

Growth and Development in the Global Political Economy

Social structures of accumulation
and modes of regulation

Phillip Anthony O'Hara

Routledge Frontiers of Political Economy

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Growth and Development in the Global Political Economy

Recent institutional changes have seen the increasing dominance of globalization and neoliberalism in the world economy. As markets have been deregulated, privatization and unproductive government spending have been promoted. Yet the greater volatility of capitals, the emergence of many financial crises, a decline in trust, and environmental problems have cast doubt on the effectiveness of neoliberal globalization.

This book studies the impact of neoliberal globalization on growth and development in the world economy. It scrutinizes whether new social structures of accumulation or modes of regulation have emerged to promote long-term socioeconomic performance in the global economy during the early years of the twenty-first century. Special reference is given to the specific performance of neoliberal governance; transnational corporations; global institutions of money, trade, and production; international relations of war and terrorism; financial institutions; and the family-community environment.

It is a comprehensive analysis of the degree to which institutional development has managed to promote socioeconomic performance in the global economy. It also presents a thorough policy program of action for long wave upswing in the world economy. It will be especially useful for those scholars and students concerned with issues of governance, global political economy, institutions, and macroeconomics.

Phillip Anthony O'Hara is Professor of Global Political Economy and Governance and Director of the Global Political Economy Research Unit, at Curtin University, Perth, Australia. He won the European Association for Evolutionary Political Economy "2002 Gunnar Myrdal Prize" for *Marx, Veblen and Contemporary Institutional Political Economy* (Elgar, 2000); is the editor of *Global Political Economy and the Wealth of Nations* (Routledge, 2004) as well as the *Encyclopedia of Political Economy* (Routledge, 2001, paper edition). He is the author of over 60 articles in scholarly journals and edited books, such as the *Review of International Political Economy*, *Review of Radical Political Economics*, *Journal of Economic Issues*, *Review of Social Economy*, and *European Journal of the History of Economic Thought*.

Reviews of *Growth and Development in the Global Political Economy*

“I am delighted to endorse Phil O’Hara’s new volume. Many years ago I examined his Honours dissertation at Murdoch University on Marx’s theories of crisis. It was an outstanding piece of scholarship and I recognised then that a star had been born. His many contributions since show how right I was! *Growth and Development in the Global Political Economy* is the jewel in his crown. It contains a superb intertwining of historical, political, economic and institutional analysis of modern global capitalism, its successes and failures. It is also a critique of the claims of neoliberal analysis, and the provision of an alternative illuminating analysis; combined with detailed suggestions for the creation of institutions that will go some way towards ensuring that potential sustainable development will be achieved in a manner that helps all the world’s citizens and preserves the physical environment for future generations. O’Hara has written a notable book which ought to be read by all serious economists, social scientists, concerned citizens, politicians and policy makers.” *Professor G.C.Harcourt, Cambridge University, UK.*

“In *Growth and Development in the Global Political Economy*, Phil O’Hara critically surveys the contemporary performance of the world economy, and comes to some very poignant results. The trends associated with neoliberal globalisation are shown to be complex, contradictory and conflicting. Global deregulation, greater rule of capital, and expansion of market relations have produced asymmetrical results. On the one hand, there has been more mobility of capital, foreign direct investment, and global bank credit; but also financial instability, insufficient demand, global conflict and declining trust and sociality. These contradictory results have, on balance, inhibited global growth and development through a continuation of long wave downswing, which can only be rectified by significant changes in institutions and governance. Phil O’Hara has produced a masterly work that shows how the economic, political and cultural factors interplay in the global political economy.” *Professor Howard J.Sherman, University of California, USA.*

“In this original and provocative work, Phil O’Hara provides a comprehensive critique of neoliberalism on a world scale. He applies the ‘social structures of accumulation’ (regulation school) approach to the explanation of long-term socioeconomic change, constructing a model of the Global System of Power and Accumulation that integrates financial, political, cultural and military dimensions of the new world disorder. O’Hara analyses the hegemonic role of the United States and the associated international economic institutions, and identifies some fundamental contradictions, both economic (effective demand failure, financial crises) and social (growing anomie, collapse of family and community relations). These contradictions, he argues, inhibit global economic development and generate international political tensions, causing terrorism and war. O’Hara concludes by proposing a far-reaching and coherent set of alternatives to

neoliberal global governance. *Growth and Development in the Global Political Economy* is required reading for anyone with a serious interest in political economy or international relations.” *Professor John King, La Trobe University, Australia.*

“Over the last decade Phil O’Hara has emerged as a major contributor to political economy, the holistic analysis of the relation of power and culture to the economic process. In *Growth and Development in the Global Political Economy* he brings together a broad literature and applies it to the present era of neoliberal globalization. He addresses the central question as to whether or not this USA-hegemonic governance regime is likely to provide a stable trajectory of growth and accumulation. In analysing this complex question O’Hara examines governance in its broadest sense, including culture and identity politics, family structure and gender relationships, financial architecture, international trade, and corporate power. O’Hara concludes that substantial social reform will be necessary to convert the present institutional configuration to a sustainable, progressive path, and offers a stimulating overview of this necessary reform. No one is doing better work than O’Hara in holistic, evolutionary political economy; this book deserves a very wide readership.” *Professor James Ronald Stanfield, Colorado State University, USA.*

“In this book, Philip O’Hara grapples with the big issues of contemporary political economy. He asks where the world system is heading and finds serious trouble ahead. Utilizing a methodological framework that stresses the interplay of institutions and economic outcomes, he offers a critique of the dominant neoliberal model, with its faith in the free market as the centerpiece of society. He makes a convincing case that neoliberalism is not bringing an economic rebirth, as its advocates claim, but rather is serving as an obstacle to economic and social development. *Growth and Development in the Global Political Economy* contributes to the growing literature that points out that the neoliberal emperor truly has no clothes.” *Professor David M.Kotz, University of Massachusetts at Amherst, USA.*

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This work is dedicated, first, to my very best teachers

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Second to the memory (intellectual and/or personal) of some of the great long wave
scholars of the past

Sam de Wolff Nikolai Kondratieff Ernest Mandel David M.Gordon

And third, to my favorite, grand political economists

Karl Marx Thorstein Veblen Joseph Schumpeter John Maynard Keynes

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Preface

Developments over the past 20 or 30 years have seen the progression of neoliberal globalization. Financial markets have been deregulated, both domestic institutions and global arrangements. Foreign direct investment controls have mostly been dismantled to encourage international mergers, acquisitions, and productive capital. Imports and exports have been opened up to competition through a decline in tariffs and subsidies in many areas. Neoliberal policies of privatization, open markets, and flexibility became dominant globally through the 1980s and 1990s. The whole world, it seems, is seeking to become involved in shareholder value, conspicuous and privatized consumption, global financing, and business profit. The story that free-market economists are telling us is that this is the road to growth, development, happiness, and well-being.

But somehow the story gets tainted by real world processes that stain the Utopian expression of global harmony. We see around us environmental degradation, a decline in trust and fairness, problematic performance, financial and economic crises, terrorism and unilateral war-mongering, and rapid change and dislocation. Many wonder if neoliberal globalization is somehow linked to this decline in sustainability, sociality, stability, and performance, or if the association is mere coincidence. Could the Utopian vision portrayed in the textbooks and journals of orthodoxy be a caricature of the real thing, obstructed by a narrowness of vision and rose-colored glasses? Here I seek to find out the answers to these questions.

This book is guided by a holistic vision where global processes and problems are in large measure interconnected. The world and its constituents are linked causally in multiple ways. Luckily there are various traditions in political economy that help in understanding how these things are fused, through a series of networks and institutions. But they are not in the mainstream. The last thirty or forty years have seen a renaissance of interest in social and political economy. Veblenian institutionalists, evolutionary economists, post Keynesians, neo-Marxists, feminists, social economists, and global political economists have laid the groundwork for a thorough analysis of capitalism and its institutions. This current work utilizes themes in political economy to help comprehend recent trends in neoliberal globalization.

The notion of “contradiction” is an especially critical concept for understanding these connections and trends. This is because it posits the notion that one has to analyze both the positive and negative elements of a phenomenon before one can adequately scrutinize its operational dynamics. Capitalism is, for instance, the most revolutionary system ever seen on Earth, with a penchant for major technological innovations and rapid penetration of the global system, unearthing profitable opportunities irrespective of limits of a regulatory or cultural nature. Recently skills have been radically upgraded, foreign direct investment expanded (before collapsing in the early 2000s), fetters to expansion cast asunder, and nations and regions included in the global system of trade and money. This is the positive side that free-market economists have been singing the praises of for 300 years or more.

But there is another side that is largely outside their ontology or methodology, although it often creeps in under the subtle guise of negative externalities and public goods. The very process of being revolutionary creates rapid change, so while some are moving up the ladder of skill development, many are left behind with the old ways and the inefficient methods. The latter will suffer due to a lack of employment, bankruptcy, or simply low income. Upgrading takes time and some have more capability to do it than others. Similarly, such rapid changes leave many nations relatively backward as they struggle to keep up with the rest of the world. Often a first mover advantage and cultural modernity are better than the disadvantage of not making the first effort at change. Uneven development is thus a necessary part of this motion, whether caused by colonial and imperial dislocation and oppression, the excessive pace of change, the hegemonic rules of the game, geographical and spatial factors, or a lack of social or human capital. The pace of change also puts people at risk of high levels of uncertainty and a lack of support mechanisms, as they feel that others are untrustworthy and that institutions are unhelpful. As resources are exploited the environment also takes a lashing through pollution, destruction of habitat, and potential climate change. Instability increases in a periodic fashion as hot capitals, foreign direct investment, and equity markets become highly volatile, while state supports decline.

Being able to see how these apparently quite different things—both positive and negative—are related requires having “a vision,” a recognition of systemic processes, and a critical faculty that encourages an endogenous, open-systems view of the world. An exposure to political economy makes such a view second nature. While some orthodox economists see the creation of negative externalities as simply an unfortunate by-product of the inevitable, others of a heterodox persuasion see them as structural conditions of the system. Externalities such as financial instability, regional conflict, lack of trust, and environmental decline are endogenously institutionalized into the fabric of the system, especially in its neoliberal form. The two main theories utilized in this work—social structures of accumulation and modes of regulation—take a non-equilibrium, institutional, and endogenous view of long-term socioeconomic processes. Examining the historico-institutional evolution of capitalism in long-term motion is a way of understanding how we got to where we are and how we might change for the better.

Taking a holistic, endogenous, and open-systems approach requires that one differentiate between growth and institutional development, and also that one recognize growth and institutional development to be interrelated. Economic growth is usually looked upon as the rate of change of real GDP (gross domestic product) (per capita), which is linked to growth in productivity, consumption and investment, government spending, and net exports. Institutional development, on the other hand, relates to the building of progressive institutions for the promotion of human integrity and freedom, education, health, community networks, trust and governance, and productive relationships associated with industry and business. Institutional development implies an evolutionary transformation of human existence where institutions guide and manage change toward progressive values, habits, and organizational arrangements. It often implies the development of a social ethic and respect for other cultures, flora, and fauna.

The main hypothesis of this book is that growth and institutional development are indeed interrelated in that the creation of instrumentally progressive institutions is a pre- and co-requisite for *long-term sustainable* growth. The development of institutions for

stability, conflict resolution, and performance is necessary for long-term sustainable growth where recessions are relatively mild and financial stability fairly strong. Without such institutions political economies tend to undergo long wave downswing, since social structures of accumulation or modes of regulation have not been suitably formed.

I have been helped by many people in trying to understand this process of institutional change. Very specific thanks are in the first endnote to most chapters. The most important stimulus to my work has been the numerous political and social economy associations and their wonderful members. Being able to attend gatherings of like-minded scholars, organized by the Association for Social Economics, the Association for Evolutionary Economics, the Union for Radical Political Economics, the European Association for Evolutionary Political Economy, the International Association for Feminist Economics, the Society for Heterodox Economics, the Eastern Economics Association, the History of Economic Thought Society of Australia, and the International Society for Ecological Economics, is a saving grace in a world otherwise dominated by orthodoxy. The editors of the main journals of political economy have been a great source of encouragement by their very presence and sense of camaraderie. Thanks especially go in this respect to Glen Atkinson, John Davis, Hazel Dayton Gunn, John King, Anne Mayhew, and Patrick Welch, among others.

I wish also to thank Doug Brown, Paul Dale Bush, Bill Dugger, Geoffrey Hodgson, Howard Sherman, Ron Stanfield, and Marc Tool who inspired me when it came to understanding institutions and evolutionary change. Jonathon Goldstein, Victor Lippit, Terry McDonough, Bruce Pietrykowski, Michael Reich, Robert Went and Behzad Yashmaian helped to sharpen my analysis of long waves. Jim Devine. Mike McLure, and Reynold Nesiba stimulated me intellectually on numerous critical issues. Rhoda O'Hara always showed an interest and provided encouragement. Rob Langham, along with Terry Clague, at Routledge among other things organized three reviews of this book, which included useful suggestions. I also wish to thank my colleagues at Curtin University, including Harry Bloch and Ian Kerr, for encouragement and assistance.

The challenge of global development is to create an institutionally rich analysis of the dominant tendencies of capitalism, and a post neoliberal form of governance to embed economy within society. Such a framework tries to balance the various conflicts between capital and labor, industry and finance, production and reproduction, terrorists and war-mongers, and economy and environment. This requires an interdisciplinary view of the contradictory relationships underlying institutions and an evolutionary analysis of the system. Nothing less than thorough-going socioeconomic progress depends upon such a view and practice gaining momentum in the world. This book is a step in that direction.

Phil O'Hara

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Global Political Economy Research Unit

<file:///D:/input/2000dfbf/Philohara@runbox.com>

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1

Long waves of growth and development in the global political economy

Introduction—recent crises and instabilities

The new millennium emerged amidst a whole series of global, regional, and national crises and emergencies. The threat of terrorism has struck at the heart of the social fabric of many nations, and some perceive it as the greatest ongoing threat to global security. The United States and some allies are said to be attempting to bully “rogue states” into submission, rather than going through more diplomatic channels, which is inciting retaliation in the Arab world. The Middle East continues to erupt in a series of hostilities between Palestine and Israel that seems never ending. Major nations such as Japan, the United States, and Germany were variously engulfed in financial slumps, deep recessions, and corporate fraud that eroded confidence before upswing emerged. Financial crises took hold of some nations in the “third world,” such as in Latin America,—especially Argentina, Brazil, and Uruguay—which pushed the standard of living backwards. Some see the greatest crisis as emanating from the lack of investment in human and health resources to deal with the AIDS epidemic in Sub-Saharan Africa, which is spreading especially to some nations of Asia and the Caribbean. Meanwhile the threat of global warming and deforestation is impacting on the viability of agriculture and the survival of thousands of species, while the most powerful nation refuses to sign the Kyoto Protocol meant to reduce these problems. Uncertainties abound as the nations of the world struggle to adjust to a world of globalization, shareholder value, US dominance, and neoliberalism that leaves many of them open to the ravages of creative destruction, change, and transition.

Periods of protracted instability and crisis have been characteristic of human life since the beginning of recorded time. Sometimes these crises are very long and at other times they are shorter. But the fact of protracted periodic instability and uncertainty is a critical facet of humanity. Under capitalism these crises and instabilities generate their own inner motion, since creative destruction can lead to much global instability and tension. But where is this change and instability leading us? Is the global political economy—the nations of the world and global arrangements—moving into a new phase of durable prosperity, with the instabilities being transitional and moderate? Or are the periodic or structural crises imbedded in the institutions of capitalism? If “sustainable upswing” does emerge, will many people, nations, and regions be left behind while the privileged classes and areas benefit disproportionately from the innovations and changes?

Some authors think that recent innovations have speeded up the process of creative destruction and change, and have possibly shortened the periodicity of industrial waves and cycles (Dowling 2003). Such innovations have made interaction between people of different nations easier and reduced the barriers of spatial separation. However, even if

the technological periodicities have been shortened, many other *institutional lags and processes* influence the overall length of the wave (Gordon 1998). For those who are in the vanguard of change the advantages of technological and institutional innovation are considerable. Classes and individuals who manage to succeed in business are subject to monetary, wealth, and quality of life benefits that they can pass on to their children and grandchildren. Businesses that succeed in the cutthroat world of competition and advertising are able to expand globally and transmit their talents to other organizations. Nations and continents that lead the rest of the world gain power in the global village and enhance the benefits to its peoples. For instance, parts of East and South-East Asia have expanded through the process of “take-off” and growth, despite some considerable hiccups in the process.¹

On the other hand, despite short-run periodic upswings, the crises and cycles may be getting worse in terms of periodicity and amplitude, and the impact of change and instability more protracted. Some nations, classes, ethnic groups, and individuals do not have access to the benefits of these recent innovations, and the costs of change can be large. “Working people” in (especially Sub-Saharan) Africa, in particular, typically do not have access to the world wide web or many of the commodities that are common in advanced nations. Indeed, Sub-Saharan Africa has been undergoing a series of crises—AIDS, drought, famine, and war—that has left it behind other continents. Also, most nations over the past couple of decades have experienced more extreme inequality of income and wealth, leading many children to have a relative disadvantage in life due to factors beyond their control. For people at the bottom of the heap, acquiring skills and knowledge is a difficult practice, especially when change is so rapid and their individual, social, and material resources are meager. Having to leave home, change occupation, and learn new habits and practices are complex tasks fraught with problems and uncertainties, especially when there is a generalized lack of demand in the system. These long movements of change can upset the motion of societies and individuals that make up the world, leading to considerable adjustment costs and path-dependent irreversibilities.

It is difficult, though, to ascertain precisely how these long movements of change are working through to the quality of life and standard of living due to statistical problems and the uncertain nature of institutional change. Economists have long been gazing at the economic growth figures emanating from Gross Domestic Product (GDP), while historical-political economists and sociologists have been investigating the often more qualitative aspects of change and adjustment. GDP figures can move upward (often at a smaller rate), but the costs of adjustment can expand as well. Political scientists have continued to investigate changes in regimes and power structures through time that gives another dimension to change. A holistic perspective of what is happening eludes scholars intent on greater specialization. Yet a total view of these long movements becomes more necessary as change is more complex and cumulative.

Various traditions remain in the social sciences that encourage—even require—a holistic vision. But they are not in the mainstream. A general systems-view of contemporary capitalism situated in the long period can only really be developed in the tradition of *political economy*, a framework that almost died out in the late nineteenth century, but was kept breathing in the underground and recently has undergone somewhat of a renaissance.² *Political economy is an interdisciplinary study of the ways in which groups of people, nations, and cultures elicit their material (and often immaterial) life*