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Golden Age versus Golden Rule:
Capitalists versus Workers in
Growth Theory

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Abstract

Golden Age steady states determined by saving rates maximizing profit are contrasted with the Golden Rule, that is, consumption maximizing, steady states highlighted in standard economic growth theory. Golden Rule steady states exemplify the classical socialist principle of distribution: to each according to work. Under the Golden Rule, consumption equals labor income, and given stationary class capital ownership shares, all profit must be invested and none consumed. In contrast, in Golden Age steady states, some profit can be freed for consumption, although the levels of investment, output, and most notably consumption are then all lower. These relationships are explored in models initially without, and then with, labor force growth and technical change.

JEL classification: D33; O41

Keywords: economic growth; distribution

1

Undergraduates introduced to the Solow growth model, typically in a course in intermediate macroeconomics, are shown that, in the simplest case with neither labor force growth nor technical change, the marginal product of capital net of depreciation is zero in a Golden Rule steady state, that is, in a steady state at which consumption per worker is maximized. If the Golden Rule is observed, labor income equals consumption, while capital income equals saving, which equals depreciation. At this Golden Rule steady state, profit per worker (and thus profit tout court) is zero.

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The conclusion is not typically drawn that a Golden Rule steady state exemplifies the classical socialist principle for distribution of consumption: to each according to work. Living the Golden Rule would be no Golden Age for capitalists.

It is of interest to go on to consider the steady state that would, by maximizing profit per worker (and thus, given fixed employment, maximizing profit tout court), constitute a Golden Age (for capitalists) and to contrast that state with the Golden Rule (for workers) steady state. Subsequently, one can extend the analysis to accommodate labor force growth and technical change.

2

I begin with a standard Solow model setup with a labor force $L$ using a capital stock $K$ to produce output $Y$ with a production function

$$Y = F(K, L).$$

A neoclassical production function has constant returns to scale, and thus for any positive $z$,

$$zY = F(zK, zL).$$

Thus, in particular, for $z = 1/L$,

$$Y/L = F(K/L, 1),$$

according to which output per worker is determined by capital per worker.

Using lowercase letters for quantities per worker, $y = Y/L$ and $k = K/L$, the production function per worker, $F(K/L, 1)$, can be written as

$$y = f(k).$$

Output per worker is then divided between consumption per worker $c$ and investment per worker $i$,

$$y = c + i.$$

Given a consumption function with the usual simple form,

$$c = (1 - s)y,$$

where $s$ is an exogenously given saving rate, $y = (1 - s)y + i$, and thus $i = sy$. Investment is equal to saving.

3. Additional properties of neoclassical production functions will be implicitly invoked below: positive diminishing returns to capital, $f'(k) > 0$ and $f''(k) < 0$ for all $k$, and the Inada conditions, $\lim_{k \to 0} f'(k) = 0$ and $\lim_{k \to \infty} f'(k) = \infty$. 
\[ i = sf(k). \]

Here, \( y \) is gross output per worker, just as \( i \) is gross investment per worker. Net investment per worker, that is, the change in the capital stock per worker, \( \Delta k \), is (gross) investment less capital depreciation where \( \delta \) is the exogenously given depreciation rate of the capital stock; that is, \( \Delta k = i - \delta k \), or, as well,

\[ \Delta k = sf(k) - \delta k. \]

In a steady state \( \Delta k = 0 \), and thus, for a steady state value of capital per worker \( k' \),

\[ sf(k') = \delta k'. \]

If capital per worker is less than the steady state value, that is, \( k < k' \), then \( i = sf(k) > \delta k \), investment exceeds depreciation, and capital per worker is increasing. If \( k > k' \), then \( i = sf(k) < \delta k \), and capital per worker is falling. Steady states are dynamically stable.

In general, consumption per worker is output less investment, \( c = y - i \), or \( c = f(k) - sf(k) \). Thus, in a steady state,

\[ c' = f(k') - \delta k'. \]

The Golden Rule steady state is that steady state with a capital per worker ratio \( k_{GR}^* \) generated by a saving rate \( s_{GR} \) in which consumption per worker is maximized to \( c_{GR}^* = \max_{k} c^* \).

The first-order condition for the Golden Rule steady state is

\[ f''(k_{GR}^*) - \delta = 0. \]

That is, the net marginal product of capital, that is, gross marginal product less depreciation, is zero.

Thus,

\[ c_{GR}^* = f'(k_{GR}^*) - f''(k_{GR}^*)k_{GR}^* = w_{GR}^*. \]

That is, maximized consumption per worker, \( c_{GR}^* \), precisely equals the marginal product of labor, that is, \( w_{GR}^* \), the competitive wage rate of labor. Maximized consumption per worker is exactly matched by labor income.

It is straightforward to contrast this Golden Rule steady state with the steady state that instead maximizes profit per worker.

---

4. The marginal product of labor is

\[
\frac{\partial F(K,L)}{\partial L} = \frac{\partial [Lf(k)]}{\partial L} = f(k) + L \frac{\partial f(k)}{\partial L} = f(k) + Lf'(k) \frac{\partial k}{\partial L} = f(k) + Lf'(k) \frac{K}{L^2} = f(k) - f'(k)k.
\]

The marginal product of capital is

\[
\frac{\partial F(K,L)}{\partial K} = \frac{\partial [Lf(k)]}{\partial K} = L \frac{\partial f(k)}{\partial K} = \frac{\partial f(k)}{\partial k} \frac{\partial k}{\partial K} = Lf'(k) \frac{1}{L} = f'(k).
\]
Capital income per worker is the product of the marginal product of capital and capital per worker; that is, in a steady state, \( f'(k^*) k^* \).

For profit per worker \( \pi^* \), depreciation per worker \( \delta k^* \) is subtracted, leaving \[ \pi^* = f'(k^*) k^* - \delta k^*. \]

The rate of profit is then profit per worker divided by capital per worker, \( r^* = \pi^* / k^* = f'(k^*) - \delta \), that is, the net marginal product of capital.

In the Golden Rule case, profit per worker (and thus the rate of profit) was zero, \( \pi_{GR}^* = f'(k_{GR}^*) k_{GR}^* - \delta k_{GR}^* = 0 \). In contrast, the Golden Age steady state is that steady state with a capital per worker ratio \( k_{GA}^* \) generated by a saving rate \( s_{GA} \) in which profit per worker is maximized to \( \pi_{GA}^* = \max_k \pi^* \). (Of course, with fixed employment, total profit is maximized in the Golden Age steady state as well.)

The first-order condition for this maximum is \( f''(k_{GA}^*) k_{GA}^* + f'(k_{GA}^*) - \delta = 0 \) or equivalently, \[ f'(k_{GA}^*) - \delta = -f''(k_{GA}^*) k_{GA}^* > 0. \]

That is, the net marginal product of capital, that is, gross marginal product less depreciation, is \( -f''(k_{GA}^*) k_{GA}^* \), which (given \( f''(k_{GA}^*) < 0 \), i.e., given the diminishing marginal product of capital in the neoclassical production function) must be positive. The net marginal product of capital, that is, the profit, is not zero as in the Golden Rule case. Since the rate of depreciation \( \delta \) is a given constant, the net marginal product must be positive, but this can happen only if the Golden Age steady state level of capital per worker is lower than under the Golden Rule; that is, \( k_{GA}^* < k_{GR}^* \), which in turn must be the result of a lower steady state saving rate, \( s_{GA} < s_{GR} \).

Golden Age consumption per worker is lower than Golden Rule consumption per worker, that is, \( c_{GA}^* = f(k_{GA}^*) - [f''(k_{GA}^*) k_{GA}^* + f'(k_{GA}^*)] k_{GA}^* < c_{GR}^* \), but Golden Age consumption per worker is larger than the Golden Age marginal product of labor, that is, the competitive Golden Age wage rate:
\[ c_{GA}^* = f(k_{GA}^*) - [f''(k_{GA}^*) k_{GA}^* + f'(k_{GA}^*)] k_{GA}^* > f(k_{GA}^*) - f'(k_{GA}^*) k_{GA}^* = w_{GA}^*. \]

That is, in the Golden Age steady state, labor income no longer suffices to purchase all consumption.\(^5\) Consumption per worker and total consumption are lower than in the Golden Rule steady state, and the wage rate and labor income are lower still.

But of course, Golden Age profit per worker is positive and thus higher than the zero Golden Rule profit per worker:

---

5. Here, recall that although the ratio Rolls Royces per worker is positive, it does not follow that any workers have Rolls Royces.
And Golden Age profits plus wages just exhaust consumption:

\[ c_{GA}^* = \pi_{GA}^* + w_{GA}^* . \]

Some central relationships developed in this section can be depicted in two canonical diagrams. The first shows output, depreciation, and investment per worker generated by the Golden Rule and Golden Age saving rates, \( s_{GR} \) and \( s_{GA} \), all as functions of the capital labor ratio \( k \). \( s_{GR} \) and \( s_{GA} \) determine distinct steady states with steady state capital labor ratios \( k_{GR}^* \) and \( k_{GA}^* \) (see Figure 1).

The second shows steady state values of output, consumption, the wage rate, investment, and profit per worker, all as functions of steady state values of the capital labor ratio (see Figure 2).

Summing up, at a Golden Age (for capitalists) steady state, while profit per worker is maximized, consumption per worker, capital per worker, and the wage rate of labor are lower than at the Golden Rule steady state. At the aggregate level, since the labor force is exogenous, total profit is maximized, but consumption, the capital stock, and labor income are all lower. If steady state saving rates were optimal for capitalists, everyone else would be worse off than they could be.7

3

Of course, talk of capitalists if not of workers is foreign to the idiom of the Solow model, which invokes no class structure, not to speak of conflict of class interest. To con-

---

6. Generated with \( y = k^{\gamma} \) and \( \delta = .1 \).
7. These points can be made more concretely if less generally in a more explicit model. See Appendix A.
sider these matters explicitly, I will enhance the Solow model by assuming it incorporates two classes, within each of which members are exactly similar.

One class consists of workers who provide the labor input in return for a wage \( w = f(k) - f'(k)k \). In addition, workers own a share \( \gamma \) of the capital stock where \( 0 \leq \gamma \leq 1 \). In addition to wages for work, each worker receives income from capital ownership in the amount \( \gamma f'(k)k \). Total income for a member of the working class is then \( f(k) - (1 - \gamma) f'(k)k \).

The second class consists of nonworkers owning a share \( 1 - \gamma \) of the capital stock and receiving income solely from capital ownership in the amount \( (1 - \gamma) f'(k)k \) per worker.

In Solow models thus enhanced with class structure, the straightforward steady state requirement on class capital stock ownership shares is that they be stationary.

Of course if \( \gamma > 0 \), then total income for a member of the working class will exceed labor income per worker. But it needs to be kept in mind that the steady state savings rate \( s_{GR} \) that maximizes consumption per worker is independent of \( \gamma \). That is, no matter what the value of \( \gamma \) may be, consumption per worker is maximized just when the Golden Rule first-order condition \( f'(k_{GR}) - \delta = 0 \) is met; and as shown above, in this steady state consumption per worker precisely equals labor income per worker, that is, \( c_{GR} = w_{GR} \).

Thus, the condition that class shares be stationary requires that any capital income received by workers in a Golden Rule steady state, that is, \( \gamma f'(k_{GR})k_{GR} \) per worker, must be dedicated to replacement of depreciated capital. That is, no matter what share, \( \gamma \), of capital workers may own, maximizing consumption per worker still requires the unique saving rate \( s_{GR} \), that is, the Golden Rule saving rate, the value of which is independent of the magnitude of the workers’ ownership share. In particular, even if \( \gamma = 1 \), that is, even if the workers owned the entire capital stock, consumption per worker is maximized at the Golden Rule steady state, and is there equal precisely to labor income.

That is, even though it may be income to workers, all capital income must be invested to maintain the consumption per worker maximizing Golden Rule steady state. And of course, if there are nonworkers receiving a positive share of capital income, that is, if \( \gamma < 1 \), they can
consume none of it if the requirement that class shares be stationary in a steady state is to be met. In the Golden Rule steady state, capital income is precisely equal to depreciation.

It follows no less straightforwardly that no matter what share, \(1 - \gamma\), of capital nonworkers, for example, capitalists, may own, maximizing the profit received by nonworkers occurs with a different (and lower) saving rate \(s_{GA}\), that is, the Golden Age saving rate, the value of which is independent of the magnitude of ownership shares.

4

I turn now to extending this argument to Solow models elaborated in the usual way to accommodate growth in the labor force and technical change, considering first in this section the model with the labor force no longer fixed but rather growing at a rate \(n\). As will be seen, although matters become somewhat more complicated, the main conclusion remains: at consumption maximizing Golden Rule steady states, capital income is exhausted by gross investment.

First, I consider the model in which net investment per worker, that is, the change \(\Delta k\) in the capital stock per worker, is gross investment per worker less capital depreciation at rate \(\delta\) and less, as well, labor force growth at the rate \(n\). That is, \(\Delta k = i - (\delta + n)k\), or

\[
\Delta k = sf(k) - (\delta + n)k.
\]

In a steady state \(\Delta k = 0\), and thus for a steady state value of capital per worker \(k^*\),

\[
sf(k^*) = (\delta + n)k^*.
\]

Steady state consumption per worker is output per worker less investment per worker, or

\[
c^* = f(k^*) - (\delta + n)k^*.
\]

and the first-order condition for maximizing consumption per worker is now (with obvious notation)

\[
f'(k^*_{GR(n)}) - \delta = n. \tag{GR(n)}
\]

That is, the net marginal product of capital, that is, the gross marginal product less depreciation and, as well, the rate of profit, must equal the growth rate of the labor force. And if the labor force growth rate is positive, \(n > 0\), then, given the diminishing marginal product of capital, the capital labor ratio is lower than in the case of zero labor force growth. That is, \(k^*_{GR(n)} < k^*_{GR(0)} = k^*_{GR}\). \(^8\)

8. A differential of the \(GR(n)\) gives

\[
\frac{dk^*_{GR(n)}}{dn} = \frac{1}{f''(k^*_{GR(n)})} < 0.
\]
Now again, *mutatis mutandum*,

\[ c_{GR(n)}^* = f(k_{GR(n)}^*) - f'(k_{GR(n)}^*)k_{GR(n)}^* = w_{GR(n)}^*. \]

That is, again, maximized consumption per worker, \( c_{GR(n)}^* \), precisely equals the marginal product of labor, \( w_{GR(n)}^* \), the competitive wage rate of labor. Again maximized consumption per worker is exactly matched by labor income, and again the steady state distributes to each according to work. But of course, consumption per worker and wage rates for Golden Rule steady states are declining functions of the labor force growth rate.

With labor force growth, a consumption per worker maximizing Golden Rule steady state implies not zero profit per worker but rather profit per worker equal to capital per worker times the rate of labor force growth,

\[ \pi_{GR(n)}^* = f'(k_{GR(n)}^*)k_{GR(n)}^* - \left[ f'(k_{GR(n)}^*) - n \right] k_{GR(n)}^* = nk_{GR(n)}^*. \]

With positive labor force growth, profit per worker will be positive, and the profit rate will equal the rate of growth of the labor force,

\[ r_{GR(n)}^* = \frac{\pi_{GR(n)}^*}{k_{GR(n)}^*} = n. \]

But in such a Golden Rule steady state meeting the stationary capital stock ownership share division requirement, none of this profit is available for consumption by receivers of capital income. Rather, all profit must be invested to maintain the steady state level of capital per worker \( k_{GR(n)}^* \). Maintaining a constant capital ownership share requires that gross investment cover not only depreciation but also labor force growth and that level of gross investment precisely exhausts capital income.

Profit maximizing Golden Age steady states are, on the other hand, specified independently from the rate of labor force growth. The subscripts in the initial Golden Age first-order condition can be rewritten as

\[ f'(k_{GA(n)}^*) - \delta = - f''(k_{GA(n)}^*)k_{GA(n)}^* > 0, \quad GA(n) \]

but the value of \( k_{GA(n)}^* \) is independent of value of \( n \).

Again, the net marginal product of capital is positive in the Golden Age. But with labor force growth (and as will be seen in the next section, with technical change as well), it no longer necessarily follows from a positive rate of profit that any capital income is available for consumption given the requirement of stationary class capital ownership shares.

---

9. Since

\[ \frac{\partial k_{GR(n)}^*}{\partial n} = \frac{\partial w_{GR(n)}^*}{\partial n} = \frac{\partial (f(k_{GR(n)}^*) - f'(k_{GR(n)}^*)k_{GR(n)}^*)}{\partial n} = \frac{\partial (f(k_{GR(n)}^*) - f'(k_{GR(n)}^*)k_{GR(n)}^*)}{\partial k_{GR(n)}^*} \frac{\partial k_{GR(n)}^*}{\partial n} = - f''(k_{GR(n)}^*)k_{GR(n)}^* \frac{\partial k_{GR(n)}^*}{\partial n} = - k_{GR(n)}^* < 0. \]
Suppose for example that the steady state with positive labor force growth that is picked out by the Golden Age criterion \( GA(n) \) is, as a matter of fact, the very same steady state specified by the Golden Rule criterion \( GR(n) \). That is, suppose that the world just happens to be such that \( n = -f'''(k_{GA(n)})k_{GA(n)} \). In such a circumstance, the Golden Rule would hold sway in the Golden Age, though to be sure in an unattractive Golden Age for capitalists since in this case, no profit income would be available to purchase consumption; for with consumption from profit income, that is, with consumption exceeding labor income, the capitalist share of capital per worker would fall, violating the steady state class property ownership stationarity requirement. The capitalist consumption must be matched by labor income saved and not consumed, in which case the labor share would rise.

Going further, if the labor force growth rate exceeds the Golden Age profit rate, that is, if \( n > -f'''(k_{GA(n)})k_{GA(n)} \), maintaining the Golden Age is no longer compatible with the class property ownership stationarity requirement. At the capital labor ratio required for profit maximization, capital income is simply no longer sufficient to meet the demands of both capital depreciation and the growth of the labor force. For this, some saving would be required from labor income, but this would violate the stationarity requirement. That is, if the labor force increases faster than the profit rate at the profit maximizing saving rate, the share of capital owned by workers must be rising.

In a Golden Age steady state with positive labor force growth, consumption per worker is

\[
c_{GA(n)} = f(k_{GA(n)}) - \left[ f'''(k_{GA(n)})k_{GA(n)} + f''(k_{GA(n)}) + n \right] k_{GA(n)}
\]

and lower than Golden Rule consumption per worker, unless by chance \( n = -f'''(k_{GA(n)})k_{GA(n)} \), that is, unless the labor force growth rate equals the profit rate and the Golden Rule serendipitously prevails in the Golden Age. Likewise, except in this case, Golden Age consumption per worker will exceed the marginal product of labor. Some consumption will then be purchased with capital income.

Correspondingly, and again except in the case just noted, Golden Age profit per worker is here higher than Golden Rule profit per worker:

\[
\pi_{GA(n)} = f'(k_{GR(n)})k_{GR(n)} - \left[ f'''(k_{GA(n)})k_{GA(n)} + f''(k_{GA(n)}) \right] k_{GR(n)}
\]

\[
= -f'''(k_{GA(n)})(k_{GA(n)})^2 \geq nk_{GR(n)} = \pi_{GR(n)}.
\]

Summing up, incorporating labor force growth into the model preserves the salient contrasting features of Golden Rule and Golden Age steady states.

5

Finally, I will contrast Golden Rule and Golden Age steady states in Solow models elaborated to accommodate not only growth in the labor force but also technical change. A usual version amends the production function to the form

\[
y = f(K, AL),
\]
where $A$ is an index of technology assumed to be growing at a rate $g$. (I have been assuming until now, as it were, that $A = 1$ and $g = 0$.)

With advancing technology, output $y$ and capital $k$ per worker are no longer state variables. That is, investment of some fixed share $s$ of output no longer leads the system to a stable point at which these variables come to rest. Rather, the corresponding state variables are now output $\tilde{y}$ and capital $\tilde{k}$ per “effective worker,” where $\tilde{y} = F(K/AL, 1) = f(\tilde{k})$. Now the relevant accumulation equation is

$$\Delta \tilde{k} = sf(\tilde{k}) - (\delta + n + g)\tilde{k}.$$ 

That is, net investment per effective worker, that is, the change in the capital stock per effective worker $\Delta \tilde{k}$, is (gross) investment less capital depreciation at rate $\delta$, less the rate of growth of the labor force $n$, and less, as well, the rate of growth of technology $g$.

In a steady state $\Delta \tilde{k} = 0$, and thus for a steady state value of capital per worker $\tilde{k}^*$,

$$sf(\tilde{k}^*) = (\delta + n + g)\tilde{k}^*.$$ 

With technical change at the rate $g$, consumption per worker is no longer a state variable. The relevant state variable is rather consumption per effective worker, which is output per effective worker less investment per effective worker, or

$$\bar{c} = f(\tilde{k}^*) - (\delta + n + g)\tilde{k}^*.$$ 

The first-order condition for maximizing consumption per effective worker is (with obvious notation)

$$f'(\tilde{k}_{GR(n, g)}) - (\delta + n + g) = 0.$$ 

That is, the net marginal product of capital, that is, gross marginal product less depreciation, must equal the growth rate of the labor force plus the growth rate of technology.

Instituting the Golden Rule given technical change requires maximizing consumption per effective worker:

$$\bar{c}_{GR(n, g)}^* = f(\tilde{k}_{GR(n, g)}) - f'(\tilde{k}_{GR(n, g)})\tilde{k}_{GR(n, g)} = \bar{w}_{GR(n, g)}^*.$$ 

That is, now, maximized consumption per effective worker, $\bar{c}_{GR(n, g)}^*$, precisely equals the marginal product of effective labor, $\bar{w}_{GR(n, g)}^*$, the competitive wage rate of effective labor.

Here it should be kept in mind that each worker’s effective labor is growing at the rate of technological change $g$, and thus that in a steady state, consumption per worker and the wage rate are no longer state variables but rather are each growing as well at the rate of technological change $g$. With technical change taken into account, what characterizes the Golden Rule steady state is not that consumption per worker is maximized but rather that,

---

given an initial level of technology, the growth path of consumption per worker is higher than in any other steady state.

The important point to note here is that at every point in time in a Golden Rule steady state with technical change, consumption per worker remains exactly matched by labor income per worker, and thus that again the principle holds that a Golden Rule steady state distributes to each according to work.

In Golden Rule steady states incorporating technical change, profit per effective worker is a steady state variable with the value

$$\tilde{\pi}_{GR(n, g)} = f'(\tilde{k}_{GR(n, g)})\tilde{k}_{GR(n, g)} - \left[f'(\tilde{k}_{GR(n, g)}) - (n + g)\right] \tilde{k}_{GR(n, g)} = (n + g)\tilde{k}_{GR(n, g)},$$

as is the rate of profit, that is, profit per unit of capital,

$$r^*_{GR(n, g)} = \frac{\tilde{\pi}^*_{GR(n, g)}}{\tilde{k}_{GR(n, g)}} = n + g.$$

But positive profits are once again not available for consumption if a stationary capital stock ownership share division is maintained. Rather, all profit must be invested to maintain the steady state level of capital per effective worker.

Turning here to Golden Age steady states with technical change, the first-order condition for maximizing profit per effective worker can be written as

$$f'(\tilde{k}_{GR(n, g)}) - \delta = -f''(\tilde{k}_{GR(n, g)})\tilde{k}_{GR(n, g)} > 0, \quad GA(n, g)$$

but it is important that the value of $\tilde{k}_{GR(n, g)}$ is independent of both $n$ and $g$.

Thus, as in the previous section with labor force growth but without technology change, there is a circumstance under which a Golden Age lives by the Golden Rule, in this case when $-f''(\tilde{k}_{GR(n, g)})\tilde{k}_{GR(n, g)} = n + g$. But again, in the steady state, profit equals requisite gross investment; consumption is exhausted by labor income. And if the sum of the growth rates of the labor force and technology exceeds the profit rate, profits are insufficient to fund investment at the level maintaining the steady state, and the class shares stationarity requirement cannot be met.

Golden Age consumption per effective worker will now be

$$\tilde{z}_{GR(n, g)}^* = f(\tilde{k}_{GR(n, g)}) - \left[f''(\tilde{k}_{GR(n, g)})\tilde{k}_{GR(n, g)} + f'(\tilde{k}_{GR(n, g)}) + n + g\right] \tilde{k}_{GR(n, g)},$$

and lower than Golden Rule consumption per effective worker unless by chance $n + g = -f''(\tilde{k}_{GR(n, g)})\tilde{k}_{GR(n, g)}$, that is, unless the sum of the growth rates of the labor force and technology exactly equals the profit rate. Likewise, except in this case, Golden Age consumption per effective worker will exceed the marginal product of labor, and some consumption will be purchased with capital income.

11. A peculiar question can be raised that indicates the limits of this modeling exercise: suppose workers already own all the capital stock, that is, $\gamma = 1$, but the sum of the growth rates of the labor force and technology exceeds the profit rate. How could the Golden Age rule then be imposed? (Of course, workers who wished to maximize their consumption would observe the Golden Rule instead.)
Correspondingly, and again except in the case just noted, Golden Age profit per effective worker is higher than Golden Rule profit per effective worker:

\[
\pi_{G, \text{Golden Age}} = f'\left(k_{G, \text{Golden Age}}\right)k_{G, \text{Golden Age}} - \left[f''\left(k_{G, \text{Golden Age}}\right)k_{G, \text{Golden Age}} + f'\left(k_{G, \text{Golden Age}}\right)\right]k_{G, \text{Golden Age}} \\
= -f''\left(k_{G, \text{Golden Age}}\right)k_{G, \text{Golden Age}}^2 \geq (n + g)k_{GR, \text{Golden Age}} = \pi_{GR, \text{Golden Age}}.
\]

Summing up, extending the model to incorporate technological change leaves the here emphasized features of the contrast between Golden Rule and Golden Age steady states unchanged.12

6

Conclusions of the argument here presented can be summarized as follows. In an economy in which the ratio of workers to nonworkers is constant, maximizing consumption per worker is maximizing consumption per capita. When any other rule is incompatible with the Golden Rule, it delivers lower per capita consumption. Any economic structure in which consumption exceeds labor income violates the Golden Rule. Equivalently, any economic structure in which capital income is not exhausted by saving (= gross investment) violates the Golden Rule. By this standard, existing economies surely exhibit suboptimal savings rates. Also by this standard, conceptions of socialism in which some portion of economic surplus would be devoted to consumption misconceive what would maximize even egalitarian consumption.13

Of course, the argument of this article proceeds within the bounds of the venerable Solow model. A limitation of the Solow growth model is that it takes as exogenous several parameters—prominent among them savings rates, labor force growth rates, and production technologies including growth rates of technical change—for which explanations can be sought. “Endogenize! Endogenize! That is Moses and the Prophets!” inspires science.

Explaining labor force growth rates occupies economic demography and labor economics. Endogenizing technical change is a main charge of the “new” growth theories.14

With respect to savings rates, two kinds of investigation can be distinguished. One type of inquiry seeks to explain which savings rates actually prevail, the other which savings rates should prevail. Enormous effort has been expended in the first of these with what is generally conceded to be little result. A review by Carroll (2000) summarizes, “Despite de-

12. In private correspondence, Robert Solow has pointed out to me that Golden Rule and Golden Age saving rates can be interestingly compared in terms of two salient elasticities. See Appendix B.
13. In particular, fundamental questions are entailed for some proposed conceptions of market socialism, for example, that of Roemer (1994a, 1994b) or my own, which envisages a comprehensive system of life estates (Thompson 1996).
15. The subject of the review is Schmidt-Hebbel and Servén (1999), a collection of studies based on the incomparably comprehensive international data set produced by the World Bank project on “Saving and Growth across the World.” A summary of what conclusions can plausibly be drawn from this data set is offered by Loayza, Schmidt-Hebbel, and Servén (2000) in the “Symposium on Saving around the World.”
cades of continuous study, we are still far from a consensus about even the most basic questions, such as why national savings rates differ so dramatically around the world.\textsuperscript{15}

Nor, unsurprisingly, is there any consensus whatsoever about optimal savings rates when savings rates are treated as policy variables. It is clear that the rudimentary Solow model apparatus employed here must be substantially elaborated if an adequate political economic account of a “principle of just savings” (Rawls 2001: 159–61) is to be developed.

Appendix A

I make the common assumption that the production function is Cobb-Douglas, for example, that $F(K, L) = k^\alpha L^{1-\alpha}$, where $0 < \alpha < 1$.

Then output per worker is $y = k^\alpha$, net investment per worker is $\Delta k = sk^\alpha - \delta k^\alpha$, and at a steady state, consumption per worker is $c^* = k^\alpha - \delta k^\alpha$ and profit per worker is $\pi^* = \alpha k^\alpha - \delta k^\alpha$.

The first-order conditions for the Golden Rule and Golden Age steady states are, respectively, $\alpha k^\alpha_{GR} - \delta = 0$ and $\alpha^2 k^\alpha_{GA} - \delta = 0$.

Thus, the Golden Rule and Golden Age capital per worker ratios are, respectively, $k^\alpha_{GR} = (\alpha / \delta)^{1/n}$ and $k^\alpha_{GA} = (\alpha^2 / \delta)^{1/n}$, where $k^\alpha_{GR} > k^\alpha_{GA}$ (since $\alpha^2 < \alpha$ given $0 < \alpha < 1$), while the respective saving rates are $s_{GR} = \alpha$ and $s_{GA} = \alpha^2$.

To the point, Golden Rule and Golden Age consumption per worker are, respectively, $c^*_{GR} = (\alpha / \delta)^{1/n} (1 - \alpha)$ and $c^*_{GA} = (\alpha^2 / \delta)^{1/n} (1 - \alpha^2)$, implying that $c^*_{GR} > c^*_{GA}$. And Golden Rule and Golden Age profit per worker are, respectively, $\pi^*_{GR} = (\alpha / \delta)^{1/n} (\alpha - \alpha) = 0$ and $\pi^*_{GA} = (\alpha^2 / \delta)^{1/n} (\alpha - \alpha^2) > 0$.

For example, if $\alpha = .5$ and $\delta = .1$, $s_{GR} = 0.5, k^\alpha_{GR} = 25, c^\alpha_{GR} = 2.5, w^\alpha_{GR} = 2.5$, and $\pi^*_{GR} = 0$; while $s_{GA} = 0.25, k^\alpha_{GA} = 6.25, c^\alpha_{GA} = 1.875, w^\alpha_{GA} = 1.25$, and $\pi^*_{GA} = 0.625$.

Appendix B

A steady state savings rate in a model without labor force growth or technical change, that is, as in section 2, above, is $s = \delta k' / f(k')$, where $k'$ is the steady state value of capital per worker.

Using the Golden Rule first-order condition (GR) to substitute out $\delta$ obtains

$$s_{GR} = f'(k^\alpha_{GR}) k^\alpha_{GR} / f(k^\alpha_{GR}) = \alpha_{GR},$$

where $\alpha_{GR}$ is the capital elasticity of the production function at the Golden Rule level of capital per worker.\textsuperscript{16}

If instead I use the Golden Age first-order condition (GA) to substitute out $\delta$ from the Golden Age specification, I obtain

$$s_{GA} = f'(k^\alpha_{GA}) k^\alpha_{GA} / f(k^\alpha_{GA}) \left(1 + f''(k^\alpha_{GA}) k^\alpha_{GA} f'(k^\alpha_{GA}) / f(k^\alpha_{GA})\right) = \alpha_{GA}(1 + \beta_{GA}).$$

\textsuperscript{16} Under a standard interpretation, the capital elasticity of the production function is measured by the profit share of output. As a stylized fact, this is about 1/3 in the United States, while investment is between 1/5 and 1/4 of output. The Golden Rule is evidently not observed in this (stylized) practice.
where $\alpha_{GA}$ is the capital elasticity of the production function and $\beta_{GA}$ is the capital elasticity of the marginal product of capital, each at the Golden Age level of capital per worker. Of course, $\beta_{GA}$ is strictly negative for a neoclassical production function.

The situation in which a sufficiently high labor force growth rate would render a Golden Age coincident with the Golden Rule or even incompatible with class capital ownership stationarity, that is, as in section 3, above, can be seen as well in terms of the Golden Rule and Golden Age saving rates expressed in terms of the capital elasticities of the production function and marginal product of capital.

Now the Golden Rule savings rate is rewritten as

$$s_{GR(n)} = f'(k_{GR(n)}) \frac{k'_{GR(n)}}{f(k_{GR(n)})} = \alpha_{GR(n)}$$

where $\alpha_{GR(n)}$ is the capital elasticity of the production function at the Golden Rule level of capital per worker.

And using $(GA[n])$ to substitute out $\delta$ in the steady state condition $s = (\delta + n)k^*/fk^*$ delivers

$$s_{GA(n)} = f'(k_{GA(n)}) \frac{k'_{GA(n)}}{f(k_{GA(n)})} \left(1 + \frac{n}{f'(k_{GA(n)})} + f''(k_{GA(n)}) \frac{k''_{GA(n)}}{f'(k_{GA(n)})}\right) = \alpha_{GA(n)} \left(1 + \frac{n}{f'(k_{GA(n)})} + \beta_{GA(n)}\right).$$

where $\alpha_{GA(n)}$ is the capital elasticity of the production function, and $\beta_{GA(n)}$ is the capital elasticity of the marginal product of capital, each at the Golden Age level of capital per worker. Again, $\beta_{GA(n)}$ is strictly negative for a neoclassical production function, but $(n + g)f'(k_{GA(n)})$ may well be positive with $s_{GA(n)} = s_{GR(n)}$, rendering the Golden Age and Golden Rule steady states coincident. Again, at any higher savings rate, profit would be insufficient to fund investment.

Finally, an analogous situation obtains when technical change is taken into account, as in section 5, above. For this the Golden Rule savings rate can simply be rewritten as

$$s_{GR(n, g)} = f'(k_{GR(n, g)}) \frac{k'_{GR(n, g)}}{f(k_{GR(n, g)})} = \alpha_{GR(n, g)}$$

where $\alpha_{GR(n, g)}$ is the capital elasticity of the production function and $\beta_{GR(n, g)}$ is the capital elasticity of the marginal product of capital, each at the Golden Age level of capital per worker. Again, $\beta_{GR(n, g)}$ is strictly negative for a neoclassical production function, but $(n + g + f'(k_{GA(n, g)})$ may well be positive with $s_{GA(n, g)} = s_{GR(n, g)}$, rendering the Golden Age and Golden Rule steady states coincident. Again, at any higher savings rate, profit would be insufficient to fund investment.

References


Abstract

This article investigates whether a new mode of regulation is being developed or has already evolved in the United States to promote long wave upswing during the early years of the new millennium. The regime of accumulation is scrutinized, but neither sustainable productivity nor demand seems to be forthcoming. Institutional forms are then studied—global relations, the state, and finance—and found to be lacking. Periodic deep recession and financial instability are thus likely until suitable changes emerge because long wave upswing has not yet emerged.

JEL classification: E32; O30; O40; P16

Keywords: long waves; mode of regulation; regime of accumulation; institutional forms; deep recession; financial instability; productivity; demand

1. Introduction

After being in the doldrums for a quarter of a century, economic performance in the United States was more impressive and durable during the late 1990s through 2000. Indeed, many were calling this period an “economic boom” that would be unlikely to lead to deep recession. Economic growth was more than 4 percent, productivity more than 2 percent, inflation less than 3 percent, real wage growth positive, unemployment less than 4 percent,
and *absolute* poverty moderating or even improving. The average rate of real growth of the stock market from 1991 to 1999 was an unprecedented 15.9 percent per annum. The United States was outperforming most other Organization for Economic Cooperation and Development (OECD) nations, buoyed by a high level of consumption, capital inflows, and investment. Perhaps the United States can lead the world into a new phase of capitalist development in the early years of the twenty-first century.

Indeed, Victor Lippit (1997) and Ismael Hossein-zadeh and Anthony Gabb (2000) believe that a new long wave upswing emerged in the 1990s in the United States, and Behzad Yaghmaian (1998) argues that a new global mode of regulation is in the making. Hossein-zadeh and Gabb (2000) critique certain authors for being skeptical about the actuality, potentiality, and sustainability of such upswing. As they say,

> A number of radical political economists [such as] Brenner 1998, Moseley 1999, [and] O’Hara 2000[b] . . . seem to be dismissive, oblivious, or in denial of this significant turnaround. . . . [T]hese radical economists are gravely misreading the expansion [and] . . . such misreading stems, among other reasons, from serious theoretical and methodological weaknesses. (388)

Hossein-zadeh and Gabb argue that the current U.S. expansion “signifies capitalism’s ability to restructure the conditions for profitability and reproduction as long as the costly consequences of such restructuring policies in terms of job losses, economic insecurity, and environmental degradation are tolerated” (396).

Despite this optimism, few analysts are convinced that the boom is sustainable or that long wave upswing is already in motion such that deep recessions and major financial crises have receded. Thomas Palley (1999: 22), for instance, believes that “there are many reasons to believe that a hard-landing . . . has real substance,” due to excessive consumer spending financed by overseas debt and an inflated price-to-earnings ratio. John Eatwell and Lance Taylor (1999: 47) agree that “it is a question of whether the government can move to counter a potentially deep recession when the private sector’s borrowing spree runs out. The popular prejudice against government deficits suggests that it will not.” Robert Brenner (1999: 32) thinks that eventually the excessive competition propelling “system-wide overcapacity and overproduction” will propel “a new recession or something worse” once the artificially high consumption spending financed by debt runs out of steam (see also Brenner 2000a, 2000b; Crotty 2000).

Many also foresee a possible worldwide recession in the wings. In a roundtable discussion of experts organized by the *Washington Quarterly* (Is the world economy headed into recession? 1999), most were pessimistic. Marina Whitman saw a worldwide recession as only slightly better than a “50-50 chance” (96). Robert Samuelson thought that “there are systemic problems [which] people in general don’t understand very well; . . . and we’re being surprised constantly” (94). Michael Mandel said that “when you have an era of technological change and globalization, these factors lead to a lot more volatility and turbulence in the economy—and that’s pretty much inevitable” (90). Murray Weidenbaum believed that “wherever I look at the globe, I see deep recession, if not depression: . . . a global situation where all the growth curves point down at the same time” (94).

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The so-called “boom” of 1997 to 2000 in the United States is seen by many to have been in large measure speculative and unsustainable, leading to a crash and deep recession now that consumer and business confidence has plummeted and competitive overproduction propels low profit, investment, and growth. Global uncertainty has risen to high levels in the face of recession in the United States, Japan, and parts of Asia and to low expectations in most of Europe. There is increasing speculation about an emerging generalized global recession in 2002 to 2004, as in the early 1990s, the early 1980s, and the mid-1970s. The medium-run future of the United States and world economies is the worst it has been for a decade or two. Now that the boom of 1997 to 2000 is over in the United States, the big question is, How deep, protracted, and widespread will the ensuing slowdown be? The Nasdaq composite index of high-tech stocks plunged more than 60 percent from a high of 650 index points in March 2000 to 250 in April 2001. This wiped out more than $1.75 trillion, or 4 percent of household wealth, and saw severe falls for many Internet, telecommunications, and technology stocks. Between October 2000 and June 2001, many indicators fell for the first time, or the greatest amount, since the recession of the early 1990s, including consumer and business confidence, industrial production, and industrial capacity utilization (Federal Reserve System [FRS] 2001a: 295–6; International Monetary Fund [IMF] 2001: 4, 12). The excesses of the late 1990s thus appear to be reversing into the new millennium, and terrorism is heightening global uncertainty.

This article seeks to scrutinize whether it is likely that a long wave upswing is currently or potentially in motion in the U.S. economy (set within a global system). The methodology used is consistent with the regulation school of political economy. Section 2 reviews the theoretical and historical foundations of the 1950s to 1990s long wave from a regulation point of view and explores the options into the new millennium. Section 3 scrutinizes the dominant production style that may promote sustainable (long-term) productivity. Section 4 examines the nature and influence of the dominant 1990s mode of regulation of consumption, which may promote sustainable (long-term) demand. Section 5 scrutinizes the role played by various institutional forms in the growth process. Section 6 concludes.

2. The Regulation Approach and a New Long Wave Upswing?

By utilizing a regulation school approach, this article examines the question of whether a new mode of regulation is developing at present in the U.S. political economy. If a new mode of regulation (MOR) is developing, or is in large measure already in place, then the United States can look forward to a considerable period of general long wave upswing with high growth, minor recessions, and minimal financial instability. If a new MOR is not developing or in place, then periodic deep recessions and major financial instability are likely in the foreseeable future, and long wave upswing is not currently operating. Of course, there are scenarios in between these two extremes that are possible as well.

According to most regulation school scholars (e.g., Mazier, Basle, and Vidal 1999; Tylecote 1992), by the 1920s, a new Fordist technological style was established in the United States and later in most other advanced capitalist economies, which by the late 1940s had boosted productivity. The dominant technical relations of Fordism included semiautomatic assembly line processes; mass production; economies of scale in the big corporations; and the utilization of an oil, coal, and combustion engine system of production. The Fordist
technological style and long wave upswing could not be more fully developed until a mode of regulation of consumption, a system of social relations of production and distribution, and a series of institutional forms were formed (see Ruccio 1989 and Pietrykowski 1999).

A suitable mode of regulation of consumption emerged in the late 1940s and early 1950s in most advanced capitalist nations, particularly the United States, within the context of a capital-labor accord in which big unions and big business agreed to divide the productivity gains between profits and wages. Organized labor tempered industrial unrest and control at the point of production in return for higher wages, which enabled the emergence of sustainable spending on consumer durables such as motor vehicles, televisions, and refrigerators and a network of suburbs, families, and associated state activities into the 1950s and 1960s. This enabled the symbiotic development of segmented labor markets, the de-skilling of labor in a bureaucratic environment, and the linking of mass production with mass consumption to propel the circuit of capital into extended reproduction.

The Fordist regime of accumulation in the 1950s and 1960s thus constituted both a sustainable production system or style and a mode of regulation of consumption, not simply in the United States but through all the major capitalist economies. Such a regime reduced the conflict between capital and labor, thereby enabling the reproduction of capital through high levels of productivity, demand, and profitability. But the process of temporarily resolving some of the major contradictions of capitalism needed further development in relation to the conflict between industry and finance, firms in competition, national and world economy, and production and social reproduction. This was done through the process of establishing certain institutional (or structural) forms that complemented Fordism, such as a regulated financial system, a two-sector corporate system, the Bretton Woods agreement, and the Keynesian welfare state.

A regulated financial system contributed to a reduction in conflict between money capitalists and industrial capitalists by increasing the profit of industry through the availability of cheap loans, the provision of endogenous money, and essentially state control over the financial system. A two-sector corporate structure, encompassing oligopolistic big business and small competitive firms, enabled economies of scale to be gained, while many of the small businesses acted as suppliers or subcontractors to the oligopolies. The Keynesian welfare state complemented Fordism through the provision of demand via welfare and warfare and by promoting the social reproduction of labor power, networks of infrastructure, and education. The Bretton Woods agreement enhanced stability through fixed exchange rates and balance of payments support, while U.S. hegemony provided global leadership and coercion to cement a Western alliance of the major capitalist economies with a common purpose.

Global Fordism, as it came to be called, thus brought together a production style and consumption mode to form a regime of accumulation to propel productivity and demand and a series of institutional forms of finance, corporations, the state, and international structures to complement the accumulation regime and form a global mode of regulation. The Fordist mode of regulation helped to sustain growth and reduce the intensity of recessions and financial instability through the 1950s and 1960s. However, through the late 1960s and early 1970s, the contradictions within the Fordist system began to heighten, which negatively affected productivity, profitability, and economic growth, leading to periodic deep recessions and heightened financial instability; hence, the emergence of long wave downswing during the 1970s to 1990s period in most nations of the world (except perhaps parts of
Asia, for a time). Productivity declined as the technologies matured and the intensity of labor moderated through workers’ gaining more power within the spheres of production and distribution (for a time). International leadership and coercion moderated through a decline in U.S. hegemony; as the United States lost the war in Vietnam, its technological superiority suffered, and balance of payments disequilibria led to more flexible exchange rates. The Keynesian welfare state came to be blamed for the stagflation of the 1970s and early 1980s as Reaganomics and Thatcherism led the charge of neoliberalism. And rising speculation and fictitious capital began to dominate industry, contributing to rising debt and the emergence of financial crises in the 1970s to 1990s period. (See the detailed studies in Jessop 2001.)

Thus, long wave regulation scholars tend to argue that during the 1950s and 1960s, there was a long wave upswing in the U.S. and world economy, while the 1970s to 1990s was a period of downswing. This mode of regulation analysis is supported by the reference cycle of U.S. gross domestic product (GDP) growth, as shown in Figure 1.

Long wave upswing during the 1950s and 1960s was characterized by annual average growth rates of 4.36 and 4.43 percent, respectively. During the 1970s, the economy made the transition to long wave downswing, when annual average growth was lower at 3.34 percent; and downswing continued into the 1980s and 1990s, with annual average growth rates of 2.91 and 2.97 percent, respectively. The central message is that during upswing, the capitalist economy is, in general, in a healthy state of expansion, with relatively minor recessions and minimal financial instability; while during downswings, capitalism is beset by periodic deep recessions and financial instability, even if there are some strong booms in the short cycle. Typically, during long wave expansion, unemployment is on average relatively low because growth is high; while during long wave contraction, unemployment is on average high because of the deeper recessions and greater uncertainty. These GDP growth rate patterns are mirrored by data for the U.S. rate of profit, which is usually also a good proxy for the health of the capitalist system. Profitability diminished considerably in 2001 as decline set in (see O’Hara forthcoming-b for detail; FRS 2001b).

During the long wave contraction of the 1970s to 1990s period, the Fordist system deteriorated as the technologies matured; productivity slumped; instability increased; and the

![Figure 1. Real Gross Domestic Product (GDP) Growth Rates: Decade Annual Averages, United States, 1950–99 (seasonally adjusted). Source: Bureau of Economic Analysis (2000: 124–5).]
whole system of suburban, family, and state structures evolved and became subject to contradictory processes. Most of the industrial nations of the world have been subject to major periodic financial instability and deep recession during the 1970s to 1990s long wave downswing because of some combination of (1) a mismatch between the production and consumption modes, (2) these modes not being suitably developed, and (3) collectively the institutional forms not suitably enhancing the long-term reproduction of capital. A period of transition, instability, and readjustment has been in motion. The big question is whether a new mode of regulation—comprising production style, consumption mode, and institutional forms—is being developed at present for the world economy and/or specific national sites (see O’Hara forthcoming-a, forthcoming-b, forthcoming-c).

This article is an attempt to apply a fairly standard regulation approach in an environment of changing technologies and institutions in the United States. In particular, it explores the hypothesis of whether a new production style is developing, comprising microelectronics, information processes, and some elements of the flexible system. Both the technical and social relations of production are explored in relation to this possible new production style. A critical dimension is the extent to which productivity increases in the late 1990s to 2000 period are a direct result of the new production style or in large measure the result of the upswing in the (short) business cycle. The latter would imply that increased productivity is not sustainable for long wave upswing.

Also, this article raises the hypothesis of a new mode of regulation of consumption to include the emerging consumption regime associated with the stock market “wealth”-generation process. The Fordist consumption mode in the 1950s and 1960s emanated from the majority of the working class gaining real wage increases and public benefits that were in rapport with the developing suburban transit system, the housing and family structure, and durable consumer goods production. In the late 1990s to 2000 period, a new set of demand processes have emerged that may provide a basis for a new consumption mode. This is explored in section 4.

Traditional regulation theory implies that even if a sustainable regime of accumulation appears to be emerging, a full long wave upswing may not be emerging because certain institutional forms are not adequately facilitating the extended reproduction of capital; hence the importance of studying the institutions of the world economy, the state, and the financial system. Most of the discussion of these institutions is reserved for section 5. This article explores the questions, for instance, of whether international institutions are facilitating sufficient stability, conflict resolution, and productivity; whether the neoliberal state is an ade-

2. Much has been written about possible new modes of regulation. For instance, many political economists got excited about the potential for the flexible mode of production, including just-in-time methods of inventory control, total quality management, and the establishment of work teams and rotating tasks (see O’Hara 2000b). Others see the emergence of heterogeneous capital-labor regimes and a new international division of labor. Alain Lipietz (1997), for instance, argues that a neo-Taylorist system is dominant in the United States, the flexible system of production in Japan, and negotiated involvement in places such as Sweden (see Lipietz 1986 for an earlier work). Andrew Tylecote (1995) sees a potential long wave upswing once the current dominant technological style of microelectronics and biotechnology is suitably matched by a set of micro, macro, and sociopolitical institutions. Behzad Yaghmaian (1998) argues that a new global mode of regulation is in the making. Robert Boyer (2000) and Michel Aglietta (2000) raise the possibility of modifying the regulation approach on the basis of new institutions and processes, such as the finance-led growth regime, shareholder value, and corporate governance.
quate institutional form; and whether the deregulated financial system is effective in propelling industrial capital to an adequate degree.

To comprehend the possible new mode of regulation, it is important to recognize that it does, in general, appear to be based on a global neoliberal perspective. Neoliberalism is the policy of enhancing market forces at every turn, whether this be through free trade, industry deregulation, privatizing government activities, freeing up the labor market, or promoting the free flow of money and productive capital (see section 5 for more detail on neoliberalism). Increasingly, neoliberalism is taking a global dimension (Yaghmaian 1998). The free flow of the whole circuit of social capital at the global level is enabling capitalism to transcend many national and local barriers to its reproduction (Palloix 1975; Dicken 1998). The workings of the circuit of capital are operating in a relatively unhindered fashion. However, the motion of the circuit is not uniform, being subject to uneven development, as some nations and areas develop in certain respects whereas others do not; and the “free flow” of the circuit itself presents some obstacles to stability, especially in relation to the motion of “hot capitals” (e.g., short-term foreign bank loans).

The World Trade Organization (WTO) is seeking to propel the unhindered cross-border mobility of commodity capital. The IMF has been at the forefront in reducing barriers to the free global movement of money capital. And transnational corporations (TNCs) have been successful in globalizing production chains. This global free movement of the circuit of capital is in the image of the United States as a prime mover in the world stage, as U.S. interests are seen to be best served by such developments. U.S. TNCs are at the forefront in developing strategic alliances, production chains, and market value in the global marketplace.

Given the current stage of globalization, how should the regulation approach deal with the question of national and global capitals in the struggle for a new mode of regulation? The approach taken in this article is to examine the status of the mode of regulation in the United States in both its national and global dimensions.

3. A New Production Style and Sustainable Productivity?

Central to the current global workings of the leading TNCs in the “new economy” is investment in automated processes, information and communications technology (ICT), and networks of relationships and business linkages. U.S. companies are the leaders in ICT, and the U.S. economy seems to be ahead of others in benefiting from the latest revolution in computing and electronic technology. Therefore, if any national economy is likely to be in the throes of a successful production style, leading the rest of the world, it is the United States. There are two interrelated aspects to the production style: the technical and the social relations of production; although in essence the differences are matters of emphasis.

The technical relations of production link to innovations from an expansion of entrepreneurial talent and expertise in areas of low-cost electronics and data processing. Small- or medium-batch production is a key element of this new regime of production, with just-in-time methods of inventory control and supply chain management becoming more widespread (see Claycomb 1999). Economies of scope (in addition to scale, depending on the firm or industry) are being used to reduce cost and increase productivity. New systems of office work, product design, and total quality management are important to the latest methods of production in the workplace. Financial services are also speeding their systems
of accounting, enhancing margins, and downsizing; and firms are attempting to maximize shareholder value more explicitly as they come under the ownership of large financial or corporate interests (see Aglietta 2000). Multipurpose forms and diversity enhance the degree of institutional flexibility and cost reduction.

Some believe that a new style is emerging or is in large measure already in place: a new techno-economic paradigm. For Carlota Perez (1985: 441), such a paradigm constitutes “a new system of flexible technologies, based on low-cost electronics”; while for Andrew Tylecote (1992: 56), it is a “microelectronics and biotechnology style.” An examination of the literature reveals that almost everyone believes that a new system of technology is well and truly in place (see, for instance, Cantwell and Santangelo 2000; Papadakis 2000; Phillips 2000), even if they are not sure what to call it. ICT is seen to be a critical part of the new paradigm.

There “is a trend towards information intensity rather than energy and materials intensity in production” that follows “directly from the very visible change in the general relative cost structure towards ever cheaper information handling potential through microelectronics and digital telecommunication” (Perez 1985: 447; see also Tylecote 1995: 5). Perez (1985) points out that in product engineering, there is a tendency to redesign existing production systems so that they are smaller, with fewer moving parts, more electronic forms, and less energy intensity. Increasingly, the Internet is seen to be critical to these new systems of production as its use grew from 5 million users in 1993 to 100 million in 1998, with registered sites growing at an annual rate of 40 to 50 percent (Kenney and Curry 1999: 131). Business-to-business e-commerce currently accounts for 90 percent of online trade and is expected to dominate business-to-consumer e-commerce at least in the foreseeable future (Barnett 2000: 1). Network externalities promote business interaction and provide considerable benefits to society (Madden, Savage, and Coble-Neal 2000). There is a trend toward both greater research and development (R&D) investment intensity and concentration in U.S. industries such as information and electronics. Industry R&D intensity—measured as R&D investment divided by sales—has increased from 1.8 percent (1977) to 2.02 percent (1981) to 3.2 percent (1988) to 3.77 percent (1995) in the United States. Of total industry R&D, the information and electronics sector constitutes 43.6 percent, far ahead of the other sectors (Whitley and Larson 2000).3

Tacit competencies constitute a critical system-building form of stability in an otherwise uncertain environment. Thus,

[t]he more tacit knowledge is, the more spatially concentrated we expect it to be. Since tacitness implies localization of development and greater context-specificity, and requires greater intensity of face-to-face interaction, knowledge transmission becomes more complex both within and across organizations. . . . The transmission and absorption of knowledge takes on an informal and experimental character, thus requiring higher and more closely complementary technological competencies on the part of cooperating teams. This is the case, for instance, for many computer-based technologies. (Cantwell and Santangelo 2000: 145)

3. Many of the high research and development (R&D) sectors in the United States have been able to gain a global comparative advantage, such as in electronics, computing machines, instrumentation, aerospace, and pharmaceuticals; and intracorporate trade constitutes an important part of the whole process (Papadakis 2000: 142).
The more geographically concentrated technological sectors, based on tacit knowledge, include internal combustion engines, power plants, office and data-processing equipment, cleaning agents, bleaching and dyeing, other electrical communication systems, distillation process, and semiconductors (science-based industries); hence the development of national systems of innovation. In this tacit and spatial concentration context, the United States has a clear advantage over most nations—especially those ultra-dependent on the world economy—in having a large domestic market. It is this large domestic market in the United States that was a critical stabilizing process enhancing growth and the new production style during the late 1990s.

Some analysts have sought to view this new production style as a mostly benevolent system of social and production relationships. With flexible production, corporations can change product lines quickly, workers become more highly skilled and multiskilled, production is oriented around teams of “associates,” and the worker-friendly environment leads to a higher quality of life in the workplace. Supervisors are said to be becoming largely redundant, new unions are needed that cooperate with employers, and more people can have access to computers and other ICT products as prices for new technology products decline by 25 percent a year (Jorgenson 2001: 9).

However, the social relations of production and distribution reveal a more complex reality. The new production style is being created in a social and political environment where, over the past two and a half decades, worker power has been effectively challenged. Neoliberal policies, deep recessions, company retrenchments, and the introduction of new technology itself were means of reducing the ability of workers to influence the outcome of wage negotiations and changes at the point of production. The economic environment changed from one of relatively high worker power to the current situation of a high level of power in the hands of capital. Also, the extent to which the flexible system of production is being created in the United States has been exaggerated since standardized products, mass production, and Taylorist work practices are more common than many realize. Also, the creation of flexible systems, lean production, and work teams—to the extent that they are developing—seems to be a means of increasing labor effort, speeding up assembly lines, reducing the number of workers, and contracting out tasks that can be outsourced (Yates 2001).4

The idea that the “new economy” could fundamentally change the social relations of production and distribution—as distinct from modifying the technical means of production—is difficult to believe in the face of a relatively constant mode of ownership, control, and management. We still have an economy based on the profit motive, a class system of production and distribution, and the need to exploit labor and reinvest the rewards toward further accu-

4. As Michael Yates (2001) says,

Lean production aims at the maximum extraction of labor from human labor power, that is, at compelling workers to work with peak intensity for as many hours as possible. In automobile plants, for example, employees often work fifty-seven seconds out of every minute. It has nothing to do with empowering workers or making them more skilled, much less allowing them to make basic managerial decisions. The high-skill, high-wage workplace of the future is a pipedream. . . . [I]t is hard to see how even the highly skilled technical jobs associated with the electronic revolution will not ultimately show an erosion of skill. (11)

This message is similar to that documented by Carl Dassbach (1999).
mulation and aggrandizing the few. "The truth is that in the most fundamental sense, i.e., social relations, there is nothing new at all about today’s economy" (Yates 2001: 12). As William Tabb (2001) says,

"Technology in a capitalist economy is embedded in a set of social relations. . . . Companies in the 1990s learned more brazenly to fire long-term employees, outsourcing and subcontracting their jobs, replacing their traditional workforces with contingent and contract workers, and shifting core employment to a smaller New Economy cohort. . . . The connections between a rising high-tech segment of the stock market, widespread stagnation elsewhere, and more or less constant and falling real wages for the majority, need to be made clearly so that the celebration of the New Economy by politicians and the financial press can be better understood. Beneath the technological progress are the same old instabilities and social relations of capitalism." (9)

Tabb believes that ICT has not been as dramatic as previous industrial revolutions in promoting productivity and sustainable economic growth. Is he correct? Certainly the new production style is well in place, and the United States did experience strong productivity growth at the height of the short-cycle boom in the late 1990s to 2000 period. It does need to be stressed, though, that the productivity picture is not very impressive, as Table 1 indicates.

Over the past decade or two, until the mid-1990s, the inability of massive investments in information technologies to raise productivity in the business sector as a whole has become known as the "productivity paradox." For instance, according to Table 1, output growth per work hour was on average 3.3 percent in the 1950s and 3.1 percent in the 1960s (long wave upswing), falling to 1.9 percent in the 1970s, 1.5 percent in the 1980s, and 2.0 percent in the 1990s (long wave downswing). This is not a pretty picture for the production style, despite the fact that productivity in the ICT sector has increased by an average annual rate of 24 percent in the 1990s (see Woodall 2000). At best, productivity in the business sector as a whole has increased significantly only in the high point of the short-cycle boom during the late 1990s to 2000 period.

### Table 1
Productivity in the U.S. Business Sector, 1950–2001 (annual rate of change or average annual rate of change)

<table>
<thead>
<tr>
<th>Year</th>
<th>Output Growth per Hour</th>
<th>Multifactor Productivity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950–1960</td>
<td>3.3</td>
<td>NA</td>
</tr>
<tr>
<td>1960–70</td>
<td>3.1</td>
<td>2.2</td>
</tr>
<tr>
<td>1970–80</td>
<td>1.9</td>
<td>1.1</td>
</tr>
<tr>
<td>1980–90</td>
<td>1.5</td>
<td>0.6</td>
</tr>
<tr>
<td>1990–2000</td>
<td>2.0</td>
<td>0.8</td>
</tr>
<tr>
<td>1996</td>
<td>2.8</td>
<td>1.6</td>
</tr>
<tr>
<td>1997</td>
<td>2.3</td>
<td>1.2</td>
</tr>
<tr>
<td>1998</td>
<td>2.8</td>
<td>1.4</td>
</tr>
<tr>
<td>1999</td>
<td>2.8</td>
<td>0.8</td>
</tr>
<tr>
<td>2000</td>
<td>4.2</td>
<td>NA</td>
</tr>
<tr>
<td>2001 (March quarter)</td>
<td>–1.4</td>
<td>NA</td>
</tr>
</tbody>
</table>

The OECD found that after accounting for the cycle, aggregate productivity increased on average by about only 0.5 percent per annum during the 1990s in the United States (plus Australia, Canada, and the Scandinavian nations; but a smaller amount for almost all of Europe and Japan) (Woodall 2000). Some believe that productivity is difficult to measure in, for instance, the service sector. Robert J. Gordon (2001) attributes much of this late-1990s productivity increase in the United States to the short-cycle boom, believing, as a result, that ICT has not improved business productivity (in a sustainable fashion) as much as the electricity and combustion engine technological styles did in earlier phases of capitalist development. The acceleration of average U.S. annual output per hour in the late 1990s, to the tune of 1.35 percent, is accounted for mainly by a cyclical effect (0.54), followed by computer capital deepening (0.33), higher multifactor productivity (0.29), and labor quality (0.19).5

One reason for this disappointing result from information technology, according to Gordon (2001), is that the main computer innovations, such as mainframes and personal computers, have already encountered a high degree of diminishing returns after the successes of the 1970s and 1980s. Other reasons relate to the peculiarities of the Internet. For instance, the Internet is used mainly for protecting market share against competitors rather than expanding the range of services. The Internet is also providing preexisting forms of information rather than new products and activities. It is often an alternative (duplicator of services) vis-à-vis mail-order catalog shopping. And last, a considerable amount of Internet use at work is for leisure and consumption, “requiring” increased surveillance of workers (Gordon 2001).

Consistent with Gordon’s (2001) analysis, a critical source of productivity increase in the late 1990s in the United States seems to be the (short) business cycle, as the relationships examined by Browne (1999: 11) illustrate. Therefore, the 1990s upswing may have been just that, mainly a short-cycle expansion of productivity in the late 1990s to 2000 period rather than a sustained long wave upswing. The rising productivity during the late 1990s could thus be explained in part by Verdoorn’s Law (economies of scale and learning by doing; see O’Hara 1999: 1228–331) as well as by firms pushing workers harder during the upswing (Woodall 2000). Hence, productivity should decline when the cycle upswing moderates or recession emerges, which is exactly what is happening at present, starting from the first quarter of 2001, when productivity growth was negative, as Table 1 shows.

We thus appear to be experiencing a contradictory situation where a new production regime is emerging but without a sustainable (long-term) increase in productivity. This does not auger well for the regime of accumulation or long wave upswing in the new millennium—at least not yet. In the next section, this article explores an equally important ques-

5. Dale Jorgenson and Kevin Stiroh (2000: 184–6) provide more favorable results for information and communications technology (ICT) than Gordon (2001), especially for capital deepening, total factor productivity, and price decline. However, they emphasize the “uncertainty” about “the contribution of high-technology assets to the growth resurgence.” They note that “caution is warranted until productivity patterns have been observed for a longer period” because, should progress in high-technology industries decline, the economy would be affected by both this decline as well as by decline in sectors that have a high use for such technology. Uncertainty also exists about “intermediate-term projections” due to “widening gaps in our knowledge.” They also critique the simplistic view that ICT “spills over into every kind of economic activity and reveals its presence by increases in industry-level productivity growth across the U.S. economy. This view is simply inconsistent with the empirical evidence.”
tion: whether the other face of the regime of accumulation—the mode of consumption—promotes sustainable demand through market expansion.

4. The Mode of Consumption, Bubble Crash, and Future Performance

This section examines the U.S. demand regime to see what the potential is on this front for sustained GDP growth into the new millennium. Can certain instabilities and contradictions pave the way for a deep recession that would end the (short) business cycle upswing and again question the notion that there is a long wave upswing in motion? Specifically, the regime of accumulation requires both a sustainable increase in productivity from the production style and a sustainable expansion of demand to provide the foundations of long wave upswing. It seems unlikely that productivity is at this point sustainable. But is there a sustainable demand regime in the United States that could enhance long-term economic performance?

Figure 1 illustrates the high GDP growth rates for the 1950s and 1960s followed by much slower rates for the 1970s, 1980s, and 1990s. If one decomposes the GDP figures into their different components of demand, the data indicate that there are two main changes to the components of demand between the long wave upswing of the 1950s and 1960s and the downswing of the 1970s through 1990s. The first is the switch from government expenditure to private consumption expenditure. While private consumption has increased from decade annual average levels of 62 to 63 percent of GDP during the long wave upswing (1950s to 1960s) to 64 and later 67 percent during the downswing (1970s to 1990s), this has been “dollar-for-dollar” at the expense of government consumption (and net exports). And the second change is the greater balance of payments constraint as imports outperform exports. While during the long wave upswing the net export balance was positive, this changed during the long wave downswing as net exports turned negative, equal to more than 1 percent of GDP in the 1990s (see O’Hara forthcoming-a; Bureau of Economic Analysis [BEA] 2000).

Thus, from the point of view of a sustainable mode of demand for long wave upswing, the following conclusions can be made. The first is that export demand is unlikely to sustain upswing, because the balance of trade is very much in the red as imports have exceeded exports and capital inflows have expanded. The second conclusion is that on current trends, government spending is unlikely to be a critical boost for sustainable upswing because both government investment and government consumption expenditures have declined somewhat as a percentage of GDP. More important, government investment spending as a percentage of government consumption spending has declined from decade annual averages of 24 percent (1950s) to 21 percent (1960s) to 12 percent (1970s) to 11 percent (1980s) to 10 percent (1990s) (BEA 2000: 120–1). The third conclusion is that the main “positive” change in the composition of demand is that private consumption demand has increased markedly at the expense of government demand. Therefore, any discussion about a currently emerging mode of regulation of demand must center on this major trend: private spending.

What, then, is the dominant dynamic of private spending in the 1990s? The U.S. boom of 1997 to 2000 was a result of a combination of overseas and domestic developments. The
(short) business cycle upswing was moderate until the Asian crisis in 1997–98, when the U.S. economy became more of a “safe haven” for foreign money and interests (Wincoop and Yi 2000). The safe haven function of the U.S. economy became stronger as a result of the Russian and Brazilian economic-financial crises in the late 1990s. Capital moved from many “emerging economies” to the United States, often through offshore banking centers. It did so in a circular and cumulative fashion: the U.S. cycle upswing and relative domestic stability enhanced capital inflow; capital inflow provided much of the debt and capital underlying domestic private consumption (including equity holdings); domestic growth increased imports, expanded equity prices, and led to the appreciation of the U.S. dollar; which led to an expansion of capital inflow and domestic wealth; which boosted private consumption (and investment) and thereby GDP; and so on ad infinitum.

The domestic market was a critical factor in the U.S. boom for demand as well as technological change. With a population of around 265 million people, and an average income of $25,000, this gives the United States a total GDP of just over $6.62 trillion, the largest in the world (Royal Geographical Society 1998: vi). A large internal demand provides the potential for a concentration of tacit knowledge and a national system of innovation, which constitutes a major source of stability, profit, and resolution of conflict required for a mode of regulation.6,7

Despite the strong domestic demand, it may well be that the U.S. (short) business cycle boom was unsustainable because such growth was based on consumer expenditure (in particular) that was financially overextended and not based on fundamentals. Much discussion has been generated about the 1990s “wealth effect” illustrated thus:

\[
\uparrow \text{US}_{sa} \rightarrow \uparrow K_{static} \rightarrow \uparrow D_{net} \rightarrow \uparrow E_d \rightarrow \uparrow S_g \rightarrow \uparrow W \rightarrow \uparrow C, I \rightarrow \uparrow \text{GDP}.
\]

Due to the rise in financial-economic instability in emerging economies during the 1990s, the United States played a stronger role as a safe haven (US$_{sa}$) for global capital flows, including bank credit, portfolio investment, and direct investment. Thus, a large cap-

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6. The “national” orientation of the system of innovation constitutes the relatively stable aspect of the phenomena. Nevertheless, as Chris Freeman (2001: 118) recognizes, “There is nothing in modern ICT, which eliminates uncertainty in relation to investment behaviour, the most important source of instability in capitalist economies.”

7. Makhija and Williamson’s (2000: 122) empirical study of U.S. industries demonstrates that “U.S. industries are mostly multidomestic, particularly in comparison with other nations,” mainly due to “the size of the domestic market and country distance.” Nineteen of the twenty-seven U.S. industries—most of the chemicals and manufacturing industries—are domestically orientated, including petroleum refining, automobiles, and military aircraft. Some industries are also “simple global,” which means that they use the domestic sector as a stepping stone to the world economy, and are highly geographically concentrated (imports do not play a critical role), the motorcycle industry being a classic example. Industries that are “integrated global” include fertilizers and pesticides; engines and turbines; specialized industrial machinery and office equipment; office, computing, and accounting machinery; and civilian aircraft. “Multidomestic” means that “competition in one country is largely independent of that in other countries; while ‘multidomestic transitional’ means that there is a primary focus on the domestic industry along with a significant, although uncoordinated export orientation” (105). “Integrated global” means “a high level of international competition” and “highly dispersed value-added activities,” while “simple global” means that “the scope of competition transcends domestic boarders . . . [but] involved the use of the home country as an export platform to reach international markets,” where “firms have a geographically concentrated configuration” (105–6).
ital account surplus ($K_{inflow}$) was balanced by a large current account deficit as the U.S. dollar appreciated and U.S. growth expanded (due to the wealth effect). The greater debt ($D_{eq}$), partly from capital inflow, contributed to a rise in the demand for equities ($E_{d}$) in the mid-1990s, which led to a rise in both share prices ($S_{p}$) and wealth ($W$) of consumers who traded in the market. And since consumption is in part a function of actual wealth, private consumption expenditure ($C$) experienced a rapid expansion in the late 1990s, which enhanced private investment ($I$), and thus GDP.

Evidence shows that the wealth effect of stock prices on consumption is higher in the United States, because the percentage of households that hold equity is more advanced in the United States than elsewhere in the world: rising from 11 percent in the period from 1985 to 1989 to 20.9 percent in 1996 and then suddenly jumping to 24.4 percent in 1997, when stock prices started to really boom (IMF 2001: 98). During the 1990s in the United States, it has been estimated that the direct effects of equity capital gains on consumption have been considerable, with between five and fifteen cents in the dollar of a share market capital gain being spent by consumers over a two-year period (Dynan and Maki 2001: 27). This would help explain the pattern of data shown in Table 2.

These figures show that household liabilities actually exceeded the value of disposable income during 2000, consumption rose to an unprecedented 97 percent of disposable income, and wealth rose to more than six times income. This is a quite remarkable situation. For the first time in recent history, the household sector has become a net demander of funds, to the tune of 3.3 percent of GDP (Peach and Steindel 2000: 4) as debt levels rose, based on actual capital gains. For the first time ever, consumer credit outlays are now more than 20 percent of disposable personal income (FRS 2000: 624); hence the historically low, traditionally defined, savings levels.

These high rates of household demand helped propel growth of business investment from the lowest level in recent history, 0.4 percent in 1992, through to a 4 percent rise in 1999, financed partly by high capital inflows (Peach and Steindel 2000: 3). The Federal Reserve Bank of New York (Peach and Steindel 2000) calculates a relatively steady rate of savings when (modified) savings figures take into account the increased wealth of consumers. Based on such wealth figures, it concludes that consumers are not borrowing and spending recklessly. However, this is based on the assumption that wealth does not decline suddenly, leaving them financially exposed.

Hence, a critical question is the extent to which there has been a speculative bubble in the stock market and the degree to which the bubble crashed during 2000–01, resulting in a major drop in wealth. If a generalized speculative bubble existed, and then crashed, this

### Table 2

Households: Liabilities, Consumption, and Wealth, United States, 1990–2000

<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>1995</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities as a percentage of disposable incomea</td>
<td>87.22</td>
<td>93.97</td>
<td>107.89</td>
</tr>
<tr>
<td>Consumption as a percentage of disposable incomea</td>
<td>89.18</td>
<td>91.16</td>
<td>96.67</td>
</tr>
<tr>
<td>Wealth/income ratiob</td>
<td>3.0</td>
<td>3.2</td>
<td>6.3</td>
</tr>
</tbody>
</table>

b. Data from Dynan and Maki (2001).
should reverse consumer confidence and reduce investment, leading to a slowdown in U.S. domestic demand and possibly a deep recession. For instance, if the share price divided by corporate earnings (price/earnings ratio) above a certain level is a rough proxy for speculative bubbles, then it is highly probable that a large bubble existed during the late 1990s and then declined in 2000–01 in the United States (see Figure 2).

Figure 2 indicates that a positive bubble was present before the crash of 1987, during the early 1990s, and during the late 1990s. In 1987, a substantial correction was made; also in 1993–94 and 2000–01. After the 1987 crash, speculators moved to commercial property, and after that crashed in 1989, recession emerged during 1990–91. The decline of 1993–94 resulted in a modest drop in retail sales and new manufacturing orders plus a rise in inventories for a couple of years. The (short) business cycle upswing after the recession of the early 1990s did not become buoyant until 1997. The main difference between the rise and decline in the bubble during the early/mid-1990s and during 2000–01 is that the latter coincided with the boom and crash of Internet and high-tech stocks. The 2000–01 decline of the S&P 500 Index in the order of 28 percent is, therefore, much more significant in terms of the future possible course of economic activity. The pattern of the rise and fall of the Nasdaq-100 Index, an index of share prices for the leading companies in computing hardware, software, telecommunications, new technology, wholesale and retail trade, and biotechnology, is shown in Figure 3.

This shows how the speculative bubble in the Nasdaq Index crashed by 60 percent during the period from July 2000 to July 2001, wiping out all the gains made since mid-1998. Further falls followed the terrorist crisis of late 2001. Given that the boom in the late 1990s was, to a large degree, a result of the positive wealth effect of the equity market bubble increasing demand, a major decline in the S&P 500 bubble and a major crash of the Nasdaq-100 bubble are likely to reverse this demand expansion. Indeed, the decline in wealth, consumption, and investment, and thus in real GDP, has already commenced. On an

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8. The price/earnings ratio is a standard tool of sharemarket analysis. It is defined as follows: P/E ratio = (market value of share)/(earnings per share), where the market value is the share price weighted for the importance of the companies in the index and the earnings per share is the after-tax profit per share weighted for the importance of the companies in the index.
annual basis, the decline in the equity market in the United States during 2000–01 saw the total wealth of Americans decline markedly, with $3.7 trillion being lost as a result of the Nasdaq crash alone (Sylvester 2001). In the fourth quarter of 2000, there was a drop in durable consumption expenditure of 3.1 percent; and during the first quarter of 2001, the index of consumer expectations declined from 105 to 81, the largest fall since the recession of the early 1990s (FRB of Cleveland 2001: 7). Nonfinancial profits before tax dropped by $75.76 billion and $24.3 billion in 2000:4 and 2001:1, and real gross private domestic investment fell by $4.1 billion and $13.3 billion in 2000:4 and 2001:1, respectively. Not since the last recession has there been a worse GDP result for consecutive quarters: –0.6, –1.6, and –0.3 percent (negative) growth for 2001:1, 2001:2, and 2001:3, respectively (BEA 2001).

A negative wealth effect is currently in “progress” and will continue through the next couple of years:

\[ \downarrow E \rightarrow \downarrow S \rightarrow \downarrow w \rightarrow \downarrow C, I \rightarrow \downarrow GDP. \]

As traders have come to realize that many of the high-tech and Internet stocks could not live up to their potential earnings expectations, stock market confidence crashed during the three years of highly negative growth from 2000 to 2002. A decline in the demand for equities led to a major drop in share prices, leading to a drop-off in wealth and thereby reduced consumption, investment, and GDP. If every dollar decline in wealth reduces consumption by approximately seven cents (within the band of five to fifteen cents mentioned by Dynan and Maki 2001), then the 47 percent drop in general share prices during 2000 to 2002 that reduced paper wealth by about $9 trillion should result in a decline in annual consumption of about $600 billion or 7.0 percent of GDP. Further multiplier and accelerator effects would magnify this in a circular and cumulative fashion. This sounds like a recipe for a deep recession. The United States will likely weaken as a safe haven for global capital

9. This would be compounded by the fact that a significant portion of the higher-echelon workers have been receiving stock options instead of wage increases; and the declining share market will negatively affect their labor supply, including productivity (see Dean Baker 2000: 116).
flows, the value of the U.S. dollar will likely dampen, and capital account surpluses will likely decline as import growth dissipates.

A critical problem is the narrow consumption base of the 1990s boom, depending as it did on the wealth effect of equity bubbles and greater debt financing of consumption. At the time of the equity crash, around 25 percent of the U.S. population held shares, a massive increase from the 11 percent average of 1980 to 1984, double the figure of the United Kingdom, and six times the figure for Japan, France, and Italy (IMF 2001). While the mode of regulation of consumption underlying the 1950s to 1960s long wave upswing was broadly based on the majority of the population, the consumption mode of the 1990s was based, at most, on a quarter of the population. Equities increased from 5.0 (1989) to 11.6 (1999) percent of average wealth, mostly for wealthy U.S. citizens. As Tracy and Schneider (2001) point out, in the late 1990s,

Poor households at the bottom of the wealth distribution own little equity or real estate, while households in the middle of the distribution hold most of their wealth in real estate and a small portion in stock. The wealthiest households have substantial holdings of both stock and real estate. (2)

The boom of the 1990s was the most consumption-dependent cycle expansion for at least fifty years. Being based on share bubbles, it had little potential to be sustainable. The rising consumption of the working class and the poor during the 1990s was also unsustainable since it was “accompanied not by rising real incomes for the majority of the population but stagnant wages” (*Monthly Review* 2000). Between 1988 and 1998, relative income declined substantially for most of the population as a percentage of the income of the wealthiest 5 percent: from 6.7 to 5.1 percent (bottom 20 percentile), 15.6 to 12.0 percent (21 to 40 percentile), 24.3 to 18.9 percent (41 to 60 percentile), and 64.0 to 57.1 percent (61 to 80 percentile) (Frank 2000: 255).

This major drop in relative income led even the poorest to try at least to “keep up with the Joneses” in relative spending patterns, which led to major increases in debt. The percentage of indebted families whose debt service payments were greater than 40 percent of their income increased from 27.6 percent in 1995 to 32.0 percent in 1998 for those with an income less than $10,000, from 17.3 to 20.0 percent for those with an income between $10,000 and $24,999, and from 8.0 to 13.8 percent for those in the $25,000 to $49,000 income bracket. As a result, individual bankruptcies in the United States increased from thirty-two hundred per million in 1994 to five thousand per million in 1999, even before the stock crash of 2000–02 (Stavins 2001: 17). Now that general consumer confidence, productivity, wealth, employment, and GDP are deteriorating, in some cases markedly, it is likely that individual bankruptcies and hardship for the working class will escalate.

Thus, as we commence the new millennium, there does not appear to be a sustainable mode of regulation of consumption that encompasses the majority of the population. The stock bubble illustrates the limits of the wealth effect of the 1990s, and the relative income expansion of debt for the lower segments of the population highlights the lack of a durable consumption mode for workers and the middle class. An alternative system of consumption emanating from overseas via exports is certainly not developing for the United States; hence, from the demand side of things, no sustainable structure appears to be developing as yet for long wave upswing. As the editors of *Monthly Review* (2000) state,
It follows that increasing inequality in income and wealth can be expected to create the age-old contradiction of capitalism: on the one hand, sluggish consumer demand narrows the marketability of the goods that capital needs to sell; on the other, profitable investment opportunities depend ultimately on vigorous growth in the effective demand for consumer goods. (1)

The big question now is, Will the slump that follows be minor or major? If it is minor, this indicates, or at least provides a prima facie case, that a long wave upswing is in motion; and if it is major, this indicates that the U.S. economy is still in a long wave downswing. The next two years, from 2002 to 2004, therefore, will be a critical period in the history of U.S. capitalism. The analysis of this article to this point indicates that a new long wave upswing is unlikely to be in motion because a new sustainable regime of accumulation has yet to emerge. Sustainable macroeconomic productivity is unlikely to be forthcoming from the production style, and the demand influence of rising equity markets is not durable enough either. But a fuller comprehension of the potential for long wave upswing requires an analysis of certain structural forms, such as the institutions of the world economy, the state, and the financial system. (For detail on these, see O’Hara forthcoming-b.)

5. Institutional Forms: Global Economy, Finance, and the State

5.1. Institutions of the Global Economy

The major institutions of the world economy relate to money, trade, and production (see O’Hara forthcoming-c). The monetary institutions relate especially to the operations of the IMF. Under the influence of neoliberal arguments about the benefits of deregulating capital flows, many nations of the world reduced restrictions on capital inflows and outflows during the 1980s and 1990s, which was encouraged by the IMF. But during the 1990s, the financial-economic crises in Mexico, Asia, Russia, and Brazil brought to the fore major problems with hot capital flows, especially bank loans allocated via offshore banking centers. These flows became excessively unstable and began to severely impact economic activity (Kadmos and O’Hara 2001). In response, the IMF has recently introduced some reforms to promote stability in the face of further potential crises in emerging and transitional economies. The IMF has instituted policies to promote prudent functions, transparency, sound macroeconomic policies, and information flows and has even begun to emphasize poverty relief rather than adherence to rigid neoliberal policy blueprints. Also instituted are two special measures to aid nations in financial crisis and contagion (the Supplementary Reserve Facility and the Contingent Credit Line), which leads the IMF to move into the area of quasi-international lender of last resort facilities. Overall, despite some problems, it has been genuinely seeking to reduce potential financial instability in the world economy, which should aid stability in the United States as well.10

10. The Supplementary Reserve Facility was introduced at the end of 1997 for International Monetary Fund members already in a financial crisis. It provides substantial short-term loans at penalty rates, subject to policy conditionality, for nations with major balance of payments anomalies due to a large short-term funding need caused by a sudden and destabilizing loss of market confidence. Korea and Russia are two nations that have
The second institution is the WTO, which was founded in 1995. It has been the most significant institutional innovation in the trade regime since the General Agreement on Tariffs and Trade (GATT) in 1948 and potentially could be a critical element of a new global institutional form. For the first time in history, an actual organization advances the interests of free trade rather than simply an array of (“gentlemen’s”) agreements such as GATT. Without a doubt, the WTO has had considerable success to date in resolving conflicts (Lash 2000). However, it has been at the center of a growing momentum to influence the course of its functioning from a diverse group of vested interests, stakeholders, and nongovernmental organizations. There are many difficulties associated with the process of formulating an agenda for the New Millennium Round, more difficulties for a successful resolution of the policy conclusions once they are formulated, not to mention the added difficulty of implementing action at the end of the talks. The talks at Seattle, Washington, in December 1999 saw the initiation of ongoing protests against globalization, free trade, and corporate power from environmentalists, trade unions, labor rights activists, and consumer rights campaigners (Tabb 2001).

Many of these opposition groups believe that the “WTO is a forum for trade rights of capital, on terms negotiated by the agencies of governments that represent the interests of capital. No other rights count” (Tabb 2001: 8). The more economically literate of these groups believe that the WTO is not fully recognizing the existence of substantial negative global externalities associated with inadequately, including environmental, labor rights, health, cultural, and consumer issues in the WTO agenda (Neumayer 2000). There are also conflicts within the WTO. For instance, many developing nations want concessions over the enforcement of food safety standards and upgrading customs valuation procedures plus the easing of obligations for intellectual property, investor protection, and subsidies. They are also concerned that the Uruguay Round did not deliver on agriculture and textiles, since the European Union remains highly protectionist and the United States has not sufficiently liberalized textiles and agriculture. The United States, the EU, and Japan want a forum on labor rights and extra monitoring on environmental issues, since developing nations gain an unfair cost advantage and implicit protection in these areas. The developing nations counter that these initiatives on labor rights and the environment introduce protection through the back door. Also, the United States and the EU have differences about the scope of the new round of discussions. The United States wants a narrow approach centering on further reductions in industrial tariffs and reform of services and agriculture, while the EU seeks scope to include investment and competition policy in the agenda. Given such conflicts from within and without, prospects for a new round of discussions do not look good, not to mention the formulation of new agreements that may take years to work out. Hence, these internal and external conflicts and contradictions are likely to cause difficulties in the future, perhaps even forcing the WTO to partially retreat from its current agenda, hindering the general interests of capital and thereby the emergence of long wave upswing.

made use of this facility to the tune of special drawing rights (SDR) 9.5 billion (South Korea, December 1997) and SDR 4 billion (Russia, July 1998). The Contingent Credit Line, on the other hand, was introduced in April 1999, and deepens the role of the lender of last resort (ILLR) by providing funds to countries that are experiencing contagion. Subject to policy conditionality, these funds will be available automatically when contagion sets in. To date, no nation has made use of this facility. For more detail on these and other measures, see O’Hara (forthcoming-c).
The third critical institution of the world economy is a system of production and organization. Central to the global regime of production is whether sustainable productivity is being developed to help propel growth through the early decades of the new millennium. But the record is not impressive for the vast majority of OECD nations. The general record for most nations is for high productivity rates in the long wave upswing of the 1960s (and 1950s), then declining rates in the 1970s, even lower rates in the 1980s, followed by a plateau or further decline in the 1990s (U.S. Department of Labor 2001a: 95, 101; 2001b: 3, 7). The ICT revolution is supposed to revolutionize the performance of the economy, but the results suggest the opposite. All the economies have failed to reassert the levels of productivity of the 1960s or even (in most cases) the lower rates of the 1970s or 1980s. The late 1990s are thus a disappointing period for economic performance in the vast majority of nations, except perhaps the United States, some Asian nations that have recovered from the crisis of 1997–98 (but only, it seems, temporarily, as new data emerge), and some countries in Oceania and Scandinavia. (See O’Hara forthcoming-c.)

5.2. Institutions of the State

The latter phase of the Carter administration and especially the Reagan Revolution emerged during the late 1970s and 1980s in the United States as a neoliberal program to reduce the role of government and enhance the profitability of capital. This was followed in like measure by the George H. W. Bush and Clinton administrations from the late 1980s to 2000 and the George W. Bush regime in the new millennium. Three characteristics of the domestic neoliberal agenda seem to be (1) a balanced budget policy, including spending cuts and tax reform; (2) a privatization and promarket strategy for government; and (3) an inflation-first strategy along with the declining power of workers. (For detail, see O’Hara 2000a.)

First, there have been many attempts to reduce the budget deficit by reducing payouts during the 1970s to 1990s in the United States (Davis 1997). They largely failed, and ironically a balanced budget emerged during 1998–99 from the growth of taxation during a (short) business cycle boom. Anderson (1998) has explored the extent to which neoliberal regulatory reform has managed to curtail regulations or “red tape” between 1978 and 1998. There were numerous attempts by Presidents Ford, Carter, and Reagan at such reform. All in all, however, “regulatory reform appears in the late 1990s to have lost its priority position on the agenda after clearly having had majority support in both the House and Senate” (497). Clearly, then, the move toward reducing restrictions and regulations on business has largely failed.

Second, the “governance” perspective is a sophisticated version of neoliberalism, and the degree to which such a model is put into practice in government departments is a good test of the extent to which the neoliberal experiment has become activated in one area. A good proxy test of this phenomenon is the extent to which performance-based budgeting (PBB) has become activated in state activities. PBB is defined as “requiring strategic planning regarding agency mission, goals and objectives, and a process that requests quantifiable data that provides meaningful information about program outcomes. [PBB] may also require an assessment of agency progress toward specified targets” (Melkers and Willoughby 1998: 66–7). Melkers and Willoughby (1998) found that all states in the United States except for three (New York, Massachusetts, and Arkansas) have begun instituting either

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PBB legislation (thirty-one states) or nonlegislative PBB initiatives (fifteen states). The vast majority of initiatives, however, were commenced in the 1990s, were not comprehensive, were not benchmarked to the strategic goals of the state, were not subject to an audit, were not specifically linked to goals and objectives, and were not subject to budgetary or any other implications in the case of noncompliance. Thus, in essence, most of them were pilot experiments that indicate that business-like government departments are a long way off in practice.

The third plank of the neoliberal agenda is the “fight inflation first” strategy. Related to this is the idea that the central bank should be independent from government and concerned primarily with controlling inflation, or moderating stock prices, and stabilizing growth sufficiently to prevent inflation from becoming a problem. A corollary of this is that reducing unemployment and protecting workers’ welfare and rights is not a priority area of government. Linked to this is the general desire to increase the power of capital over workers to promote profit and presumably accumulation and growth. Deregulation of the financial system enabled interest rates to become flexible, the Federal Reserve to target interest rates (Federal Funds rates), and subsequently for monetary policy to be the principal means of controlling the economy.

Successive governments have been effective in curtailing the power of workers and unions. Working conditions have declined, and workers have had to work longer hours and/or have more members of the family work to make ends meet (see Bluestone and Rose 1998). Job security has declined over the past two decades, as has the power of workers at the shop floor level, and the ratio of supervisory divided by production workers has increased significantly (Gordon 1996: 82). All in all, U.S. workers are earning relatively less compared with the rich, working more, have less security, and have less power. This decline in the conditions of existence of workers is a major break from the situation in the 1950s and 1960s and seems to represent a relatively durable set of changing institutional arrangements that the state has actively supported and promoted.

Overall, few effective neoliberal strategies have been incorporated within government; the main success of neoliberalism has been increasing the power of capital over labor. However, it was found in section 4, above, that this constitutes a major contradiction because it fails to develop a mode of regulation of consumption that is sustainable in enhancing demand into the new millennium. Thus, while increasing the power of capital over labor enhances profit at the firm level, at the system level, it fails to resolve the problem of effective demand, especially when there are no likely means of propelling exports or government spending.

5.3. Institutions of the Financial System

The third structural form, the financial system, has been undergoing major changes and innovations over the past two decades in the United States. This was achieved through deregulation, the development of computer-generated financial and equity markets, and recent legislation to enable the development of a national banking system. The financial system has become more competitive and more able to propel economies of scope and scale. Financial institutions have become much more under the control of institutional investors and major investment banks (Gompers and Metrick 2001). This has increased the emphasis on maximizing stock prices, dividends, and shareholder value. Indeed, over the past decade,
the stock market in the United States has become a more important barometer of corporate
success, especially in relation to high-tech and e-commerce equities. This is linked to recent
speculative bubbles in the stock market, the rising emphasis on short-term gain, and the po-
tential for a major crisis of confidence now that the bubble crash has set in, leading to a
probable deep recession.

Industrial capital is thus being dominated by financial capital, which is inhibiting the
emergence of long wave upswing. For instance, a critical question is whether monetary pol-
icy, and the actions of Allan Greenspan, can manage to prevent a collapse of confidence
from leading to deep recession. Is monetary policy a critical stabilizer of the financial sys-
tem, or is the equity-based regime of financial dominance (which largely determines the
pattern of monetary policy) a guarantee of much instability and deep recession? Robert
Boyer (2000) says,

The stability of an equity-based regime depends on monetary policy[,] which controls fi-
nancial bubbles[,] and thus the diffusion of finance may push the economy into a zone of
structural instability. The next major financial crisis may originate in the USA whose econ-
omy approximates most closely the model. (111)

Monetary policy stabilization of the financial system becomes the critical process on
which the success of the equity regime depends. However, monetary policy failed to pre-
vent the crash of the Nasdaq by 60 percent and the S&P 500 dropping 25 percent during
2000–01. But can it help prevent deep recession and further financial instability? The
equity-based regime is linked on an equity-price monetary policy transmission mechanism.
Under this mechanism, if monetary policy is seen as needing to stimulate the share market,
the authorities can reduce the interest rate. Traders will then increase their demand for
shares rather than bonds, thus pushing up the share price. As shares increase in value, this
increases wealth, and hence consumption, investment, and GDP (plus inflationary pres-
sures) (Iturriaga 2000: 424). And if the authorities need to dampen bubbles, an increase in
interest rates can moderate the demand for shares and hence their price, with a follow-on to
demand and GDP.

This equity-based regime of growth is riddled with contradictions and conflicts that in-
hbit sustained, stable growth. For instance, as Binswanger (2000) concluded, whereas in
the 1950s to 1970s period the stock market was closely linked to future real growth of the
economy, this connection ceased in the 1980s and 1990s due to the existence of speculative
bubbles and fads in the stock market. In short, share prices no longer act as barometers of fu-
ture corporate earnings and economic growth; hence the conflict between financial capital
(money lending, share and bond trading) and industrial capital (the real sector of the econ-
omy). The period of financial deregulation during the 1980s and 1990s coincided with the
norm for share prices to include a speculative bubble and therefore to enhance financial and
economic instability. For instance, an escalating share market may be an indication that a re-
cession is on the horizon because when the bubble crashes, it may inhibit consumption, in-
vestment, and GDP.

Neoliberalism has contributed to less efficiency in the stock market and a breakdown of
the rule of thumb that equities should enhance the industrial and organizational workings of
the real economy. Governments and monetary policies that condone and even encourage
share markets that are of an inherently speculative nature—albeit with periodic dampeners
and prospective comments by the FRB chairman—run the risk of creating an economy in which the industrial workings of business are a sideshow to the main game of speculation. Such a development is unlikely to contribute to sustained growth through long wave upswing.

6. Conclusion

I conclude, overall, that a long wave upswing of the U.S. economy is unlikely to be in operation as we move into the new millennium because the neoliberal mode of regulation is highly contradictory. First, the regime of accumulation is full of active conflicts and instabilities. The production style has not propelled sustainable productivity in the macro-economy; much of the higher productivity of the late 1990s has been due to the boom in the short business cycle. Also, the boom was coevolving with a stock market bubble that enhanced consumption and debt through euphoric expectations that were not sustainable. Hence, it is likely that an adequate regime of accumulation has not yet emerged.

Second, the institutional forms are also actively contradictory. The world economy institutions are currently unable to propel sufficient productivity and conflict resolution, even though some degree of financial stability is perhaps evolving through the IMF. The neoliberal state has been successful in reducing the power of workers, but this is probably inhibiting the development of a suitable mode of regulation of consumption. And the financial system is to some degree in conflict with industry through “finance-led growth” based on speculative bubbles and wealth effects that are unsustainable.

All in all, the neoliberal mode of regulation is, in all probability, unable to propel long-term stable growth, and the future of U.S. (and world) capitalism cannot yet be seen to have begun a long wave upswing into the new millennium. But perhaps the real test is whether U.S. (and world) capitalism manages to prevent deep recession and major financial instability in the 2001 to 2004 period. Chris Freeman (2001: 137), for instance, compares the 1990s excesses to those of the 1920s and warns, “Fasten your seat belts.”

For sustainable wave upswing to emerge, it is likely that a major change in policy and institutions are required, ones that embed economy within society more fully. Until then, it is likely that periodic deep recession and financial instability will emerge. The next real test of long wave upswing will be how the global and national economies manage the pressures of the boom and possible crash of the (short) cycle at the end of the first decade of the new century. If they are managed well, then sustained upswing is likely; but if not, then long wave downswing will probably be still in motion.

References


Globalization, Family Structure, and Declining Fertility in the Developing World

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Abstract

Striking changes are occurring in family structure in the developing world, and fertility is falling due to a weakening of traditional family controls and a declining value given to procreation. A model of marriage focused on marriage as economic transaction helps explain these diverse trends. The findings reveal a serious threat to young women in such transitional societies. The declining value of their procreative power puts women at the mercy of impersonal, market-driven economic forces with which they are ill equipped to deal.

JEL classification: F02; J13; J12

Keywords: globalization; family structure; fertility rate

We no longer have relationships, only transactions.
—George Soros (1998: xi)

1. Introduction

Fertility is falling throughout most of the world. More than half the population of the globe is now experiencing below-replacement-level rates of reproduction, and most experts predict a stabilization of world population within the present century. Underlying this trend
are profound changes in the structure and function of the traditional family unit, including a
growing proportion of young people never marrying, a rising age at marriage for both sexes,
growing marital instability, greater gender equality in decision making within marital un-
ions, and the rise of nontraditional unions and living patterns. These changes are well ad-
vanced in the industrialized nations of the West, but they are now proceeding rapidly in the
developing world as well.

These trends all flow from “globalization,” the growing penetration of the market-
based capitalist economic and social system, and the consequent weakening of the authority
of the traditional extended family or lineage over the decisions of the younger generation.
Traditional lineages, while desiring economic security, also aimed at intergenerational im-
mortality and promoted stable, heterosexual unions and high fertility to this end. Market-
based capitalism promotes a shorter-run, hedonistic, individually oriented value system that
is at odds with the traditional goals of the precapitalist family kin group. In the developing
nations, a key indicator of these underlying structural shifts is the decline in bride-price
throughout areas where it had previously been most pervasive. In effect, the market value of
reproduction is falling. As D’Emilio (1983: 103–4) predicted, “Capitalism has gradually
undermined the material basis of the nuclear family by taking away the economic functions
that cemented the ties between family members. . . . The relationship between capitalism
and the family is fundamentally contradictory.” This article explores these points further.

2. Recent Trends in the Third World

A decline in fertility has been documented in the past two decades in nearly every re-
gion of the world (United Nations 2000b). Even sub-Saharan Africa, thought by many to be
inherently and unavoidably pro-natalist and high fertility, has shown clear signs of entering
its own fertility transition (Caldwell 1994). Only a handful of countries still display tradi-
tional high fertility—total fertility rates (the average number of children born per woman
over her entire reproductive age span) of 6.0 or greater, compared to thirty years ago, when
this fertility level was the norm for developing countries. The global rate of natural increase
(the birth rate minus the death rate) has fallen from more than 3.0 per annum in 1970 to less
than 2.0 per annum in the most recent years and continues to fall (United Nations 1999; Pop-
ulation Reference Bureau 1999; Demographic and Health Surveys 1998).

The speed of this decline has surprised everyone. Southeast Asia experienced in thirty
years the fertility decline that took England nearly a hundred years, and some African coun-
tries are moving even faster. This decline has been facilitated by highly effective public sec-
tor contraceptive information and distribution schemes with substantial financial and tech-
nical support from the international donor community. But nearly all programs have been
voluntary for the clients, and this massive adoption of modern family limitation has been
driven by a desire for smaller families on the part of millions of couples in heterosexual un-
ions (Demographic and Health Surveys 1996).

The changes that have occurred in marriage patterns in many parts of the world have
also been well documented (Smith 1983; McDonald 1992; United Nations 2000a). A rise in
age at marriage for females has typically preceded or accompanied the rise in contraception
and subsequent decline in fertility. Marital instability (child abandonment, separation, and
divorce) is also growing. The traditional ties that resulted in complex, multigenerational
households appear to be weakening, and many argue that the Western-style nuclear family is the wave of the future even in regions of Chinese, Hindu, or Muslim cultural endowment (Thorton and Fricke 1987; Thorton 2001). Rising levels of education and employment of women outside the household are part of this process of the breakdown of traditional family patterns (Safilios-Rothschild 1985; Oppenheimer 1994). As women become active labor market participants, their autonomy grows. The more deeply a family unit is involved in constant interactions with outside market forces, the weaker is its internal cohesion and the lower its fertility. These changes seem to be following the pattern already set by most Western societies (Goody 1983; Laslett 1973; Cherlin 1999). Increasingly, the family unit is no longer the locus of significant production (or reproduction) but instead is focused on “personal life” (D’Emilio 1983: 102). Goode’s early prediction that other industrializing regions would follow the Western model appears to have been correct (Goode 1963; Thorton 2001).

Finally, there is strong evidence that bride-price is vanishing in areas where it was traditionally very strong: Asia and Africa. Evidence of this has been found from West Africa (Caldwell 1975) to China (Levy 1949; Cheung 1972). The most striking changes have occurred in the Indian subcontinent, where a shift from bride-price (or dower) to groom-price (or dowry) has taken place in one to two generations (Rajaraman 1983; Rao 1990; Bhat and Halli 1999). This change is remarkably pervasive, cutting across religious (Muslim-Hindu), ethnic (North Indian–South Indian), and national (India-Bangladesh-Pakistan) lines (Lindenbaum 1981). One highly visible result has been a series of celebrated “bride-burning” cases in which failure of the bride’s family to complete payment of a groom-price results in a murderous attack on the hapless bride by her husband’s family (New York Times 2000b). This development is directly related to the declining fertility trend.

3. Explaining Marriage Payments

The phenomenon of marriage payments is obscure to most people who are not anthropologists, but they are an important, if subtle, indicator of underlying societal values. In traditional, precapitalist societies, there is nearly always an exchange of wealth and valuables between the families (or “lineages”) of the bride and groom in connection with forming a heterosexual marital union. These flows are often complex, but generally speaking, dowry means assets brought to the union by the bride; dower means assets brought by the groom; bride-price is property given the bride’s family by the groom’s family; groom-price is property given the groom’s family by that of the bride. In practice, the two types of transfers may be intermingled or combined, and the terms have come to be used interchangeably in popular discussions. Other sorts of economic flows, or “prestations,” also frequently occur involving various members (grandparents, uncles, siblings) of both families. A lineage may attempt to marry a son or daughter “up” in the social hierarchy, and this will affect the direction and size of the marriage payment (Goody 1973; Goody and Tambiah 1973; Comaroff 1980). One family may seek an alliance with another through marriage. Race, religion, tribe, and caste all affect who is viewed as acceptable as a marriage mate. This relative complexity perhaps explains why so few generalizations have emerged in the literature. Most explanations are tightly bound to a particular cultural, ethnic, or religious setting. In some places and times, one type of transfer prevails, while in other places and times another is the
rule, and in still other cases the nuptial exchanges are more or less equal and offsetting. That is about all most anthropologists seem comfortable saying. Marriage payments remain “a puzzle for anthropologists” (Ogbu 1983).

The transaction is typically between the lineages rather more than the individuals actually marrying. The groups are engaged in an exchange of assets, and an economic theory of marriage payments would seem appropriate, but none has emerged in the anthropological literature. Spiro (1975) came close to developing a mainly economic-anthropological model for a Burmese case study but in the end fell back on a localized, particularized explanation. Economists have undertaken this task instead.

4. The Economic Theory of the Family

There is, of course, a wide range of possible “unions” or living arrangements among individuals, but for most cultures the “good, normal, natural, and blessed” has been understood to involve men and women in “married, procreative, monogamous, noncommercial” relationships. For many religious groups, the whole point to such unions is procreation (Rubin 1995: 13–4). (Chauncey [1994: 26–7] proposes that gay and lesbian unions can be seen as a “subculture” of this dominant heterosexual type of union.) Engels (1884) thought the origin of the nuclear, heterosexual family was to be found in the rise in prehistory of male domination and private property, but most modern theories see it simply as a “pooling” or “sharing arrangement” among individuals to achieve certain economic and personal goals (Polgar 1975; Stewart 1936; Jacobsen 1994; Burch and Matthews 1987; McCrate 1987). By all odds, the best-known economic theory of the heterosexual family is that of Gary Becker (1990; Becker and Murphy 1988; see also Becker 1976).

The Becker (“Chicago School”) model argues that marriage, procreation, and the rearing of children are all part of a rational, deliberate, purposeful, mainly economic process. Individuals form unions to share income and gain internal economies of scale, and the resulting unit then operates to maximize a single, joint utility function, making all members better off than they would have been as individuals. Production of children to create “child services” is one way the unit produces utility for its members. Stable, monogamous marital unions increase the human capital investment per child and thus raise their future productivity, benefiting the couple and also the larger society. Marriage is, in effect, a “merger.” Each person approaching the marriage market possesses a capacity for producing “commodity income” within a union, and on this basis the market assigns an imputed value to each person. Each individual attempts to marry the individual with the highest available “imputed value” in the marriage market.

Marriage payments fit easily into the model. When prospective partners with different imputed market values form a union, a “clearing payment” to make the exchange an even one may be then required. Becker (1990: 66) says, “Bride-prices, dowries, divorce settlements and other capital transfers evolved to overcome such obstacles.” Thus, all complexity is swept aside, and a simple theory of marriage payments results.

Becker’s family decision maker also considers future generations and aims at maximizing intergenerational utility. Furthermore, the theory assumes cooperative, shared decision making or that the single (male typically) decision maker can be trusted to maximize for all members (Rosenzweig and Stark 1997; Nerlove, Razin, and Sadka 1987). Several writers
have criticized Becker’s model from a feminist point of view (Hewittson 1999: 46–54; Jacobsen 1994: 93–5; Sen and Snow 1994), and others have proposed noncooperative, bargaining models of household decision making (Hewittson 1999: 57–8; Hartman 1981). Still other authors have proposed other models explicitly taking sociological variables such as class, ideology, and culture into account (Robinson 1997; Arthur 1983; Ben-Porath 1982; Pollak 1985; Lesthaeghe and Surkyn 1988). But none of Becker’s critics have offered an alternative theory of marriage payments. In fact, his treatment does provide a useful point of departure for further thinking about the question.

5. Conceptualizing the Marriage Market

Amyra Grossbard-Schectman (Grossbard 1978; Grossbard-Schectman 1982) has proposed an interesting reorientation of Becker’s market-based model of marriage. Like Becker, she finesses the complexity of marriage payments and looks only at why a net transfer of wealth occurs in one direction or the other. But unlike Becker, she goes beyond “utility” as the desired goal of the marriage partners and argues that one must focus on the factors that determine the demand for and supply of wives and the demand for and supply of husbands. The net clearing payment required at the time of nuptiality is seen as arising from a balancing up of the specific qualities and attributes each prospective marriage partner brings to the match.

Figure 1 illustrates such a framework and is an adaptation of the Grossbard-Schectman model. It presents hypothetically the demand curve for brides (wives) as function DB, which represents the underlying market evaluation of the utility to be gained by husbands (or their lineages) from undertaking a union and the price they are willing to pay in the form of bride-wealth. The supply curve of brides (wives) is shown as function SB. The demand curve for brides also represents the supply curve of grooms, just as the supply curve of brides represents the implicit demand curve for grooms. (These curves are, in effect, offer
curves. Demanding a bride requires “offering,” or being willing to supply, a groom in exchange, and similarly for the demand curve for grooms.) Point D is the equilibrium, such that the demand for brides (and supply of grooms) and supply of brides (and demand for grooms) are equal, and OE marriages result. The evaluations and hence the “prices” of the groom and the bride are equal, and no net transfer is required. In Becker’s terminology, equal utilities are being traded, and no clearing payment is required.

But suppose the evaluation of a prospective bride’s value to her husband’s household falls. Then the demand for brides falls to the new curve shown as DB* in Figure 1. To obtain a new equilibrium between the demands and supplies, the supply of brides should be reduced sharply, to OF. But in the short run, the supply of brides is likely to be highly inelastic (as shown by the segment DE), and OE brides will still be offered in the market. For the demand to stay at the level OE, a payment must be made per bride equal to the vertical distance on the y axis between the old evaluation of the bride’s worth (OA) and the new evaluation (OB). This distance AB is the groom-price.

The question of the type and magnitude of the marriage payment becomes a matter of what determines the demand for brides and grooms in different contexts. In terms of the Becker model, what exactly creates the “imputed values” that husbands and wives exchange when they marry?

6. The Functions of Husbands and Wives

Most writers (Burch and Matthews 1987; Jacobsen 1994) agree that in traditional, patriarchal, heterosexual unions, husbands have been expected to be the main providers of (1) primary subsistence in the form of material goods and income, (2) physical protection and security, (3) authority and leadership, and (4) the link to the world outside the immediate family-household unit (especially when the seclusion of females is practiced). The wife’s role, on the other hand, has been seen as providing (1) labor services within the household (food preparation, cooking, laundry, and housework), (2) unpaid labor services to any family-based enterprise (shop, farm, or handicraft manufacture), (3) supplemental wage income by supplying labor to the wage-labor market, (4) sexual pleasure for the male (with the understanding that the female’s pleasure was totally secondary), and (5) procreation and nurturing of children.

The woman’s ability to supply these services is based on her human capital, both genetic and acquired. She can be educated by her natal family to provide labor services for her husband’s household, farm, or business enterprise, and her ability to enter the wage-labor market arises from skills training as well as formal education. But her ability to provide sexual services and produce children is a unique natural endowment that even poorly nurtured, uneducated females are likely to possess. In short, this is a woman’s traditional, residual asset-value.

The cultural and economic context affects the relative importance of each of these several possible contributions of the wife to the household. Several authors (Boserup 1970; Goody and Tambiah 1973) have noted that labor-intensive hoe-based African agriculture increased the value of a woman’s labor to the household as compared to ox-and-plow-based Asian agriculture and gave her greater value to the household and a higher status. However, as traditional labor-intensive subsistence agriculture is replaced by larger-scale market-
oriented techniques, this value falls. Similarly, the household commodity-services (food preparation and so on) provided by women are vital in remote rural areas but less so in urban wage-labor-market-oriented households, which have easy access to alternative sources of such commodity-services: hawkers and vendors of all types. This also tends to diminish the importance of the wife’s household-produced commodity services.

Industrialization brings structural shifts in the economy, resulting in fewer households operating family-based enterprises, reducing the need for the wife’s labor for this purpose as well (Kuo 1974). However, demand for female labor from the household in the wage-labor market rises with increased market orientation, and so may her contribution to the cash income of the household (Jacobsen 1994: 450–1).

Sexual gratification for the male is also a part of the role of the wife. As D’Emilio (1983: 104) points out, in some cultures heterosexual activity was viewed as necessary for reproduction but not for sexual pleasure. But such pleasures may also be available outside the household, particularly in an urban, industrial setting in which traditional social mores and controls are weaker. In other words, a wife may not be necessary to provide male sexual pleasure (or, for that matter, a husband for that of the wife).

What remains as the unique “service” provided by the wife, and not available outside the household, is the production of children. In fact, the importance of the wife’s role as producer of children is already well established in the anthropological literature. The typical explanation for bride-price is that it “buys” the children of the ensuing union for the husband’s lineage from the wife’s lineage. Thus, under bride-wealth in the Encyclopedia of Anthropology, Hunter and Whitten (1974: 63) note, “Valuables given by a man’s kin group to his wife’s kin group to legitimate their marriage, to compensate her kin for losing her labor and presence and to give him rights regarding her children.” “Legitimacy” turns not on the performance of some religious ritual but on whether proper payment has been made.

In many cultures, failure to produce a male child is sufficient reason to end a marriage and insist on a return of the marriage payment. (The possible male role in such cases of reproductive “failure” is not acknowledged.) Anthropology seems agreed on this point if on nothing else. Taylor (1973: 232) writes, “Bride-price or bride-wealth . . . is paid by the groom’s relatives . . . for the children she will bear . . . dowry or groom-price is rare.” Selby (1972: 179) writes, “The woman as an object in the marriage trade is more valuable than the man because of her reproductive capacity.”

A survey of some 382 cultures catalogued in Murdock’s “Ethnographic Atlas” found 80 percent paying some form of bride-price or bride-wealth (Atkinson and Lee 1984). The case seems powerful for concluding that reproduction has always been seen as the most important attribute being purchased by bride-price.

7. The Role of the Lineage in the Demand for Children

It also seems well established that the stronger and more cohesive the kinship group, the higher the level of fertility (Lorimer 1954; Polgar 1975). Procreation by the couple, the fertility decision, is more about ensuring the immortality of the group than it is about maximizing the utility of the procreating couple. Bride-price is typically paid by the lineage, and family pressure on a newly married couple to produce children is a nearly universal element in traditional societies. This strong desire for continuity of the lineage leads to role defini-
tion as well. Males father children to prove their “maleness” and women to show their value to the family. Homosexuality is discouraged because it does not produce this result, whereas bisexuality may be allowable (Lorimer 1954).

The widespread practice of exogamy (due to the “incest taboo”) means the women must come from outside the males’ lineage, and the lineage is willing to pay a bride-price to obtain appropriate wives. Outside women are more valuable to the lineage than ones born into it, for both can provide labor and other services, but only the outsiders can produce children for the next generation. This has led to the anomalous situation in which kin groups willingly pay a substantial bride-price for an outside female while simultaneously neglecting their own young females (Miller 1985; Das Gupta 1987).

How, then, is one to interpret the presently falling fertility in these developing societies? Presumably it means that either (1) the lineages no longer view continuity to the next generation as important or (2) the lineages can no longer enforce their goals on the reproductive habits of their young people. In either case, the result is the same. Marriage becomes later and less universal, the demand for brides falls, and bride-price vanishes, to be replaced often by groom-price. (The economic logic for paying groom-price is straightforward: grown girls in the household cost something to support, and if their future economic prospects are dim, then they should be “exported” as soon as possible, even if it means paying a price to get rid of them. The outright sale of female children follows from this same harsh market-driven capitalist logic.)

The second of the two possibilities mentioned above seems the more likely. Increased geographical mobility means that the larger kin group is now much less concentrated, and young couples need and receive less support from the elders, which in turn gives the kin group less power over them. The members of a union, however composed, are increasingly free to maximize their own well-being, as they see it, without concern for the continuity of the lineage or the larger family unit. Young women are increasingly drawn into the wage-labor market outside the household, and this is inconsistent with frequent childbearing and prolonged child care. Such linkage also tends to further increase their autonomy from other decision makers. The low-fertility (or no-fertility) single-generation nuclear family tends to replace the high-fertility multigenerational lineage.

An excellent developing world example is provided by a recent study of fertility change in Pakistan (one of the few remaining large, high-fertility countries), which concluded,

It is not an increase in the autonomy of women that seems to have been decisive during the past decade, but rather an increase in the autonomy of couples of childbearing age. Over the past three decades, kinship relations and household structures have evolved in a manner that has eroded the power of elders and other relatives, and as a result decision making about family matters has become more nucleated. (Sathar and Casterline 1998: 782)

Once reproduction is no longer seen as the central mission of the family unit, then the structure and composition of that unit becomes a matter of choice for individuals. Sexual activity has been divorced by the contraceptive revolution from the previous “procreational imperative” (D’Emilio 1983: 103) and becomes a legitimate goal in and of itself. It may or may not be heterosexual and may or may not result in producing children. Alternative forms of union and living arrangements also emerge to replace traditional marriage (Wu 2000). Such changes have already occurred in most Western industrial societies (Preston 1986;
Bumpass, Sweet, and Cherlin 1991) and are now under way in the developing world as well. The driving force is the relentless market-based “consumerist-imperative” of global capitalism (Zaretsky 1976; DeMoon 1995; Soros 1998; Thorton 2001] describes this process as a spread of the Western “developmental idealism” to other parts of the world).

8. Conclusions and Implications

This article argues that microeconomic theory and established anthropological research suggest that, in precapitalist economic and social systems, the high value traditionally attached to procreation and continuity of the lineage provided an important motivation for the societal norm of a stable, heterosexual, monogamous marital union. In times past, bride-price served as the tangible measure of this value of reproduction. Bride-price is now dying out everywhere, and its demise is an indicator of a deep-seated change in societal and individual values. It appears that the spread of global capitalism is undermining the strength of the underlying societal and familial values. Motivation for procreation is declining, heterosexual marriage is no longer a requirement, and hence bride-price is on the verge of vanishing.

In the absence of a kin-group pressure to produce and nurture children, the central purpose of the stable, heterosexual, monogamous union is removed. This arrangement is no longer attractive to many men and women and can no longer be enforced by societal norms. Men and also women are becoming more free to make their own sexual and reproductive choices, and they are choosing looser, more permissive, nontraditional, and less permanent unions.

These changes are reinforced by powerful political and social movements for greater female autonomy, education, and labor force opportunity. Women with education and market-based skills gain greatly from the elimination of familial and societal pressures to marry early and rear many children, and they are leading the fight to bring these freedoms to all women. These changes will proceed slowly and unevenly in different parts of the developing world. But to the extent that market-based economic development and globalization do occur, so will these changes in gender living arrangements. The worldwide decline in fertility already under way is an important symptom and first step in this process.

While applauding this increased freedom of choice and action, one must note also that these changes pose serious risks for many women in the developing world. Full equality of economic and educational opportunity is not yet within the grasp of millions of women in Asia and Africa. For some time to come, women who lack the education, labor market skills, and self-confidence to compete effectively in the wage-labor market will find that these trends pose an enormous threat. The falling importance of marriage and children means a devaluation of their one unique asset-value. Women have, in these traditional societies, acquired physical security, subsistence entitlement, and social status through the production of children for their nuptial household. The value of procreation is falling, and in the short run, it is not clear what other status-generating options will be open to millions of third world women.

These changes are inextricably intertwined with urbanization, industrialization, and the worldwide rise of the highly individualist, market-based hedonistic economic ethic inculcated by capitalism (DeMoon 1995; Zaretsky 1976; Soros 1998). Policy can ameliorate the
impact of these trends on the most vulnerable groups, but it is not likely to reverse or even seriously slow them down. The growing volume of horror stories in the popular press about abandoned wives, women working in virtual slave-labor conditions, or women as victims of international prostitution (New York Times 2000a) is but the tip of the iceberg.

Over a century ago, Frederick Engels (1884) looked forward to the demise of capitalism and predicted it would destroy the traditional male-dominated family and free women from what he perceived as bondage. Ironically, it is not the death of capitalism that seems to be undermining the traditional monogamous patriarchal family but the apparent worldwide triumph of capitalism’s individualistic and materialistic ethic. Engels welcomed the death of the monogamous family since he felt it would free women from being the property of patriarchal males, and so it may in the long run. But in the immediate future, this new economic and social freedom will place many women at new, profoundly greater economic risk from an impersonal, capitalist marketplace without even the traditional family supports.

References


Forms of Male Domination and Female Subordination: Homeworkers versus Maquiladora Workers in Mexico

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Abstract

Much of what is labeled “patriarchy” in the literature on women’s subordination is more accurately described as “neopatriarchy” and “phallocentrism.” Neopatriarchy arises when the nuclear family replaces the extended family as the norm and the male head of household is designated as breadwinner. Phallocentrism appears when women challenge male economic domination by entering the labor force and become subordinated due primarily to their sexuality rather than due to their reproductive functions. It is argued that home-based women workers in Mexico are enmeshed in sometimes contested neopatriarchal relations, whereas maquiladora workers are in many cases “kept in place” through machismo phallocentrism on the part of managers, foremen, and male coworkers. In either case, capitalist enterprise gains a docile labor force.

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Capital accumulation, whether global or local, is predicated on exploiting cheap wage labor. The cheaper the labor, the greater the surplus value generated, and thus the higher the profits. Such labor may be cheap due to low wages, flexibility (easily hired and fired), or higher than average productivity at a given wage. Women, because of prevailing gender regimes, are the cheap labor force par excellence, subject to “superexploitation” (Elson and Pearson 1991; see also Standing 1989) and constituting the lower tier of a radically segmented and increasingly informalized labor market (Tilly and Tilly 1998; Sassen 1988). The interpenetration of capitalist practice with regimes of male domination proliferates on
the micro level, producing an “archipelago [of intersecting and] different powers” (Foucault 1994: 187) as translated and brought to my attention by Richard Cornwall).

A vast literature on peasantry, regional development, and sectoral differences in peripheral economies has shown that the penetration of capitalism is uneven and affects, remodels, and articulates with local social formations in heterogeneous ways (e.g., Barta 1986; Bernstein 1979; Meillassoux 1981). Less recognized is the heterogeneity with which capitalism articulates with male domination and female subordination. While it can be argued that the global system is formed (or deformed) by hegemonic capitalism, the emanations of capitalist power are diffused throughout any given society and affect social practices in a myriad of unique and localized ways (Foucault 1979). Capitalism thus intersects with or reconstitutes male domination, often mistakenly labeled “patriarchy” in multiple ways, whether one looks at gender dynamics on the maquiladora shop floor or within Mexican households containing subproletarianized female home workers. In many ways, male domination aids the earning of profits by helping to structure a segmented, informalized labor force partially brought into being because of female subordination in the realm of gender relations.

Transnational corporations intrude hegemonic capitalist practices into peripheral economies. They must, however, adapt these practices to local cultural, social, and labor market conditions (Nash 1983). In other words, capitalist hegemonic practice must co-opt local practices and mold, even deform, them to its benefit. The subject of this article is how capitalism co-opts, remodels, and re-forms male dominance, including machismo, with its sexually predatory inclinations (González Pineda 1988; Gutmann 1996: 236–7; Paz 1961; Chant 1997: 123), to exploit female workers in the maquiladoras. It is also about how transnational and national corporations in Mexico utilize a specific form of patriarchy, identified by Walby (1990, 1986) as “private patriarchy,” but which for reasons given below I prefer to call “neopatriarchy,” in their exploitation of the labor of subcontracted home workers who perform piecework of a variety of types for capitalist enterprises.

I will first discuss the need to reformulate ideas about what “patriarchy,” a gloss for male domination with its historically variable forms, is. I then will examine how neopatriarchy leads to the creation of a pool of women available for homework. Finally, I will show how male domination takes heterogeneous forms depending on the organization of labor on the maquiladora shop floor. The point is to elucidate how capitalism remodels male domination and female subordination to realize its profit maximization. The question to be addressed is, How is male domination and female subordination played out in the household in the case of home workers and on the shop floor in the case of maquiladora workers?

1. Patriarchy or Varieties of Male Hegemony?

“Patriarchy” has become a buzzword to signify diverse types of sex/gender systems characterized by male domination oppressive to and exploitative of women, despite the historic specificity of types of male domination or male hegemony (Humphries 1991; Nash 1988; Ramos Escandon 1987: 152; Rubin 1975: 167–8). Sometimes adjectives are added to describe historical differences in purportedly patriarchal forms of male domination. Thus, Murray (1995), following Pateman (1989), writes of “fraternal patriarchy” among proper-
tied male heads of household—possibly opposing this form to gerontocratical patriarchy (Nash 1988, 15). Mallón (1994), analyzing changes in household and social organization in nineteenth-century Puebla (Mexico), suggests the term democratic patriarchy to describe the emerging rights of males in general to control their wives and children, as opposed to a previous hierarchy of authoritarian patriarchs characterizing the colonial and early post-colonial social structure of various regions of Mexico in particular and Latin America in general (Boyer 1989: 254; Dore 1997: 106; Stern 1995). Others have distinguished between public patriarchy to describe male domination or male bias in the workplace and in the state and private patriarchy practiced within the household (Walby 1986, 1990; Safa 1995). Private patriarchy has also been glossed as domestic patriarchy (Dore 1997: 106).

Feminists have long debated the relationship between capitalism and patriarchy, some finding them separate but interconnected systems, others finding them mutually reinforcing to such a degree that one can speak of “capitalist patriarchy” (see Walby [1989, 1996] for a summary of various feminist paradigms). Walby (1990) differentiates private patriarchy and public patriarchy, distinguishable on several dimensions, including the mode and relations of production that prevail, to what institutions and authorities women are subjected, and by whom they and their labor are exploited. Under private patriarchy, household production is the norm, husbands and fathers are the exploiters of women’s labor, and women are excluded from the public sphere. Under public patriarchy, women enter the public arena and are exploited collectively rather than individually, though gender-segregated labor markets and state policies reflect preference for men’s interests. In both systems, the patriarchal household can remain a site of women’s oppression.

While Walby’s (1990) insights into the functioning of male dominance are invaluable, it is important to historicize systems of male hegemony and, thus, to distinguish between patriarchy, neopatriarchy, and phallocentrism. Following Stern (1995: 21) and Nash (1988: 15) I prefer to use patriarchy as a holdover from a precapitalist familial and social system in which male elders ruled over both women and younger dependents of both sexes, providing them protection and sustenance and representing them in the public sphere in return for their submission, obedience, and labor for the patrimony. Nonetheless, survivals of patriarchal “gerontocracy” (Nash 1988: 15) and “clan”-like structures ruled by benevolent but authoritarian patriarchs (Nazzari 1996) are still apparent among some propertied families, in which the extended family performs important economic functions and inheritance remains an important behavioral sanction, not only in Mexico but throughout Latin America and elsewhere.

With the rise of capitalism and the strengthening of the state in nineteenth-century Latin America, however, neopatriarchy, with male domination being exercised within the nuclear

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1. Concerning the “hierarchy of patriarchs,” Dore (1997) writes,

Nineteenth-century Latin America was a world in which, for the most part, only men with property or profession were citizens of the nation, with rights to participate in formal politics. However, all male household heads (with the exception of slaves) exercised legal authority over their wives and children, and represented family members in the public domain. For practical and ideological purposes, the new nation-states were hierarchies of patriarchs, a few of whom had extensive political and economic powers, while most had little authority outside the bounds of their homes. (106)

Stern (1995: 21) in his definition of patriarchy in late-eighteenth- and early-nineteenth-century Mexico (envisioned as a “system of social relations and cultural values”), includes as one of its elements that “authority in familial cells serves as a fundamental metaphoric model for social authority more generally.”
family solely over wives and dependent children, came to the fore. Patriarchy took on a more “fraternal” and less “gerontocratic” character. With possibilities for sons to establish independent businesses in a dynamic economic environment, or at worst take advantage of the proliferation of opportunities for waged labor, inheritance became less important and dependence on the father’s good will was eroded; men left the extended family to form their own independent households (Boyer 1995; Nazzari 1996: 312; Ramos Escandon 1987: 277).² The liberal reforms embodied in the Civil Code of 1870 in Mexico ratified the reality of these changes by eroding the patriarch’s rights over adult and married children (Dore 1997: 110). Marriages ceased to be arranged by the patriarchy and were contracted more according to individual choice, often transgressing the traditional aims of class endogamy (Nazzari 1997).

Typical of the expectations associated with the male-headed neopatriarchal household in Mexico and elsewhere was that the male was the breadwinner, the sole supporter of his wife and children, which demanded his entry into the public sphere. Women, meanwhile, were meant to realize their identities in the private sphere: through adequacy in domestic tasks and in their roles as submissive wives and loving mothers (LeVine 1993: 83). Nonetheless, both historically and contemporarily, the household headed by a male breadwinner has been a reality for only a majority, not the entirety, of the population. Throughout history, female-headed households have been common in Latin America during times of economic disruption, male migration, and crisis (Cicerchia 1997: 125; Dias 1995; Dore 1997: 102, 113; Mesquita Samara 1996; Twinam 1989; Chant 1997; DeVos 1995). More recently, the working-class male head of household has been unable to earn a wage adequate to support a family.

Phallocentrism rumbled through patriarchal and neopatriarchal systems in the form of *machismo*, a male aggressiveness and sexual predation often most typical of subalterns, whether the younger and/or propertyless in a gerontocracy; the relatively dispossessed and, by middle-class standards, relatively unsuccessful, working-class men in a normative neopatriarchal society; or ethnically oppressed groups in stratified societies (Gonzáles de la Rocha 1994: 143–4; Harvey 1994; Hondagneu Sotelo and Messner 1994; M. Peña 1991; Pyke 1996).³ Machismo thus is found in some guise or another wherever patriarchal or neopatriarchal family forms have existed. Phallocentrism developed as women entered the

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2. The transition from traditional patriarchy to neopatriarchy in Latin America has its corollary in the United States. Tracing changes in expectations linked to fatherhood to the Industrial Revolution, LaFossa (1997: 27) notes that thereafter the authority of the family patriarch had declined. This was due first to the fact that sons could challenge patriarchal authority by entering wage labor and supporting themselves, and second because male heads of household no longer were ubiquitously present due to the separation of the work site from the home. The male head of household became “the wage earner who was absent most of the day.” These trends were linked to increasing proletarianization through time of both fathers and sons, accompanying the transition from rural farm to the city. See also Nancy Folbre (1980) for a similar analysis of patriarchal transitions in colonial New England.

3. Pyke (1996) describes the *machismo* of U.S. working-class men, as opposed to higher-class men, in terms of their relative disadvantage in the social status hierarchy. In her words,

Lower-class husbands who ostentatiously pursued drugs, alcohol and sexual carousing are constructing a compensatory form of masculinity. Such behavior was worn like a badge of masculinity in the work and social environments they inhabited. By drinking with other working-class men at the bar and openly engaging in extramarital relationships, they appear to be defying existing power structures,
labor force in greater numbers, thus undermining the protective functions of the “neo-patriarch.” Women who were in public space were considered fair game, de-linked from traditional forms of protection by male members of the domestic household, more accessible to outsider male predations.

Phallocentrism has been defined as the “cultural fetishization of the phallus” (Cocks 1989: 139). But it is more than this: it involves the fetishization of women and their secondary sexual characteristics in the interests of collective or individual male pleasure or status seeking; despite the fact that sexual experience or contact with women is its aim, it is deeply based in misogyny (Brod 1992: 154; Kimmel 1994: 128–9; Hondagneu-Sotelo and Messner 1994; Paz 1961). It also involves status seeking because men form a pecking order among themselves according to their sexual harassment or sexual enjoyment of women deemed attractive (Brod 1992: 154). The form of machismo, or phallocentrism, has come to predominate in interactions between men and women in the past half century, as women’s massive entry into the formal labor force undermines men’s self-image as the family breadwinner (Safa 1995; McClenaghan 1997; Faludi 1991).

Despite the fact that patriarchy, neopatriarchy, and phallocentrism can be periodized historically, with neopatriarchy becoming the norm with the rise of capitalism and the resultant proliferation of male-headed nuclear households, and phallocentrism becoming more common with women’s entry into the formal labor force at the same time that men are increasingly unemployed, underemployed, or unable to earn a “family wage,” the scheme is not evolutionary. These forms of male domination/female subordination intersect with capitalism and its drive for accumulation in diverse and sometimes simultaneous ways. Patriarchal holdovers among the propertied and powerful, neopatriarchy among the middle and the working classes, phallocentrism marked by machismo among subalterns or those lacking in self- or group-esteem, have existed historically to varying degrees and continue to exist contemporarily. Furthermore, they are closely related to class and gender relationships men and women have with the capitalist system. Thus, I will argue that neopatriarchy is typical of families in which women are involved in housework and other forms of economic activities carried out in the private spaces of the home, whereas in the maquiladoras, a combination of a quasi-benevolent paternalism on the part of owners and managers and phallocentrism on the part of male supervisors is common. In each of these arenas, masculinity and male domination work themselves out in a myriad of localized, specific patterns. Although I analyze the Mexican case in particular, there are similarities throughout Latin American and the Caribbean and elsewhere (including, for example, the United States and Asia) where patriarchal holdovers, neopatriarchy, and/or phallocentrism intersect and interact with global capital accumulation. They do so in such a way as to make the female labor

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displaying their independence from the control of their wives and “the establishment” (i.e. higher-status men). This exaggerated masculinity compensates for their subordinated status in the hierarchy of their everyday work worlds. (538)

That this machista reaction to subalternity is common among Mexican men, especially the pursuit of other women to bolster their masculine image, has been shown in a number of works including González de la Rocha (1994), Gutmann (1996), and LeVine (1993).

4. Capitalism adapts and deforms regimes of male domination in minutely different ways around the world, where patriarchy and neopatriarchy developed in a variety of forms due to different histories and diverse cultural configurations. Thus, the impact of capital on the gender regimes in Hong Kong (Salaff 1995), Java (Wolf 1992), or Malaysia (Ong 1987) is, though in many ways similar to processes apparent in Mexico, also molded
force, whether in factories or in homework, a more exploitable and hence cheap source of profits.

2. Home Workers and Neopatriarchy

The “patriarchal bargain” (Kandiyoti 1988) (or the neopatriarchal bargain in this case) and the normative expectations of the majority of Mexican men and women in the lower-middle and working classes is that the husband should support (and protect) the household while the wife should carry out child care and domestic duties (Benería 1992; Chant 1994: 100; LeVine 1993: 139). Whereas the neopatriarchal household head no longer has authority over or provides protection and sustenance for an extended family, lineage, or ambilineal (Nazzari 1996) or patrilineal clanlike structure or kindred, he normatively is the breadwinner to whom wife and at least minor and unmarried children are expected to submit and obey. He thus holds not only economic power over the nuclear household’s members but also what Roldán (1988: 240) has called “domestic control,” or the power and authority to make major decisions concerning the allocation of income as well as minutely detailed control over the activities of wives and children.

Among the 140 home workers in Mexico City interviewed by Benería and Roldán (1987: 147–8; see also Roldán 1988: 240), most had to ask their husband’s permission to work and to visit family, friends, or neighbors and were advised by him on when and how to discipline children. “Respect” due to one’s breadwinner husband also included being ready to get up in the middle of the night and feed him if he had happened to come home hungry; serve him and his friends (usually spending the [wife’s household] allowance to buy drinks); wait for him until he comes home; speak to him with deference, never resorting to foul language [even though he may be verbally abusive]; never answer back in a loud tone; be ready to respond to his whims—“go and pay the bills,” “go and borrow from Mrs. X . . . .” (Benería and Roldán 1987: 147–8)

Partially to maintain this regime of submission and obedience, and partially due to jealousy or the wish to exert control over wives’ mobility, men do not wish their wives to work outside of the house. Furthermore, wives working in public places would undermine the male head of household’s self-image and public image as the household’s breadwinner (Benería 1992: 93; Chant 1994; Mummert 1994: 196) and call into question his ability
to “protect” his wife from outsiders. As Chant (1994) recounts, based on her study of three Mexican cities,

In Mexico in the early 1980s . . . it was often the case in male-headed households that men would prevent their wives from leaving the house or guide them into certain kinds of part-time work in or near their homes, ostensibly for fears of practical neglect of them and their children, but more often than not due to threats to their own position as “masters” of the household. Male fears about their wives working included the fact that employment might expose them to increased contact with the opposite sex, that it might lead to increased independence and, as an invasion of their own territory as breadwinners, that it could lead to an erosion of the various prerogatives usually enjoyed by men such as exclusive or overall control of household finances. (100)

This remained the situation in many parts of Mexico until the late 1980s (LeVine 1993: 39) and is pervasive throughout much of Mexico today, despite continual economic recessions that are forcing more and more family members, including married women with children, into the labor force (see, for example, González de la Rocha 1994).

As a number of studies have shown, women whose movements are restricted due to gendered expectations, and whose time is taken up with child care, have traditionally and in increasing numbers worldwide become home workers. Most home workers, including those in Mexico, are subproletarianized laborers whose conditions of work involve below minimum wage piecework and unstable and fluctuating incomes. Their value to the corporations that subcontract work to them partially consists in the fact that they can be laid off or employed as market conditions demand, without the benefits of severance pay (Benería and Roldán 1987; Miraftab 1996: 77; Peña and Alonso 1998; Peña and Gamboa 1989; Prügl 1998, 1996).

Despite the fact that the overriding cultural value of Mexican neopatriarchalism is for women to occupy domestic space but not public space, poor women have long had to work in informal sector activities such as domestic service or street vending, which take them out of their homes (Arizpe 1977). Marginally and relatively better-off women married to full proletarians or lower-middle-class men have carried out informal activities such as homework within their homes (Arizpe 1977; Benería and Roldán 1987). Studies of Latin American home workers show that they are usually married women whose child care responsibilities limit their possibilities for seeking work outside the home and who are hemmed in by cultural expectations that permit husbands to limit “decent” wives’ mobility (Benería and Roldán 1987: 97; Miraftab 1996; Peña and Gamboa 1989; Rangel de Paiva Abreu and Sorj 1996). These married women with dependent children thus constitute a captive audience, a pool of available labor waiting to be tapped directly or indirectly (through vertical subcontracting lines) by multinational and national companies that “put out” part of the production process. Their subproletarianization is “functional” for capitalism in another, indirect way: their work subsidizes the less than family wage of the proletarianized male head of household. As Benería and Roldán (1987: 103) observe, “The historical conformation of Mexico
City’s proletariat is . . . a product not only of migratory waves from the hinterlands, but also of gender and generational ‘waves’ of female proletarianization and subproletarianization of spouses, sons, or fathers.” In the case of married home workers, this subsidy tends to be to the spouse, that is, the male breadwinner. Thus, women contribute to global capital accumulation both directly by constituting cheap labor force, whether in the maquiladoras or as home workers, and indirectly through subsidizing the purportedly “family wage” of the male head of household (when he is present).

In sum, the aims of neopatriarchy and of multinational and capitalist enterprise reinforce one another: capitalist subcontracting to home workers takes advantage of and thus re-creates the gendered order of neopatriarchy; neopatriarchy provides the captive labor force (Rangel de Paiva Abreu and Sorj 1996). While capitalist oppression may remain unchallenged,8 neopatriarchal oppression is often confronted by rebellious women.

If the husband breaks the neopatriarchal bargain, the wife may become less submissive and obedient and even insult the prevailing sex/gender system, or as Walby (2000: 170) calls it, the “gender regime.” Whereas they may adapt to the fact that hoped-for companionate marriages with an emotionally supportive spouse may not be forthcoming, when the male head of household fails to live up to his breadwinner role, there can be trouble. If the husband’s income is unstable due to his intermittent employment, or if his contributions to the household are unreliable due to their diversion to vices such as drinking, gambling, or womanizing, even the subproletarianized home workers will openly challenge the domestic power and authority of their husbands. Once women contribute more than 40 percent of the nuclear household’s income, they begin to fight restrictions on their rights to visit friends and relatives and reject unquestioning submission to their husbands’ directives, even if their husbands are relatively reliable providers (Benería and Roldán 1987: 146–9; Roldán 1988: 242). The control of some income empowers some women in the face of broken neopatriarchal pacts (see Stern 1995: 97–8 and passim) on “contested patriarchal pacts”.

According to Benería and Roldán (1987: 153; see also Roldán 1988: 243) women home workers who contribute more than 40 percent of the household expenses, yet have husbands who contribute only sporadically, may openly challenge their husbands’ control over their mobility and refuse to do routine household tasks for the comfort of husbands, may use foul language to their husbands, “and even strike back when husbands try to beat them.” In sum, when husbands do not live up to the male- and female-endorsed ideal of “man the breadwinner,” their wives perceive that the neopatriarchal bargain has been broken and themselves begin to challenge to break the rules of neopatriarchy. As long as the husband lives up to his provider functions, however, neopatriarchal arrangements and capitalist exploitation of home workers permit the existence of and reinforce one another.

### 3. Paternalism, Phallocentrism, and the Maquiladoras

Among female maquiladora workers,7 challenges to neopatriarchal households exist by definition, as wives or daughters are supplementing or replacing the wage of the designated

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6. There is evidence of home workers in Europe and Asia organizing to press for higher wages and more stable working conditions (Prügl 1988, 330); however, to my knowledge, this still has not occurred in Mexico.

7. Women have traditionally been the preferred labor force for the maquiladoras in Mexico and for export processing plants throughout Asia, the Caribbean, and elsewhere. Recently, however, in Mexico there has been
breadwinner and doing so by entering public space. Maquiladora workers will not put up with physically or verbally abusive or unfaithful husbands to the extent that their mothers did; women’s entry into stable jobs in Mexico has been found to lead to abandonment of volatile, unreliable husbands or even to the avoidance of legalized matrimony altogether (Chant 1997; Mummert 1994). Women who find stable work in the maquiladoras can be expected to show the same trajectory as women who work in the strawberry packaging plants in Michoacán; the daughter generation of the first workers “reject being victimized” by male partners whether through violence or adultery (Mummert 1994: 207). One working daughter reported, “I don’t think like my mother did that one must put up with whatever kind of husband one might happen to marry” (Mummert 1994: 207).

Nonetheless, while the authority of males in factory and assembly plant workers’ households may be undergoing “decomposition,” there is a “recomposition” of gender subordination on the shop floor (Elson and Pearson 1991: 90-100). Subject to the authority of nonkin males, women in “world market factories” such as maquiladoras and export-oriented packaging plants are less protected by neopatriarchal standards and more subject to control and a machismo/phallocentric-like sexual harassment by supervisory and managing males (Elson and Pearson 1991: 100) and, in some cases, by male fellow line workers.

What can be described as paternalism exists in the treatment of female maquiladora workers by owners and upper-level management (Nash 1983, 1988). This paternalism, sometimes glossed as “benevolent patriarchy” (Young 1991: 109-10), involves the “recomposition” of gender relations embedded in the factory work regime and helps to bolster that regime. To “protect” their female workers, managers may often provide bus transport from home sites to the factory and back. Emphasizing the “feminine” aspect of their workers, managers organize recreational activities such as make-up classes, St. Valentine’s Day parties, and beauty contests: a city’s Miss Maquiladora may be chosen (Iglesias Prieto 1997: 75; Peña 1997: 93). As Iglesias Prieto (1997) recounts,

As in all corporate sponsored extra-curricular activities, the firms rationalize the beauty pageants as “recreational” pursuits. They are, however, intended to boost productivity, and by reaffirming traditional standards of feminine beauty and behaviour, convey to the female workers the firm’s profound preoccupation with her physical and emotional well-being.

In return for obedience, submission, and productivity, the maquiladora “patriarchs” reinforce their “daughters’” dependence on their femininity (read docility and self-acceptance

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<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Maquiladoras</th>
<th>Total Line Workers</th>
<th>Total Women</th>
<th>% Women Line Workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>620</td>
<td>102,020</td>
<td>78,880</td>
<td>77.3</td>
</tr>
<tr>
<td>1990</td>
<td>1,703</td>
<td>360,358</td>
<td>219,439</td>
<td>60.9</td>
</tr>
<tr>
<td>2000</td>
<td>3,590</td>
<td>1,040,077</td>
<td>574,073</td>
<td>55.2</td>
</tr>
</tbody>
</table>

of subordination). Furthermore, as Iglesias Prieto (1997: 75) maintains, such events keep “them from reflecting on their exploitation as workers and their oppression as women.”

It is widely recognized that the organization of work differs according to whether women are employed by the apparel or the electronics maquiladoras (Carrillo V. 1994; Fernández-Kelly 1983; Tiano 1994). The local organization of work differs among other types of plants as well (Salzinger 1997) yet is, in the vast majority of cases, marked by male domination and female subordination in both formal and informal interactions.

Male dominance in the form of phallocentrism or machismo intersects and combines with capitalism in diverse ways on the factory floor. Two ways that are notable are how masculinity/femininity are utilized, first to regulate work output on the shop floor, and second to infiltrate women’s informal networks, networks that often form the basis for challenges to the work regime imposed in the maquiladora plants. Salzinger’s (1997) analysis of three different maquiladora plants throws light on how work organization can produce different gendered orders. One, a television assembly plant, reveals what she calls, following Foucault (1979), a panopticon type of arrangement in which women’s visibility, both how they look as women and how they labor as workers, is under constant scrutiny. Male managers and supervisors bear the gaze that keeps women in their places both as feminized object (they are objectified as women) and as productive workers. The male supervisor’s “gaze [is] focused sometimes on ‘nimble fingers,’ sometimes on the quality of hairstyle. Often he will stop by a favorite operator—chatting, checking quality, flirting. His approval marks ‘good worker’ and ‘desirable woman’ in a single gesture” (Salzinger 1997: 555). Women compete for the attention of supervisors and socialize one another into wearing makeup and attractive, often revealing, clothing. “To come to work is to be seen, to watch, and so to watch and see yourself” (Salzinger 1997: 556).

Sexualized power over women by men in supervisory and managerial positions has been reported in a number of other studies of maquiladora workers. Fernández-Kelly (1997: 534) reports that sexual harassment was “especially blatant” during the early years of the maquiladora program.

There were ingenieros [technicians] who insisted on having only the prettiest workers under their control. They developed a sort of factory “harem.” Sandra [a maquiladora worker] knew of a man—“Would you believe this?”—who wanted as much female diversity as possible. All of the women on his crew, at his request, had eyes and hair of a different color. (534–5; see also Fernandez-Kelly 1983: 129)

One of Iglesias Prieto’s (1997) informants reports,

I don’t get along well with the boss, I don’t even speak to him. Some women do get along with him but they don’t respect him. Many bosses have lovers from the plant. My own factory chief, the one who authorizes permits to go to Social Security, has a lover in the factory, even though he is married and has two daughters. Everybody knows it, because he’s also had affairs with the other girls there. There are thousands of cases like this in the factories. (76)

Often the main contact between a male supervisor and the line workers is the lead operator or group chief, chosen because of her tendency toward rate busting and a demonstrated

Workers at several plants spoke of how first-line supervisors used sexual pressures and advances to gain control and influence over group chiefs. Oral histories with a wide variety of women workers suggest that sexual advances often lead to liaisons between supervisors and the targeted victims, who tend to be rate busters or lead operators. Lead operators who submit to sexual relations with male supervisors are rewarded with a range of “privileges,” such as excused absences, flexible schedules, extra wage bonuses, trips, parties, dinners, and dances. (95)

Although some readers might dismiss such accounts as exaggerations on the part of women workers, nonetheless they reveal, at a minimum, that female workers feel sexually under siege, and maximally, that they indeed are. Instead of the protections ideally offered women under patriarchy and neopatriarchy by male kin, women are exposed to an unabated machismo marked by sexual objectification. Men also play out their power over women workers to demonstrate their superior masculinity to the audience, even if small, of inferiorized male line workers.

Sexual harassment by male supervisors, whether of women line workers or of group chiefs, also serves capitalist enterprise by disrupting informal friendship networks among women workers. Workers’ informal networks, some of which are based on recruitment processes via word of mouth (Fernández-Kelly 1997: 527) and some of which develop on the factory floor, constitute the interactive infrastructure for rebellious actions against oppressive productive regimes. Members of informal networks may engage in output restrictions or slowdowns and work stoppages, and they often provide the basis for unionizing and strike efforts (Peña 1997: 127–9; Iglesias Prieto 1997: chap. 7; Young 1991). Male supervisors often utilize group chiefs to gain information about plans for such subversive activities and so to disrupt them; their flirtations with group chiefs are thus a form of social control in the interests of capitalist production (Peña 1997: 95, 119). Flirting with line workers often leads to competition for supervisors’ attention among them, a competitiveness shown both by enhancement of their feminine attributes through dress, comportment, and cosmetic use but also by “putting out” on the shop floor; in many cases, such male attention gives them feelings of personal power (Salzinger 1997: 556), but it also serves to disrupt women’s solidarity (Iglesias Prieto 1997: 76) and render them more exploitable as workers.

Notably, not only feminine sexuality but also masculine sexuality is manipulated (or taken advantage of) to bolster class interests. Male supervisors are kept “tame” by their guaranteed access to women: this represents utilization of, or at least a permissive stance toward, a machismo that works in the interests of the class that owns and controls the means of production. Male supervisors’ direct power over line workers, or indirect power mediated by group chiefs, enforced through flirtation and sexual harassment, not only divides the workforce along gender lines but also dims men’s consciousness of their otherwise subaltern status vis-à-vis higher management and factory owners. Male line workers, on the other hand, do not take part in this power if the workforce is overwhelmingly female. Whereas male supervisors can play the role of the sexually aggressive macho, male line workers are
ignored, even considered feminized, due to their occupation of the “traditional” female role in maquiladoras, by both male supervisors and female line workers (Salzinger 1997: 557, 569).

Men’s supervising of overwhelmingly young female line workers is still the most typical arrangement in a wide variety of maquiladoras, despite the fact that increasing numbers of single mothers and older and married women, as well as men, are entering the maquiladora labor force (Iglesias Prieto 1997; Peña 1997; Sklair 1993; Tiano 1994; Wilson 2002). As the maquiladora plants come to have an increasingly heterogeneous labor force, the forms of male domination and female subordination that they display, and how this intersects with capitalist profit maximization, can be expected to change as well.

Salzinger’s (1997) study of a maquiladora plant in which car electrical systems (harnesses) are assembled, as well as Yelvington’s (1995) study of a factory in Trinidad, provide templates of how gender dynamics change as more men and older, married women come to be employed. In the maquiladora plant she calls “Anarchicomex” (as opposed to the one analyzed above, which she labeled “Panoptimex”), Salzinger found that the majority of workers were men, despite management’s expressed preference for women workers. Unlike Panoptimex, “Supervisory authority and the right to see do not define masculinity. Instead, activity and aggressiveness vis-à-vis women workers—both in the sphere of sexuality and in the sphere of work—constitute masculinity on the shop floor” (562). Male line workers are constantly flirting with female line workers. Women respond positively to the flirtatious attention, in most cases, but—predictably—resent overhearing men talk about how women do not work as well or as fast as men do. Male discourse not only disparages women’s work but is also contestative of management’s preference for a female workforce (558). Men and women in this plant have begun to interact in a gendered competition to show which sex can produce more. Such competitiveness can only be a plus for capital accumulation.

The factory studied by Yelvington (1995, 1996) in Trinidad, with its contingent of older, married women and female heads of household, may represent a gender dynamic to come in Mexico as increasing numbers of women from their late twenties through forties are taking their places beside young, single women in the maquiladoras. Sexual harassment in the form of touching and aggressive verbal assaults, such as those Salzinger (1997) finds in the harness assembly plant, and which Yelvington glosses as flirting as well, are commonly directed at the young, unmarried women. As in Anarchicomex, young women may encourage this verbal harassment, often as a means of soliciting aid in the production process. They thus acquiesce in their own sexual objectification and reinforce it by playing up to the phallocentrism/machismo involved in their harassment. Older married women and female heads of household, on the other hand, protect themselves from such sexually aggressive behavior, discouraging it through a restrained and respectable comportment. Their restraint, however, only serves to reinforce traditional definitions between “good” (not available) and “bad” (available or possibly available) women. In both cases, male domi-

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8. I am leaving out of the discussion here the maquila plant that Salzinger (1997) calls “Androgymex.” In this hospital supplies plant, men and women wear uniforms and head coverings that make it difficult to distinguish gender at first glance (566). Men and women work side by side for piece rates, which makes productivity the focus of attention. Salzinger claims that under these conditions, there is no hegemonic male order or discourse but multiple sites of gender interactions.
tion and female subordination are reconstituted (or recomposed) and women kept in their “place” on the shop floor.

4. Conclusion

There are a number of gendered power complexes marked by male domination and female subordination, including patriarchy (grounded in patrimony, a male gerontocracy, and extended family structures), neopatriarchy (based on a male breadwinner and nuclear families), and phallocentrism (a *machista* reaction representing, in part, a male backlash to women’s increasing economic independence). Each interconnects with capitalism and does so in multiple ways. Whereas home workers in male-headed households work under conditions of neopatriarchy, maquiladora workers are confronted with paternalism and with phallocentric sexual objectification in the work place. The former are embedded in the “domestic gender regime,” the latter in the “public gender regime” (Walby 2000: 170, 172).

Neopatriarchy, with its emphasis on women’s occupying of private space in the roles of wife and mother, provides capitalist enterprises with an essentially captive pool of workers to whom parts of the production process can be subcontracted. Phallocentrism in the maquiladoras takes different forms depending on demographic factors, that is, the ratio of male to female workers and the organization of work. If the maquiladora labor force is overwhelmingly female and the managerial level male, a classlike division of labor by sex is more apparent: male supervisors flirt with, sexually harass, and sometimes seduce female group chiefs or line operators. If the labor force is relatively evenly divided between male and female workers, or if there is a surplus of men, male line workers display their masculinity by sexually objectifying and attempting to seduce female line workers; their display is partially directed at showing their masculine prowess for the benefit of other male line workers. In both cases, women may either become alienated and attempt to withdraw from phallocentric advances or collude in their own subordination by acting out their expected feminine role; feeling empowered by male attention under conditions of male domination and female subordination, they flirt back. They are agents, in this sense, but on the terms defined by the gender regime as this intersects with capitalism. Men, following the gender order, act to satisfy masculine desire; women act to satisfy feminine desire but also for economic considerations, for example, to be assured of steady employment. In either case, the gender regime contributes to divisions in the labor force.

Men’s superior power over women workers functions to the benefit of capitalist enterprise partially through the disruption of informal female networks that provide the infrastructure for rebellion against capitalist exploitation: women may compete for the male supervisors’ attention and approval both due to internalized gender expectations and for economic benefits. The existence of heavy flirting, sexual harassment, and seduction by male line operators may also divide the workforce along gender lines, adding an overlay of male-female competition in the production process to the female-female competition for male attention. In the case both of home workers and maquiladora workers, the interaction and interconnection of male domination/female subordination and capitalism takes on a variety of localized forms and exhibits diverse dynamics. The phallocentric and paternalistic gender regimes serve to undermine the solidarity of the labor force, undercutting the formation or stability of female and cross-gender solidarity networks: the foundation of collective
These gender regimes thus facilitate capital accumulation based on the exploitation of a cheap, unorganized, flexible labor force.

References


Central Banking, Crises and Global Economy

The globe can be conflated into one single economic entity. An increasing market orientation, with the rise of neoliberalism against the collapse of socialist economies, has hastened this process. Besides, rapid changes in information processing in the form of information and technological (IT) revolution have bridged spatial and temporal distances. These developments have had profound effects on the functioning of markets, challenging the nation-states in managing economic systems through the orthodox way of theorizing economic processes and outcomes. Indeed, central banks (CBs) are going through trying times, being unable to remain immune to global developments in formulating domestic monetary policy. Is it worth, then, considering a super CB to handle liquidity management efficiently through international monetary and fiscal policy coordination? The book under review could be appraised in this context.

The author’s assignments with Federal Reserve Bank of the United States (Fed) in New York and London, teaching to Latin American students, military service in the Asian Pacific, and close touch with China have influenced his global views on the functioning of financial markets and the evolving role of CBs. With the ground beneath the CBs’ feet moving so fast, as the title suggests, the book captures the changing nature and role of central banking that emerges from the episodic crisis- or near-crisis-prone situations at the global level. It goes beyond the conventional distinction between domestic and international, real and monetary-financial, spanning the twentieth century’s systems with different operational modes (6). The author studies the dynamic disequilibrium situations manifested in terms of crisis, drawing crucial inferences by tracing the path, processes, and events associated with breakdowns and illuminating his argument with empirical and historical anecdotes. The central thesis of the book is that independent central banking arrangements, with the International Monetary Fund (IMF) as a moral safeguard adhering to a uniform set of
fixed rules to attain monetary discipline, are a sine qua non for growth and stability in the functioning of the global economy.

The book is divided into six parts. The analysis builds on the economic/theoretic constructs of four linkage sets in part I. Set I is the Keynes interest rate view, where the CB, having control over commercial banks, manipulates (short) interest rates (IRs) to impact the public’s liquidity preference or spending on money and capital. Set II is based on an income-expenditure causal linkage, a Keynesian view as elucidated by Kaldor, where a fiscal (deficit) spending component of income causes the growth of the domestic money stock. The causation runs from income to money, given an accommodative CB (chap. 2). Sets III and IV (chap. 3), accounting for an aggressive policy stance of a CB, are based on the Friedman system; the former deals with Friedman’s emphasis on causation from money stock to income. Set IV emphasizes management of liquidity. A reality check on these linkage sets has been done, reviewing the historical experiences of the Fed, pre-Blair Bank of England (BoE), and pre–European Monetary Union (EMU) Bundesbank (BS) of Germany, with reference to their use of instruments against objectives, institutional arrangements, and accounting practices.

Frazer evaluates the efficacy of five policy experiments: low IR, pegged rates (fixing at a lower level), operation twist (influencing the yield curve by manipulating IRs), monetary accommodation (no explicit reserve requirements), and the “Big U-Turn” (monetary discipline). The first three were carried out by the United States alone, and the later were two shared by the United Kingdom and Germany during the 1920s to the 1980s (part II). Working through the experiences of the 1937–38 recession to the 1990s, Japanese, Asian, and other crises, the author questions the short-term IR as a policy control variable. Empirical evidence on the comovement of “low or declining IR” with declining economic growth (60), or pegged IRs ending up in rising IRs, which Friedman describes as “chasing the IR,” is provided, reinforcing the old adage, “You cannot push on a string but only can pull on a string” (65). The inability of CBs to twist the yield curve by supply-demand-quantity means (68), or to use IRs to attract foreign funds against nonconducive domestic inflation (79, chap. 4), is highlighted. These events point out the operational failure of Keynesian linkage Set II, precisely because it provides room for manipulation. Since business and government depend on banks to funnel funds, a bank-business-government nexus emerges (34). Therefore, the use of the bank rate to produce desirable outcomes is contingent on an authority with an impeccable reputation as well as sound economic fundamentals, rarely witnessed in reality. Therefore, once inflation was recognized as policy induced, the Fed adopted a money stock targeting approach for taming inflation during the mid-1970s. The BoE and the BS did likewise.

It is argued that only the BS gained considerable success in hitting monetary targets and controlling inflation due to favorable institutional arrangements (chap. 6). It used the short-term IR in managing liquidity, leaving the long-term bond rate to the bond market. In contrast, both the Fed and the BoE failed to comply with their targets since both Reagan and Thatcher had difficulty in implementing institutional arrangements, accounting practices, and traditions corresponding with strict monetary discipline (chap. 13). Based on the policy experiments of the Fed, open market operations (OMOs) appear to be best suited to a stabilization-oriented aggressive CB (chap. 5), both as a substitute for a gold-flow mechanism and for conducting Keynesian credit policy, an especially suitable method to employ with nonresponsive banks and public in a downturn (106). By sidestepping the dif-
difficulties encountered with monetary targeting, which becomes questionable on the grounds of transparency in addition to raising inflationary expectations, the long-bond rate rather than the short rate appears as a surrogate for monetary policy. The structure comes close to the Friedmanian Sets. Against the backdrop of these failures, the “Big U-Turn” emerged from a homogenizing political ideology coupled with an uncontrolled inflation: a commitment to strict monetary discipline. The author calls this reversal a “Great Transformation,” after Karl Polanyi.

Focusing on the international scenario in part III, the movement from automatic rule-oriented arrangements to managed economic systems is reviewed. Recurring crises in the form of balance of payments difficulties, inflation, and liquidity shifts across nation-states have necessitated the intervention of the IMF, albeit in a new role focusing on macroeconomic adjustment problems. The IMF is envisaged as a super global CB to support crisis-prone economies with “conditionalities” such as banking reforms, pruning of deficits, wage and price adjustments, and opening up of markets for world trade. These efforts in managing the global economy are proposed to usher in a “golden straightjacket,” a variant of the old gold-flow specie mechanism without gold, that subsumes price competition, uniform rates, and independent CBs.

Tracing out the evolution of the EMU, the recognition of limited success met by the quintessential Keynesian pre-Blair BoE, the discovery of OMO by the post-1935 Fed, and the successful inflation targeting by the Friedman System–based pre-EMU BS culminated in the EMU, with strong monetary discipline and rules. Some economists remain skeptical of a “marriage with no mechanism for divorce” (286). Given this evolution of CB practice with alternative analytical approaches and policy experiments, what is envisaged for that august institution? Part V addresses this issue. A model CB can counter liquidity shifts of banks and the public to prevent domestic recession (308), using variables such as interest rates, exchange rates, and commodity prices that contain a good deal of processed information about the prospective outlook for both the financial markets and the real economy (314). The use of OMO for domestic stabilization must be complemented by an international institution as a lender of last resort (305). The impact on the real economy in the transition might not be benign, necessitating a lender of last resort such as the IMF.

Throughout this exhaustive work, written from an insider’s perspective, the author presents a robust account of global economic developments with special reference to how markets actually operate and how the policy decisions that shape them are made. However, the reader may find its style of presentation difficult to comprehend, as long historical anecdotes are interspersed amidst theoretical constructs yet lack the grafting of the former into the latter. Besides, one may be intrigued with the promising line of enquiry—insofar as the book posits extremely important questions that the contemporary world is confronted with—yet be disappointed with the orthodox approach and prescriptions it offers as solutions for managing the economies. A discussion of these would be useful to critically appreciate the book and place it in the context of ongoing discussions within academia.

First, unfortunately, the single focus has been on taming inflation, with an emphasis on the prevention of liquidity shifts. For that, a forceful argument for an independent CB adhering to strict monetary discipline is made. However, in evaluating this issue, one needs to ask (1) How does a policy maker go about addressing the problem of inflation and unemployment in an open economy framework? Is the entry point policies that can ameliorate supply-side constraints, or is stabilizing demand required? Put differently, is inflation a
prime target now? (2) As a corollary, does the fiscal deficit necessarily cause inflation, or is it not the case that monetary tightening coupled with fiscal pruning contracts real activity? Indeed, the capitalist economies are confronting sluggish aggregate demand growth (Crotty 2000). Therefore, traditional tools like budget deficits, considered anathema in academic and policy circles, might be welfare enhancing without fanning the fires of inflation (Wray 1997). Following Minsky (1986), historically big governments through public expenditure have played a stabilizing role by moderating economic fluctuations. Since CBs are effective in containing aggregate demand through restrictive monetary policy but not in stimulating demand, fiscal policy as a countercyclical tool can help in pushing the economy to a higher equilibrium growth path.

Moreover, Frazer vociferously argues for strict adherence to a uniform, market-oriented set of fixed rules, aimed at “internal institutional changes” to stabilize information-sensitive business conditions (196). But subjugation of economic policy to fixed rules may be perhaps a second-best solution to stabilize the economy (Tobin 1983). Given the shifts and instability in the demand for money, and the ambiguous relationship between interest rates and output, the strong case for a balanced budget as a cure for higher IR, inflation, and an overextended state seems to be weak. In fact, an elaborate review in parts I and IV of the relative success and failure of the Fed and BoE vis-à-vis the BS points out that the implied demise of the Keynesian case is the result of an inadequate discussion of novel institutional arrangements for appropriate instruments and targets. Then the objective must be to increase institutional efficiency in devising cost-effective, efficient, and equitable policies. Recent research emphasizing qualitative aspects of economic growth concludes that economic policies (including budgetary policies) having strong distributional effects are favorable since income distribution influences economic growth with no trade-off between redistributive and efficiency goals in public expenditure policies (Schwartz and Ter-Minassian 2000).

The author also visualizes the IMF as a super CB for implementing a uniform set of rules. However, evidence suggests that calling for fiscal and monetary austerity measures in the developing countries, to comply with the prescriptions of the uniform set of rules, has constricted their ability to construct macroeconomic policies to induce structural change in their patterns of production to stimulate higher productivity activities and employment (Adelman 2000). Even Frazer mentions in part VI that notwithstanding the radical changes in the globe, the institutional arrangements in most of the developing and emerging economies are not yet sufficiently market oriented, and even Japan and Russia are strained in this respect (339). Therefore, the author’s prescription of the IMF as lender of last resort at best may contain the severity of crises but will not eliminate them. The IMF must leave sovereign countries to manage domestic economies once they fulfill certain conditions rather than prescribe “one size fits all” rules.

At a more fundamental level, there is a conceptual jumbling by the author in the treatment of liquidity shifts. The implicit presumption here is that containing liquidity is analogous to preventing liquidity shifts. This may be wishful thinking, as it is one thing to contain liquidity by strict monetary and fiscal discipline, but it is another thing to prevent liquidity shifts. For to prevent liquidity shifts, one must address the question, Why do liquidity shifts occur? The overarching influence of the IT revolution in the changing financial landscape cannot be overemphasized. Financial innovations in the form of new financial instruments have changed the nature of contractual obligations and, in turn, the process of monetary operations. The liquidity of instruments has increased, as has their speed of substitution in re-
sponse to the slightest change in information, imbuing hyper-information-sensitive financial markets with tremendous instability. Increasingly, financial arrangements are entered into with limited connection with production processes. Finance flows ex ante into all kinds of activity for expected gains and flows out when there is the prospect of losses. The speed with which finance flows into and out of countries is spectacular. In essence, liquidity shifts occur due to sudden changes in expectations for any rise in uncertainty. However, the sustainability of these shifts depends on their compatibility with prospects in the real economy, firms’ profit growth, and IR dynamics (Boyer 2000). Therefore, prevention of liquidity shifts requires stabilization of expectations. For that, in addition to the appropriate monetary and fiscal policy as highlighted above, the monetary authority could impose speed limits and redirect expectations by setting sectoral limits, disciplining the market in twin ways: (1) channeling credit to spheres that generate employment and growth and (2) preventing the faster liquidity shifts especially from financial to product markets. These regulations would act as “circuit breakers” to de-link the transmission of shocks from international movements, ensuring domestic stability (Rao 2001).

References


The Point of Production: Work Environment in Advanced Industrial Societies
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The problem of the impact of the labor process on the health and safety of workers and the communities in which the workplace is situated has been of concern to political economists from the birth of capitalism. In this important book, two leading advocates of more direct action to improve the work environment offer an analysis of the way in which production and work are affected by the changes in the international economic order, that is, of evolving political structures and interactions. Although the book mainly addresses the work environment in the United States, some mention is made of the international scene.

In spite of the success of neoliberalism in today’s world, the authors stress that “workers work as they always have, though the products may be very different, the conditions of work infinitely more variable, and the workers themselves more diverse than at any time in history” (2). Employing a Marxist framework to the political economy of the workplace, Wooding and Levenstein start by defining the point of production as

the place where workers, using capital, fashion raw materials into products: the shop floor. This is where the boss really makes his money, where exploitation takes place, where creative, live labor is coined into gold . . . [it is also] the place where toxic materials are created or used; where waste—hazardous and the plain old kind—falls to the floor or diffuses into the air and may find its way into the environment; where nature is improved upon, from one point of view, or where it is degraded, from another. (3)

What this book offers is a perspective for the study of the forces and actors working together and affecting each other at the point of production. To produce goods, or “stuff,” it is not necessary to destroy the environment or pollute the earth. This analysis makes it clear that our understanding of the point of production is affected by our point of view. Instead of one point of production, each actor sees it differently: owners, workers, and society, each with its own lens. Thus, the point of production offers a unique way of seeing and understanding the world and, the authors claim, an analytical and practical place from which to construct a socialist politics for the twenty-first century.

By examining these various analyses of points of production, it is possible to define the political and economic determinants of political and economic changes throughout the United States and, by extension, the capitalist world economy. Through the study of working conditions, Wooding and Levenstein introduce us to a different way of seeing the work process. Their model takes us beyond a simplistic Marxian view of the labor process to explore how social conflict has created the conditions of environmental degradation. While there is nothing inherent in most production processes that makes it necessary to destroy the environment or pollute the earth, the present-day organization of production makes it almost inevitable.
The book is divided into eight chapters. Following an introductory chapter, Wooding and Levenstein offer a broad definition of the work environment that includes the conditions of work primarily but also extends to the consequences of work for the economic and social conditions of the community and the surrounding environment. The authors expound on the production of disease and injury and the various perceptions of occupational disease by workers, management, health professionals, the state, and the legal system. Different approaches to the study of the work environment are explored, each with its own underlying theory and ideology: the industrial hygiene approach limits itself to production itself, clinical approaches essentially only address problems of affected workers, and epidemiology accepts responsibility for a broader community affected by the work center, including the neighboring communities; these significant differences reflect underlying political conflicts. The political economy of regulation, research, and compensation, and the concepts of risk, medical uncertainty, and prevention are key concepts to understand the political economy of the actual work environment. Wooding and Levenstein provide a clear explanation of these differences that are useful for any political economist.

Technology and the work environment are the themes of chapter 3. It is the labor process and technology itself that shape the work environment. Wooding and Levenstein carefully explore the relationship between politics and technology as a contribution to our understanding of the development of occupational safety and health problems. The choice of technology may be prompted by different imperatives and needs; we can be sure that technology is not chosen by management to prevent risks to workers. However advanced technology is these days, American workers are working longer and harder than at any time in the postwar period.

Chapter 4 gives us a sense of the social and political context of the work environment. It is a microcosm of the ideological, social, and political relations of the wider society. Understanding the impact of workplace hazards, along with the entrenched systems that are designed to diminish their effect, must take into account how the political and social context determines the incidence, recognition, definition, and prevention of occupational disease and injury.

Chapter 5 examines the politics of regulation. The rise of OSHA (Occupational Safety and Health Administration) is examined from a historical perspective. The decline in government regulation and enforcement of workplace health and safety standards with the pernicious effect on workers’ health must be placed in this context. Therefore, it is not surprising that there is a crisis in the U.S. workers’ compensation system (chap. 6). Contrary to the original principles of the system, it now may encourage some industries to prevent physical injuries, but there is hardly any incentive for the prevention of occupational diseases.

The authors analyze health science and its politics in chapter 7. There are numerous examples of how occupational health professionals are confronted with ethical dilemmas; they are forced to choose between taking the side of workers or the company in the case of unsafe working conditions in the plant. Wooding and Levenstein go further and point out that “power relations, technical training, accountability, and ethics are intertwined in the work of occupational safety and health professionals” (119). The politics of research and the allocation of money for research grants are conditioned by multiple forces and, in many cases, directly by the industry interested in proving its compliance with occupational health and safety standards. The authors pose a fundamental question: What is left of workers’ rights and workers’ knowledge and experience in this context? The vast collective experi-
ence of workers and their knowledge of the work environment are wasted, simply because they are not part of the predominant research paradigm. They are merely objects with no direct participation and say in the research of occupational health and safety hazards.

Wooding and Levenstein conclude with an analysis of the interaction between work, health, and democracy:

Work should involve risks, but risks to tired minds, challenges to complacency, hazards to inertia. Work must not be the endangerment of some—the workers—for the benefit of the few—employers. Indeed, work should also not involve the endangerment of some for the benefit of the many—consumers. Democracy, health, and work are inextricably intertwined, not merely in an economic calculus but in one concerning fundamental human value and the rights of individuals and the community. (143)

The book is written in a fluid manner and will, no doubt, become an important tool for those in formal training in occupational health. This book offers to students in the occupational and environmental fields a concise and up-to-date panorama of the politics of occupational health and is particularly valuable for the historic analysis that helps us to understand how the current crisis evolved. The book might be used as text in both graduate and undergraduate courses of occupational and environmental health, engineering, and other related fields. The most important contribution of this text, however, is the Marxist approach to the study of the work environment, expanding the traditional occupational health literature to include health and safety in the workplace. Because of its facile style, Point of Production would also be interesting and useful for workers, unions, and the general public.

For readers of the *Review of Radical Political Economics*, the book may be especially valuable as an introductory primer to an important area that is usually absent from traditional coursework in economics. By sensitizing the reader to the magnitude of the problems along with the pattern of neglect and denial, this book also provides an important example of how political economy can use critical analysis to shape strategies for moving beyond our current problems. The most important contribution of this text, however, is the unfolding of the Marxist approach for the study of the work environment, combining traditional concerns in occupational health with the health and safety of the workplace and extending the field to include the broader community.

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**The Rise of Fiduciary Capitalism: How Institutional Investors Can Make Corporate America More Democratic**  
James P. Hawley and Andrew T. Williams; Philadelphia: University of Pennsylvania Press, 2000, 251 pp., $47.50 (hardcover).

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The Rise of Fiduciary Capitalism exposes many of the opportunities and hurdles for wider economic participation ushered in by the rise of powerful institutional investors. Therein, James P. Hawley and Andrew T. Williams argue that the United States has entered a new phase of corporate ownership. Today, major institutional investors (i.e., public and private pension funds, mutual funds, insurance companies, and bank trusts) are positioned to control corporate America as they “own about one half of the total equity in the U.S. market” (xii).

Of course, unlike Drucker’s (1976) The Unseen Revolution: How Pension Fund Socialism Came to America, one cannot suggest, even half-heartedly, from the broad ownership of equities the existence of socialism, economic democracy, or even significantly wide participation in corporate decisions. Fortunately, Hawley and Williams do not reduce ownership to control, and they develop their arguments for new opportunities for economic participation on the concept of “universal investors.” Pension funds, mutual funds, insurance companies, and bank trusts concentrate the power of a diverse set of investors such as private sector workers, public sector workers, retirees, citizens-at-large, environmentalists, and religious organizations. These diverse investors do not all seek “returns” in the form of increased profits alone. Investors often desire returns in the form of increased employee education and training, improved safety standards, and the use of environmentally benign production techniques, along with profits, from the companies held in their portfolios. This means that fund fiduciaries, who represent a diverse set of beneficiaries to whom they are ultimately accountable, are given the task of pressuring companies to address a wide set of investor concerns from job growth to environmental protection to increased employee training. As these concerns may conflict with short-term profit-maximization dictums that corporations are conditioned to follow, fiduciaries of institutional funds must challenge existing corporate governance structures such that corporations respond to the varied needs of diverse equity-holding investors.

The task of identifying and unifying the desires of diverse investors is not as difficult as one may think for fund fiduciaries. Universal investors (i.e., individual contributors to pension funds, mutual funds, etc.) seek to maximize returns for their entire portfolio, which often is as diverse as the entire equity market because institutional funds tend to mirror index funds. Universal investors increasingly care about the economy-wide benefits of individual corporate decisions. Hence, any corporate decision is viewed not from a myopic position of capital gains accruing to a singular stock but from a hyperopic position wherein investors and fiduciaries consider how any single firm’s actions will affect the financial standing of other firms held in the portfolio. Because all investors are so diversified, general economic welfare is in all investors’ interest. For example, given negative externalities, such as pollution, which can be profitable from a specific firm’s perspective and increase costs for other firms held in a universal investor’s portfolio, investors may discourage the externality despite the profitable gains to a single firm. Also, investments in research and development, which elicit positive externalities for a specific firm and subsequently become underfunded, tend to be encouraged by universal investors as other firms in the portfolio benefit. What makes the elaboration of a shareholder as a universal investor so powerful is that it provides sound financial reasons for investors/owners to go beyond the narrow view that individualistic, profit-maximizing behaviors are the best course for corporations to follow. This perspective represents the most important insight of the book.
From this perspective, advanced in the first chapter, the book engages with some of the more important issues surrounding modern financial markets and shareholders’ rights. The second chapter provides a brief discussion of proxy voting, touching on issues including poison pills, classified boards, and board diversity. The next chapter characterizes the historic rise in the institutional ownership of equities. Chapters 4 and 5 define and provide critiques of the financial model of control promoted by orthodox theory. The critiques include stakeholder, nexus of contracts, and transaction cost perspectives. The sixth chapter then investigates “the linkage between corporate governance on both the macro and micro level to corporate performance” (122). The authors admit the empirical evidence is mixed but suggest that active investors can make a difference. “Owners can make a difference, not through one mechanism or another, but through the full range of ways that owners interact with companies” (123). Hawley and Williams dedicate the seventh chapter to many of the new ways institutional investors convey their desires to corporate boards. While much is made of formal proxy voting, informal, political means are increasingly becoming the norm by which fiduciaries convey the wishes of owners to corporate management. These approaches are less confrontational, public, and disruptive of corporate activities, and therefore, they can be quite effective.

However, in the final chapters, the book assumes a more pessimistic tone. It delves into examples of how current legislation contained in the Securities Exchange Act of 1934, the Employee Retirement Income Security Act, and various Securities Exchange Commission rulings, such as the “Cracker Barrel” ruling, greatly hinder the ability for institutional investors to be a force for change. While the book considers proposals for reform, it also demonstrates how legally entrenched and insulated management is from owners. The most disappointing aspect of the book is the final chapter, specifically the section explaining the implications of universal ownership.

After the buildup concerning the potential power of a wide coalition of stakeholders emerging as universal investors, the implications of this potential and the specific policy recommendations are underdeveloped. The authors claim that universal investors “care about the overall health of the economy as a whole” (170). Therefore, they need to monitor and use their power to promote sound fiscal and monetary policy, “a well-trained labor force, an effective infrastructure, and a legal and regulatory framework that encourages efficiency in the business sector” (ibid.). Unfortunately, the authors do not supply an obvious connection between shareholder activism and its ability to shape fiscal and monetary policy beyond the minor suggestion that shareholders “should lend their weight to those initiatives that they come to understand as promoting sustained, long-run economic growth” (ibid.). As the policies suggested between conservative, liberal, and radical schools of thought to promote long-term growth are in such dispute, this suggestion is too general. When discussing the power of investors to affect corporate management, the authors’ suggestions to reduce the negative and promote the positive externalities of the companies held in portfolios are too vague to be the basis of concrete shareholder activism. So after a promising beginning, the book falls short of providing compelling reasons for envisioning universal investors as a potent tool for increasing the democratization of the U.S. economy.

On one hand, the book’s shortcomings may disappoint many who hope to find certain democratic opportunities in alliances between universal investors. On the other hand, the
book’s weakness reveals the reality about shareholder activism, powerful institutional investors, and universal, well-diversified investors: namely, nothing particularly progressive necessarily emerges from these elements alone. Furthermore, the existing environment, even with large, labor-oriented institutional investors, may not accommodate substantial stakeholder empowerment movements. These realizations serve as reminders for all engaged in the progressive literature on finance; one must be careful not to expect too much from informed, active investors in terms of supporting progressive agendas. The Rise of Fiduciary Capitalism exposes moments of concern for progressives seeking change via financial markets. For example, the progressive literature often lauds the California Public Employee Retirement System (CalPERS) as one of the most active and socially aware pension funds and serves as an exemplar of progressive shareholder activism. However, Hawley and Williams’s quote from CalPERS’s “Global Principles of Corporate Governance” unveils the nature of the fund: “At CalPERS, corporate governance is about making money, not changing the political or social environment” (103). In terms of advancing the initial thesis that universal investors have common, well-defined goals, they caution,

The interests of various stockholder and stakeholder groups are not clear-cut, simple, or unambiguous. Indeed, these “interests” have barely begun to be articulated or conceptually formulated either by ultimate recipients and “owners” or by the most senior institutional managers themselves. (2)

Both of these examples communicate that the direction of financial activism is yet to be determined.

Therefore, an important task of progressives is to make shareholder activism a force for positive social change. This means educating universal investors about what is in their long-term interest instead of assuming they possess all of the relevant information. It requires forming coalitions of workers, retirees, and environmentalists united by progressive goals. And finally, it entails broadening corporate goals to include a vast array of social, environmental, and economic performance criteria that cannot be summarily reduced to efficiency-improving activities alone. As the book is relatively, albeit not completely, silent on these issues, future research is needed to capitalize on “universal investors” as a mechanism for progressive change.

While this book does not produce a focusedprogressive strategy for financial institutions and agents, it provides a map of the landscape in which institutional investors operate, including the managerial traditions of funds, the legislative constraints of fiduciaries, and current views on shareholders’ rights. This landscape provides the ground on which the future direction of shareholder activism will be contested. Those interested in the outcome may want to be familiar with the territory.

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Impacts of Affirmative Action: Policies and Consequences in California
Paul Ong, ed.; Walnut Creek, CA: AltaMira, 1999, 216 pp. + index, $46 (hardback), $22.95 (paperback).
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In 1996, California became the first state to appeal directly to voters (through Proposition 209) regarding the government’s use of ascriptive characteristics in contracting, hiring, and university admissions. Because California has become a political hotbed for affirmative action debate, this edited collection uses California as a laboratory for assessing the effects of affirmative action policies. It is argued that only by knowing what effect affirmative action has had in California can one speculate with any confidence about the likely fallout of the passage of Proposition 209, which requires both the state and local jurisdictions “not to discriminate against, or give preferential treatment to, individuals based on race, sex, color, ethnicity, or national origin in the operation of public employment, public education, or public contracting” (198). Clearly, the effects of affirmative action is an important and timely issue, and on balance, the chapters included in this relatively short volume do a good job of addressing it. Proponents of affirmative action will probably find the conclusions derived from the analyses to be rather bleak: the legacy of the passage of Proposition 209 is likely to include reduced demand for female and minority workers in public sector jobs (which may depress wages), possible underemployment of women and minorities in managerial/professional occupations, and a significant reduction in minority enrollments at University of California campuses.

The majority of the chapters that make up this volume are empirical; however, the volume opens with two “overview” chapters. The first provides a roadmap to the rest of the volume while simultaneously framing and contextualizing the debates about affirmative action, especially as they concern California. The second chapter is a no-frills overview of federal antidiscrimination and equal employment opportunity laws that covers an impressive amount of relevant material in a surprisingly small number of pages. This chapter would make excellent required reading for a variety of courses (at either the undergraduate or graduate level) concerning economic inequality and/or economics and the law. Likewise, the concluding chapter offers a rich discussion of the implications of the passage of Proposition 209, including what it may mean for the pursuit of social justice and a more equitable labor market for women and racial/ethnic minorities.

The empirical chapters are equally impressive, for the most part, exploiting a variety of data sets (including individual-level data from the Public Use Microdata Samples [PUMS] and establishment-level data from the Employer Information Report EEO-1 files). In these chapters, there appears to have been a strong effort made to present the results as straightfor-
wardly as possible (perhaps to broaden the volume’s appeal beyond academic audiences). For example, chapters relying on advanced multivariate analyses did not report the full set of results in all cases. This may be frustrating to those scholars who want to replicate particular results or those who may want to formulate alternative explanations for the findings.

The substantive results of the empirical chapters are extremely interesting and important, and together they appear to constitute a weighty case against the dismantling of affirmative action programs ushered in by the passage of Proposition 209. However, it is correctly argued that a constitutional ban on affirmative action programs would signal a continuing weakening of institutional remedies against discrimination based on ascriptive characteristics that began two decades ago. While the volume makes clear that affirmative action programs were already under attack, it shows unequivocally that Proposition 209 will hasten the demise of many, but not all, affirmative action programs. Indeed, some of the more provocative empirical findings seem to confirm the worst fears of affirmative action supporters by showing that at least in the public sector, opportunities for women and minorities have been increased by affirmative action policies and programs. For example, it is found that Black and Latina workers have made substantially larger gains in the public sector than the private sector, even after adjusting for changes in the composition of the labor force.

Interestingly, despite the importance of education in shaping a host of labor market outcomes, only a single chapter of this volume is devoted to addressing the impact of affirmative action policies on admission to the University of California. This was surprising. On another note, the volume’s overall usefulness is not helped by the conspicuously poor quality of the graphical displays of data, for example, pie charts that include “slices” that represent only 0.4 percent of the distribution.

These relatively minor complaints, however, do not detract substantially from this informative and engaging volume. Its strengths include the breadth of outcomes related to affirmative action under investigation (which include public employment, minority and women-owned businesses, higher education, and state contracting) and the balance between empirical analyses and discussion of the politics surrounding affirmative action and the legislative attacks it has faced. On the other hand, several authors seem to devote more of their energies to describing the very real difficulties inherent in trying to tease out the effects of policies such as affirmative action rather than trying to come up with novel ways of doing it. Therefore, readers expecting to find new and imaginative ways of measuring policy effects might be slightly disappointed. In sum, however, this impressive and methodologically sound volume will prove to be a valuable resource for scholars interested in the origins, consequences, and empirical study of affirmative action and its consequences for a variety of labor market outcomes.

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Karl Polanyi in Vienna: The Contemporary Significance of The Great Transformation
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Karl Polanyi’s insistence that economic relationships are socially embedded and his critique of the historically limited role of markets are attracting renewed attention. Anyone interested in Polanyi’s thought should have a look at these lively volumes of papers from the First and Fifth Karl Polanyi International Conferences, which may serve to introduce readers to the Karl Polanyi Institute of Political Economy (based at Concordia University in Montreal, Canada), which organized the conferences together with the Hungarian and Austrian Academies of Sciences, respectively. The first conference was held in Budapest in 1986, one hundred years after Polanyi’s birth and thirty years after the Hungarian Revolution. The fifth conference, in Vienna in 1994, marked both the fiftieth anniversary of Polanyi’s The Great Transformation (1944) and the sixtieth anniversary of the workers’ resistance to an Austrian fascist coup chronicled by Ilona Duczynska (1978), an active participant in that resistance. Papers from intervening conferences appeared in Mendel and Salée (1991) and McRobbie (1994). Together with her collaborators, Kari Polanyi-Levitt, a McGill development economist well known as a critic of multinational corporations (Levitt, 1970) and the only child of Polanyi and Duczynska, has produced both a fascinating celebration of the lives and milieu of her parents and an insightful assemblage of reflections on the contemporary relevance of their thought. The Life and Work of Karl Polanyi opens with six essays on Polanyi’s place in Hungarian intellectual life, including papers on the Polanyi family (his brother was the more free market–oriented philosopher and chemist Michael Polanyi), his role in Hungarian politics, and his partnership with Duczynska. She is the subject of a group of six chapters of Karl Polanyi in Vienna, which also includes six chapters of reminiscences of Polanyi in Vienna (1920–36). These chapters, although full of intriguing asides such as Lenin’s disapproval of Ilona Duczynska’s choice of reading matter in the Zurich library, will appeal primarily to readers already strongly interested in the Polanyis.

Of more general interest, three essays by Peter Rosner, Marguerite Mendell, and Lee Congdon on “Socialism: Ludwig von Mises and Karl Polanyi” in The Life and Work of Karl Polanyi examine the drastically different analyses of the feasibility of socialism produced by two rival, but interacting, Vienna seminars in the 1920s. That debate prefigured the contrasting views of market society and the state published by Polanyi (1944) and Hayek (1944), which have shaped the continuing controversy over the limitations of the market as a form of social organization. The essays in the earlier conference volume contrasting Polanyi’s thought with that of Mises and Hayek provide background for six essays in Karl Polanyi in Vienna drawing on The Great Transformation for insights into the problematic transition from planned to market economies in Central and Eastern Europe (including case...
studies of East Berlin, Bulgaria, and Hungary) and into privatization in Britain. As Jan Kregel remarks, proponents of shock therapy for transition in the former Soviet Union “fail to notice that the ‘market’ does not yet exist” (109). In Karl Polanyi in Vienna, The Great Transformation is the starting point for critiques of financial globalization by Eric Helleiner, Fred Block (making the case for controlling cross-border capital flows), and Marguerite Mendell (on alternatives to market-led transition). Samir Amin’s “Conditions for Re-Launching Development” is particularly notable among the papers from the Vienna conference, arguing,

The collapse of the western welfare state, the Soviet model, and Third World national developmentalism have terminated what I call “the post-war anti-fascist era” in which capital was constrained to operate within structures relatively favourable to the peoples of the world. (74–5)

Amin proposes a new World Trade Organization, charged with planning access to the world’s major natural resources and the prices of raw materials, together with “mechanisms of organized capital markets to channel excess finance toward productive investment in the peripheries” (83).

In The Great Transformation (1944) and his 1947 Commentary essay “Our Obsolete Market Mentality” (reprinted in Dalton 1968), Polanyi attributed the origins of contemporary phenomena such as fascism back to the belief in a self-regulating market mechanism not embedded in an institutional framework of nonmarket social relationship. He traced this belief to Ricardo and to the Manchester school of economics, viewing the New Poor Law of 1834 as an assault on that institutional framework. This led Polanyi to return to economic anthropology (the subject of four papers in The Life and Work of Karl Polanyi) to show that reliance on a supposedly self-regulating market is a feature only of a particular society and that the classical and neoclassical economic theory developed in that market society does not apply to other societies (see Stanfield 1986 and Stanfield’s essay in The Life and Work of Karl Polanyi). Although inspired and informed by Marx’s writings, Polanyi distanced himself from the labor theory of value as well as from other versions of formal economic theory. Kari Polanyi-Levitt’s essays on “Origins and Significance of The Great Transformation” (in the Budapest conference volume) and “The Great Transformation from 1920 to 1970” (in the Vienna conference volume) lucidly explore the contemporary relevance and historical context of Polanyi’s work.

These volumes are not the places to seek balanced evaluations of Polanyi in light of neoclassical or Marxian critiques. They are the proceedings of memorial conferences, and at memorial conferences, as in eulogies, the speakers are sympathetic with the subject. The quality of the essays is high, especially for memorial volumes, and the contributors succeed in sharing a common focus. The essays both introduce readers to the current significance of Polanyi’s message and provide detailed Central European background to Polanyi’s intellectual development. The essays on the Hungarian and Austrian context are so detailed that they are best left to readers already deeply interested in Polanyi or interwar Central Europe, but the essays on why Polanyi’s message about the historical limits of market society matters now will have much wider appeal to readers of this journal. Anyone interested in
Polanyi should read these volumes, and the contributors make a strong case that anyone interested in the origins and limitations of market society should be interested in Polanyi.

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References


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REVIEW OF RADICAL
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Call for Papers

SPECIAL ISSUE

THE REGULATION OF GLOBAL CAPITALISM: CRITIQUES AND ALTERNATIVES

We are seeking submissions for a special issue that addresses any of the following (or related) topics:

Comparisons between the (1970s to the present) international trade and capital flow regime to the Bretton Woods system of the postwar period (from 1945 to the 1970s) and to international trade and investment arrangements in earlier periods of global capitalism. This would include the role, politics, and impact of the World Trade Organization as a promoter and enforcer of the current neoliberal regime.

The impact of the current regime on developed and developing country economic growth, income distribution, and general social welfare. This would include case studies of the impacts of International Monetary Fund and World Bank “structural adjustment” programs on specific countries and regions and comparisons between these programs and possible alternative policies, more generally on the relationships between international and national political economic regimes and their outcomes.

The link between neoclassical economic theory and procapitalist neoliberal globalization policies: how neoclassical theory has legitimated and supported policies that serve the interests of corporate and political elites directly through its influence on powerful decision makers and policy analysts and indirectly through its influence on economic pedagogy and the political beliefs of the public. Also, theoretical critiques of these theories and the policy implications of applying alternative (Marxist, post-Keynesian or postclassical, structuralist, institutionalist, feminist, or other) theoretical frameworks to international trade, capital flow, and national economic development.

Studies of international financial crises and proposals for international financial reform and regulation and studies of related national financial crises and policy proposals and the relationship between these, third world debt, global capitalism, and “neoimperialism.”

Studies of transnational corporations in the current world capitalist economy. The link (positive or negative) between transnational investment and national and international economic development, environmental sustainability, and social justice.

Analyses of international labor movements as an aspect of contemporary capitalist globalization. Assessments of national and global attempts to regulate labor migration and working conditions facing migrants. Consideration of the impact of labor flows on class, racial, and gender relations.

Please send four copies of submissions for the special issue by 31 August 2003 to Hazel Dayton Gunn, Managing Editor, Review of Radical Political Economics, Department of City and Regional Planning, 106 W. Sibley Hall, Cornell University, Ithaca, NY 14853, USA; phone: 607/266-8114; e-mail hg18@cornell.edu.

Submissions must follow the Instructions to Contributors listed in the back of the journal and available from the managing editor. All submissions are subject to RRPE’s usual review procedures.
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