

***THE GREAT TRANSFORMATION IN THE LATE-
TWENTIETH CENTURY: AN INQUIRY INTO THE
ORIGINS OF THE GLOBAL MARKET SYSTEM***

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DECLARATION

I declare that the dissertation titled '*The Great Transformation in the Late-Twentieth Century: An Inquiry into the Origins of the Global Market System*' submitted by me in partial fulfillment of the requirements for the award of the degree of Master of Philosophy of Jawaharlal Nehru University is my own work. The dissertation has not been submitted for any other degree of this University or any other University.

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We recommend that this dissertation be placed before the examiners for evaluation.

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Introduction

The last quarter of the twentieth century has been largely understood as an epoch that has heralded some kind of a structural transformation within capitalism. It has been a period characterized by the extraordinary geographical expansion of capitalism on a global scale. The dynamic nature of capital, coupled with its propensity to keep extending its scope has meant that that capitalism, through the mechanism of the market, has come to penetrate the interstices of societies and territories that had remained untouched by the market economy. This has taken place to such an extent that it is almost impossible to find any society or individual that is not affected by the circuits of capital flows, whether directly or indirectly (Castells, 2000). The pervasiveness of the market economy around the world is so significant that now it can only be considered as a global market system. Through the course of this investigation, an attempt will be made to interpret the reorganization or the restructuring of the market system during the last few decades, which is the period in which the notion of the global market system gained currency. The changes that have been witnessed are still ongoing and so in a sense it is also an inquiry into the precise organization of contemporary capitalism. It is impossible to conclusively state what is happening to capitalism all across the world but here we will limit ourselves towards trying to grasp some of the dominant trends that are being witnessed.

The restructuring of capitalism that has taken place during the late-twentieth century is however one part of a longer historical process. Therefore Karl Polanyi titled his important work, *The Great Transformation: The Political and Economic Origins of Our Time*, while referring to the rise of the self-regulating market economy in England. What is being asserted here is that structural transformations within capitalism are historical processes that keep occurring periodically. Capitalism, if it is to survive as a system, has to essentially premise itself on the propensity of continuous accumulation which can yield profits. When this process of accumulation gets disrupted in some way, the capitalist system is confronted by a crisis. The tendency for such crises has meant that the overall history of capitalism has been one comprising of cycles with periods of relatively stable accumulation and then the system is faced with a slump. Therefore it has been a characteristic of historical

capitalism to keep devising new strategies for accumulation in response to a crisis in the existing one.

However we need to consider some of the novelties of contemporary capitalism. As mentioned before, capitalism has managed to enter regions that were hitherto insulated from its processes. In some form or the other almost every single part of the world is implicated in the market system. The geographical reach of capital during the current phase has been accompanied by a tremendous acceleration in the pace at which accumulation takes place. The profit-seeking tendencies of capitalism now take place on an altogether different scale. In this regard the role of global financial capital, which has an extremely fluid character, becomes very crucial. The pace at which accumulation is taking place, far exceeds the rates at which it occurred in the past.

Returning to the main contention of this dissertation, which is an inquiry into the global market system, we need to understand the market as a mechanism which is the main or the dominant economic institution in society. By calling the market the dominant economic institution, it means that the market possesses the power to regulate social practices. This is not to make any kind of deterministic claim but to simply say that the market controls economic and social life to a great extent. Capitalism is not merely something that is confined to a separate economic sphere; it also permeates social life. It is not something which is found in factories and workplaces alone. Capitalism also commodifies cultures and shapes cultural processes; it has entered everywhere. And in a global, financial market system, even nation-states lose the capacity of maintaining very precise controls on the flows of capital in and out of national economies. However, due to its ever-expanding scope, the management and coordination of markets in real time also faces difficulties. It is in trying to overcome these difficulties and maintaining an ongoing process of accumulation that the global economy comes to organize itself in specific ways. This gives rise to a myriad of production processes and labour processes; some aspects of which we will try to examine in Chapters II and III.

Towards the task of framing an understanding of this global market economy, some theories in contemporary political economy will be explored, with reference to the study undertaken by Polanyi on the rise of the self-regulating market in *The Great Transformation*, which will be looked at in detail in Chapter I. Polanyi historically

traced the emergence of the notion of the self-regulating market and its consequent impact upon the social and economic organization of life. The task of setting up the self-regulating market society was what ushered in the 'great transformation'. By the great transformation, Polanyi was referring to the institutional reorganization of society that took place during the nineteenth century in England and the resultant crises which took place during the first half of the twentieth century. He was implying that the emerging market system required the commodification of labour and land, and the outcome was a major social disruption which in the long run was a threat to the existence of the self-regulating market itself. Polanyi draws our attention to the transformative and disruptive character of the market mechanism. He believed that the self-regulating market, being one of the institutional foundations of 'nineteenth century civilization', was responsible for the 'cataclysm' that was witnessed in the twentieth century in the form of the World Wars, the rise of fascism and the economic collapse during the 1930s. Polanyi made some very valuable observations which find their relevance in current times as well. In the first chapter we will try to look at how Polanyi's work helps us explain the contemporary phase of the globalized market economy. The other contribution made by Polanyi was his emphasis upon studying the institutional configuration of the market society, which has come to influence many theoretical approaches that have followed. It is the study of the institutional organization of the market society which will also be undertaken in the following chapters.

Before attempting to make an analysis of the nature of contemporary capitalism, it would be useful to delve into the one of the dominant modes of economic organization during the middle of the twentieth century. Chapter II will look at what is known as the Fordist regime of accumulation, which was responsible for the relatively long post-War economic boom that was seen in the advanced capitalist world at the time. The explanation of Fordism relies heavily on the works of David Harvey and of the theorists of the regulation school, who coined the term 'regimes of accumulation'. A more precise definition of the regime of accumulation is provided in the introductory note to Part II of the dissertation. The importance of studying the Fordist production system (in tandem with the policies of Keynesianism) is to help us understand how capitalism came to adjust itself after the serious economic crisis

during the 1930s. This helps in giving us a better idea of the shifts that took place during the late-twentieth century when the capitalist world was faced with its next big crisis during the 1970s. However at the outset it should be noted that when we use the term Fordism and the broad explanation which will be provided, it will be more with regard to the core countries which adopted the Fordist regime of accumulation, which were North American and Western European nations.

In the last chapter we will return to the question of the transformation within capitalism during the late-twentieth century. What we will try to glean from our analysis is that has there been any kind of substantive structural break in late-twentieth century capitalism, as compared to the earlier phase? There is a broad consensus that the world had moved towards what is known as a flexible regime of accumulation, which meant a drastic reordering of the organization of production and labour. Labour has been more or less flexibilized, enterprises have increasingly become networked, there have been major developments in the field of information and communications technology — the globe indeed feels like a much smaller place now. What has this meant for the organization of capitalism, the processes of which continue right up to the present? Globalization has been taking place at an increased pace giving rise to what we understand as the global market. Financial flows across the world take place with rapid speed and are a very important factor in the performance and valuation of national economies. To cover this terrain, we will rely again on the work of Harvey and the regulation school, along with the work of Manuel Castells, whose work on the role of information technologies has been truly insightful.

A Word on Method

This dissertation aims to look at some of the long-term trends in contemporary capitalism. These are processes which occur on a very large scale, often global in character. This dissertation will employ some of the conceptual categories of political economy that have tried to explain the processes of economic change. The approach that has been adopted here follows in the tradition of looking at phases in capitalism as ‘models of development’ which comprise of regimes of accumulation and their accompanying modes of regulation (Lipietz, 2001; Lipietz & Macey, 1987). This is

the theoretical approach developed by the the regulation school. The vocabulary of the regulation school shall be mostly used in this dissertation. Another significant theoretical approach to the study of transitions within capitalism is Braudel's notion of the *longue durée*, which looks at historical capitalism over the entirety of its history. The concept of the *longue durée* has not been referred to extensively here, except to understand the recurring phases of financialization that have occurred (refer to Chapter III). However the two concepts, *longue durée* and regimes of accumulation, shall not be used interchangeably.

Harvey's induction of the notions of space and time to the functioning of capitalism has also been largely relied upon, in tandem with the theorization on the regimes of accumulation. The concept of the 'spatio-temporal fix' developed by Harvey is especially useful in understanding the manner in which capitalism comes to momentarily resolve the crisis of overaccumulation.

This dissertation is essentially an exploration of contemporary theories in political economy that reflect upon the transformations that have taken place within capitalism.

The text has been provided with explanatory notes, and the in-text citation method has been used for referencing. Towards the end, a list of the main texts that have been referred to has been provided, along with a select bibliography.

PART I

THE FORMATION AND RISE OF THE MARKET
ECONOMY

The first part of this dissertation is concerned with examining the historical process through which the market economy was formed. For this purpose we will do a reading of Karl Polanyi's seminal text, *The Great Transformation: The Political and Economic Origins of Our Time*, which was published in 1944. Polanyi was writing this text during a particularly turbulent period of history, characterized by 'cataclysms', as he termed them. According to Polanyi the roots of the crises during that time lay in the attempts to set up a self-regulating market society. To understand the formation of the market economy, Polanyi looked at the history of eighteenth and nineteenth-century England, where the first attempts were made to set up the market economy as the dominant economic institution, which radically came to transform the entire organization of society.

A study of *The Great Transformation* would be useful in helping us understand how the global market system came into being; and what were its institutional configurations. Polanyi gave us an idea of how society came to be organized once the market system set itself up and assumed the form of a global market; which would precisely be the concern of the second part of the dissertation.

Chapter I

Reading Polanyi for the Late-Twentieth Century: Some Synoptic Reflections on *The Great Transformation*

Our main concern is to attain a certain level of clarity about the mechanisms of the global market economy as we have seen it during the twentieth century. But first we need to understand what is it that the market consists of and what are its propensities? What impact does it have on society and the shaping of all its institutional arrangements? To find an answer to these questions we need to look more specifically at the era when the market economy was entrenching itself as the dominant mode of economic organization. The advent of the market meant that the entire socio-economic structure underwent a transformation. Conceptions about society itself were radically altered. To understand the transformation that was wrought by the forces of the market, we will turn to the study done by Karl Polanyi, who in his seminal work, *The Great Transformation: The Political and Economic Origins of Our Time*, elaborated upon the emergence of the notion of the self-regulating market economy in England; and the social transformation that it affected. Why study *The Great Transformation*? The reason behind choosing this text is the in-depth analysis that is given about the history of the market economy. Through the explanation of the formation of the market economy and the market society, it is possible to get an idea about the powerful and transformative propensities of capitalism which matured during the phase of the Industrial Revolution in England. Capitalism, which functions through the mechanisms of the market, is not merely an economic system but it comes to penetrate every level of society, thus transforming the very organization of society itself.

These transformative tendencies of the market mechanism are brought out very clearly by Polanyi. He is able to delineate the precise institutional arrangements of society that come to be disrupted by the market, and the new institutional arrangements it sets in place. His observations about the tendencies of the market, which he termed as the self-regulating market, also find their relevance in

contemporary times. The tendency of the self-regulating market of being prone to periodic crises and its capacity to cause major social upheavals are things which can be gleaned from Polanyi's work. The globalized market economy shows many of the same trends that Polanyi had pointed out over half a century ago. Through the course of this chapter, an attempt will be made to connect some of Polanyi's observations with the processes that are being witnessed today in the global market economy.

Karl Polanyi was writing at a time when, in his own words, the world was witnessing a 'cataclysm'; when the biggest powers were at war with each other. The world had already been through the First World War and the Second World War was at its peak; there had been tremendous economic tumult during the previous decades and fascist regimes came to power in some countries. Polanyi made the claim that the crisis of the time was a result of the 'utopian endeavour of economic liberalism to set up a self-regulating market system.' The new economic system for the first time came to shape the rest of the elements of nineteenth-century Europe (the geographical area where the transformation first set in). While accepting that he had formulated a crudely materialistic hypothesis, Polanyi qualified his claim by pointing out that nineteenth-century civilization was 'economic' in a different sense. For the very first time, *gain* or the motive of profit came to dominate general human activities, to an extent that had not been seen before that period. It was the motive of gain which came to be the driving force behind the self-regulating market system (Polanyi, 1957: 30).

Polanyi assigned utmost importance to the motive of gain as having influenced all spheres of human life. He traced the rise of this notion, which matured in England during the phase of the Industrial Revolution; and spread to the rest of Europe and America within the next fifty years or so. Polanyi took into consideration the countries which comprised of the Western civilization and felt that in order to understand the cataclysm which had befallen these countries, it was necessary to look into the rise and decline of the market economy (Polanyi, 1957: 30).

Before moving further into Polanyi's explanation of the attempts to set up a self-regulating market system, it would be useful to look at some of the things he had to say regarding 'Nineteenth century civilization'. He characterized the period from 1815 to 1914 as that of hundred years' peace — the major powers such as England,

France, Prussia, Austria, Italy and Russia were not engaged in a significant conflict amongst themselves. There were several smaller conflicts during this period especially since colonial conquests were being made. However, Polanyi contended that these conflicts were of a local nature and did not have the potential to upset the larger state of affairs. In the aftermath of the French Revolution and the rising tide of the Industrial Revolution there was a strong 'peace interest' which prevailed amongst the ruling powers. This peace was maintained either through the use of ideological means such as liberty and progress, or even through the use of force when required. Polanyi had called it the triumph of pragmatic pacifism (Polanyi, 1957: 5-7).

The Institutional Foundations of Nineteenth-Century Civilization and the Cataclysm of the Twentieth Century

According to Polanyi the civilization of the nineteenth century rested upon four institutions. The first was the *balance of power* system between the Great Powers which prevented the occurrence of any catastrophic and long drawn-out war; the second was the *international gold standard*; the third was the *self-regulating market*; and, the fourth was the *liberal state*. The self-regulating market was the central institution, and the other three institutions were erected upon the market system. The *laws* directing the market economy were the key to the functioning of the institutional system of the nineteenth century (Polanyi, 1957: 3). Therefore we return to the claim made by Polanyi that nineteenth-century society (more specifically Western society) was built upon economic foundations for the first time; and these foundations were provided by the institution of the self-regulating market, which was guided by the principle of gain.

The peace interest which became the dominant trend was to a large part due to the influence of a new 'social instrumentality' — *haute finance*.¹ The increasing influence of finance made it a significant factor in effecting this peace interest. During the later part of the nineteenth century and towards the first 30 years or so of the twentieth century, finance played the role of forging a link between the political and the economic organization of the world. It served as an instrument that enabled the

¹ *Haute finance*, a term not very clearly defined by Polanyi refers to high finance. It refers to finance which functions on a very large scale and is complex in nature.

major powers to keep intact their political and economic systems. Though Polanyi accepted that it was not created as an instrument to maintain peace; this role fell upon it by accident. *Haute finance* by this period had attained significant organizational complexity and it was spread over various national economies. Finance, and the introduction of an international monetary system, also changed the nature of trade and linked it to peace. Earlier trade was dependent upon an organization of states that had to take belligerent positions to ensure domination in trade. With international trade becoming dependent upon an international monetary system, peace had to be maintained at all costs (Polanyi, 1957: 15). By making this claim regarding the link between the peace interest and the international monetary system, Polanyi was directly refuting Lenin's claim regarding the history of international finance as being characterized by war and violence. In Polanyi's understanding, international finance had averted any great war from taking place.

What might be interesting to point out at this stage is the crucial role finance has come to play in the configuration of economic and social life from the nineteenth century onwards, and financial flows are a very significant part of the contemporary global economy. This will become clearer in the following chapters. Finance has the ability to spread itself on a very large scale due to its mobility and that lends it the quality of extreme flexibility. During moments of transformations in social and economic structures, which would be further elaborated, finance is always at the helm and has the ability to adapt and influence the direction of change (for further elaboration, refer to Chapter III).

The sustenance of peace (on a general global scale) for almost a century was based on the new form of organizing economic life. With the emergence of a new system, 'general interests' came to be formulated, which found their expression in organized agencies (such as the Concert of Europe), and enabled the maintenance of peace. The balance of power between the Great Powers could only be placed against the backdrop of a new economic system. It was in this sense that international finance had been considered as a link between the political and economic organization of international life (Polanyi, 1957: 17-18). Once the balance of power, which had been maintained for almost a century, collapsed towards the beginning of the twentieth

century; one of the institutional foundations of that society broke away and it became increasingly difficult for finance to maintain the peace interest.

Polanyi then turned his attention towards another economic institution which sustained nineteenth-century society — the international gold standard. The collapse of the international gold standard was the unnoticed connection between the decline of the world economy since the beginning of the twentieth century and the major transformations that were seen in the society during the decade of the 1930s. The breakdown of the balance of power system and the international economic system was the reason behind the century-long peace being disturbed. Even after the end of the First World War, peace and stability could not be achieved as the two institutions which had maintained the peace, were not put into place again. The post-War attempts at peace and stability were unsuccessful — the disarming of the defeated nations through the various treaties and the formation of the League of Nations could not ensure the reestablishment of the earlier balance of power (Polanyi, 1957: 20-21). However, after the War and during the 1920s, the efforts made towards securing the international economy were far greater. The link between peace and trade was felt; and therefore the League worked towards restoring the older economic organization with *haute finance* occupying a central role.

However, it was during the 1930s that the major transformations took place, borne out of the failure to return to the older order. From the early part of the 1930s, once the Great Depression had set in, abrupt changes began to take place, such as the gold standard being abandoned by Britain, the Five Year Plans in Russia, the New Deal in USA, the rise of the Nazi Party in Germany, and the collapse of the League of Nations (Polanyi, 1957: 22-23). These transformations were taking place due to the ‘catastrophe’ which the world had witnessed — in the form of the collapse of the self-regulating market economy.

The cause behind the crisis which forced these transformations was the threat of a collapse of the international economic system, which appeared to be facing all sorts of problems right from the beginning of the twentieth century. Internal crises in European nations became increasingly linked to external economic factors, such that the currency crisis which first gripped Europe, spread right up to the United States,

through the mechanism of the international credit system (Polanyi, 1957: 23-24). Up until the 1920s, the gold standard and a stable currency system were seen as vital for a stable economy. This was a belief that was held by all economies across the globe. It was only with the economic downturn of 1929 that things began to change. This description of the gold standard as comprising of a distinct institutional foundation meant that Polanyi had been able to understand and gather together the specific and disparate causes behind the crisis of the 1930s (Block, 2003: 288). Block pointed out that the problem was that the various types of protections practiced by nations were existing together with the international gold standard which was dependent upon the principle of the self-regulation of the market. Therefore the result was an ‘incompatibility between what was occurring *within* nations and what was occurring *between* nations that created disaster’ (Block, 2003: 288).²

When the American economy collapsed, which was the largest international creditor, the country went off the gold standard in 1933. To Polanyi this signified the end of the final remnant of the traditional economic order. It influenced history to a great extent, though its importance was not apparent at the time. In fact, in the words of Polanyi, history got reversed (Polanyi, 1957: 26). He elaborated further upon this institutional change:

Neither the League of Nations nor international *haute finance* outlasted the gold standard; with its disappearance both the organized peace interest of the League and its chief instruments of enforcement—the Rothschilds and Morgans—vanished from politics. The snapping of the golden thread was the signal for a world revolution.

But the failure of the gold standard did hardly more than set the date of an event which was too big to have been caused by it. No less than a complete destruction of the national institutions of nineteenth century society accompanied the crisis in a great part of the world, and everywhere these institutions were

² Block found this argument of Polanyi to be relevant to the present times. He believes that the expansion of international capital mobility witnessed over the past twenty years creates some of the same constraints that were characteristic of the nineteenth-century gold standard. If national economies do not meet the requirements of traders in the financial markets, they are prone to experience vast outflows of capital. The international financial market functions on the principle of market self-regulation but nations have to enact protective measures for various reasons, which might clash with the needs of international finance (Block, 2003: 289).

changed and re-formed almost out of recognition. The liberal state was in many countries replaced by totalitarian dictatorships, and the central institution of the century—production based on free markets—was superseded by new forms of economy...It was not by accident that the transformation was accompanied by wars on an unprecedented scale. History was geared to social change; the fate of nations was linked to their role in an institutional transformation. (Polanyi, 1957: 27-28)

The transformation during the 1930s and the World Wars were linked to the fact that one of the fundamental institutions of nineteenth-century society, the self-regulating market, had collapsed. In the following section, we will look at the rise of the self-regulating market economy, that came to be one of the institutional foundations of society.

The Rise of the Self-Regulating Market Economy

From this point on we will look at how Polanyi explained the rise and decline of this market economy. The origins of the attempts to create a self-regulating market society were found in England; and this attempt saw some result with the advent of the Industrial Revolution, which later spread to the rest of the Continent over the span of the nineteenth century.

In the case of England, the enclosure movements and finally the Industrial Revolution, starting from the eighteenth century, caused major social dislocations. Of these, the changes ushered in by the Industrial Revolution were far greater and changed the entire society as well. The change which wrought severe consequences upon society could not be fully understood or explained by liberal philosophy. The emphasis had been upon *economic improvement*, regardless of its effects on society. What Polanyi seemed to critique was what we understand today as unbridled growth or 'unconscious growth' as he termed it. The earlier tradition of statecraft, which tempered growth, was then abandoned and instead it was replaced by a kind of utilitarianism which believed that unhinged growth would itself take care of things. The main problem for Polanyi was that progress was understood in economic terms. He made an important point by emphasizing upon an official document of 1607 which highlighted the question of change in one phrase: 'The poor man shall be

satisfied in his end: Habitation; and the gentleman not hindered in his desire: Improvement.' By positing habitation and improvement in opposition to each other, the implication is that economic progress will necessarily mean social dislocation if improvement has to be made. It also signified that there would always be the poor who would have to strive for their basic subsistence in order to feed the desire of the wealthy man who wants public improvement which would then bring him private profit (Polanyi, 1957: 34).

Certain observations made by Polanyi resonate to this date. He was concerned with the 'rate of change' which becomes clearer in the following passage:

The rate of change is often of no less importance than the direction of the change itself; but while the latter frequently does not depend upon our volition, it is the rate at which we allow change to take place which well may depend upon us.

A belief in spontaneous progress must make us blind to the role of government in economic life. This role consists often in altering the rate of change, speeding it up or slowing it down as the case may be; if we believe that rate to be unalterable—or even worse, if we deem it a sacrilege to interfere with it—then, of course, no room is left for intervention. (Polanyi, 1957: 36-37)

This passage from *The Great Transformation* finds expression in the contemporary world as well, albeit the vocabulary may have undergone a change. Polanyi was challenging the claims of some nineteenth-century historians who were defending the enclosure movements, and took the notions of free trade as law. Hence they found intervention by the state, in the form of anti-enclosure legislation, to be futile and only blocking the natural path of progress. Some of these perceptions remain unchanged till date, but the context to which Polanyi referred to, was the time when these notions were beginning to take shape — when 'improvement' or change was given precedence over 'habitation'. Notions such as progress and growth, both of which are understood in highly economic terms at present, were getting moulded during the eighteenth and nineteenth centuries. These notions were not new to that historical juncture, but what was certainly novel was an understanding of these terms in an economic sense. If we leap forward to the twentieth century, some of these notions are found to be even further entrenched, the theories of modernization being a

prime example. Some of these theories did actively encourage states to facilitate in the process of this economic progress, which basically meant that the state had to back the setting up of a free market economy. In the contemporary phase of capitalism, the idea of globalization is being touted as the way to progress (Thomas, 2000), regardless of the fact that it leads to a significant amount of social dislocation, in the same way that Polanyi was talking about dislocations during the period when the market economy was beginning to emerge.

While the enclosures did force an impact upon the common people, it was the Industrial Revolution in England that played havoc with the lives of the common people and holds a greater significance. A whole new range of forces were unleashed that led to a transformation of the very nature of society. Several factors were at play in this complete upheaval. In Polanyi's words it was 'a vast movement of economic improvement', which was a 'new institutional mechanism' that would come to act upon Western society. 'The Industrial Revolution was merely the beginning of a revolution as extreme and radical as ever...but the new creed was utterly materialistic and believed that all human problems could be resolved given an unlimited amount of material commodities' (Polanyi, 1957: 40).

The institution of the market economy, in order to be understood, requires that the role played by the *machine* in a commercial society be recognized. The machine (which we can also term as technology) greatly facilitated the development of the self-regulated market system, as it helped change the entire pattern of production in a commercial society (Polanyi, 1957:40). However, the introduction of elaborate and specialized machinery in a commercial and agrarian society, which England was at the time, meant it would create certain effects. If such technology had to be viable or profitable — profits or gain being the driving force behind the self-regulating market society — certain fundamental changes would have to occur in the social structure:

Now, in an agricultural society such conditions would not naturally be given; they would have to be created. That they would be created gradually in no way affects the startling nature of the changes involved. The transformation implies a change in the motive of action on the part of the members of society: for the motive of subsistence that of gain must be substituted. All transactions are turned into money transactions, and these in turn require that a medium of exchange be

introduced into every articulation of industrial life. All incomes must derive from the sale of something or other, and whatever the actual source of a person's income, it must be regarded as resulting from sale. No less is implied in the simple term "market system," by which we designate the institutional pattern described. But the most startling peculiarity of the system lies in the fact that, once it is established, it must be allowed to function without outside interference. Profits are not any more guaranteed, and the merchant must make his profits on the market. Prices must be allowed to regulate themselves. Such a self-regulating system of markets is what we mean by a market economy. (Polanyi, 1957: 41-42)

This signalled a complete transformation, which had not occurred in the earlier economy, even though the motive of gain was present for the merchant. The merchant was earlier purchasing goods and selling them for a profit. However it did not require any fundamental change in the basis of society — it was still not a self-regulating market society. With the onset of the Industrial Revolution, it was not just merchants who were buying and selling certain goods. For machine production to be successful in a commercial society, the producer had to *buy raw materials and labour*. In other words, what had to be made available for purchase was nature and the labour of men. It meant that nature and human beings had to be transformed into *commodities*, a process which caused tremendous dislocations in the overall organization of society (Polanyi, 1957: 42).

The particular transformation that Polanyi concerned himself with needed to be specifically emphasised due to certain reasons. The creation of a market economy is a historically particular event. A market economy means that a system comprising of self-regulating markets has been put in place, and where the economy is determined purely by the movement of market prices — the idea being that the economy is regulated through its own mechanisms and does not require any external force (the state, for instance) to determine its functioning. As mentioned before, the basic premise on which the market system sustains itself is the motive of gain; where all exchange is carried out with the motive of fulfilling the self-interest of the particular economic unit. Polanyi wanted to highlight this because this form of exchange was peculiar to the nineteenth century, and the concept of 'gainful' activities did not exist in previous eras or societies. He felt this was important to point out because several

thinkers spoke of economic activities in older societies being driven by the motive of gain; Adam Smith being one of the thinkers prominently examined by Polanyi. Smith had spoken about the existence of markets as being responsible for the division of labour and for man's "propensity to barter, truck and exchange one thing for another" (Polanyi, 1957: 43). This was exactly being refuted by Polanyi, who believed that the motive of gain in human exchanges which gave rise to the concept of Smith's Economic Man did not hold true for earlier periods. However this view of Smith was then abandoned by many classical economists, and instead replaced by a disinterest in the study of older cultures by considering them 'uncivilized' and of no use to the study of the contemporary world. According to Polanyi this was an unscientific approach because to call older cultures 'uncivilized', especially in the economic sphere, was premature. In his view, 'man as a social being' had remained relatively unchanged from the earlier societies till a fairly recent time (Polanyi, 1957: 45-46).

To better explain this point Polanyi referred to extensive historical and anthropological research.³ On the basis of anthropological sources, it was found that in earlier societies, the economy was submerged in the social relations (Polanyi, 1957: 46). The overriding concern being survival for all members belonging to such societies, there was no room for the conception of individual economic self-interest. It is implicit that there was also no conception of nature and man as raw materials and labour, which could be bought and sold. Instead the principles which guided these societies were those of *reciprocity* and *redistribution*;⁴ principles which prevailed even under feudalism. Such principles of behaviour could be enforced because these societies had worked out institutional patterns through which their implementation was made possible.

As long as social organization runs in its ruts, no individual economic motives need come into play; no shirking of personal effort need be feared;

³ Due to Polanyi's extensive reliance upon anthropological research, his methodology is said to be characterized by a theoretical closeness between economic anthropology and comparative economic systems (Stanfield, 1980: 594).

⁴ Polanyi referred extensively to the works of anthropologists, Bronislaw Malinowski and Richard Thurnwald. They had questioned the claim of economic gain as being 'natural' to earlier societies.

division of labor will automatically be ensured; economic obligations will be duly discharged; and, above all, the material means for an exuberant display of abundance at all public festivals will be provided. In such a community the idea of profit is barred; higgling and haggling is decried; giving freely is acclaimed as a virtue; the supposed propensity to barter, truck, and exchange does not appear. *The economic system is, in effect, a mere function of social organization.* (Polanyi, 1957: 49; emphasis added)

A third principle of organization was that of *householding*, which the Greeks referred to as *oekonomia*. This system implies production primarily for one's own use, whether the unit be that of the family, the village, or a manor. This kind of system requires certain advancements in agriculture, such that it becomes possible to produce at the level of the household rather than food production being an activity the entire community had to concern itself with. The institution of markets could exist alongside it but that did not mean that the motive of gain could have existed in these systems. This was a point brought out by Aristotle in *Politics* where he differentiated between *householding* and making money. *Householding* implied production for use, as against production for the purpose of gain which has to be carried out in a market. Yet the sale of surpluses, according to Aristotle, need not mean that the self-sufficiency of the household had been broken since production would be carried out for the household as well. The market as an institution acts as an accessory to the more dominant form of production for self-sufficiency. What Polanyi found significant about Aristotle's assertion was that production for gain was not a principle that came naturally to man. More importantly, to Polanyi it signalled Aristotle's belief that a separate economic motive such as gain, did not exist outside of the compulsions of the social relations (Polanyi, 1957: 54). What Polanyi drives at is that until the end of feudalism in Western Europe, the economic systems there were broadly organized around the principles of reciprocity, redistribution and *householding*, or a combination of these. There were social regulations which ensured that economic activities adhered to such norms. Therefore while markets existed, they had no crucial role to play. They were largely 'regulated' by the social institutions.

It was during the sixteenth century, with the rise of mercantilism, that markets began to assume an important role in the overall economic system. This importance

can be measured by the fact that the regulation of these markets became a concern of government. However at that point the market still did not assume the role that it came to play from the nineteenth century onwards — that of the market economy together with the motive of gain, coming to regulate society itself. Markets existed before the nineteenth century but the great change that came about during that century was the self-regulating nature of the market and its control over society (Polanyi, 1957: 55). Adam Smith's phrase regarding the act of 'barter, truck and exchange' (which implicitly assumes the motive of gain) required the institution of the market. The market comes to dominate the entire economic system, which then holds implications for the organization of society. For a market economy to function properly, society has to move along as an accessory to the market. The motives that direct the market have to permeate the institutions of society. Therefore the market economy in order to flourish, attempts to *embed* social relations within the economic system. Therefore for a market economy to function properly, there also has to be a market society (Polanyi, 1957: 57). Polanyi's concept of the embedded economy needs some elaboration. The market economy does require a market society but that does not imply that social relations come to be embedded within the market economy. What Polanyi meant through his concept of embeddedness was that market liberals would want to embed society based on the laws guiding the realm of the 'autonomous economy'. However this attempt could not be successful. Hence Polanyi had stated that 'the idea of a self-adjusting market implied a stark utopia'; and by utopia he meant an impossible society (Block, 2003: 282). Another interpretation of the embedded society refers to the fact that society, through the use of large range of social forces, tries to restrain the destructive capacities of the free market by subjecting it to various kinds of extra-economic regulation, which are nonetheless geared towards securing the accumulation of capital (Jessop, 2003: 3).

It was only once the Commercial Revolution took place, i.e. with the rise of mercantilism, that a market economy could be thought of. Orthodox thought claimed that trade had existed prior to the commercial society out of the tendency of humans to barter (which obviously implies an exchange motivated by self-interest); and this trade emerged from the necessity of local markets. Polanyi, again, challenged this classical view and reversed the order in which these theorists understood the existence

of trade in older societies. Trade over vast distances was the result of goods being available in specific geographical locations and the division of labour that existed in a particular place. The starting point of trade was not the inclination of man to barter and exchange. Therefore trade originated in a realm *external* to the existing organization of the economic system of a particular society (Polanyi, 1957: 58). There was no necessary connection between external trade and local markets.

Polanyi took us through this relationship between trade and markets in earlier societies for the purpose of distinguishing between external and local trade, and internal trade. The notion of competition comes to occupy a central position in this case. It was with the creation of internal or national trade that the exchange became competitive. Only when there was internal trade could the principle of competition come into reckoning, as the sale of goods from within the same political territory had to compete with one another for a share of the market (Polanyi, 1957: 60). Previously local markets were restricted to the areas around urban centres. Social regulations ensured that there was as such no 'trade' between the towns and countryside. Western Europe saw the rise of internal trade due to the intervention of the state during the fifteenth and sixteenth centuries. The mercantile system required a national market for which the state had to step in and open trade between the otherwise non-competitive exchange. The distinction between towns and the countryside in terms of trade had to be broken down. The great changes seen were the creation of a powerful, centralized state which was a sovereign power that could facilitate the mercantile trade with the resources at hand. In other words the internal organization of the national economy had to coincide with the interests of external trade — mercantile trade. The task for the state was internally to unify the economy which was scattered under the feudal system. This unification was achieved through the means of *capital*, which comprised of private resources such as stocks of money which could be used for the growth of commerce (Polanyi, 1957: 65).

Despite the introduction of competitiveness into national markets, the state had to regulate the markets. The separation of the towns and the countryside in terms of commercial activity had kept two dangers at bay— monopoly and competition — which were let loose once this separation was broken down. This was a time when national level markets were just emerging, and in order to protect the very existence

of these markets, regulation by the state was required. Earlier the regulation existed on a municipal scale, which then had to be expanded over the entire territory, once the market became national. The introduction of unchecked competition was not conducive towards creating a stable economic system. At that point the self-sufficient, subsistence based peasant households were still the basis of the economic system, which had to be integrated within the framework of a larger competitive national market.⁵ Even though the state was trying to remove certain restrictions and controls over the market, it unwittingly was forced to step in to moderate the effects of monopolies and unrestricted competition. Therefore under the system of mercantilism, it was only trade which had been freed, the remainder of the economy was still very much under social regulation, and still embedded within the social relations, which only came to be reversed by the Industrial Revolution (Polanyi, 1957: 66-67).

In this respect the development of the market economy inverted the trend. Markets, from being an adjunct to the larger economic system were transformed into the economic system. From being regulated, the market sought to become self-regulated. The market devises its own methods by which production and distribution comes to be regulated; and hence the self-regulating market becomes the central point of the economic system. Such an economy is premised on the belief that self-interested economic units would interact with the aim of achieving the maximum money gains. The market functions on the assumption that the supply of goods and services at a given price would be at par with the demand for these at a given price, thereby bringing in an equilibrium. Such an economy also takes for granted that its members possess money. The entire system of production and distribution would be determined by prices (Polanyi, 1957: 68). The self-regulated market means that every element involved in production is for sale on the market, and incomes are derived from these sales. *Therefore goods and services, land, labour and money are also for*

⁵ This fact is strangely reminiscent of events during the twentieth century as well. The process of decolonization which then brought forth an entire new 'Third World', was similarly integrated into the 'world economy'. Countries belonging to the Third World had economic systems which had not integrated entirely with the market economy, and states had to encourage the entry of capital into the otherwise self-sufficient economic systems. Of course due to the impact of colonialism it is not possible to say that entire countries were dominated by one economic system or the other, as market relations had penetrated many parts of the Third World. However this development had been uneven and in order to create capitalist economies, a lot of regulation was required by the Third World states, an example of which could be the policies of protectionism followed by the Indian state in the post-Independence period.

sale on the market and their prices are called commodity prices, rent, wages and interest, respectively (Polanyi, 1957: 69). These characteristics of the market are extremely important because the idea is that price, supply or demand should not be regulated from elsewhere; any external influence should be limited to the extent that it ensures the self-regulation of the market.

The Creation of the Fictitious Commodities: the Commodification of Land, Labour and Money

The crucial break provided by the formation of the market economy was the conversion of labour, land and money into commodities, which did not exist previously. These were elements of the economy which ‘were embedded in the organization of society’ (Polanyi, 1957: 70). Money had not developed as a very significant element of the economy and there was as such no free buying and selling of land and labour. Even during the phase of mercantilism, with its thrust towards commercialization, land and labour were not commodified. In England, there were labour legislations during the sixteenth century to ensure it and the anti-enclosure legislations during the periods of the Tudors and the early Stuarts ensured that land was not wholly commodified. Contrary to the principles of the self-regulating market, state power saw a tremendous increase during the time of mercantilism. The mercantilists tried to commercialize the national market such that the resources of the country would develop and there would be full employment. But they were not concerned with disturbing the traditional pattern of organizing land and labour. The mercantilist therefore relied on the powers of the absolutist monarch. These regulations, especially with regard to labour, were only dismantled towards the end of the eighteenth century and in the nineteenth century.

For the self-regulating market to take root, the institutional distinction between the economic and political spheres was a must. Prior to the self-regulating market society, there was as such no separate economic institution. The ordering of production and distribution took place rather as one of the functions of society, within which the economy was situated. The society during the nineteenth century was one where ‘economic activity was isolated and imputed to a distinctive economic motive’ (Polanyi, 1957: 71). And this was the biggest distinction that separated nineteenth

century society from previous societies. For such an institutional separation to work, the society had to support the market motive — the ‘market economy can only exist in a market society’ (Polanyi, 1957: 71).

The introduction of the concept of commodity holds up the market system and brings every element of industry into the market. A commodity is something which can be allotted a price and put up for sale on the market. The market is the site where buyers and sellers enter into a contract and everything that is produced is done with the intention of it being saleable on the basis of the demand and supply mechanism in tandem with the price mechanism. The idea is that every single element which makes economic activity possible must be tied to a market; and all these markets are all connected to one another to form ‘One Big Market’ (Polanyi, 1957: 72).

By mentioning the commodity concept Polanyi moved towards his understanding of land, labour and money; and what it meant to convert these into commodities, or *fictitious commodities*, as he termed them. He believed that these were *not* commodities. Land, labour and money did not meet the criteria of being commodities, viz. an item which can be bought and sold must also be produced. According to Polanyi labour was just a name given to human activity which is a natural part of human life and could not be separated from life itself. Also, labour could not be produced. Similarly land was what nature had been transformed into and it also could not be produced by men. Finally, money was defined by Polanyi as a symbol of purchasing power which was created by the banking system or state finance, and was also not produced (Polanyi, 1957: 72). While these were actually fictitious commodities, they were simultaneously being exchanged just like other commodities on the market. It was only through the means of the commodity fiction that the entire notion of the self-regulating market could be upheld. If society had to be turned into a market society, it required a principle that would make it pliable to the needs of the market economy (Polanyi, 1957: 73).

That man and nature would be directed by the mechanisms of the market implied that the consequences would be very severe for society. On the one hand it would expose both man and nature to the vagaries of the market, where both can be used in a disposable manner to fulfill the motive of gain. On the other hand, labour

power, which held a significance for man as a part of life, would become detached from life. The market system would rob man of the significance that was attached to the ability to labour. Polanyi affirmed that the market economy was artificial since the very *process* of production was also organized in the form of sale and purchase. The fact was there was no other way in which production could be organized in a market system, a trend which set in starting from the commercial society (Polanyi, 1957: 73).

As industrial production became increasingly complex in nature with the onset of the Industrial Revolution, which required the factory system of manufacturing; it became imperative to ensure that important elements of it would be in constant supply. The only way of supplying land, labour and money to the burgeoning factories was by making them available for purchase on the market as commodities. This requirement of the industrial system meant that the entire basis of organizing society itself had to undergo a change. The onslaught of the Industrial Revolution was understood by Polanyi as the quest for 'improvement' which meant endless progress and change; but it came at the cost of tremendous social disruptions.

To grasp the disruptive capacity of the market mechanism which required that labour be transformed into a commodity, Polanyi gave a detailed explanation of the organization of labour prior to the Industrial Revolution. Under the mercantile order the laws which formed the labour organization of England were the Poor Law and the Statute of Artificers. The implication of these laws was that the creation of a national market for labour was prevented by ensuring in some senses the economic separatedness of the towns from the countryside. As the Industrial Revolution was establishing itself, these laws came to be abolished in 1795. At the same time the Speenhamland Law was enacted which harked back to the earlier system of regulation and paternalism. Speenhamland was akin to an assurance or in terms more familiar to the present, it was like a 'right to live'. It comprised of grants being provided in aid-of-wages and some other measures.

The origins of Speenhamland needed to be understood in terms of the circumstances in which it arose. The legislation came about at a time when there had been a massive increase in world trade and a simultaneous rise in pauperism in

England. However as Polanyi mentioned, the connection between the two processes, could only be made retrospectively. Apart from the various reasons which were touted at that time to explain pauperism, Polanyi stated that pauperism in eighteenth century England was a result of what is now known as 'invisible unemployment' (Polanyi, 1957: 91). There were excessive fluctuations in trade which led to the rising unemployment, and it tended to exceed the employment generated by the growth of trade in absolute terms. Aside from this particular reason for the spurt in unemployment, there was a more fundamental reason which lay behind this process. And this was the fact that commerce was increasingly based upon manufactures. Polanyi was referring to the urban manufactories where machine were increasingly being used in the production process, which consequently reduced the requirement for labour.

During the period trade was expanding and it was generating employment, but very significantly it also disturbed the earlier territorial division of labour between towns and the countryside. Peasants were flocking towards the towns in search of employment but with the fluctuations in trade there also followed the consequent unemployment. The result were large scale migrations towards towns and then the reflexes back to the villages (Polanyi, 1957: 91). In the given scenario Speenhamland was perceived as the means through which the social dislocations taking place could be averted or moderated (Polanyi, 1957: 94). It was an instance of what Polanyi had called the double movement (this concept will be elaborated in a following section): the Speenhamland law was detrimental to the development of the Industrial Revolution, which required a mobile labour market; yet it was put in place to ensure that society did not fall apart.

While Speenhamland was a remnant of the system of regulation and paternalism, it had another significant effect. The effect it had was to reduce the worker to a pauper and in Polanyi's words 'This act of an ambiguous humanitarianism prevented laborers from constituting themselves an economic class and thus deprived them of the only means of staving off the fate to which they were doomed in the economic mill' (Polanyi, 1957: 99). Speenhamland had the effect of preventing the freeing of labour and restricting its entry into the market economy. It kept labour fixed to the land which no longer was able to support the large masses of

people. The changes which were setting in either attracted men from agriculture with a promise of higher wages in towns or people had been forced to move to the towns due to the waves of enclosures. Added to that was the fact that people had lost their hold over their 'status', and the labourer could have achieved this in only one way — 'by constituting himself the member of a new class.' By denying people the right to earn a living through their own labour, Speenhamland ensured that the worker was reduced to being a pauper, receiving just enough for subsistence; and hence 'doomed in the economic mill' (Polanyi, 1957: 99).

Finally the repeal of Speenhamland was possible due to the emergence of a new middle class in England. It took place with the enactment of the Parliamentary Reform Bill of 1832. The impact and epochal significance of the repeal of a law such as Speenhamland can be best captured through the following passage:

In 1834 industrial capitalism was ready to be started, and Poor Law Reform was ushered in. The Speenhamland Law which had sheltered rural England, and thereby the laboring population in general, from the full force of the market mechanism was eating into the marrow of society. By the time of its repeal huge masses of the laboring population resembled more the specters that might haunt a nightmare than human beings. But if the workers were physically dehumanized, the owning classes were morally degraded. The traditional unity of a Christian society was giving place to a denial of responsibility on the part of the well-to-do for the conditions of their fellows. The Two Nations were taking shape. To the bewilderment of thinking minds, unheard-of wealth turned out to be inseparable from unheard-of poverty. Scholars proclaimed in unison that a science had been discovered which put the laws governing man's world beyond any doubt. It was at the behest of these laws that compassion was removed from the hearts, and a stoic determination to renounce human solidarity in the name of the greatest happiness of the greatest number gained the dignity of secular religion.

The mechanism of the market was asserting itself and clamoring for its completion: human labor had to be made a commodity. Reactionary paternalism had in vain tried to resist this necessity. Out of the horrors of Speenhamland men rushed blindly for the shelter of a utopian market economy. (Polanyi, 1957: 102)

It was in the complex of changes which were taking place that men began to look at their own society and new questions regarding the organization of society began to crop up. The attempt was to try and understand what were the *laws* governing society. Society had taken on a new and complex form, which first emanated in the economic sphere. The changes which had been occurring emerged from the economic sphere of human life but the concern was to give it a universal validity. Therefore this concern with studying society and the basis of its functioning, took on the form of a new discipline: political economy.

Pauperism and political economy were the two closely connected subjects around which the problem of poverty was seen. All of these together formed 'part of one divisible whole: the discovery of society.' The question of where did the poor come from, became important for the theorists at the time. There was also a consensus amongst the thinkers of the eighteenth century that progress and pauperism went together. Polanyi very interestingly pointed out that the eighteenth century economists built their entire theoretical framework around the occurrence of an 'abnormalcy' — a vast increase in trade and production which came along with a lot of human misery. Therefore for those who had to theorise and understand the complexity of society, their views also had to be centred around the question of pauperism. 'Views on the poor mirrored more and more views on existence as a whole' (Polanyi, 1957: 105). In other words the discipline of political economy was the attempt to figure out the laws which governed society, and the myriad ways in which society was understood came to influence the views held by thinkers on pauperism. There were attempts at trying to create plans and models by which pauperism (or unemployment in current terms) could be dealt with, while also contributing to the economic system that the particular thinker wished to achieve. The question which came up was how to best utilize all the available hands in the new economy which was taking shape.

The idea was to find a solution to these problems, and that could take place in the realm of political economy. At the time when Adam Smith was writing some of his greatest works, poverty was not as burning an issue as it came to be within a couple of decades of his works. This made all the difference to way in which Adam Smith envisaged how the economic system would work, and what would be the human motivation that would drive it along, as compared to the works of some later

theorists. Smith did treat the creation of wealth as a separate area of study, and is hence considered the founder of the modern discipline of economics. However wealth was still seen as one of the elements of community at large and did not function autonomously of the community. Creation of wealth was subordinate to the national life and the political status of a nation played a large role in determining whether wealth would be generated or not. Very importantly, Smith's work does not suggest that the capitalism and its interests would comprise of the laws which would govern society (Polanyi, 1957: 111-112). Polanyi held that there was nothing in Smith's view which indicated that the economic sphere could govern the moral and political aspects of society. Self-interest was the factor which prompted economic beings to undertake activities which would also be beneficial to other members of society.⁶ Smith was part of a tradition of theorists who saw the existence of society as that of being subordinate to the laws of the state. The origins and functions of the state were crucial to this particular tradition of thinkers. There was as such no law of Nature (implying nature in its biological and geographical sense) that was to guide society and even subject the state to that law.

Polanyi, by elaborating upon the shifting views of what was considered to be *natural*, explained the process by which the laws governing the economic sphere also came to direct society itself. Smith considered that to be natural which was 'in accordance with the principles embodied in the mind of man; and the natural order is that which is in accordance with those principles' (Polanyi, 1957: 112). He was still looking at an economic sphere that was subject to the laws of the state and this economy was comprised of individuals motivated by self-interest. That the physical part of nature was excluded by Smith was crucial. Instead, Smith had been looking to make political economy a human science, which would concern itself with what came naturally to humans and not looking at nature in its physical sense (Polanyi, 1957: 112). What Polanyi suggested was that Smith had imparted to political economy a much greater moral and political character, something which came to be denied by later theorists.

⁶ This understanding was based upon Smith's own view of the Economic Man, which Polanyi had criticized in an earlier part of the book.

However there was a drastic change in the kind of political-economic theorization that would take place, which came to be distinct from the political economy of Smith, once the discovery of poverty was made. The historic moment for this was somewhere around 1786, when Joseph Townsend published his *Dissertation on the Poor Laws* and this drastically changed the course of political economy. The theorem of goats and dogs⁷ proposed by Townsend held certain implications for the poor. Through the theorem (the empirical validity of which had been challenged), the claim being made by Townsend was that 'It is the quantity of food which regulates the numbers of the human species' (Townsend, 1817: 45). To Polanyi this was a very important break being made by Townsend, and he saw it as a different starting point and approach in political science: 'By approaching human community from the animal side, Townsend...in doing so introduced a new concept of law into human affairs, that of the laws of Nature' (Polanyi, 1957: 114). The significance of Townsend's proposition was that it introduced a biological factor to put forward a law which governed society. To put things in a context, Townsend was rallying against the Elizabethan era Poor Laws which gave certain assurances to the poor. This cause could be suitably justified by the introduction of a law of Nature which existed outside of the realm of state and law; it existed in the realm of physical nature. Through such an account of what is natural to society, Townsend could propose the following for the poor and also claim the futility of the Poor Laws:

In general it is only hunger which can spur and goad them on to labour; yet our laws have said, they shall never hunger. The laws, it must be confessed, have likewise said that they shall be compelled to work. But then legal constraint is attended with too much trouble, violence, and noise; creates ill will, and never can be productive of good and acceptable service: whereas hunger is not only a peaceable, silent, unremitted pressure, but, as the most natural motive to industry

⁷ Townsend centred his proposition around an island in the South Seas, called Juan Fernandez after the name of its discoverer. Juan Fernandez left a pair of goats on the island in the anticipation that on future visits they would be a source of food. The goats multiplied and consequently were also used as food by English sailors. The Spaniards, in an attempt to cut the supply of provisions to the English, left a pair of greyhounds on the island which would also multiply, and consequently, feed on the goats. However events took a different turn, as the goats, when being faced by a new predator, moved to the craggy rocks which the dogs could not access. This curtailed the access to food for both the goats and the greyhounds. Consequently, it was only the most 'active and vigorous' that managed to survive and the weaker members of both species perished. On the basis of this, a new balance was restored on the island.

and labour, it calls forth the most powerful exertions; and, when satisfied by the free bounty of another, lays a lasting and sure foundation for good will and gratitude. The slave must be compelled to work; but the freeman should be left to his own judgment and discretion; should be protected in the full enjoyment of his own, be it much or little; and punished when he invades his neighbour's property...It is universally found, that where bread can be obtained without care or labour, it leads through idleness and vice to poverty. (Townsend, 1817: 15-16)

Townsend could effectively put forward the idea that in order to create a balance in society, law and government were no prerequisites. Instead the force of hunger, combined with the scarcity of food, would automatically drive people towards obedience and work. From this theorem it became possible to make the argument that society consisted of two sections: those who owned property and the rest who laboured. The idea was that given the limited amount of food, the numbers of the labourers would remain under control, and very crucially, if *property* were to be protected, then hunger would play its part and compel the non-propertied to work (Polanyi, 1957: 114). This was a decisive turn away from the humanistic and political ordering of society which was apparent in Smith's thought. Townsend's attribution of a biological nature to man came to influence political economists such as Malthus and Ricardo, who gave the law on population and the law of diminishing returns, respectively. The transformation which this helped to foster in major writings of political economy was the *discovery of the economic society as distinct from the political state* (Polanyi, 1957: 115).

Returning to his original concern, Polanyi explains that these changes in circumstances were taking place at a time when the new form of society was emerging in a market system. This laid the foundation for the trajectory that thought followed during the nineteenth century. Society was undergoing a transformation such that it came to rest on foundations which were far removed from the earlier moral sanctions it had been based on. One of the problems which kept confronting this society, and for which there was no answer, was pauperism. It was the attempt to understand the nature of this problem that would explain the adoption of Townsend's naturalism by thinkers such as Malthus, Ricardo and many others (Polanyi, 1957:

115-116). The principle which this naturalism favoured was that of *laissez-faire*, which was favoured by thinkers coming from diverse political strands; and hence it was possible to find opposition to the Poor Laws coming from different political angles, such as Burke who was a defender of patriarchal traditions but was an economic liberal, and Bentham, the utilitarian (Polanyi, 1957: 118).

Townsend's naturalism was significant for it implied certain transformations with regard to the organization of labour that was conducive to the market economy. The market required the process of the divorcing of labour from what were otherwise non-contractual forms of the organization of labour such as kinship or any other such forms. These forms of organization of labour had to be replaced by an organization that was individualistic and atomistic. All forms of allegiance that a labourer could have, which were non-contractual, had to be limited. For that many traditional institutions also had to be demolished. As Polanyi had explained before, it was important to materialize the idea that the individual had to be at least under the threat of starvation, in order to be motivated to work in a market system. What Polanyi had termed as primitive societies, had no such condition where individual starvation could take place. Starvation was a predicament, which if it fell, had to be borne by the entire community; such was the organization of society and the institutions were formed in a manner that prevented the individual member from suffering the threat of starvation. The point was made very poignantly by Polanyi when he stated that it was the 'absence of the threat of individual starvation which makes primitive society, in a sense, more human than market economy, and at the same time less economic. Ironically, the white man's initial contribution to the black man's world mainly consisted in introducing him to the uses of the scourge of hunger' (Polanyi, 1957: 164). The parallel which Polanyi kept drawing was between the conditions forced upon the common people in England while the self-regulating market was trying to entrench itself, and the impositions made on the people in colonial areas. To unleash the force of hunger upon society so that the 'willing worker' may come to be created, it was necessary to dissolve 'organic society' first (Polanyi, 1957: 165). This organic society was more human according to Polanyi, as it was not an economic society where land and labour are treated as commodities.

While the question of labour and the market had been dealt with in fair amount of detail, Polanyi also undertook the task of looking at what the market did to land, or more rather nature. While we are here concerned more with the organization of labour under the market, mention needs to be made about the commodification of land. By tradition, Polanyi believed that labour is a part of life, land a part of nature; that life and nature are bound together to form one whole. The market required that this relationship between land and labour be broken down, because each had to be converted into marketable factors of production. Since these factors of production in actuality do not possess a mere economic functionality for society in general, and that man and nature are 'human institutions', the market had to ensure that the institutions of society should be framed in a manner such that they serve the purposes of the market mechanism. Land had to be made saleable to meet the requirements of an emerging real-estate market (Polanyi, 1957: 178). Along with the commodification of land and labour, the international gold standard was the expression of money in its commodity form. In order for the price mechanism to work, on the basis of which the self-regulating market economy works, a stable currency form was required that could be used for circulation on a global scale. As we know, international financial movements would have been impossible unless the gold standard had not been put in place during the nineteenth century.

However, as Polanyi had stated, the creation of a purely self-regulating market was a myth; it was always a part of society and subject to social regulation in some form or another. The other aspect of the attempt to set up a market economy was its impact upon the organization of society, especially with regard to labour. The market economy created dislocations which threatened social order itself; and this called for interventions on the part of the state. This aspect of the history of the nineteenth century shall be explored in the following section.

The Double Movement: Economic Liberalism versus Social Protection

However Polanyi introduced the notion of the 'double movement' to explain the trajectory of nineteenth century social history. Briefly put, it referred to the simultaneous movements where on the one hand there was a constant striving to bring 'genuine commodities' within the ambit of the market; and on the other hand constant

restrictions were being placed on the 'fictitious commodities' to limit the disruption being caused to social organization (Polanyi, 1957: 76). The market economy required foremost a labour market. The double movement was visible in the form of the Speenhamland Law, enacted in 1795, which prevented the creation of a labour market until the law was repealed in 1834. The period from 1795 to 1834 is considered to be a period when the Industrial Revolution was changing the landscape of England. The same period was important also because of the events of this period had a huge impact on the formation of classical economic thought (Block, 2003: 293). The idea was to bring in a regulation which would prevent the social upheaval caused by the working of the market upon labour, in order to protect the mechanism of the market itself. The law put a break on the creation of a competitive labour market and instead put in place a paternalistic system with regard to the organization of labour. It came to be abolished only in 1834 on the strength of a rising middle class which had found itself in some position of power. Speenhamland was meant to prevent the proletarianization of labour but what it instead did was to also cause its pauperization. So it was finally with the Poor Law Reform of 1834 that this 'obstruction' to the creation of free labour was achieved. It was only with this development that industrial capitalism in its proper form set in. However, despite the creation of a labour market and the enclosure movement, which transformed land into a commodity, the self-regulating market system had to be protected through some regulation. Society had to be protected for which factory legislations and social legislations were enacted, to stave off the dangers to the market system from the working class movement that was taking shape (Polanyi, 1957: 80-83).

The market was expanding continuously, so that by 1914 the market system was present all over the globe, or at least its effects were being felt almost universally. As this system expanded it also caused severe dislocations, which led to a countermovement to moderate the effects of the market on society. Therefore the countermovement underway which was simultaneous to the expansion of the market system was the protection of land and labour; and the way this took place was through *interventionism* (Polanyi, 1957: 131). The double movement took place on the basis of two organizing principles that directed society, with each principle following its own methods and having the backing of specific sections and forces of society. The

first principle was that of *economic liberalism* characterized by the self-regulated market, and which was being pushed for by the emergent middle classes. Three tenets were identified as defining the core of economic liberalism: a competitive labour market, the creation of money through an automatic mechanism which was the gold standard, and international free trade. However it was only from the 1830s onwards that *laissez-faire* turned into a dictum. Prior to that it was conceived of in a fairly narrow sense even in England.⁸ The second principle was that of *social protection*, which was 'aimed at the conservation of man and nature as well as productive organization'. The landed aristocracy and the working classes were the primary though not the only social forces behind this countermovement, as they were the classes which came to be affected due to the advent of the self-regulating market (Polanyi, 1957: 132).

The peculiar nature of the self-regulating market economy is brought out through the concept of the double movement. The self-regulating market, by definition, distances itself from any kind of interventionism. Yet in order to ensure the continuance of such a market system, some form of intervention is required on the part of the state. It is peculiar precisely because the self-regulating market requires intervention so that it can exist, yet it is due to the policy of interventionism and social protectionism that the functioning of the self-regulating market comes to be hampered. The peculiarity of the double movement came to be most apparent in the case of one of the most important factors of production — labour — which needed protective legislation to prevent the disintegration of the market society itself.

A very clear emphasis has been placed on the role of different classes in affecting the double movement. However Polanyi's conception of the conflicts between classes steers clear of the Marxist understanding of class conflict. The

⁸ The doctrine of *laissez-faire* was being demanded more in the form of *freedom from regulations in production* and not in the sphere of exchange. Polanyi also detailed the manner in which the cotton industry in Manchester was able to grow due to regulation and that the 'free trade origins of the cotton industry are a myth' (Polanyi, 1957: 136). Imports of finished cotton products to England were prohibited by law. This is reminiscent of the economic history of colonial India, where the producers of cotton cloth were almost wiped out due to the restriction on the export of cloth from India. During the latter part of the eighteenth century and early nineteenth century there was also no free labour market. This could be brought about only once the Poor Laws were reformed during the 1830s owing to the growing pressure from the manufacturing class, which required a body of industrial workers that derived its income from 'achievement' (Polanyi, 1957: 137).

Polanyian perspective does attribute the policy of social protection to the tensions being caused to a great extent by the conditions of the working class; however one crucial difference remains — Polanyi was looking at it from the perspective of the destruction of the social organization and he saw the principle of social protection as also being strongly adopted by the landed classes who felt threatened by the self-regulating market. Social protection, according to Polanyi, was an effort at preserving ‘man and nature’, rather than it being an attempt to appease the unrest of one class against another.

Finally, it was the clash of these two principles — economic liberalism and social protection — which came to mould the history of society during the nineteenth century that led to a strain on the institutions of the market society, which finally culminated in the collapse of the self-regulating market economy during the first half of the twentieth century. Added to this strain was the conflict between classes; and the two culminated into turning what was otherwise a ‘crisis into a catastrophe’ (Polanyi, 1957: 134).

Polanyi asserted that *laissez-faire* was not a natural system and had to be enforced by the state in the first place. The establishment of a market economy meant that the administrative abilities of the state had to be enhanced, despite the understanding that such a system called for lesser and lesser regulation. It is not an insignificant fact that the liberalism touted by Bentham called for the development of the tools of ‘administration’ and ‘government’. The fact was that *laissez-faire* was not just a simple economic outlook demanding freedom from regulation in some areas, it was also a way of regulating and organizing society:

The road to the free market was opened and kept open by an enormous increase in continuous, centrally organized and controlled interventionism. To make Adam Smith's “simple and natural liberty” compatible with the needs of a human society was a most complicated affair. Witness the complexity of the provisions in the innumerable enclosure laws; the amount of bureaucratic control involved in the administration of the New Poor Laws which for the first time since Queen Elizabeth's reign were effectively supervised by central authority; or the increase in governmental administration entailed in the meritorious task of municipal reform. And yet all these strongholds of governmental interference

were erected with a view to the organizing of some simple freedom—such as that of land, labor, or municipal administration. Just as, contrary to expectation, the invention of labor-saving machinery had not diminished but actually increased the uses of human labor, the introduction of free markets, far from doing away with the need for control, regulation, and intervention, enormously increased their range. Administrators had to be constantly on the watch to ensure the free working of the system. Thus even those who wished most ardently to free the state from all unnecessary duties, and whose whole philosophy demanded the restriction of state activities, could not but entrust the self-same state with the new powers, organs, and instruments required for the establishment of *laissez-faire*. (Polanyi, 1957: 140-141)

One of the purposes for which Polanyi elaborated upon the double movement was to disprove the claims of many 20th century liberal economists who believed that the crisis during the first half of the 20th century was a result of the improper implementation of *laissez-faire*, viz. the prevalence of protectionism. What Polanyi tried to show was that the double movement had to necessarily characterize the development of the market society, otherwise the social organization was in the danger of being disturbed. There were several occasions on which the most liberal of economists also speak of restriction being placed on the freedom of contract and *laissez-faire*; something which they advocate to prevent the formation of unions of workers or the cartels of producers:

Theoretically, *laissez-faire* or freedom of contract implied the freedom of workers to withhold their labor either individually or jointly, if they so decided; it implied also the freedom of businessmen to concert on selling prices irrespective of the wishes of the consumers. But in practice such freedom conflicted with the institution of a self-regulating market, and *in such a conflict the self-regulating market was invariably accorded precedence*. In other words, if the needs of a self-regulating market proved incompatible with the demands of *laissez-faire*, the economic liberal turned against *laissez-faire* and preferred—as any antiliberal would have done—the so-called collectivist methods of regulation and restriction. Trade union law as well as antitrust legislation sprang from this attitude. No more conclusive proof could be offered of the inevitability of antiliberal or “collectivist” methods under the conditions of modern industrial society than the fact that even economic liberals themselves regularly used such

methods in decisively important fields of industrial organization. (Polanyi, 1957:148)

Therefore Block makes the claim that Polanyi had discovered what can be termed as the ‘always embedded economy’, which meant that all market societies necessarily have to create elaborate rules and institutional structures to limit the effects of the individual’s search for profit, or else risk falling into the Hobbesian state of ‘war of all against all’. The economy, in order to survive, has to embed itself in the social institutions of law, politics and morality (Block, 2003: 297). Block also believed that Polanyi, by asserting upon the necessity of state regulation especially with regard to the fictitious commodities, was implying that there can be ‘analytically autonomous economy’. Thereby he was disproving the fact that it was possible to discover certain given laws that directed a distinct economic sphere, that was disembedded from society. According to Munck, such an argument would imply that the current phase of neo-liberal globalization which in some ways seeks to create a global market akin to the nineteenth century where the society is supposed to be embedded in the economy, would not be successful (Munck, 2006: 176).

Polanyi’s analysis of the market economy in *The Great Transformation* ends in 1944. A lot of developments have taken place since that time. Polanyi was witness to the market economy that was functioning on a global scale, but the globalized market economy we see at present operates on an altogether different scale — in terms of the rate at which it expands into new regions and brings more and more people within its ambit; and also the level of economic integration is far greater than that during the first half of the twentieth century. However the significance of studying Polanyi is that he gave us an insight into the precise kind of institutional configurations that the market economy had set in place and what was its broad social history. His exposition on the organization of labour pre- and post-Industrial Revolution has been very useful even to contemporary theorists of political economy. In the following chapters we will take a look at the organizational forms that labour has taken during the twentieth century. Polanyi gave us a glimpse into how the global market economy came to form itself, and in the following chapters we will examine how the global market system

has come to entrench itself during the twentieth century, with a focus upon the reconfiguration of the market economy that began to take place from the last quarter of the twentieth century.

PART II

THE TRANSITION TO THE GLOBAL MARKET SYSTEM

The late-twentieth century and the first decade of the twenty-first century is an epoch that has witnessed the ever-growing strength of the market economy; and has also witnessed the adaptability that capitalism possesses when it is faced with a crisis. Polanyi's exposition in the *The Great Transformation* gave us a historical account of the origins of the self-regulating market and the social upheavals that it led to. By its very nature capitalism is prone to undergo cycles during which accumulation takes place at a steady pace and then it faces a slump, to which it finds various kinds of resolutions. The following chapters are going to take a look at the political economy of the twentieth century and try to glean from it how capitalism formulates ways in which to address the crisis that it finds itself in. These crises are periodic occurrences, some of which are more minor in their magnitude and at other times the crisis is so serious that it forces a restructuring of the capitalist economy. To delve into the structuring of the twentieth century and also the late-twentieth century, the works of David Harvey, Manuel Castells and theorists of the regulation school will be examined more closely. The questions which will be primarily addressed are how does the market economy respond to an economic crisis; and what are the novel ways in which it manages to reconfigure itself, so that it can be assured of a stable period of accumulation? What is of greater interest here is to understand the specific ways in which capitalism comes to organize itself especially since it has assumed the form of a global economy. The particular institutional arrangements will be looked at more closely, especially with regard to the organization of labour. Capitalism possesses the propensity of being extremely flexible which imparts to it an ability through which it can transform not only itself but also impose its requirements over society. These are some of the aspects of capitalism which shall be covered in the following sections of the chapter.

The vocabulary which shall largely be used in the following chapters is that of the regulation school. Certain concepts used by regulation theory need to be fleshed out before it is possible to embark upon a study of the political economy of the past

and present century. The two concepts which need to be highlighted are the *regime of accumulation* and the complementary *mode of social and political regulation*.

Regime of accumulation refers to the long-term and stable 'allocation of social production [which can also be termed as the net product] between consumption and accumulation.' It means that there is some kind of association between the 'transformation of the conditions of production and the transformation of the conditions of the reproduction of wage-labour, between certain of the modalities in which capitalism is articulated with other modes of production within a *national economic and social formation*, and between the social and economic formation under consideration and its "outside world".' In other words it also implies the existence of a coherent 'schema for reproduction'. Regimes of accumulation can consolidate themselves because the conditions or the schemas for their reproduction are stable. The realization of a certain regime of accumulation requires conformity from its agents which can be found in the form of 'norms, habits, laws and regulating networks which ensure the unity of the process'. The agents must conform to the schema in their regular 'day-to-day behaviour and struggles (both the economic struggle between capitalists and wage-earners, and that between capitals)' (Lipietz & Macey, 1987: 14).

At the same time there are a host of social elements which need to be incorporated into the behaviours of individuals. This takes place through the means of 'internalized rules and social procedures', and the entire gamut of these are known as the mode of regulation (Lipietz & Macey, 1987: 15). Lipietz further added that not every mode of regulation would necessarily be able to regulate a particular regime of accumulation. It could also be the case that a certain mode of regulation could comprise of various combinations of 'partial forms of regulation'. It means that depending from one place to another, which might share a broadly similar regime of accumulation; the mode of regulation could be different or combine elements from other modes as well.

Even though a regime of accumulation refers to a coherent schema for reproduction that does not mean it is uniformly spread all over the world. The expansions of regimes of accumulation tend to be uneven and so do the distribution of

their benefits. The transition from one regime to another regime of accumulation is also not a smooth and even process. It meets with resistance from several quarters whenever the interests of a certain section come to be challenged. This will become clearer through the explanation of two particular regimes of accumulation in this chapter. A regime of accumulation is basically the term given to the dominant mode in which accumulation takes place, and depending upon region to region the mode of accumulation might adhere only partially to the regime of accumulation. Keeping this in mind becomes important if the idea is to understand the economic and social organization at a global level.

Harvey (1990) found it advantageous to use the language of the regulation school as it enabled a close study of the variegated interconnections, habits, political practices and cultural forms that supported the capitalist system, which otherwise tends to be extremely dynamic and unstable. Despite these unsettling tendencies which are inherent to capitalism, the entire system seems to possess a semblance of order which permits it to function in a coherent manner for a specific period of time. The method of enquiry taken up by the regulation school is useful if the intention is to study the precise mechanisms which hold up the capitalist economic order. There are broadly two important areas which need to be controlled by the capitalist system to ensure the functioning of the economic order: (a) The instability of price-fixing markets (when production and consumption in a particular system find their equilibrium at a fixed price), which referred to the fact that even when the background institutions required for the efficient functioning of the market were in place, such as private property, enforcement of contracts and the management of money; yet some amount of intervention by the state was required. Several factors go towards disturbing this self-regulating nature of the markets and the price mechanism cannot be adequate to the creation of a stable system. Regulation theory looks at the entirety of relations and other arrangements which lead to the creation of a stable output rate and the aggregate distribution of income and consumption during a particular period and in a specific place. (b) The ability to transform the capacity of men and women to work, into a process of labour that extends the production of value which can yield profits. There has been a long-drawn historical trajectory whereby wage labour has been inducted into the process of capital accumulation, referred to as 'labour control'

by Harvey which 'entails, in the first instance, some mix of repression, habituation, co-optation and co-operation, all of which have to be organized not only within the workplace but throughout society at large.'¹ This covers a range of procedures whereby labour comes to facilitate the continued reproduction of capital, and also of itself. The capitalist system requires the socialization of the worker to the methods of production, which takes place through the extensive ideological apparatus of the state, to quote Althusser. According to Harvey, the 'mode of regulation' argument is a suitable way of explaining the organization of labour power in capitalist society (Harvey, 1990).

One of the periods of relative stability in the capitalist system was seen after World War II until 1973 approximately, when a recession hit the very same economies that had otherwise undergone a fairly long post-War boom. Harvey looked at the phase from 1945 to 1973 as based upon a set of certain labour control practices, technological mixes, consumption habits and configurations of political-economic power. This assemblage has been termed as Fordist-Keynesian, and it was able to assure a stable arrangement over a period of time. By the 1970s the system began to face a crisis and subsequently it launched into a period characterized by rapid shifts and flux as new systems of production, management and consumption came to be formulated. The element of uncertainty was also an important feature as these drastic changes were coming about, which came to affect labour processes, the organization of economic enterprises and consumption patterns. The changes which were taking place were fairly wide in their scope, so as to warrant the question that was some kind of transformation occurring in the political-economic order. Theorists have different views with regard to an actual transformation taking place (Harvey, 1990; Castells, 2000). This topic will be covered more extensively in Chapter III. While Harvey was sceptical about calling the change a transformation, there does appear to be a broad consensus that what is being witnessed is a shift in the particular regime of accumulation towards one that is more 'flexible' in nature.

¹ A part of the story of how the notion of the labourer or working man came into being, has been covered in the previous chapter. The creation of a self-regulating market economy also required the organization of society along similar lines. A crucial part of that process, as explained by Polanyi, was the commodification of man to create the labourer.

In the course of this particular investigation we will look at the new questions and concerns that are arising in the study of political economy. As a follow-up to the propositions made by Polanyi, who detailed the reasons behind the stability of the market economy during the nineteenth century, the chapters in this section will attempt to explore the nature of the regimes of accumulation that have come to dominate the political, economic and social characteristics of the twentieth century and the first decade of the twenty-first century. As compared to the nineteenth century, markets have come to extend themselves even further across the globe, and have given rise to various configurations of political-economic practices. The market system is all the more pervasive and deeply entrenched in society. Therefore it becomes all the more relevant to look at the broad regimes of accumulation and the accompanying modes of regulation that have shaped recent times. However, this study is limited in its scope as it does not cover the 'modes of growth' that are characteristic of state socialist economies, the emerging East Asian economies, or countries that fall under the category of 'developing' economies. The perspective from which this study will be elaborated upon is more specifically the regimes of accumulation that have characterized North American and Western European capitalism, which can also be termed as 'Atlantic Fordism' (Jessop, 2001). Even the study of the flexible regime of accumulation cannot be held as being a general commentary on the world economy as such, but is an attempt at discerning the broad trends that can be observed in the organization of the global market.

Chapter II

Fordism: The Long Mid-Century of Capitalism

The long post-War boom, which is sometimes also referred to as the Golden Age of Capitalism, rested upon a particular regime of accumulation: Fordism. Its basic principles were pioneered by Henry Ford very early into the twentieth century in America. For these set of ideas to actually coalesce into a regime of accumulation took much longer. Fordism as a method of production, and also as a way of organizing society, came to be more influential after the Great Depression and with the kind of large scale mobilization of labour and resources that took place during World War II. Put very simply, Ford sought to revolutionize automobile production by bringing in assembly-line production techniques and he introduced the five-dollar, eight-hour working day for the workers in 1914. However, a lot of the technological and organizational reforms that Ford brought in were not new. What Ford really did was to *rationalize* the existing divisions of labour and technologies and managed to raise productivity levels quite significantly by ensuring the flow of work to the individual stationary worker in assembly-line production (Harvey, 1990). Rationalization broadly refers to the process whereby efficiency and productivity is sought to be maximised (which also implies the minimization of costs).

The Principles Underlying the Fordist Production System

One of the principle influences upon Ford and which also framed some kind of basis upon which the Fordist regime of accumulation could actualize itself, was Frederick W. Taylor's *The Principles of Scientific Management*, which was published in 1911. Taylor was concerned with labour productivity and that it could be increased by intricately breaking down the entire labour process into its separate components. The work assigned to each labourer would be a highly specific and small fragment of the entire process of production. This also required that the organization of all the fragmented work tasks, where the time spent on each particular task and the motion that completed it, were highly precise. Taylor had argued that the labour process itself had to be disassociated to the greatest extent possible, from the skills possessed by workers. What this mandated was a separation between the areas of 'management',

'conception', 'control' and 'execution' of the task. Therefore it was the management which would hold a monopoly over knowledge and so that it could have control over each and every step of the labour process. The strict supervision of the labour process hence called for a highly detailed division of labour so that it was possible to ensure the maximum extraction of physical labour from the worker, in the form of a 'fair day's work'. It was through these means that the potential of 'labour power' could be realized and made available for purchase by the capitalist enterprise (Harriss, 2000; Harvey, 1990). That being said, in actuality the presence of skilled workers was required even in the branches of production which had been 'Taylorized and then Fordized'. This was the case in metal-work industries and in the manufacture of industrial equipment goods and machine-tools. 'It should also be noted that Taylorization presupposed *from the outset* that the labour-force possessed certain skills or at least a certain "industrial culture"' (Lipietz & Macey, 1987: 35).

The idea of scientific management was significant but Ford's real contribution lay in the fact that he was able to recognize the crucial link between *mass production* and *mass consumption*. In order to sustain a system of mass production, there had to be mass consumption. It required a different system assuring 'the reproduction of labour power, a new politics of labour control and management, a new aesthetics and psychology, in short, a new kind of rationalized, modernist, and populist democratic society' (Harvey, 1990). One of the first to realise the import of the system put in place by Ford was Antonio Gramsci, the Italian Marxist, who wrote about Americanism and Fordism during the 1930s while he was jailed. At the time Fordism was still not apparent as a coherent or generalized regime of accumulation but Gramsci did recognize that it was an attempt at creating 'a new type of worker and a new type of man'. The task of rationalizing production meant that the activities of the worker even outside of the workplace had to be regulated, to complement the rationalization which was taking place in the workplace. If the new labour process had to be successful, it was imperative that the worker internalize its values of efficiency. In effect it translated into a broad spectrum of regulative measures at a social level such as prohibition, the regulation of sexuality and the family, forms of moral coercion, and the cultivation of certain values of consumerism:

One cannot have success in one field without tangible results in the other. In America rationalisation of work and prohibition are undoubtedly connected. The enquiries conducted by the industrialists into the workers' private lives and the inspection services created by some firms to control the "morality" of their workers are necessities of the new methods of work. People who laugh at these initiatives (failures though they were) and see in them only a hypocritical manifestation of "Puritanism" thereby deny themselves any possibility of understanding the importance, significance and objective import of the American phenomenon, which is also the biggest collective effort to date to create, with unprecedented speed, and with a consciousness of purpose unmatched in history, a new type of worker and of man. The expression "consciousness of purpose" might appear humorous to say the least to anyone who recalls Taylor's phrase about the "trained gorilla". Taylor is in fact expressing with brutal cynicism the purpose of American society — developing in the worker to the highest degree automatic and mechanical attitudes, breaking up the old psycho-physical nexus of qualified professional work, which demands a certain active participation of intelligence, fantasy and initiative on the part of the worker, and reducing productive operations exclusively to the mechanical, physical aspect...

... "Puritanical" initiatives simply have the purpose of preserving, outside of work, a certain psycho-physical equilibrium which prevents the physiological collapse of the worker, exhausted by the new method of production. This equilibrium can only be something purely external and mechanical, but it can become internalised if it is proposed by the worker himself, and not imposed from the outside, if it is proposed by a new form of society, with appropriate and original methods. American industrialists are concerned to maintain the continuity of the physical and muscular-nervous efficiency of the worker. It is in their interests to have a stable, skilled labour force, a permanently well-adjusted complex, because the human complex (the collective worker) of an enterprise is also a machine which cannot, without considerable loss, be taken to pieces too often and renewed with single new parts.

The element of so-called high wages also depends on this necessity. It is the instrument used to select and maintain in stability a skilled labour force suited to the system of production and work. But high wages are a double-edged weapon. It is necessary for the worker to spend his extra money "rationally" to maintain, renew and, if possible, increase his muscular-nervous efficiency and not to

corrode or destroy it. Thus the struggle against alcohol, the most dangerous agent of destruction of labouring power, becomes a function of the state...

... The exaltation of passion cannot be reconciled with the timed movements of productive motions connected with the most perfected automatism. This complex of direct and indirect repression and coercion exercised on the masses will undoubtedly produce results and a new form of sexual union will emerge whose fundamental characteristic would apparently have to be monogamy and relative stability. (Gramsci, 1971: 302-305)

It was true that many of these initiatives (for instance, prohibition) were not necessarily successful but what needs to be noted here is how Ford believed that through the proper implementation of corporate power it would be possible to build a new kind of society. Through high wages (which was the wage of five-dollars for a working day comprising of eight hours) the aim was to guarantee the cooperation of workers and also inculcate the discipline required for ensuring high productivity levels in assembly-line production. For capital accumulation to continue unabated, production had to keep rising and to keep those levels intact, consumption also had to be maintained. The idea was that higher incomes would lead to workers consuming the very products being rolled out by corporations. However, this also meant that the workers were required to know how to spend their money in a proper fashion — consumption had to be rationalized.

Ford was trying to achieve many things through corporate power, which are generally enforced through the intervention of the state. For instance, with the onset of the Great Depression, Ford increased wages in the belief that it would boost demand leading to a revival of the market and business. However as it turned out the laws of competition proved to be out of the control of even one large corporation and Ford was forced to cut down wages and lay off workers. Or as a measure to deal with the economic crisis, he tried to instil self-discipline amongst the workers by encouraging them to fulfil their own subsistence needs, such as growing vegetables in their gardens during their spare time. Finally, the crisis of the 1930s only came to find its solution in massive state intervention through the programmes of the New Deal (Harvey, 1990: 126).

The Consolidation of the Fordist Regime of Accumulation

As mentioned earlier, the process whereby Fordism installed itself as a system with some amount of stability took place over a period of nearly half a century. Assembly-line production was not accepted easily and it met with a significant deal of resistance from labour unions. Fordism was incorporated much more quickly by the American economy and it took much longer to establish itself in European countries.

There were several factors which went into creating Fordism as a system. Various individual, corporate, institutional and state decisions, over a span of time contributed towards this. Several of these came in the form of mere responses to the economic depression during the 1930s and as such were not deliberate decisions to enforce Fordism. It would be interesting at this point to recall what Polanyi had to say about the nature of the self-regulating market. He believed that the course of its development was characterised by the 'double movement' (which has been explained in Chapter I). Even though Ford sought to engineer solutions to the economic crisis by resorting to corporate power, it was ultimately through state intervention that market society could regain some kind of stability. Finally during the course of World War II the economy had to mobilize its resources and this called for large scale planning and also a rationalization of the labour process. Despite the fact that centralized planning and rationalization of the work process were not conducive both to capitalists and workers, during the time of war it became more difficult to voice any opposition since there was a marked improvement in efficiency. According to Harvey, there were also confusions in ideological and intellectual practices with regard to this particular method of production, which also contributed towards the consolidation of the Fordist regime of accumulation. Paradoxically, both the political left and right came to formulate their own versions of rationalized state planning as an answer to the crisis in capitalism. This would explain to some extent why Lenin came to laud Taylor's scientific management and Fordist production technology, while unions in Western Europe were hostile towards it (Harvey, 1990: 127).

The late arrival of Taylorism and Fordism to Europe lay in certain differences that were found in America. This method of production warranted a worker that had been socialized into accepting long hours of completely routinized labour, which

discounted any kind of traditional craft skills that the worker may possess. There was almost no control that the worker would have in terms of deciding upon several aspects of the overall labour process. Apart from America, in the rest of the capitalist world, labour organizations and the craft traditions were much stronger. Also there was much less immigrant labour in Europe during the inter-war years. On the other hand, Ford's assembly-line production was manned largely by immigrant labour which took to the new production techniques much more quickly. It was more to do with the nature of class relations that existed in America and Europe before the Second World War that played a role in the spread of Fordism (Harvey, 1990: 128). It is not that any kind of system of rationalized management did not exist in Europe but the ordering of the organizational structure was different from Taylor's insistence upon the complete simplification of horizontal flow of production processes, based upon a highly specific division of labour. Another factor was that the kind of assembly-line technology required for mass production, which was not even widespread in USA, was hardly present in Europe during the 1930s.

Another kind of hurdle had to be faced before it was possible for Fordism to take root in Europe. The nature of the problem was in terms of the political choices which had to be made by the state, or as Harvey stated, 'in the modes and mechanisms of state intervention'. The question was that of creating a mode of regulation to complement Fordist production. It was the economic shock of the 1930s that made capitalist societies rethink the manner in which state intervention was to take place. The economic crisis was understood as stemming from a lack of aggregate demand, for which a solution had to be found and it meant that the state had to step in. One of the options came in the form of curbing democracy during the 1930s to stabilize the capitalist system, which was evident in the national socialist movements which led to the rise of fascist regimes. Many intellectuals came to admire certain aspects of these state actions — excluding the racism and militarism — which involved the disciplining of labour to more efficient production systems; and where the excessive productive capacity was partly buttressed through public expenditure on infrastructure for both production and consumption. In the light of these measures, which were able to tackle the economic depression, many were receptive towards the New Deal initiated by Roosevelt. It was in the works of the economist John Maynard Keynes,

that a remedy was found for the crisis that hit capitalism at the time. He was able to arrive at a configuration of certain strategies for management combined with enhanced powers being given to the state that could ensure the stability of capitalism. Very crudely put, Keynesianism implied the generation of employment through public expenditure. The idea was that through employment, it would be possible to boost the aggregate demand in the economy.

As a result of the search for solutions to ease the effects of the economic depression and to mobilize resources during World War II, Fordism was able to entrench itself as a full-fledged regime of accumulation after 1945. It took place once the question of the nature of state intervention was resolved. A new mode of regulation was discovered which helped in the maturation of Fordism. It became possible to continuously adjust mass consumption to the rises in productivity. In a sense by controlling mass consumption itself, the new mode of regulation ensured the further incorporation of the wage-earner into the processes of capital accumulation itself — both as a worker and as a consumer (Lipietz & Macey, 1987: 36). It was this Fordist-Keynesian assemblage which built the capitalist boom that lasted until 1973. The post-War period was characterized by a steady rate of economic growth in the advanced capitalist countries and the standard of living for the populations of these countries rose generally. This was also the time when the wave of decolonization was sweeping through the world and capitalism was bringing these new countries within its ambit, thus constantly expanding its global character. Harvey wrote that the Fordist system came to spread itself in the post-War period due to the rise of a range of industries that were based on technology that had been developed during the inter-war years. These technologies had been put through the rigours of rationalization during the course of World War II. The industries which propelled economic growth at the time were cars, ship-building, transport equipment, steel, petrochemicals, rubber, consumer electrical goods, and construction. These industries came to focus upon certain regions of the world which became famous for their production, such as Midwestern United States, the Ruhr-Rhinelands, British West Midlands and the Tokyo-Yokohama production area. The demand for these products was being driven by two sources. The first comprised of the more privileged workforces that were employed in these production regions. The second source of demand for this mass

production was through the massive state-sponsored economic reconstruction of countries devastated by the War, the process of suburbanization which was especially prevalent in USA, urban renewal programmes, the geographical expansion of transport and communications, and the development of infrastructure both in the advanced and non-advanced capitalist world. All these productive activities were being coordinated through interlinked centres of finance, with the US at the helm. The regions mentioned above comprised of the core regions of the world economy and they were able to thrive because they could secure the vast quantities of raw materials required from the remainder of the non-communist world. At the same time the mass produce was able to find a mass world market for their products (Harvey, 1990: 131-132).

The development of capitalism under the Fordist regime has depended to a large extent on the relationship that has been forged between the three most important actors: organized labour, corporate capital and the nation-state. The configuration of power that was arrived upon between these formed the basis on which the long post-War boom rested. The balance between these three actors did not frame itself automatically but was the result of several years of struggle. One of the most important outcomes was the suppression of radical working class movements in the years immediately after the War. This enabled the enforcement of the kind of labour control required to set the Fordist production regime apace on a much grander scale than before. The very nature of labour forms had to be changed — from the more traditional craft based labour to the assembly-line worker. These changes had to be brought about both in the occupied territories such as Japan, West Germany and Italy; as also in the ‘free’ countries which had comprised of the Allied forces during the War. While labour unions did exist in various forms and their strength varied from country to country, the Fordist regime was able to create a compromise with labour, which helped stabilize the regime of accumulation. To explain the Fordist resolution of the question of labour, Harvey referred back to Gramsci. The Fordist system had managed to create a new set of class relations that were conducive to its existence, and thereby found an answer to the problem of ‘hegemony’ (Harvey, 1990: 133). The nature of these class relations varied from region to region and the extent of the penetration of these class relations also varied. Labour unions could exert some

influence and secure rights for themselves but these rights were won in return for cooperating with Fordist production methods and its corporate managerial strategies which sought to raise productivity. The compromise with labour was breached on occasions when there was labour unrest but the prevalent trend was that of bureaucratized trade unions which were compelled to participate in the disciplining of workers in accordance with the Fordist system.

As far as the other actors were concerned — corporate capital and the nation-state — they also adhered to certain tacit understandings that were essential to the system of Fordist production. Growth in economic power was carried forth by big corporates which could simultaneously enhance productivity, raise the standard of living and also ensure that a stable system was in place to keep garnering profits. Quite importantly this meant that corporations had to commit themselves to ‘steady but powerful processes of technological change, mass fixed capital investment, growth of managerial expertise in both production and marketing, and the mobilization of economies of scale through standardization of product’ (Harvey, 1990: 134). The tendency in the US from 1900 had been the centralization of capital. This helped prevent any major inter-capitalist competition and instead encouraged oligopolistic and monopoly pricing and the practices of planning. Bureaucratic corporate rationality became a defining feature of corporate activities which were all based on scientific management principles. Corporate decisions came to influence the patterns of the growth of mass consumption. However if the large factories had to be maintained, it was imperative for the corporate to keep a tight control over labour and working class power. There was an attack upon the radical sections of the working class movement after 1945 but corporates reluctantly accepted unions as long as they ensured high productivity in return for higher wages.

The role of the state, in keeping with the broadly Fordist-Keynesian assemblage, was to ensure that the heavy investments made by businesses for mass production were kept profitable. Towards that end, the state had to maintain relatively stable aggregate demand levels through a combination of fiscal and monetary policies. The state made public investments in areas such as transportation, public utilities etc., which would contribute both towards mass production and mass consumption, and also generate relatively full employment levels. It was the age of the welfare state

across most of the advanced capitalist world with governments making large expenditures on the social sector so as to ensure a social wage. The kind of interventions made by the state varied across the advanced capitalist world and so did the form of labour organization and unrest. However it was interesting to see that even though individual governments in these countries belonged to diverging ideological persuasions; they were yet deeply involved in sustaining the levels of economic growth and raising the material standard of living through the means of the welfare state, Keynesian methods of managing the economy and controlling wage relations between the businesses and workers. Again, a reference has to be made to Gramsci who had anticipated that Fordism would bring with it a whole system of social regulation (Harvey, 1990: 135).

To reiterate a point made earlier, Fordism was not just an economic system built upon mass production and consumption. It involved a whole way of life. Closer to the language of the regulationist school it was a new and stable regime of accumulation with its own mode of regulation. The system could not have existed unless it also affected the entire way of life — ‘Mass production meant standardization of product as well as mass consumption; and that meant a whole new aesthetic and a commodification of culture’ (Harvey, 1990:135).

This coherence of the Fordist production system had compelled Lipietz to term Fordism as a ‘model of development’. According to him the history of capitalism can be seen as a series of models of development which also have points of bifurcation and regression. The Fordist model of development was based upon three pillars: (1) The first was the organization of labour along particular lines (called a ‘technological paradigm’), which was that of Taylorism. (2) A specific macroeconomic logic (or the ‘regime of accumulation’) which rested upon ‘the systematic redistribution of productivity gains to every social class, particularly to all workers, in the form of regular increases in purchasing power.’ This logic enabled the economic boom of the post-War years as it created a mass market for the mass production. This model, aside from being attributed to Henry Ford, was also a result of Keynesianism which recognized the fact that insufficient aggregate demand was one of the factors during the 1930s economic depression. (3) Lastly the particular ‘mode of regulation’ or the set of governing rules, were comprised of a rigid and centralized system of

redistributing the productivity gains, which was ‘stabilized by a network of collective bargaining, social legislation and the welfare state.’ Therefore some of the most organized forms of Fordism have been termed as ‘the social-democratic model’ (Lipietz, 2001: 18).¹

Fordism as a fully developed system was not dependent solely on the changes that were brought about within the economies of the advanced capitalist world. The international dimension of post-War Fordism was just as important. The economic boom which followed after the War depended upon a massive expansion in world trade and in international investment flows. What helped in this expansion was the opening up of foreign investment, mainly in Europe, and of trade. This enabled the absorption of the excessive productive capacity of the US. As capitalism was spreading through the non-communist world, Fordism was also pressing ahead with the formation of global mass markets and the populations of these countries were beginning to get absorbed into the new capitalist system. The expansion of global trade also meant the securing of vital supplies of raw materials, many of which were energy supplies. Simultaneously, a massive internationalization of the service sector was also underway with a spurt in banking, insurance, hotels, airports, tourism etc. Finance and communications technology were gradually breaking down the barriers of physical distance in the creation of a global market system.

Though Fordism had an international scope, it did not spread evenly across the globe. Economic and military hierarchies between different states played a role in the international spread of Fordism. The particular political-economic regulation and geopolitical configuration within which Fordism came to extend itself was one characterized by the dominance of the US as an economic and military power. The remainder of the worldwide economic and military alliances (especially in the capitalist world) were formed only within the given framework of power relations (Harvey, 1990: 137). In a challenge to the assumption that Fordism was a worldwide phenomena, Lipietz had made the claim that:

¹ Lipietz (2001) also described the pattern of income distribution in the Fordist regime as taking on the form of a ‘pot-bellied hot-air balloon — few wealthy, few poor and many in the middle — which rises continuously and as a whole.’

We do not, then, have an international regime of accumulation in the true sense of the term, but rather a *world configuration* that temporarily guaranteed the compatibility of a juxtaposition of similar regimes of accumulation with different growth rates, and which were inserted into the international framework in different ways. Very schematically, the USA re-equipped Europe (and Japan) in exchange for rights over European labour-power. Multi-national companies purchased labour-power in exchange for the right to buy American producer-goods. The purchase of those producer-goods, together with the accelerated generalization of Fordism, allowed Europe and Japan gradually to catch up with US levels of productivity. (Lipietz & Macey, 1987: 40-41)

Aside from the effects of Fordism being uneven, there were different forms in which Fordism came to develop in some parts of the world. Lipietz gave the instance of the policy of import substitution adopted by various Third World countries/newly industrializing countries, which he termed as 'sub-Fordism' or as a 'caricature of Fordism'. In many cases these policies caused economic instability such as domestic inflation in the case of Chile, and stagnation in the case of Philippines. These attempts at Fordist modes of accumulation did bring about certain transformations such as the emergence of the modern working class, a middle class and industrial capitalism. However the problem with this kind of Fordism was its attempt to industrialize through the use of Fordist technology and the mass consumption model that goes with it, without actually possessing the requisite labour processes or the norms of mass consumption within the culture (Lipietz & Macey, 1987: 62). The internal structures and institutions of these countries were not suited to produce the same results that the core nations of Fordism were able to achieve. Of course, the success or failure of Fordism in any country has to be understood within the context of the existing international level economic and political relations. Lipietz was also trying to understand what happened to Fordism in the 'peripheral' countries of the world, and these need to be understood as working within an unequal balance of economic and political power in the international scenario.

The Deepening of Discontents Against the Fordist System

However widespread the scope of Fordism as a regime of accumulation was, it also did not imply that it met with no resistance. Discontents against the system were

voiced from the core areas of Fordist production as the benefits that accrued from the system did not include everyone. The wage distribution as envisioned in a 'purer' sense of Fordism was confined to very limited sectors of the economy and to specific nation-states. Within even the core areas of Fordist production systems, there were many other sectors which did not rest upon most of the notions that would characterize a Fordist production system. To be employed in a 'Fordist enterprise' meant that the worker was a 'privileged' worker. Other sectors still doled out low wages and gave no job security. Even within the Fordist sectors it was possible to resort to sub-contracting which negated the benefits of being a part of the Fordist manufacturing system. The inequalities resulted in creating a great deal of social tensions which were exacerbated by the further marginalizations people experienced due to their race, gender or ethnicity. These inequalities became even harder to sustain since the Fordist system was after all based on the creation of want, which was an imperative if a consumerist society were ever to become a reality. In the face of rising aspirations of people which could not be met; the result was that even during the days when Fordism was a well established and dominant system, there was large scale discontent that boiled over. The exclusion of large sections of people manifested itself in the form of the civil rights movement and the feminist movement which came about due to the massive induction of women into low-paying employment (Harvey, 1990: 137-138).

It was the state which had to respond to the movements being launched by the excluded members of society. The inequalities had to be addressed in order to legitimate the state power by distributing the benefits of Fordism and by delivering housing, health and educational services on a very large scale. This endeavour was a failure and was met with criticisms. However the real problem lay in the fact that that ensuring collective goods on a scale at which it was required depended upon the continuous increase in the productivity of labour in the corporate sector, so that the capital accumulated thereby would make it fiscally viable to implement Keynesian welfare statism (Harvey, 1990: 139).

Discontents were apparent even in the 'Third World', which did not reap the benefits expected out of the modernization process and Fordist production. The discontents also spilled over in these areas in the form of national liberation

movements, which were at times socialist but most often bourgeois-nationalist in character. Nonetheless these movements had the potential of upsetting the stability of the global Fordist order, as also the dominance of the US (Harvey, 1990: 139-140).

The Crisis of Fordism

It is generally believed that the economic shock of 1973 was the moment when Fordism went on the decline. Harvey felt that on hindsight the signs of a looming crisis of Fordism were in place by the middle of the 1960s. The oil shock of 1973 was more like a trigger; and the economic downturn of the 1970s was not the cause but more rather symptomatic of the deeper crisis. There were several factors at play which contributed towards the crisis that Fordism found itself in. By the mid-1960s the war torn economies of Western Europe and Japan had recovered and soon had to look for external markets to accommodate their surplus productive capacities. This took place at the same time as when the success of Fordist rationalization had meant the relative displacement of an increasing number of workers from manufacturing. This also translated into a reduction in aggregate demand in the economy, which for a while was taken care of in the US by the war related activities due to the invasion of Vietnam. However the crisis began to intensify once the rate of productivity growth and profitability in the corporate sector began to sink from the late 1960s. This downturn began to affect the car industry as well, which was one of the most typified branches of Fordist production. This created a whole host of fiscal problems for the United States whose power to regulate the international economy began to diminish.

All over the Fordist world there was increasing competition, which was coming from Western Europe, Japan and the newly industrializing countries. Consequently during the period from 1965 to 1973 the contradictions inherent in the capitalist system at the time were becoming more and more apparent. And there was the inability of Fordism and Keynesianism to combat the difficulties that were turning up. These difficulties have been termed by Harvey as 'rigidity'. Broadly these 'were problems with the rigidity of long-term and large-scale fixed capital investments in mass-production systems that precluded much flexibility of design and presumed stable growth in invariant consumer markets. There were problems of rigidities in labour markets, labour allocation, and in labour contracts...any attempt to overcome

these rigidities ran into the seemingly immovable force of deeply entrenched working-class power — hence the strike waves and labour disruptions of the period 1968-72. The rigidities of state commitments also became more serious as entitlement programmes (social security, pension rights, etc.) grew under pressure to keep legitimacy at a time when rigidities in production restricted any expansion in the fiscal basis for state expenditures. The only tool of flexible response lay in monetary policy, in the capacity to print money at whatever rate appeared necessary to keep the economy stable. And so began the inflationary wave that was eventually to sink the postwar boom. Behind all these specific rigidities lay a rather unwieldy and seemingly fixed configuration of political power and reciprocal relations that bound big labour, big capital, and big government into what increasingly appeared as a dysfunctional embrace of such narrowly defined vested interests as to undermine rather than secure capital accumulation' (Harvey, 1990: 142).

As a consequence of the economic recession of 1973 and the oil shock, which added to the crisis, there were an array of processes that were set in motion and which came to break down the Fordist compromise. From the 1970s onwards, the capitalist world began to undergo economic restructuring and a social and political reconfiguration. It was a period of uncertainty and flux which came to witness dramatic changes in the forms of industrial organization, which also had its impact on political and social life. The response to the crisis had unleashed a whole new set of forces which culminated in the formation of a new regime of accumulation and a mode of regulation.

Thus Fordism, which had assured the capitalist world of a relatively long and stable regime of accumulation, came to decline. However its main contribution had been creation of systems of mass production, and even more importantly, the creation of mass markets for the produce. The period comprising of the Fordist regime of accumulation, was one characterized by the state regulation of the market system, but it nonetheless meant that the foundations of the global market system, which is the dominant economic institution at present, were being consolidated during that period. Mass production and mass consumption were the central features of the Fordist production system, and these laid out the grounds on which the global market economy could flourish.

Chapter III

Flexible Accumulation on a Global Scale

Through the course of this chapter we will try to uncover the features of a new regime of accumulation. The larger question that must be kept in mind is that of the 'transformation'. With the decline of Fordism new organizational forms came to the fore, as the search for productivity and profitability intensified. It is the nature of the changes that took place within the ambit of Fordism from the 1970s onwards that is of concern here. Arguments have been made that a new regime of accumulation has come to be established and it is constantly in search for the stability that was characteristic of Fordism during the years after World War II. The changes which have been witnessed, and the processes which are evident even today and are in a constant state of flux, have been understood in different ways. It can be seen as a new regime of accumulation or as a new economy characterized by informational capitalism and a network society. The theorists whose work we will rely upon extensively will be David Harvey and Manuel Castells, interspersed with the views given by some of the theorists of the regulation school.

In the same manner as the Fordist system comprised of a certain way of organizing labour, and the overall production process and the consumption pattern; flexible accumulation was also an entire new mode of development which tried to address the crisis of Fordism. The response to the crisis of Fordism has been variously theorized as flexible accumulation, flexible specialization, disorganized capitalism, diversified quality production or Post-Fordism. These tend to be conflated together under the broad rubric of industrial change, though they emerge from different theoretical premises (Hirst & Zeitlin, 1997). However we will focus upon what has been termed as flexible accumulation. Broadly speaking flexible accumulation was a way of countering the 'rigidities of Fordism' (Harvey, 1990). To briefly sketch out the features of the new regime of accumulation, what was seen was the rise of 'entirely new sectors of production, new ways of providing financial services, new markets, and, above all, greatly intensified rates of commercial, technological, and organizational innovation...entrained rapid shifts in the patterning of uneven development, both between sectors and between geographical regions, giving rise, for

example, to a vast surge in so-called “service sector” employment as well as to entirely new industrial ensembles in hitherto underdeveloped regions’ (Harvey, 1990: 147). A very important contribution made by Harvey is the introduction of the concept of time and space in great detail towards the theorization of late-twentieth century capitalism. A more precise understanding of this conceptualisation will become clearer with Castell’s work on the role of information technologies that have come to revolutionize the capitalist economy.

A very important part of these processes is the role taken by the state. The role of the state or the ‘interventions’ it makes, are crucial towards shaping the regimes of accumulation and the modes of regulation. The manner of state action, along with various other factors, give rise to the variations in the regimes of accumulation across the world. That is not to say that the changes taking place are always determined by the state, but the role of the state is implicit in these changes and must always be kept in mind.

A few aspects of the flexible regime of accumulation will be focused upon in this chapter, especially those concerning the organization of labour or what has been termed as the flexibilization of labour; the composition of the economy in terms of the sectors which have risen to prominence (the service sector in the case of flexible accumulation); the increasing financialization; and, the role of information technologies that have been complementary to the emergence of a ‘new economy’, according to Castells. It is for the purpose of bringing in clarity to the explanation of the changes taking place that these divisions are being made. None of these are disjointed from one another and actually take place simultaneously, complementing each other. Another purpose of addressing these processes separately is to raise the question — are we witnessing the formation of a new and coherent ‘schema for reproduction’ which could ensure a relatively long-term and stable regime of accumulation on a world scale? To give a definite answer is virtually impossible because many of these processes are taking place at this very moment and are also in a constant state of flux. However, it is possible to take a cursory look at some of the processes and to try to glean some kind of conclusion from those.

Flexibilization of Labour and the Production Process

One of the first responses to a crisis of productivity and profitability is through enhanced labour control. Organized labour was not a characteristic all over the world, where the industrial traditions were not organized along the lines of Fordism. The Fordist compromise which had been created between labour and capital was 'undercut by the reconstruction of foci of flexible accumulation in regions lacking previous industrial traditions, and by the importation back into the older centres of the regressive norms and practices established in these new areas' (Harvey, 1990: 147). In other words this meant that previously 'Fordist areas' began reorganizing the entire production process which had obvious implications for labour. In the face of greater market volatility and competitiveness the Fordist production system was not viable. It involved large and long-term investments and also required consistent growth in the consumer market. This made it a rigid system in several ways because it assumed that it was possible to create mass demand for standardized products rather than taking the path of being responsive to the fluctuating patterns of demand. The rigidity was felt in the realm of labour as well. The Fordist production system made it difficult to shift labour from one production line to another and it also faced resistance to some extent from trade union power. There was rigidity on the part of the state as well, which observed Keynesian welfarist policies, despite the fact that the limitations in production were eroding the fiscal base of the state (Harriss, 2000: 332).

In the face of the crisis that hit the capitalist world during the 1970s, the labour market has undergone a drastic restructuring. The period has been characterized by a visible reduction in the power of trade unions and unemployment which created a lot of surplus labour (labour which is unemployed or underemployed). Due to these developments it became possible for employers to introduce much more flexible work regimes and contracts with labour which drastically limited the liability the liabilities of the employer. There are myriad ways in which this flexibilization has taken place, differing from firm to firm, and from region to region. But largely it has been found that the number of working hours have increased and there have been minor, if any, gains in the real wage. The trend has also been towards the irregular availability of employment where the hours of work may be extremely long during periods of peak demand and shorter working hours during the periods of lesser demand. The most

important characteristic of the changing nature of employment has been the shift away from regular employment to part-time and temporary work or to sub-contracted work. These flexible work arrangements have not necessarily led to any major expression of the dissatisfaction of workers as it could also be seen as beneficial at times. However, if seen from a broader perspective this flexibility generally meant the removal of measures such as insurance coverage, pension rights, stable wages and overall job security; things which are generally guaranteed through regular employment.

As mentioned before, some of these patterns of flexible work were not entirely new and were in fact imported to the core areas of Fordism. Even under the regime of Fordism, Japan followed a system whereby small businesses were sub-contracted by larger corporations and this helped the large corporations in avoiding the costs which had to be borne out of market fluctuations (Harvey, 1990: 152). Labour markets at present are increasingly based on reducing the number of 'regular' workers and instead rely upon the large workforce which can be hired easily for temporary periods, as and when required. Even during the period when Fordism was at its height, there were many parts of the world where regular, assembly-line arrangements of employment were not the norm. In large parts of the so-called 'developing' world, regular employment or employment in the organized sector was never really present or it constituted a fairly small proportion of the total industrial employment.

Both the structure of the labour market and the pattern of organizing industrial production have undergone a transformation, especially in the advanced capitalist countries. Sub-contracting, which is now considered as the norm in the production process, has paved the way for the emergence of small businesses which in many cases revert back to older forms of the organization of labour. Older systems of mobilization of labour are being seen such the 'domestic, artisanal, familial (patriarchal), and paternalistic' forms. The major metropolitan cities of the capitalist countries also saw the resurgence of 'sweatshops' from the 1970s. The effect of these methods of organizing labour has meant a further decline in the formation of working class organizations such as trade unions. For instance, it is difficult to organize workers who are situated in the patriarchal, familial labour organization (Harvey, 1990: 152-153). This makes it all the more difficult to make a clear conceptualization of class relations in terms of workers who are pitched against capital. This simpler

class relation has come to be mediated by a more complex system located within a hierarchical order of social relations, of which families, clans or kinship groups are an example.

A very major feature of the shift towards flexible accumulation has been the increased participation of women in the workforce. It is not that women were not a part of the workforce, since historically the Industrial Revolution was also based upon the availability of cheaper female labour. However with flexible accumulation the manner in which women have come to be employed or more rather the kind of work processes that are required by flexible accumulation, find it advantageous to hire large numbers of women. This need not be a progressive characteristic. While some women and some minority communities have managed to benefit by gaining access to the more privileged economic positions, for the most part the restructuring of the organization of labour has played upon the more disadvantaged status of sections of the population such as women and other marginalized communities. The new structures of the labour market facilitate the inclusion of women into part-time work or into lower paid work. Simultaneously as a result of the increased sub-contracting of work and the revival of the familial and domestic systems of labour, the role of women in the production process vastly increased. However, Harvey points out, this is the manner in which the Fordist system of mass production is taken abroad, thereby enabling big multi-national corporations to hire cheap female labour power. Household manufacturing has increased manifold through the cheap labour supplied by women who are often involved in the assembling of products or manufacture a very small component of the overall product. They are usually paid a very paltry sum as wages and wages are paid on a piece-rate basis. According to Castells, this kind of feminization of paid labour has led to the emergence of the 'flexible woman', as opposed to the notion of the 'organization man', and is representative of a new type of worker. The key transformation has been 'the individualization of labour' — a reversal of the socialization of production which had defined the organization of labour during the industrial era (which we identify as Fordism).

Therefore labour organization under the regime of flexible accumulation can be best explained as implying 'relatively high levels of "structural" [as opposed to "frictional"] unemployment, rapid destruction and reconstruction of skills, modest [if

any] gains in the real wage...and the roll-back of trade union power — one of the political pillars of the Fordist regime' (Harvey, 1990: 150). It was not as if the Fordist system did not seek out cheaper labour so long as it was able to mass produce the standardized product required. However, what further differentiates flexible accumulation from Fordism is what it means for the production process itself, and some of the principles on which that production is based.

To address more specifically the reorganization of the process of production under flexible accumulation, a shift was made from production based on the economies of scale to that of 'economies of scope'. Under the regime of Fordism, the system was based upon mass production which was hinged upon the economies of scale. Mass production meant large-scale and long-term investments if assembly line production had to be successful. However this also made it a more rigid system which did not hold the capacity to respond quickly to fluctuations in the market, such as changes in demand patterns. To counter the rigidities of the economies of scale, manufacturing had to mould itself to develop the capacity to produce a diverse range of products in smaller batches (Harvey, 1990:155). Production in small batches, combined with the sub-contracting or the newer phenomenon of the 'outsourcing' of work, was able to overcome the rigidities created by Fordist production and adapt to quick changes in the market.

In terms of industrial organization it was a paradigmatic change. This change is associated most frequently with the mode of industrial organization developed by the Japanese automobile company, Toyota. As opposed to the Fordist regime, which started with a particular way of organizing the labour process in the manufacture of cars, the new form of industrial organization has been labelled Toyotism. Instead of the production of a large number of standardized products, Toyotism depends upon the production of a variety of goods in small batches, thereby making quick responses to changes in demand in various market niches. Therefore Toyotism is 'demand driven' as opposed to Fordism which is 'resource driven' (Harriss, 2000: 332). The import of this distinction is that Toyotism possesses the capability to free itself from the rigidity imposed upon the production and labour process due to large investments which were typically made under the Fordist system. Under the Fordist system, firms were expected to have a large inventory and the stocks of raw materials had to vast

enough to ensure the production of a standard good over a fairly long period of time. Hence, Toyotism can be understood as one of the prime examples of the flexibilization of the labour process and production process.

Toyotism depends fundamentally on the concept of *kaizen*, which means 'continuous improvement'. It is a different approach towards worker participation in ensuring quality control during the process of production itself. It was a new method of management which depended upon management-worker cooperation. Workers are expected to take responsibility for the quality of the product as opposed to quality control checks in Fordism which would take place after the manufacturing process was complete. Probably the more distinctive and important feature of Toyotism is the *kan-ban* or 'just-in-time' approach towards the delivery of components. This drastically reduced the requirement of inventory and large buffer stocks for the Toyotist firm through delivery from the suppliers coming to the site of production only at the precise time that it is required, and with the supplies possessing the specific characteristics needed for the manufacturing of the product. There would also be a 'total quality control' during the production process with the aim of near-zero product defects and the most efficient use of resources; the involvement of workers in the production process through 'teamwork, decentralized initiative, greater autonomy of decision on the shopfloor, rewards for team performance, and a flat management hierarchy with few status symbols in the daily life of the firm' (Castells, 2000: 169).

The system was introduced on a limited scale in 1948 and over the next 20 years it was perfected by the engineers at Toyota. It was running parallel to Fordism and in fact it was adopted fairly successfully by Japanese firms operating in other parts of the world; even in Europe and United States, which were in some senses the bastions of the Fordist production method. For the 'just-in-time' model to work efficiently, there has to be a very well set relationship between the core firm and the suppliers' network. To maintain that level of flexibility, the Toyota company in Japan had a three-tier network of suppliers which would meet the requirements of thousands of firms all of which were of different sizes. What is significant about this model is the 'vertical disintegration of production along a network of firms', as opposed to the integration of departments vertically within the same corporate structure. Through the creation of a network it became possible to bring further differentiation in terms of the labour and

capital in a production unit. It could also possibly increase the responsibility and incentives for the workers through this, without having to necessarily change the existing concentration of industrial power or the seat of technological innovation (Castells, 2000: 170). Despite the seemingly decentralized structure, generally the network of firms fell within the ambit of one large parent firm.

Despite the assertion being made that Fordism was a rigid system and Toyotism is the flexible system, Castells raises the point that that the truly distinctive feature of Toyotism is not just network form of relationship between firms but actually the *relationship between the workers and the management*. Toyotism has to rely on the absence of any major disruption in the process of production or distribution because its functioning is based on short-term periods. Therefore any major disruption can potentially cause a huge upset in the production process. Such a level of performance can only take place if work stoppages are minimized and there is complete labour control. It is perhaps more apt to say that Toyotism is more of a management system which is meant to remove the risks of uncertainties in production, rather than it being a completely different system which is geared towards the enhancement of adaptability of the firm (Castells, 2000: 170). Castells seems to agree with the opinion that Toyotism was more an extension of Fordism as it was able to keep intact mass production and could organize the production process on the basis of a greater involvement of the workers. Toyotism could perhaps be seen, from this point of view as a management system that was more suited to the needs of a global economy that was constantly in a state of flux and required a highly responsive production unit in order to make it competitive.

Similarly Castells looked at other arrangements forged by firms in East Asia and in some other regions that also guaranteed economic growth. Just to name a few of these, the other forms of networks created were inter-firm networking; the formation of strategic alliances between large corporations, and ; the creation of the horizontal corporation which shifted away from the vertical corporate bureaucracy and is characterized by seven main trends: 'organization around process, not task; a flat hierarchy; team management; measuring performance by customer satisfaction; rewards based on team performance; maximization of contacts with suppliers and customers; information, training, and retraining of employees at all levels' (Castells,

2000). The last model of corporate organization came to be employed by several American companies during the 1990s, ATT being one such example. Castells, while detailing out these new organizational forms, was more concerned with understanding the restructuring of capitalism during the latter part of the twentieth century; and was looking at it from the point of view of the shift away from industrialism to the setting up of the global, informational economy (which will be explained later in the chapter). However while looking at the historical experience of the new organizational forms taken by the informational economy, Castells felt that ‘Under different organizational arrangements, and through diverse cultural expressions, they are all based on networks. *Networks are the fundamental stuff of which new organizations are and will be made*’ (Castells, 2000: 180).

These alternative forms of industrial organization meant to counter the rigidities of Fordism can be explained through the elaboration given by Boyer and Hollingsworth, who mentioned the ‘alternative levels of coordination’ that may come up in specific regions:

...the concern here is with the existence of regional economies having a high concentration of small firms that are integrated into a *social system of flexible production*...Historically when the demand for products was differentiated and diverse, different forms of production have existed from those in use when demand has been more stable and homogeneous. In general, the more stable the demand and the less frequent the change in technology, the more firms have found it advantageous to organize production in large vertically-integrated firms and to reap economies of scale by producing standardized products and extending the market. Historically, such a process tended to justify the large investment in single-purpose machines operated by relatively low-skilled workers...But when demand has been differentiated, markets have been volatile, and/or technology has changed rapidly, then firms have chosen flexible strategies — flexible machines, labor, and/or marketing. More specialized firms must constantly innovate. Being relatively small, however, they require a host of common services that individual firms lack the capacity to provide: sophisticated training facilities in order to develop a highly skilled labor force, a continuing supply of credit, and complex marketing capacity. In response to these needs, producers in some areas have engaged with other firms — sometimes

competitors, sometimes firms in complementary industries — to produce collective goods. (Boyer & Hollingsworth, 1998: 25; emphasis added)

Within the regime of flexible accumulation certain disparate trends have come to find an easy co-existence. On the one hand corporate power retained its foothold and was in many ways encouraged through policies of deregulation; and on the other hand the 1970s also saw a significant rise of small businesses, patriarchal and artisanal organizational structures. The United States also witnessed rising numbers of the self-employed, which could range from low paid casual work taken up by the unemployed to highly paid professions.¹ This was indicative of the kind of networking and formation of alliances between firms that Castells was emphasizing upon. To Harvey this implied that the pressures which act upon the capitalist system due to the confrontational relationship between monopoly power (represented by the deregulation of certain sectors) and competition, or between the centralization and decentralization of economic power, were being resolved in a wholly different manner. What this meant was that capitalism was beginning to find its organizational form ‘*through* dispersal, geographical mobility, and flexible responses in labour markets, labour processes and consumer markets, all accompanied by hefty doses of institutional, product, and technological innovation’ (Harvey, 1990: 159).

What can be deduced from this understanding of flexible production systems is that they are dependent upon the constant acceleration in the rate at which product innovation takes place in conjunction with the search for market niches. This implies that the rate at which consumption takes place, must also keep pace with the accelerated turnover time in production. As flexible accumulation has brought about rapid changes in the production process and introduced adaptability and differentiation in the products being manufactured, the corresponding changes in consumption patterns must also take place simultaneously. After all flexible accumulation shares a very fundamental characteristic with the previous Fordist regime; it is still based upon mass production, though the Fordist characteristic of the standardized product has been done away with. With the advent of the manufacturing of differentiated products, even consumption patterns need to keep changing which has meant that greater

¹ Self-employment as a category needs some qualification. For instance, in the case of a country like India, most of those who are self-employed are actually engaged in occupations that yield fairly miniscule incomes.

attention must be paid towards 'quick-changing fashions and the mobilization of all the artifices of need inducement and cultural transformation that this implies' (Harvey, 1990: 156). Fordism was able to ensure to some extent a relatively stable aesthetic which was conducive to the mass production of standardized goods. According to Harvey, flexible accumulation has instead given way to 'ferment, instability, and fleeting qualities of a postmodernist aesthetic that celebrates difference, ephemerality, spectacle, fashion, and the commodification of cultural forms'. What he also says is that this 'need to accelerate turnover time in consumption' has meant a decisive shift away from the production of goods.

It has been established that economic growth can continue only with an accelerated rate of accumulation. However an increase in accumulation is of no use without a similar rate of consumption. Harvey attempts to theorize the linkage between flexible accumulation and the patterns of consumption during the last few decades of the twentieth century through the notion of the 'time-space compression'. Capitalist accumulation has always attempted to speed-up the rate of accumulation, which means lessening the time taken towards the creation of surplus, which takes place through innovations in the production process, money exchanges and through marketing. Simultaneously the rapid developments made in the field of transportation and communications technology have reduced the effects of spatial barriers and enabled capital to travel the length and breadth of the globe. Since the decade of the 1970s there have been rapid advancements made in these technologies which have come to transform the experience of space and time or what Harvey terms as the "time-space compression": the world suddenly feels much smaller, and the time-horizons over which we can think about social action become much shorter' (Harvey, 2001: 123). The phase of time-space compression has been so strong that it comes to have an effect on the individual itself. It affects the sense of location of an individual or a community in terms of space and time and has given rise to some kind of a crisis of 'identity' which tends to be defined in terms of time and space. According to Harvey the current phase has been characterized by 'some kind of crisis of representation in general, a crisis that is manifest in the contemporary world primarily by postmodern ways of thinking' (Harvey, 2001: 124). As a result the embrace of 'ephemerality' is in consonance with the rapid shifts that are being made in fashions or production designs

and techniques; which otherwise had evolved to address the crisis of accumulation during the early part of the 1970s.

The impact of this change is also apparent in the shift that has occurred in the composition of the overall economic system. By the change in the composition of the economic system, one is referring to the surge in employment in the service sector. There were increases in service sector employment during the Fordist era also as a result of the processes of rationalization in manufacturing, which also gave rise to a need for services. However, with flexible accumulation there has been a discernible reduction in employment in the manufacturing sector after 1972. The rise in service sector employment has not been as much in the areas of retail, distribution, transportation or other personal services. Instead the areas of producer services, finance, insurance, real estate, and some other services such as health and education (presumably in the private sector) have been on the rise.

What might be noted at this point is that all these organizational changes have not meant in any way the diminution of corporate power. Corporations have adjusted fairly rapidly to the requirements of flexibility. This has meant that much greater importance is now given to innovative entrepreneurialism, facilitated by the increasing role played by information technology, which has increased the rate at which the flow of information takes place. This has enhanced the capacities of enterprises to make swift and well-informed decisions, which are necessary in order to keep up with the requirements of flexible accumulation. Aside from the prominent role occupied by information technologies, the other keyword which came to shape economic organization from the 1970s onwards was 'deregulation'. Sectors such as airlines, energy and financial services were deregulated, which proved to be hugely beneficial for large corporations. The deregulation of finance was especially significant, as it sparked a wave of financialization at a global level.

Reorganization of the Global Financial System

Probably one of the most important developments of the period in question was the reorganization of global finance which imparted to it a greatly enhanced capacity to coordinate amongst different financial markets. In other words finance became one of the most important tools through which flexible accumulation came to coordinate

its economic activities on a global scale. Finance has been one of the most profitable avenues for capitalist accumulation especially since there had been a shift away from the manufacture of goods as the most dominant source of securing profits (which prevailed under the Fordist regime).

However one of the most obvious questions would be that what is novel about finance capital during this stage. During the course of the history of capitalism, finance or *haute finance*, which was the term used by Polanyi, was also a major factor in the organization of the capitalist economies. Arrighi and Moore (2001) provide an explanation on the recurrence of phases of financial expansion on the basis of Fernand Braudel's conceptualization of historical capitalism over its *longue durée*, which means looking at historical capitalism over its entire lifetime. Without going into specific details, it was believed that the history of capitalism could be broadly divided into what are termed as 'systemic cycles of accumulation' and each of these cycles were comprised of two distinct phases of the accumulation of capital: phases of material expansion and of financial expansion. This view tends to negate the claims made by many twentieth-century theorizations which looked at the expansion of finance capital as heralding an altogether new phase in the development of capitalism. Braudel had contended that the characteristic of historical capitalism over its *longue durée* had been its 'flexibility' and 'eclecticism' rather than the concrete forms that capitalism came to adopt at specific times and in specific places: 'an essential feature of the general history of capitalism: its unlimited flexibility, its capacity for change and *adaptation*' (Braudel quoted in Arrighi & Moore, 2001: 58).

Braudel's characterization of historical capitalism has been read as a restatement of Marx's general formula of capital, $M-C-M'$ (Arrighi & Moore, 2001). Money capital (M) is representative of liquidity, flexibility and freedom of choice, while commodity capital (C) implies capital which has been invested in a certain input-output combination to garner a profit. Commodity capital therefore also means rigidity, concreteness and a reduction of options. Arrighi and Moore use the general formula to explain that capitalists invest in commodity capital despite the loss of flexibility because it is seen as a means towards securing greater flexibility and profits at some later point in the future. The general formula also indicates that if the capitalist does not see the possibility of such an aim being fulfilled, that is, an

expansion in the 'freedom of choice', then 'capital *tends* to revert to more flexible forms of investment, first and foremost to its money form' (Arrighi & Moore, 2001: 58). Braudel did not elaborate upon the financial expansion during the latter part of the twentieth century but the authors looked at the advent of financialization as an instance of the reversal back to 'eclecticism' which had been characterized by Braudel as the sign of maturity in a particular phase of capitalism.

To extend the explanation provided by Arrighi and Moore for the phase of financial expansion during the late twentieth century; it is possible to say that the regime of Fordist production coincided with the phase of material expansion and flexible accumulation is coincidental with the phase of financial expansion. It was the crisis which Fordism ran into, primarily that of declining profitability, that set off flexible accumulation which was also characterized by financial expansion on a global scale. Following from this useful analysis of finance capital, it now becomes possible to look at the specific configuration of the phase of financial expansion which came to characterize the flexible regime of accumulation.

Prior to the economic crisis of the 1970s, the financial sector had been reigned in to prevent a repetition of the economic depression during the 1930s and also as a result of the Fordist-Keynesian assemblage which had entrenched itself. In USA it was the *Hunt Commission Report* (1971) which was the first to state the need for reforms in the financial sector if the capitalist system had to revive itself from the slump it had fallen into. After the economic shock of 1973 the demand for financial deregulation only heightened and by 1986 almost all the major financial centres of the world had been deregulated. From the year 2000 onwards it was possible for banks, securities firms and insurance companies in USA to carry out joint operations or even merge into a single large financial firm. Any financial centre which was a part of the integrated global system had no choice but to undergo deregulation and maintain financial innovation, if it had to continue existing. Through the use of telecommunications, financial transactions could be coordinated across the world. It enabled 'the formation of a single world market for money and credit supply' (Harvey, 1990: 161). For markets to open up and the various segments of the markets to be inter-linked, capital had to be extremely mobile. For this to happen, different firms required tremendous capabilities for communication. It was the deregulation of

markets and the new information technologies which provided the conditions for this linking up to take place. The integration of financial markets across the world, starting from the 1980s, was made possible by the use of information technologies, hence bringing about the increasing disassociation and reduction in the control of national economies over global capital flows (Castells, 2000: 96).

This has meant that capital markets around the world are increasingly interdependent and the more significant fact is that capital is being managed during all hours of the day in financial markets that are globally integrated; such that for the first time ever the global financial market is working in *real time* and *future time*. The import of this significant development cannot be left understated. Transactions that are worth extremely large sums of money can now take place within a span of few seconds through electronic circuits present all over the world. Complex mathematical models and sophisticated computers can generate forecasts of different financial products. 'New information systems and communication technologies allow capital to be shuttled back and forth between economies in very short time, so that capital, and therefore savings and investment, are interconnected worldwide, from banks to pension funds, stock exchange markets, and currency exchange. Thus, global financial flows have increased dramatically in their volume, in their velocity, in their complexity, and in their connectedness' (Castells, 2000: 102). The banking sector stepped up its internationalization during the 1990s especially. Financial integration is not solely limited to advanced capitalist countries. According to Castells, even the 'emergent markets', which he defined as the developing countries or transition economies, are increasingly entering the circuits of global financial flows.

Castells listed five main developments which led to the interdependence of financial markets. The first major factor was the deregulation of financial markets in most countries and the liberalization of transactions across borders. This allowed for the freeing up of capital to such an extent that by 1998, 140 per cent of the GDP of USA was comprised of stock market capitalization. A second factor was the development of technologies such as advanced telecommunications, interactive information systems and more sophisticated computers which were able to carry out the fairly complex trans-national transactions. The third factor was regarding the nature of the new kinds of financial products such as derivatives, which are 'synthetic

securities' that combine the values of stocks, bonds, options, commodities and currencies from various countries. The major problem with derivatives is that even if the value of one of these components of a derivative falls, the devaluation of the particular derivative may get transmitted to other markets, irrespective of the performance of the market where the derivative is being traded. This happens to be one of the prime reasons for the volatility in global financial markets. The fourth reason for financial integration is the occurrence of financial flows due to speculative activities. Such financial flows move in and out of markets quite swiftly with the aim of capitalizing upon the advantages of differences in valuation or to avoid a loss. The last factor behind the interdependence of financial markets is the role played by market valuation firms which, through the mechanism of rating the markets, tend to reinforce the given rules on markets all over the world (Castells, 2000: 104-105). This integration of financial markets and the volume of finance capital which is constantly flowing through the globe, explains the financial crisis that hit the global economy in 2008. The size of the virtual economy has come to be so large and it enmeshes every single economic actor within its ambit. Therefore the crash which emanated in USA came to create ripples throughout the capitalist world.

Since currencies are also a part of this financial trading, national currencies too become a part of the highly integrated and interdependent global financial market. As a result monetary policies and interest rates tend to follow similar patterns across economies, thereby leading to the interdependent nature of the national economies themselves. Regardless of how an economy might actually be performing, capital flows can become autonomous and come to affect an economy due to the volatile nature of global financial markets. Globalization of the financial markets has become fundamental to the new global economy:

The ensuing flows of capital, in and out of specific securities, and specific markets, are transmitted throughout the world at the speed of light, although the impact of these movements is processed specifically (and unpredictably) by each market. Daring financial investors try to ride the tiger, anticipating trends in their computer models, and betting on a variety of scenarios. So doing, they create capital out of capital, and increase nominal value exponentially (while periodically destroying some of this value during "market corrections"). The

outcome of the process is the increasing concentration of value, and of value making, in the financial sphere, in a global network of capital flows managed by networks of information systems, and their ancillary services. The globalization of financial markets is the backbone of the new global economy. (Castells, 2000: 106)

It is during the current epoch that finance has been able to penetrate at almost all levels of economic activity. On the one hand, the reach of finance can be seen from the macro perspective where it functions on a global scale and comes to shape the course of national economies. On the other hand finance has now been able to cast its net even wider and has given rise to the possibility for even the individual to participate in its constant flows. Castells referred to what is known as 'financial disintermediation' which refers to the direct relationship between investors and securities markets, and it bypasses the traditional brokerage firms which mediated these transactions. Disintermediation could take place on the basis of the setting up of electronic communication networks (ECNs). This is a fairly prevalent trend. In 1999, electronic trading was used in approximately 25 per cent of the transactions made by individual investors in the US. The result has been that there are a much larger number of investors who utilize a diverse range of strategies to counter financial market uncertainties. Individual investors tend to possess lesser information about financial markets and consequently make use of the speed and flexibility offered by electronic trading networks to counter the risk factor. However, this also happens to be one of the reasons for the mounting complexity and volatility in the market (Castells, 2000: 153-155). With an increasing number of actors in the financial markets, stability in such markets is all the more difficult to achieve over a long period of time and the speed that technology has given global financial flows, only adds to the uncertainty and unpredictability of the global economy as such.

The New Global, Informational Economy

While looking at the globalization of financial markets or the overall global economy, it is impossible not to notice the role played by information technologies and the advancements in communications. The significance of these technologies becomes apparent through the definition of the global economy itself which is '*an economy whose core components have the institutional, organizational, and*

technological capacity to work as a unit in real time, or in chosen time, on a planetary scale' (Castells, 2000: 101).

The new economy which emerged during the late-twentieth century has been characterized as informational, global and networked; and these are all intertwined. It is *informational* because the productivity and competitiveness of the economic entities depends upon the capacity they possess to generate, process and to efficiently apply knowledge based information. It is *global* since the central activities of production, consumption and circulation; as also their components such as capital, labour, raw materials, management, information, technology, and markets, are all organized on a global scale. This organization on a global scale is either direct (with several units of a firm situated in various locations) or it is in the form of a network of linkages between the various economic actors. It is *networked* because 'productivity is generated through and competition is played out in a global network of interaction between business networks' (Castells, 2000: 77). There is a historical linkage between the economy which has a knowledge-information base, a global scope, a network-based organizational form, and with the information technology revolution, it has given rise to a new and distinct economic system with its own structure and dynamics.

The informational, global economy is distinct from the industrial economy but it does not differ from it in its logic. The industrial economy becomes subsumed under the new economy rather through the process of its own technological deepening. Knowledge and information come to be embodied in all the processes of material production and distribution, and this occurs on the basis of a major advancement in the extent and scope of the sphere of circulation of products. In order to retain its competitiveness, the industrial economy has no real choice except 'to become informational and global or collapse' (Castells, 2000: 100). Importantly, it is not the activities that have changed, but rather their ability to use technology as an important productive force. It is not like the transitions that were seen earlier, such as the shift from agricultural to industrial economies. For now it is possible to find informational agriculture and informational service activities which are able to produce and distribute simply by using the information and knowledge that is a part of the work process, and this has come about due to the accelerating power of the information technologies. Castells coined the term 'informational mode of development' to

explain what is happening in the new, global economy. The novelty of the informational mode of development lies in the fact that ‘the source of productivity lies in the technology of knowledge generation, information processing, and symbol communication.’ Even prior to the informational mode of development, knowledge and information were certainly a part of the production process, but the specialty of the new informational mode of development comes from ‘the action of knowledge upon knowledge itself as the main source of productivity’ (Castells, 2000: 17). The access to information and ensuring information flows are crucial to the success of the global economy, and even more so in the case of the financial market. Information processing has assumed the position of being a crucial part of the production process and can also determine levels of productivity.

A more cynical view of the role of information and communications technologies in the production process has been provided by Boyer (2004). During the 1990s it was widely held that the combination of information and telecommunications would lead towards a recovery in productivity levels; they would ensure economic growth in markets that otherwise were comprised of more traditional manufacturing industries (through the activities of material transformations, logistics and services); and these technologies would assist corporate managements in adjusting production levels ‘digitally’, if there was even slight fluctuation in the demand. The hope was to remove the occurrence of economic cycles through the use of these technologies (Boyer, 2004: 1). This meant that an illusion was created ‘of a virtuous circle between financial innovation and ICT [Information and Communications Technology]’, which for a while led to a spectacular boom, especially in the American economy during the 1990s. However it did not imply any efficient allocation of capital and the result was that of creating a *speculative snowball effect*, which was bound to collapse once the system would be faced with the crisis of overaccumulation (Boyer, 2004: 3).

It is this requirement of capitalism to attain constant economic growth, no matter what form or organization that it takes, that leads it towards a crisis of overaccumulation. Beyond a certain point the accumulated capital is unable to find profitable avenues for investment, thus leading to an economic crisis. In such situations capital looks for ‘fixes’ by which accumulated surplus can be put towards profitable investment. One of the most useful analyses of the ways in which capital

comes to resolve the recurring crises of overaccumulation has been provided by Harvey through the notion of the 'spatio-temporal fix'.

The Spatial and Temporal Aspects of Capital Accumulation

The concluding section of this chapter is proportionately smaller in terms of length but the idea is to look at some crucial work which helps us understand the manner in which capitalism manages to reconfigure itself when faced with a crisis. This section will be based upon the works of Harvey who very importantly brought in the notion of space and time to the processes of capitalist accumulation.

Drawing from the work of Marx, Harvey mentioned how the capitalist mode of production was prone to crises. Periodically, capitalism creates phases of overaccumulation, which can be defined as a situation where a supply of 'idle labour' and 'idle capital' could exist together but the capitalist system is unable to find a way of bringing these together to lead to any kind of socially useful production (Harvey, 1990: 180). The Marxist understanding is that capitalism is inherently prone to crises due to the constant drive towards accumulation, such as those seen during the 1930s or the 1970s. The only thing that the capitalist order can do is to find ways to contain and manage the tendencies towards overaccumulation, so that it does not result in the total collapse of the world capitalist order.

In his book *Spaces of Hope* (2000), Harvey looked at the spatial and geographical aspects of the history of capital accumulation. He re-examined some of the passages from the *Communist Manifesto*. To him the text consisted of a polemic that indicated geographical transformations, 'spatial fixes' and uneven geographical developments in the history of capital accumulation, thus bringing in the spatial dimension to the understanding of capital and its accumulation. The 'spatial fix' to capitalism's internal contradictions (most evidently seen as the overaccumulation of capital within a given geographical area) went alongside the 'uneven insertion of territories and social formations in the world market'. This created what is called the 'global historical geography of capital accumulation'. These are Harvey's notions as the process of uneven geographical development and its spatial fix are ambivalent in the writings of Marx and Engels. And Harvey wishes to add to the rich analysis made

by Marx and Engels regarding the process of capitalist accumulation, by adding to it the aspects of space and time.

Capitalists, like all other economic agents are faced with the constraints posed by space and time. At the same time we are also driven by the idea that there needs to be some kind of equilibrium in the economy. This search for an equilibrium is in a way contradictory to the very nature of capitalist accumulation. The processes of capitalist accumulation are constantly expansionary and are therefore always disrupting any tendency that might be moving towards equilibrium. Urged by the compulsions of competition, individual capitalists try to find competitive advantages within the given 'spatial structure' and hence tend to move towards location where the costs can be minimized or where the profit rates would be higher. Surplus capital has the tendency of finding locations for its employment where the opportunities for profit have not been exhausted (Harvey, 2005). This certainly explains the trend of recent times for the outsourcing of work from the advanced capitalist world, to locations where labour can be employed at a much cheaper rate. Therefore it is crucial to possess the capability of moving 'commodities, productive capacity, people, and money over space'. Throughout the history of capitalism, technological development within this sphere have altered the conditions of spatiality and 'generated all manner of instabilities within the space economy of capitalism...what Marx called "the annihilation of space through time"' (Harvey, 2005: 98).

While this gives an idea of the spatio-temporal dynamics of capitalism, there still exists the tendency of capitalism to find itself in a crisis of overaccumulation. The occurrence of overaccumulation within a given territorial system implies a condition defined by 'surpluses of labour' (rise in unemployment) and 'surpluses of capital' (which can take the form of a glut of commodities on the market which cannot be sold without making a loss, as productive capacity which remains idle, and/or as surplus of money capital which is unable to find opportunities for productive and profitable investment). According to Harvey there is an 'absorption of overaccumulation' which takes place through the means of 'temporal and spatial displacement' (Harvey, 1990) or what he has elsewhere termed as the 'spatio-temporal fix' (Harvey, 2005). The absorption of overaccumulation is carried out by:

(a) Temporal displacement which can either involve a shift in the utilization of resources from meeting current requirements towards using it for future uses; or it could involve an acceleration in the turnover time which means the speed at which money investment returns a profit. One of the ways of achieving it is by absorbing surplus capital and labour into long-term public and private investments being made in plant, physical and social infrastructures. This was the principle which lay behind the extensive public works programmes that were set up to counter the crisis of the 1930s. However, the capacity to make a shift in the utilization of resources depends upon the availability of credit and the capacity for 'fictitious capital formation'. It is defined as capital which only possesses a nominal money value, but in actuality it is not backed by any existing productive capacity or physical assets that can act as collateral. These can be carried out only with the backing of the state which undertakes a debt; and it was one of the strategies of Keynesianism.

(b) Spatial displacement or the spatial fix regards the absorption of surplus capital and labour through the process of its geographical expansion. This fix to the problem of overaccumulation entails the production of newer spaces where capital can enter, an example being investments in infrastructure, the growth of trade and direct investments (which is now more popularly heard through the phrase, foreign direct investment), and the search for less costly labour markets. Even this proceeds through the interventions of the state, which has to provide fiscal and monetary support, and even military power if required. At this point it would be useful to include what Castells had to say about the solutions being found to the crisis of the 1970s. Amongst some of the short-term solutions to declining productivity, the strategy of reducing labour costs was adopted but the main challenge for firms and for capitalism was to find new markets to absorb the growing productive capacity. It was this problem which lay behind the moves to substantially increase trade as compared to actual output; and later on to increase foreign direct investment in the last two decades of the twentieth century. These became the engines of economic growth at a global level. By enhancing its reach across the globe, the integration of markets and by furthering the comparative advantage of location, it was possible to bring about increased rates of profitability, particularly during the 1990s (Castells, 2000: 95-97).

(c) Lastly, Harvey mentioned time-space displacements which together were more potent in the absorption of overaccumulation. Here the role of fictitious capital formation is very important and it also requires the support of the state. Harvey explained it quite interestingly through a hypothetical example: money from one of the prominent financial centres might be lent to Latin America (through the process of fictitious capital formation). The purpose could be the building of long-term infrastructures or helping the Latin American country in purchasing capital equipment which would help it to create output in the future. This seems to be one of the most prevalent ways through which the crisis of overaccumulation is sought to be 'fixed'.

Through the means of the spatio-temporal shifts, in combination with a drastic restructuring of the organization of labour, there appears to be a regime of accumulation that holds together the capitalist system. However capitalism is prone to fluctuations which arise out of its dynamic and ever-expansionary nature, even more visible today in the form of 'globalization'.

The idea behind this investigation has been an attempt towards framing some sort of understanding as to how and why capitalism manages to manoeuvre itself around the crises that it keeps finding itself in from time to time. Here we have managed to take a cursory glance over theorizations that have sought to explain how capitalism organizes itself and also reconfigures itself when required. Throughout this chapter there has not been any systematic elaboration of some other factors that came to shape capitalism during the last few decades of the twentieth century. For example, the collapse of the Soviet Union; the liberalization of the Chinese economy; and the surge of neo-liberalism at the ideological level from the 1970s onwards, which found its expression in intellectual and political circles — the regimes of Ronald Reagan and Margaret Thatcher during the 1980s almost epitomised this trend. The transition towards flexible accumulation was simultaneous to the developments just mentioned above. At the time it was claimed that the state had to roll-back and give free play to the forces of the market which would take care of the problems in the economy. While the absolute belief in the power of the free market may have tempered itself now, though only to a limited extent, what we need to consider more carefully is the manner

in which the market continues to dominate and pervade the global economy and also how it penetrates every aspect of human life. During the course of this chapter only a brief mention was made of the fact that the market, aside from commodifying land, labour and money (which Polanyi had concerned himself with), has also commodified cultures. The market, right from the epoch of Fordism and even more so under the flexible regime of accumulation has come to shape consumption. Through the various organs of the market, the media being the prime example, it has become possible to manipulate or create new patterns of consumption. The regimes of accumulation are not just mechanisms through which labour and resources find their most efficient allocation. They also come with modes of regulation that mould individual and social behaviour. Norms and practices come to be formulated such that they pose the least disruption towards the organization of the economy. All these formulations when combined with the fact that there is a new global, informational and networked economy that has helped change the labour process, the production process and created network enterprises, has meant that capitalism, which rests upon the functioning of the market, has come to find itself as strong and as vigorous as ever. This is not to deny that there is resistance being mounted against the machinations of capitalism, but by and large the capitalist system enjoys a degree of dominance by penetrating almost the entire globe, such that in the current phase there is hardly any individual or society that remains untouched by the flow of capital.

Conclusion

Looking at the dramatic reorganization of the global capitalist economy from the perspective of the twenty-first century, some questions tend to come to mind. While the changes that have taken place from the last quarter of the twentieth century are truly significant, and have come to affect every aspect of the economic and social life of people across the globe, does it constitute a 'great social transformation'? Do the shifts and transitions in the organization of labour processes and production processes signify a structural break from the earlier modes of organization? Castells believes that the end of the twentieth century was one of those historical moments when we witnessed a transformation of our 'material culture' due to the emergence of a new technological paradigm organized around the information technologies. However other theorizations have been more sceptical about calling this reorganization and reconfiguration an actual transformation. Most notable amongst those who deny that a structural transformation has taken place is Harvey and other theorists of the regulation school. They believe that the underlying logic of Fordism or of flexible accumulation is essentially the same and they are in fact 'ideal types of contrasting organizational principles which are in fact complementary to one another' (Harriss, 2000: 338). The argument can also be made that what we have categorized as flexible systems of production, have in many instances pre-dated Fordism or were in simultaneous existence in different parts of the world, the example of Toyotism being a prominent one. There was as such no regime of accumulation or a system of production which uniformly prevailed all across the world at a given time. What can be said is that there were some dominant trends or systems which came to shape the economic organization of the world. The basic aim of any system of production was to garner the maximum possible productivity by finding the most efficient ways of organizing labour and the production process. It is not as if the Fordist method of production came to be entirely replaced by a whole new mode of organization of production. Corporations have adapted themselves to flexible forms of production by devising ways to ensure mass production, which consists of intensive labour control and management. In a way workers are still subject to the level of discipline that was maintained under Taylorism and Fordism.

Viewed from this point of view it would then appear that the flexible regime of accumulation is more akin to a typical response to a crisis in the capitalist system (Harvey, 1990). Interestingly, the late-twentieth century saw a revival of traditional systems of production such as the familial, patriarchal organizations of labour. What it indicates is that the flexible regime of accumulation has managed to manoeuvre around the 'rigidities' of Fordism, which was premised upon the vertical, bureaucratic, hierarchized corporation; to depend upon traditional modes of labour organization or has devised hybrid forms of labour organization (Boyer & Hollingsworth, 1998).

Despite the claim that different systems of production have been overlapping or that there still remain remnants of Fordism in the otherwise 'post-Fordist' era, there can be no denying the fact that great changes have taken place towards the end of the twentieth century. The pace at which the market has been globalizing itself, has meant that the dynamics of capitalist accumulation have undergone certain transitions. The extent of the financialization of the global economy has been at such a scale that it has achieved a level of dissociation from 'real production', something which has been unprecedented in the history of capitalism. The scope of the speculative economy is apparent from the fact that virtual economies tend to be larger than the GDPs of various national economies. While these trends are indicative of the highly mobile and dynamic nature of capital flows, they also contribute towards the volatility and instability of markets. The highly integrated nature of financial markets now all the more implies that an economic crisis which might have a specific geographical origin, will increasingly tend to affect the entire global market system.

Overall what we are witnessing is the increasingly unstable nature of the global economy, which became evident during the financial crash in 2008. As a result the state had to step in and ensure that the functioning of the global market was not hampered, by bearing the losses that had been incurred. In a way the state comes to play the role of a 'quiet regulator' that helps in steering the course of capitalism. The more precise role that the state comes to play in the organization of capitalism is not something which has been covered extensively here. But to make some mention of it, it would be useful to return to some of Polanyi's ideas on the rise of the self-regulating market and the interventions made by the state. Polanyi had raised the idea of the 'double movement' where on the one hand, there were forces which wanted the

commodification of the ‘fictitious commodities’ — especially labour — and on the other hand the state would intervene to reduce the consequent social dislocation by promulgating social protection. While these were two antithetical strands, since they conflicted with the purpose of the self-regulating market, yet state intervention became essential to prevent the collapse of the market due to the social disruption it caused. During the crisis of the 1930s the state had to make massive public outlays and various social legislations brought back stability to the capitalist world for a while in the form of the Fordist-Keynesian assemblage. Essentially the state managed to mediate the relationship between capital and labour, through the Fordist ‘mode of regulation’.

Polanyi gave us an exposition of the institutional structure of market society during the nineteenth century and the first half of the twentieth century. The balance of power, as long as it lasted, resting as it was on the self-regulating market and the international gold standard, ensured that peace was maintained for about a century. Once the economic order began to collapse, the first casualty was the liberal state which was overthrown by fascist regimes in some countries. These developments led to the ‘cataclysm’ during the twentieth century, as the contradictions inherent in the self-regulating market economy began to emerge and the institutional structure could no longer contain it. In contrast, the current age is also marked by competitive national economies — the hegemony of US capital has come to be challenged by the economic recoveries of Western Europe and Japan. Yet there does not appear to be any sense of an impending conflict verging on the scale of the ‘cataclysm’ that Polanyi had witnessed. One of the answers behind why we do not see the classical contentions between nation-states at present, as compared to the inter-imperialist rivalries, is the level of economic interdependence between the dominant economies themselves (Alnasseri, Brand, Sablowski, & Winter, 2001). The global market system intertwines the fate of one economy with another, such that it is in the interest of the economic centres to ensure that there is no major economic disruption in any of the significant economic centres of the world. The extent of the economic interdependence and integration is such that it has led many to question the relevance of the national economy itself. Accumulation is now realized on a global scale. It is no longer the case that accumulation occurs primarily within the national economy. The

presence of large trans-national corporations, whose operations do not fall within the confines of any national boundaries, is a testimony to the fact.

The present moment, characterized by the forces that were set in motion during the last quarter of the twentieth century, have ensured that the global market system is the dominant regulator of economic and social life. Every society in some way or another is imbued in market relations or comes to be affected in certain ways by the market forces. Yet does that mean we are in a phase which has found a relatively stable regime of accumulation; or to paraphrase Polanyi, are we in the middle of the 'hundred years' peace' similar to the one during the nineteenth century? That question cannot be answered precisely, one of the reasons being that the processes we are talking about keep changing and adjusting themselves to the pressures of the market as we speak.

Whether this transformation can be called a 'great transformation', thereby implying a radical structural break in the socio-economic structure is certainly debatable. These questions can only become clearer if the market processes stabilize to form a definite regime of accumulation. These are processes which take place over a long period of time making it almost impossible to give them a definite categorization. And even as a regime of accumulation begins to consolidate itself, which first takes place at a national level, there are bound to be a wide array of modes of organizing labour and production processes around the world. So we find that regimes of accumulation are comprised of particular and national variations as well. Therefore what can be said with certainty is that the global market system ensures that the logic of accumulation remains intact, and that it does by transforming several economic and political practices around the world. It has only come to strengthen itself from the late-twentieth century onwards, such that it now penetrates every possible geographical space and hardly any societies remain insulated from the forces of the market.

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