance of changes in dynamic industry and uneven development in the stage of imperialism, and simply defined imperialism as a policy of industrial capital to colonize agrarian territories (quoted in Lenin, ibid, p.91). and then predicted “ultra-imperialism” that is “the joint exploitation of the world by internationally united finance capital” (ibid, p. 94). Lenin replied that Kautsky’s characterization was incomplete, since the characteristic feature of imperialism is not industrial but finance capital, and it strives to annex not only agrarian territories but also most highly industrialized regions which increased rivalry between imperialist states. He criticized Kautsky’s ultra-imperialism: “an essential feature of imperialism is the rivalry between several great powers in the striving for hegemony” (ibid, p. 91).

3) Theoretical postulates.

Lenin’s stage theory rehabilitated Marx’s materialist conception of history and dialectics. Marx’s doctrine of increasing misery as the final antithesis was disproved by the facts and criticized theoretically by Bernstein, Kautsky and Veblen. It was nearly final blow for the Marx’s materialist conception of history. Lenin argued that imperialism is the highest state of the capitalism which increased antagonism between imperialist states, and that imperialism is the final antithesis of human development which must be resolved by revolution to reach the final human goal of socialism. Thus Lenin in effect replaced Marx’s doctrine of increasing misery as the final antithesis by the concept of the imperialism as the highest stage of capitalism, and rehabilitated Marx’s materialist conception of history.

Hilferding and Lenin attempted to save Marx’s theory by dividing historical analysis and the conceptual framework. They developed a theory of imperialism by examining the specific mechanisms of capital accumulation at this particular stage of capitalist

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12 Lenin emphasizes antagonistic character of imperialism criticizing German Revisionist: “compare... the violent struggles among the imperialist states—with Kautsky’s silly little fable about “peaceful” ultra-imperialism” (ibid, p. 63)
development. For analysis of these new phenomena both Lenin and Hilferding used the inductive rather than deductive method.

Two questions remain to be solved. Firstly, as their guideline to analyze historical development they chose the more general notion of the materialist conception of history, rather than the detailed economic theory set out in Capital. Thus the general theory of capitalist economy lost place in historical analysis of capitalist economy. Secondly, Lenin rehabilitated three-phase dialectics which still suffers from Hegelian teleology when he rehabilitated materialist conception of history.

2. Uno’s Three-Level Analysis of the Capitalist Economy

When Marx’s theory was applied to analyze the industrialization of Japan after the Meiji restoration of 1867, it proved very difficult to determine whether the Japanese economy was capitalist or pre-capitalist because it displayed numerous differences from the “pure” capitalist economy described in Capital even in the 1930s. In this pre-World War II debate to characterize Japanese capitalism among Marxist economists, Uno addressed two main problems. Firstly, a theory of imperialism was indispensable for account to be taken of the new environment of industrialization. Secondly, the materialist conception of history was not a theory in itself but a guideline on which theoretical explanations, such as the economic theory of Capital, could be built. The theory of imperialism was a more concrete theory of capitalism which had to be erected on the solid bases of an economic theory of Capital. Uno then proposed a three-level economic analysis of the capitalist economy in order to reconsolidate theory and history. The first level comprised “the general theory of capitalist economy”, which was to be derived from Marx’s Capital and developed further where necessary. The next level consisted in a “stage theory of capitalist development” which involved concrete examination of the historical development of the dynamic industries, together with their main policies. At the third level, empirical analysis was conducted of individual capitalist economies in their concrete historical settings.

(1) The general theory of capitalist economy

Uno elaborated his general theory of capitalist economy by removing historically specific laws in Capital which operated only in mid nineteenth-century England. He argued that abstraction from particular historical developments gave logical clarity to the general theory. It must be noted here, firstly, that historical experience in the imperialism made it possible for Uno to distinguish historical specific laws and more general law. Secondly, pioneering theoretical works in this period helped him to theories more general theory. For example, we can find strong influences of Hilferding in the theory of credit, and that of Spiethoff (1925) in the theory of crisis. The most important economic law that must be clarified in the general theory is the law of value which he described as the self-regulating character of social

13 If we include the materialist conception of history as the postulate, Uno’s methodology is four level analysis of capitalism.
reproduction in "pure" capitalism, as if social reproduction repeated itself eternally in this specific form. Uno paid special attention to the reproduction of labour power as a commodity. Market mechanism or the competition between capitals for the highest rate of profits regulates supply and demand of capitalist commodities. However, market mechanism cannot regulate demand and supply of labour power since even in the capitalist mode of production labour power is produced in the individual consumption process of workers. Uno considered this to be the fundamental contradiction of the capitalist economy, since the driving force of the capitalist economy, namely the valorization of capital, depends on labour power, but capital cannot produce it in its production process and has to rely on the limited supply from outside. Uno described the business cycle of the capitalist economy as an unfolding of the fundamental contradiction of the capitalist economy, or as a capitalist method to reproduce labour power as a commodity. Uno argued that cyclical crisis was the specific mechanism with which a capitalist economy created labour power in the form of a relative surplus population. The market mechanism and the business cycle were therefore the two components of the law of value. Thus Marx’s law of accumulation of capital was incorporated in the law of value.

(2) Stage Theory

Uno (1954), following Hilferding and Lenin, built a stage theory of imperialism on the basis of historical events between the end of the nineteenth century and World War I. In that period, large-scale production was established in heavy industries in the form of the limited liability joint stock company. The dominant type of capital at this stage was finance capital. Three types of imperialism were inducted from the capital accumulation structures of the three leading economies in the late nineteenth century: Britain, the USA and Germany. The accumulation structure of imperialism relied on capital export and colonization to solve the problem of domestic under-consumption. Uno (1954) accordingly argued that the mode of accumulation of finance capital compelled governments to adopt imperialist policies.

According to Uno the stage theory must be based on the general theory of capitalist economy. Stage theory explains more concrete mechanism of accumulation of capital under historical specific institutions and organization. With stronger influence of non-market institutions such as labour union, state, international institutions, self-regulating character of social reproduction in pure capitalism is weakened, which now takes the form of tendency rather than law. The law of value in the general theory provides bench marks to analyze changes in the market mechanism, accumulation of capital, and business cycle in the stage theory.

Uno inherited Materialist conception of history from Marx and Lenin, and further elaborated Lenin’s stage theory with Hegelian three phase dialectics. Uno (1954) distinguished three stages of development in capitalism: mercantilism, liberalism and imperialism, which corresponded to the policies that governments were compelled to adopt by the dominant type of capital at the stages, namely merchant, industrial and finance
capital respectively. Uno saw these stages as corresponding respectively to the formation, establishment and deterioration of capitalism. Capitalism purges itself of the pre-capitalist residue and reaches its purest form in liberalism, moving away from it in imperialism because of oligopoly, labour unionization, government intervention, and so on. Imperialism was considered to be a deterioration of capitalism, because capitalism could no longer organize and coordinate social production with capitalist institutions such as markets and capitalist firms alone. It is not Marx’s immiseration of workers in the pure capitalism but Lenin’s imperialism as the highest stage of capitalist development that is identified as the Hegelian final antithesis of human history. Uno viewed capitalism after the Russian Revolution of 1917 as a transitional period towards socialism which did not form a new developmental stage of capitalism.

A teleology consisting of Uno’s prophecy of socialism and Hegelian three-phase dialectics affected stage theory. We will come back to the question whether the period after World War I is a new stage of capitalist development.

(3) Empirical Analysis

In Uno’s view, the puzzle of Japanese industrialization could be clarified by means of stage theory as the theoretical framework for empirical analysis. Firstly, it was not necessary fully to dismantle a rural community to create labour power as a commodity, since imported advanced machinery reduced the demand for manual labour, which would be supplied by a surplus rural population. Secondly, it was not necessary fully to dismantle pre-capitalist firms and small firms, since oligopolistic capitalist firms could exploit pre-capitalist and small firms through an oligopolistic market mechanism. Thirdly, although capital export was premature, it was necessary to export capital in order to secure foreign markets for products and as sources of raw materials in the era of imperialism. Thus empirical analyses helped by a stage theory made clear that industrialization could take different developmental paths according to the stage of development of capitalist world system reached.

The stage theory of imperialism helped to explain industrialization of Japan, just same as the stage theory of liberalism might have helped to explain industrialization of Germany and the USA. We will come back to the question whether the stage theory of imperialism help to explain industrialization of Asian NIEs, ASEAN 4 and China after World War II.

Uno’s three-level economic analysis has solved Lenin’s two pending issues of historical political economy: a general theory functions as the foundation of historical analysis, and stage theory of capitalist world system functions as the foundation for empirical analysis. On the other hand, we have to further examine whether his stage theory have rehabilitated teleology based on Hegelian three-phase dialectics.
3. Relations between the General Theory and the Stage Theory
Reconsidered: Yamaguchi-Obata controversy

In the introduction to *Capitalism in Evolution* (Hodgson, Itoh, and Yokokawa eds. 2001), Hodgson raised an important challenge against Uno’s general theory, arguing that no society can exist without impurity, so that impurity must be included, not only at the stage theory and empirical analysis, but also in the most abstract level of theory, namely in the general theory of capitalism. He then developed the concept of “layered provisioning institutions” (Hodgson, 2001). Capitalist economy is constructed by four layered provisioning institutions, which has been historically developed. The first and bottom layer is the family unit which emerged during prehistory and eventually became the founding unit of all civilized societies. The second layer is the state which provided “the legal framework for the growth of contracts, trade, markets and firms” (ibid, p.339). The third layer is the markets on which the fourth layer, namely capitalist firms depend (ibid, p. 339). Hodgson argues that family structures and the state exist within capitalism as impurities, or as sub-systems, in parallel with the prominent or dominant provisioning institutions such as capitalist firms and markets as the main system. According to Hodgson the law of value or self-regulating character of capitalist economy does not work in pure capitalism, since capitalism cannot exist without impurities such as family system and the state. Yokokawa (2007) raised the following question in the 30th memorial conference of Kozo Uno: If the general theory abstracts the complementary institutions such as family and state, how it can show the self-regulating character of capitalist economy which requires those complementary institutions. Following the conference discussion on the relation between stage theory and basic theory re-started among three leading Uno theorists, Yamaguchi, Obata, and Yokokawa.

Yamaguchi (1992) proposed a “typology of capitalist economies” as an intermediate theory between the general theory and empirical analysis. His general theory is a closed system where homo economics play according to rules of market economy. The model of pure capitalism is created by historical tendencies in the mid-19th century England removing feudal and mercantilism residue and by model builder’s conscious removal of impurities in the process of model building. Impurities include “state, legal system, customs, ethics, religion, and communities”, which are removed and stored in “black boxes” in the general theory. In the intermediate theory, the black boxes are opened and combination of impurities forms different types of capitalist economies. Before the controversy, Yamaguchi’s pure capitalism had been a kind of stationary state where once the starting conditions are given the model moves in the same orbit forever. However, Yamaguchi (2008) accepted Hodgson-Yokokawa’s criticism, i.e. self-regulating character of capitalist economy requires complementary institutions, and argued that the pure capitalism is characterised by instability and uncertainty of market economy.

Obata (1999) argued that a general theory is an open theory, since it depends on such institutions as monetary system and commodification of labour which cannot be achieved by market mechanism alone and require extra-market institutions such as state and family.
Self-regulating character of the pure capitalism (or the law of value) is only achieved by hidden prerequisites given by those extra-market institutions.

Obata (2008) argues that there are not only one set of prerequisite institutions but several sets that enable autonomy of the economic system. Uno chose one set of institutions and built the general theory. Therefore, if Marx’s theory is a historical conversion theory where all types of capitalist economies are to converge on British type, Uno’s theory is a logical conversion theory where all sets of prerequisite institutions are to converge on the set in pure capitalism. Obata claims that both Marx and Uno’s general theories are arbitrary. Obata builds his general theory with openings (or windows) which accommodate several sets of prerequisite institutions. In his formation there is no unique “pure capitalism”. I agree with Obata’s answer to Hodgson-Yokokawa question. It may be most promising direction to restructure the general theory of political economy.

Obata further attempts to theorise the transformation from a stage with a set of institutions to another stage with another set of institutions. He argues that in this way the integration of the general theory and the stage theory is recapitulated. It may be possible to theorise evolution of a capitalist world system from one stage to another in the same capitalist world system. However it may not be possible to theorise transformation from a capitalist world system to another world system. We will examine it further in the next section.

4. Intermediate Theory

Uno’s stage theory is still affected by a teleology consisting of his prophecy of socialism and Hegelian three-phase dialectics. Although Uno considered the end of imperialism to be the end of capitalism itself, capitalism nevertheless revived again after World War II in a new form. Between the mid-1950s and the 1960s it enjoyed its highest and most continuous growth in its 200-year history. Uno’s prophecy has not come true, just as Marx’s did not. Explanation of this revival requires a new stage theory. However, Uno’s followers could not envisage a fourth stage of development until recently\(^\text{14}\). The majority of Japanese Marxians believed, until the collapse of the Soviet Union in 1991, that the post-World War I period marked a transition from capitalism to socialism. They maintained that, since the stage had been well studied by the theory of imperialism, there was no need for a new stage theory. According to this thesis, the dominant type of capital – finance capital – had not changed since the early twentieth century through the post-golden age period. Government

\(^{14}\) Robert Albritton (1991) developed a new stage theory to cover development after World War I. He called the fourth stage the ‘stage of consumerism’, which has covered the period from the end of World War I to the present, of which “the classical years of the stage of consumerism are roughly from 1950-1970” (p.225). I found two problems with his theory. Although there are significant differences in the institutions and the mechanisms of capital accumulation before, during, and after the classical period of consumerism, He does not make them clear. Although the hegemon of the capitalist world system changed from Britain to the USA after World War I, Albritton does not pay attention to the change.
intervention to keep the economy viable indeed increased, suggesting that capitalism was increasingly less able to sustain itself. If we consider these aspects alone, we may assume that the foundations of post-World War II capitalism were established in the period of imperialism.

However, if we examine its historically specific mode of capital accumulation, we find that it differed substantially from that of the imperialist period. It successfully reversed the pattern of capital accumulation from dependence on capital export and foreign demand to that on domestic investment and demand, and established the mutually reinforcing mechanism between productivity growth and domestic economic growth – what the Regulationist School calls a ‘Fordist regime’. If post-World War II is identified with imperialism, it is difficult to analyze the post-war development of capitalism. Uno’s teleology in the stage theory hampered the development of understanding of the success and the eventual fall of the post-war capital accumulation mechanism.

Noguchi and I proposed a new interpretation of Uno’s stage theory in our co-authored introduction to *Marx Strikes Back* (1996). We accepted Uno’s three level economic analyses as the most promising framework of historical economic theory. However we chose new names for the each level of the theory to make the difference clear: the basic theory of capitalism, the intermediate theory, and empirical analysis.

Yokokawa (2013) have developed the intermediate theory of institutional Marxian political economy which is based on the concept of a dynamic theory of comparative advantage and the capitalist world system. In dynamic industries, value-added per unit of labour (VAL) increases with the increase in productivity and then eventually decreases, since the volume of product increases with productivity growth, but value-added per product will eventually decrease with diffusion of technology and the falling relative price of output. Dynamic comparative advantage depends on the difference between VAL and wages. Historically, real wages tend to increase in proportion to average productivity growth. Dynamic comparative advantage does not last forever, because of the eventual decrease of VAL and increases in wages. Countries have to make their industrial structures more sophisticated, and move to new dynamic industries to improve their international status.

During the evolutionary process of capitalism, numerous varieties of capitalist economies have appeared. While most of them have failed to establish a new world system, the British variety in the nineteenth century and the US variety in the twentieth century have been able to establish respective capitalist world systems with complementary institutions. Each capitalist world system had its stages of development, and, most importantly, its stages of establishment (Table 1). Each stage has dynamic industries, agriculture and wool in mercantilism, cotton and railways in liberalism, heavy and chemical in imperialism, machinery in interregnum, machinery in welfare state, IT in neo-liberalism.
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<th>Table 1. Periodization of capitalist world systems</th>
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Evolution of capitalist world systems may be summarised as follows. The capitalist world system was first established when the British variety of capitalism created complementary institutions, including cotton and railway industries as the dynamic industries in the period of liberalism. I call it “market capitalism” because it was characterized by the coordination of the economy by the market such as free trade and the gold standard. Dynamic comparative advantages of cotton and railway industries were fully developed in this capital accumulation regime with foreign demand as the engine of demand growth. It created the first golden age of capitalism. Cyclical crises reinforced the self-regulating nature of capitalist economy by solving conflicts between workers and capital over income distribution.

After the structural crisis of the capital accumulation regime of liberalism in the late 19th century, dynamic industries shifted to heavy and chemical industries and the centre of economic growth shifted from the UK to the USA and Germany due to uneven development. A new capital accumulation regime, imperialism, was created with two challengers and one old hegemon. The dynamic advantage of heavy and chemical industries was not fully developed under imperialism due to demand constraints. Market capitalism finally collapsed under the systemic crisis of the great depression in the 1930s, and was replaced by “bureaucratic capitalism” after World War II.

The second capitalist world system was established when the USA created complementary institutions, including the welfare state with mass production and mass consumption system, with machinery as the dynamic industry. A dynamic comparative advantage of machinery industries was fully developed in this capital accumulation regime, which successfully replaced foreign demand by domestic demand, and which involved wages as the engine of demand growth. This created the second golden age of capitalism. I call it “bureaucratic capitalism” because it was characterized by the coordination of economies by well-structured bureaucratic systems of oligopolistic corporations, big governments and Bretton Woods international institutions. Mild business cycles reinforced the self-regulating character of capitalist economy by solving conflicts between workers and capital over income distribution.

After the structural crisis of capital accumulation regime in the 1970s, a new capital accumulation regime, neo-liberalism, was created which destructed the link between wages and productivity growth. The dynamic advantage of IT has not fully developed in the neo-liberal accumulation regime due to demand constraints.
Conclusion

The new methodology of institutional Marxian political economy differs from Uno’s three-level economic analysis in the following three respects.

(1) We emphasize the importance of building a new intermediate theory which covers the development of capitalism after World War I. We cannot presuppose the end of imperialism to be the end of capitalism itself as Uno predicted. Intermediate theories must be free from teleology.

(2) While Uno’s stage theory provides only a historical analysis of stages of capitalist development, intermediate theory is both a historical and theoretical analysis of a particular type of capitalist world system. I argue that the self-regulating character of capital accumulation (the law of value) operated in the established period of bureaucratic capitalism as well as in the established period of market capitalism. Basic theories of market capitalism and of bureaucratic capitalism explain more concrete economic laws in these capitalist world systems than the basic theory of capitalism, and they give reference points for analysing historical developments of each capitalist world system. Historical analyses of intermediate theory provide analyses of the stages of development of these respective capitalist world systems.

(3) In multilevel analyses, analysis at a lower level of abstraction must be guided by more abstract analysis, while more abstract analyses must be reinforced by factual findings in less abstract analyses. In my opinion, not only factual findings by intermediate theory but also theoretical findings in intermediate theory must be reflected in the basic theory of capitalism. The basic theory of capitalism is formulated with windows that accommodate plural sets of complementary institutions as is discussed by Obata. In contrast to Uno’s general theory, which is a complete and closed theory based on his model of pure capitalism, and has no space to accommodate theoretical findings in non-pure capitalism, the basic theory of capitalism can accommodate theoretical findings with different sets of complementary institutions. For example, Marx (1976 and 1981) criticised Say’s law in his theory of money and in his theory of crisis. But his theory was not as clearly formulated as Keynes’ theory of effective demand (Keynes, 1936), which can be usefully introduced into the basic theory of capitalism. Similarly, Marx (1981) drew a distinction between the accumulation of money capital and real capital in his theory of crisis, but it was not clearly formulated. Introducing Minsky’s financial instability hypothesis into the basic theory of capitalism helps clarify the monetary aspect of capitalist crises (Minsky, 1982).

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