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On 'becoming necessary' in an organic systematic dialectic
the case of creeping inflation

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revision of paper presented at the Workshop on Dialectics and Political Economy
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[note that the published version may textually be more polished than the current one]

Abstract

In the method of Systematic Dialectics, 'necessities' are entities, forces, institutions and processes required for the reproduction of the system, here the capitalist system. Whereas there is no evidence of necessities becoming merely 'contingent', it is argued that 'contingencies' may *become* necessities to the extent that the object of the dialectical presentation is an *organic* system. The apparently contingent phenomena of price inflation or deflation in capitalism are discussed as a case. It is argued that the growing concentration and centralization of capital necessarily requires the separation of capital into Finance Capital and Managerial Capital. The latter is largely a 20th century development. It is argued that this separation requires of necessity creeping inflation, rather than deflation or galloping inflation.

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On ‘becoming necessary’ in an organic systematic dialectic
the case of creeping inflation

Geert Reuten *

Introduction

This paper provides a reflection on the notions of ‘necessity’ and ‘contingency’ within the method of *systematic dialectics*. The main methodological idea is that something that ‘was’ contingent, may become necessary, thus emphasizing systematic dialectics as an organic method (section 5). The development of the general price level will serve as an illustrating case for this thesis. The main idea is that ‘creeping inflation’ is necessary to capital – which seems paradoxical in view of the fact that eighty years ago we witnessed in leading capitalist countries a prolonged period of deflation; and thirty years ago a period of galloping inflation, i.e. not ‘creeping’ inflation (section 4).[1]

Stated otherwise, this paper is a methodological investigation about the theorization, within systematic dialectics, of fairly concrete constellations. Subsidiary to that and the two main ideas of the paper just indicated, the methodical notion of *regime* (though not in the strict Regulationist meaning of the term) as a possible way of theorizing contingencies, runs throughout the paper. What I am trying to find out is how Systematic Dialectics and a Regime approach might be connected – if at all.

I begin in section 1 with a brief outline of the method of systematic dialectics, focusing on the difference between necessary moments versus contingencies. I then move on to outlining the content of the problematic of this paper in a cursory historical way: twentieth century periods of inflation/deflation and of various standards of money (section 2), questioning next to what extent such periods might be theorized as regimes or stages of capitalism (section 3). Note that many of the problems that I discuss in this paper are not unique to systematic dialectics – someway they would have to be dealt with in any methodological approach.

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* An early draft of this paper was discussed at the March 2001 Workshop on Dialectics and Political Economy at York University, Toronto. I thank Robert Albritton for inviting me, and him and the other participants for their stimulating commentary. I am particularly grateful to Tony Smith for a 'second round' critique. I also thank Nicola Taylor, as well as my colleges of the Amsterdam Research Group in Methodology and History of Economics, and especially Mark Blaug and Robert Went, for very useful comments.

1 This is how the matter is presented. In fact research on the case in the context of a wider project made me reconsider the method.

1. The methodological problem: systematic dialectics and the theorization of contingency

In this section I provide a very brief indication of the method of systematic dialectics, restricting to some aspects that are important for the purposes of this paper. Other systematic dialecticians will not disagree with the importance of the aspect of the method stressed below – necessity versus contingency – though others may disagree with moving that aspect of the method to center stage (as I tend to do in my research).[2]

The method of systematic dialectics aims to 'show' the *essential working* of its object of inquiry – the whole in essence.[3] It starts from abstract-general and simple categories, developing those gradually to concrete-particular and complex ones. Thus the 'show' is marked by conceptual levels of abstraction/concretion (rather than by the one level of definitions as in the orthodox linear logic). These provide the order and pace supporting the aim of setting out the object of inquiry's 'moments' (i.e. its entities, institutions and processes);[4] more precisely the object's essence, which is the interconnection of all the moments *necessary* for the *reproduction* of the object of inquiry. Thus 'mere contingencies' (externals), discussed below, do not belong to the essence.

The emphasis on reproduction reveals that we are dealing with an organic whole, therefore 'knowledge of it must take the form of a *system* of related categories rather than a series of discrete investigations'.[5] The emphasis on 'necessary' reveals that we are out to lay bare first of all the continuous moments rather than the merely contingent expressions. That is, we are out to *distinguish* contingencies – aspects and expressions that could come and go without affecting the reproduction of the system – from all the necessary moments, the lack or distortion of which would make the system, the object, fall apart.[6]

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2 Extended accounts of the method of systematic dialectics, with somewhat varying emphasizes by different authors, are e.g. G. Reuten & M. Williams (1989), *Value-Form and the State; the tendencies of accumulation and the determination of economic policy in capitalist society* (London/New York: Routledge 1989, pp. 11-36); T. Smith, *The Logic of Marx's Capital; Replies to Hegelian Criticisms*, (Albany: State University of New York Press, 1990, pp. 3-18); T. Smith, 'Marx's Capital and Hegelian Dialectical Logic', in F. Moseley (ed.), *Marx's Method in 'Capital'; A reexamination* (Atlantic Highlands (NJ): Humanities Press 1993); C.J. Arthur, Systematic Dialectic, *Science & Society* 62/3, (1998); G. Reuten, The interconnection of Systematic Dialectics and Historical Materialism, *Historical Materialism*, 7 (2000).

3 It would be misleading to think of 'essence' as a kernel thing. Rather, in Hegelian vein, 'essence' is a complex of entities and processes required for the reproduction of the object of inquiry.

4 `A moment is an element considered in itself, which can be conceptually isolated, and analyzed as such, but which can have no isolated existence' (Reuten & Williams, Value-Form and the State, p. 22).

5 Quoted from C.J. Arthur, 'Introduction', in Arthur (ed.) Marx's Capital, a student edition (London: Lawrence & Wishart 1992, p. x); cf. Marx's *Grundrisse* Introduction.

6 Just to present the reader with a picture: the capitalist mode of production (CMP) would fall apart without the moment of technical change or without the moment of a credit system.

Along the requirement of (1) setting out the *interconnection of the necessary moments* of the whole, we have (2) the related requirement of *transcending* ('aufhebung') any *contradiction* akin to the presentation at some level of abstraction. Since contradiction can have no real unmediated existence, it is also this insufficiency of an earlier level that drives the presentation to further concretion, eventually arriving at the level at which abstract contradictions find a concrete modus of, perhaps conflicting, existence in everyday life.

If a systematic dialectical presentation is successful we have satisfied both requirements. The problem is, however, that the character of the object of inquiry may be such that these two requirements do not coincide. That is, we may not reach the concrete modus of *transcended* contradiction, at the level of *necessary* moments. To my knowledge this is generally the case for the capitalist mode of production. Thus we arrive in the end at transcendences/'solutions' that are merely contingent solutions, the unbridgeable conflicts of which may give rise to new contingent solutions replacing the former etcetera.[7]

Generally we have three types of contingency.[8]

(1) *Contingency of a moment's content*: a particular (contradictory) moment is theorized as necessary, though its content is contingent. For example: credit money as accommodating the accumulation of capital is necessary, and this requires necessarily a central bank; however, central banking may contingently be accomplished either by collaboration between private banks, or by a polity institution.

(2) *Major contingent externals*. These are in no way necessary to the reproduction of the system (thus contingent), nevertheless their phenomenal importance may require that we shed light on them in light of the systematic – sometimes also because they are, mistakenly, associated with the system. For example wars or race discrimination.

(3) *Minor contingent externals* ('the endless sea of contingency'). For example the color of the suit of a central bank director. These contingencies have no systemic associations, but may nevertheless have some importance to life (the banker's wife hates black suits – we may dream up stories how this might affect the meeting of the board etcetera; minor contingent externals may reach the front pages).

Leaving aside the contingency Type 3, a major question is if it is helpful to theorize contingencies in some particular orderly way, other than in light of the

---

Nevertheless within the CMP technical change or the credit system could, contingently to the CMP – thus without it falling apart – take several historically specific guises. This differentiation between necessary and contingent moments/aspects/expressions is not to say that contingencies are unimportant in everyday life. They may be damned important. The capitalist system can do without wars, but wars crucially affect life. The concepts of necessity and contingency thus relate to a particular object of inquiry.

7 For a simple picture, think of macroeconomic policy stances and of institutional rearrangements between a Finance Ministry and a Central Bank. We would not see those changes if e.g. Monetarist policy Type Friedman were simply necessary to the existence (survival) of the capitalist system.

8 See also Reuten & Williams, *Value-Form and the State*, pp. 30-32.

systemic whole. For example as Regimes or Stages. (Do we have criteria for theorizing them, other than the empirical finding that some constellations – amalgamate of contingencies of especially Type 1 – happen to be rather stable for some period of time?)

Note that in Reuten & Williams (1989), inflation – the main subject-case of the rest of this paper – was theorized as a Type 2 contingency in the context of cycles.[9] I will argue in section 3 (implicitly) that it should be theorized as a *necessary* transcendent moment of the contradictory unity of two major factions of capital: Finance and Managerial Capital.

2. The problem of content: two major (apparent) contingencies

2.1 Periods of price deflation and inflation

Compare the following six, stylized, 20th century periods for leading capitalist countries:[10]

(1) around WW I:	galloping inflation
(2) 1920-1935:	deflation[11]
(3) around WW II:	galloping inflation
(4) 1948-1973:	creeping inflation
(5) 1973-1979:	galloping inflation
(6) 1979-2000:	creeping inflation

Considering these figures it would seem that (galloping, creeping) inflation or deflation are contingent phenomena. To the extent that deflation or inflation are of key importance to the development of the capitalist economy (as I will argue in section 4) it might seem obvious to try to theorize the phenomenon of inflation – together with other important issues – by way of Regimes or Stages of accumulation of capital. However, paradoxically in face of the figures above, I will argue – towards the end of this paper – that *creeping inflation* is *necessary* to capitalism, or rather that it has (organically) become, and therefore *is*, a necessity. (Afterwards that still leaves open the possibility of historically describing earlier periods as stages leading up to the current. I say ‘leading up’ since – as indicated later on – no reverse is possible.)

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9 Value-Form and the State, chapter 5.

10 France, Germany, Great Britain, Japan, USA. Details about countries and periodisation are provided later on. ‘Creeping inflation’ is roughly identified with a price level change of 0-5% and ‘galloping inflation’ by one of >5%. (For the purposes of this paper I neglect hyper-inflation). A rate of inflation below 5% per year was indicated by Samuelson in 1948 and Samuelson and Solow in 1960 as moderate: ‘such a mild steady inflation need not cause too much concern’ (Samuelson quoted by Leeson, R., The eclipse of the goal of zero inflation, *History of Political Economy* 29/3 (1997) p. 455).

11 These are averages. It is notorious that Germany had a hyper-inflation at the beginning of the period (1920-24); France also had a number of inflationary years (esp. 1923-26). Each of these countries had an average deflation.

If creeping inflation has indeed become a necessity, this highlights a major contradiction of capitalism since at least the mid 1930s, namely that continuous productivity increase is key to the system (what Marx called its progressive mission), yet does not result in general price decrease, but rather general price increase.[12] (Note that, as indicated below, in 19th century capitalism productivity increase did – roughly – translate into price decreases.)

2.2. Standards of money

A second apparent economic contingency of the 20th century is the prevailing monetary standard. Throughout the 19th century, capitalist money was always based on a commodity: gold, silver or both. Although at the beginning of the 20th century fiat money (credit money) had become dominant for national purposes, the clearing of international payments was due in gold. Over the century this changed first into the 1944 Bretton Woods dollar-gold standard (in which international payment in gold might still be required), and then, from 1973 onwards, into a system of both nationally and internationally pure fiat money. Both the international exchange rates and the national exchange rates (the latter summing up to the general price level) are determined by forces of market supply and demand – though 'assisted' by the interest rate policies of Central Banks (including 'open market operations' and 'gentlemen agreements' with private banks); assisted also, if possible, by the Central Bank's direct interventions in buying and selling foreign currency.

It seems not too far-fetched to link changes in the standard of money to the in/deflationary periods of the previous sub-section. However, that might not seem to make things more or less contingent.

Under the gold standard the general price level had always been contingent upon the mining of additional stocks of gold/silver. So, a lag of labour productivity in gold-digging behind that of other products would see a fall in the general price level – in turn stimulating gold production. However, should gold become absolutely scarce (depletion) then the general price level would fall inevitably. Whereas absolute scarcity of gold might generally explain a decreasing price level, that link was not consistently the case, not even prior to the 1944 Bretton Woods accord. Monetary policies affected what happened. For the time being it is hard to ascribe any necessity to those, apart from the fact that to the extent economies were 'open' in trade, price deflation with trade competitors evoked price deflation 'at home'.

Such spiraling was what the Bretton Woods accord with its, generally, fixed exchange rates tried to prevent. Nevertheless it mimicked the 'classical' balance of gold-payments mechanism: 'cheap' countries would through their exports build up currency reserves which – feeding into their national economy – would again increase their prices (in quantity theory of money arguments) so restoring the

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12 I say the past 65 years, though in that period there have been some deflationary years, e.g. in most West-European countries for two or three years between 1952-55, one or two years between 1958-59 and again one or two years between 1967-68.

balance of payments. Although this explains why between 1944 and the early 1970s (when the Bretton Woods system collapsed) international price levels moved roughly in line with each other, it does not explain why there was creeping inflation rather than an international general price decrease in accordance with productivity increase. At first sight, once again, this seems a contingency, though amenable perhaps to theorization in terms of stages/regimes.[13]

2.3. Monetary standards and prices

Before elaborating further (section 3) we extent the time horizon. *Table 1* shows rough indicators of the standard of money (both international and domestic) and of the development of the price level; each for the leading capitalist countries from 1820. Beginning with France and Britain for 1820-1870; extending to Germany and the USA for 1870-1948; and afterwards the USA, Japan and the current EU countries.

Note that in these stage type of accounts much hangs on the dating of the periodisation. For the 19th century I follow Maddison's (1995) periodisation.[14] For the 20th century, Maddison has 1913-50, 1950-73, 1973-92 (since his concern is not prices but growth); I take as additional bench marks the two world wars as well as the 1979 shift in stance of US monetary policy.[15] The year 1973 marks also the end of the Bretton Woods system.

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13 In a fabulously documented 'The eclipse of the goal of zero inflation' (HOPE 1997), Robert Leeson (1997) sets out how in the context of Keynesian policy goals and in the face of the Phillips relation, the climate amongst economists turned around 1950 from a zero inflation allegiance in to one of creeping inflation. I do not want to suggest that this is an explanation for creeping inflation.

14 Maddison, A., Monitoring the World Economy 1820-1992 (Paris: OECD 1995).

15 See e.g. Eichengreen, B., Globalizing Capital; a history of the international monetary system, (Princeton NJ: Princeton University Press 1996) pp. 145-6.

Table 1: Money standard and general price level: leading capitalist countries 1820-2000

period	(1) **money standard**		(2) **prices**	
	international	*domestic*		
1820-1870	bimetallic (gold, silver)	mono- or bimetallic	deflation	20-50 deflation 50-70 creeping infl.
1870-1910	gold	gold proportion (or fiduciary limit)	deflation	70-95 deflation 95-10 creeping infl.
around WWI	floating gold (& controlled)	fiat money	galloping inflation	
1920-1935	idem	gold proportion	deflation	
around WWII			galloping inflation	
1948-1973	gold-$ (controlled)	gold-$ proportion	creeping inflation	
1973-1979	floating fiat money: money of account	regulated fiat money	galloping inflation	
1979-2000	idem	idem	creeping inflation	

Note
<u>Countries</u>: 1820-1870: France and Gr. Britain; 1870-1920: idem plus Germany and USA; 1920-1948: idem plus Japan; 1948-2000 USA, Japan and EU-15.
<u>Prices</u>: For 1820-1948/1973 wholesale prices; from 1948/1973 GDP deflator.
<u>Sources</u>:

- Eichengreen, *Globalizing Capital*, chs 1-3;
- Vilar, P., Oro y Moneda en la Historia 1450-1920, Engl.transl. Judith White, A *History of Gold and Money* 1450-1920, London: NLB 1969), p. 333 (based on Cassel and Warren & Pearson 1935);
- Foreman-Peck, J., *A History of the World Economy; international economic relations since 1850* (Brighton: Wheatsheaf/Harvester 1983), pp. 72 and 162;
- Maynard, G. (1963), *Economic Development and the Price Level* (London/New York: Macmillan/St Martin 1963), p. 118 (based on Kuznets 1952) and p. 214 (based on Ohkawa 1957);
- Mitchell, B.R., 'Statistical Appendix', in C.M. Cipolla (ed.), *The Fontana Economic History of Europe – Contemporary Economics 2* (Glasgow: Collins/Fontana 1976); EC, European Economy nr 79 (2000).

3. Regimes and Stages

The description in the previous section might seem to point towards theorizing Regimes of Accumulation or Stages of Capitalism – which of course should encompass more than just these two factors as well as their interconnection.[16] Although this is not inevitably inherent to the Regimes and Stages approaches, my

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16 For an overview of current theories see Albritton, R., Itoh, M., Westra, R. and Zuege, A. (eds), *Phases of Capitalist Development; booms, crises and globalizations* (London/New York, Palgrave–Macmillan, 2001). See also the survey and synthesis of the stages theories of Regulation, Long Wave and Social Structure of Accumulation in Went, R., '*The enigma of globalisation*' (PhD ms, University of Amsterdam, Department of Economics), chs 4-6.

problem with many of them is, first, that the current "concrete" is precluded from feeding the general theory (thus the general theory seems fixed); second, and related, an unclear connection of the intermediate and the general-abstract theory.[17]

If we try to link a Regime framework to the method of systematic dialectics, the Regime would describe – against the background of general-abstract determinations:[18] (a) the particular and contingent resolution of contradictions (the Type 1 contingencies of §1); (b) other elements (Type 2) such that, (c) the resolutions are coherent and more or less persistent (for the time span of the Regime). It is, of course, inherent to the approach that, in principle, both the resolutions and the other elements are reversible or changeable (they can in principle be annulled). A regime comes to an end (its crisis) when resolutions are no longer coherent: one or more of the resolutions 'develop' so that the lot runs into incoherence.[19] Therewith the system-inherent contradictions are reposited as unresolved.

The crucial issue from the point of view of the problematic of this paper is the reversibility of solutions (e.g. from Taylorism to Toyotism to Taylorism or something else; from intensive to extensive to intensive accumulation – there seems no other possibility; or from inflation to deflation to inflation, or to a constant price level if that is possible at all). Of course if a moment is, or has become, *irreversible* (can the system get back to a gold standard or perhaps move to a new non-physical standard?) then it would seem that it is no (longer) a Regime issue, but is (now) a general determination. I will argue in the next section that this is the case for both creeping inflation and fiat money (full credit money).[20]

This in itself does not do away with the possible usefulness of the concepts of Regime or Stage. It qualifies it. It also qualifies, as I will briefly indicate in the last section, the proceeding of the method of systematic dialectics.

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17 The second problem (of connection) may not apply to the Uno-Sekine Stages approach; however, its 'pure theory' does not theorize necessities but rather an 'ideal type' which – the first problem – cannot be affected by the (current) "concrete". In this sense the Uno-Sekine approach to dialectics is different from the version of systematic dialectics that I propose.

18 In the sense of general-abstract system determinations (I do not mean trans-historical general determinations).

19 In order to prevent a tautological bite we would require some severe restrictions on the concept of coherence.

20 I use the term 'irreversibility' in both a wider and a stronger sense than 'path dependency' or 'trajectory'. Once for perhaps accidental reasons the gold standard has been adopted (as was the case in Britain at the end of the 18th century), the system is placed on a 'trajectory' that is difficult to reverse (cf. Eichengreen 1996: 6). If some element has the characteristics of 'path dependency' within a Regime, yet it can be done away with in another Regime, then it is not irreversible.

An irreversibility thesis makes a theory of course vulnerable. If we look for non-falsifiable theories it would be "safer" to say that, apparently, e.g. creeping inflation is an element of one or perhaps several Regimes.

4. The potential conflict between Finance Capital and Managerial Capital and the modus of creeping inflation

4.1. Corporate finance: 20th century

At the time of writing, the founding capital for the majority of business companies is gathered from external finance. This is a 20th century matter and this point is crucial to the further argument in this paper. Corporate finance of industry on a general scale came only off the ground towards the end of the 19th century. Earlier corporate finance was restricted to either very risky projects, such as long distance trade, or to large projects such as canals and railways. In Britain, for example, key industries such as textiles did not adopt the corporate form prior to 1885.[21] Thus there was hardly any separation of capital into Finance Capital and what I will call Managerial Capital.[22] On top, most lending to industry by banks was restricted both to on average some 20% of total assets and to short-term financing.[23]

Capital to start most enterprises, writes Kindleberger, came from an individual and his family and friends; fixed capital needs were small, buildings were often rented and inputs were bought on credit. Growth came from retained profits.[24] Thus it can be argued that with the development of capitalism, with the necessary concentration and centralization of capital, the corporation comes into being – thus the separation between Finance Capital and Managerial Capital.[25]

4.2. The opposition between Finance Capital and Managerial Capital

While the opposition between labour and 'capital in general' is fundamental to the capitalist mode of production, its concrete course is also determined by opposition within capital. First, the opposition of 'like' capitals, that is the competition of capitals within and between branches of production, each going through the same type of metamorphoses of M–C...P...C'–M' (the subject of Marx's *Capital* up to Part Four of the Third Volume). Second, the opposition between capitals

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21 Kindleberger, C.P. *A Financial History of Western Europe* (London/Boston/Sydney: Allen & Unwin 1987 [1984]), ch. 11. Although Kindleberger (pp. 206-7) is not super clear on this, there was up to the end of the 19th century perhaps more corporate finance of industry in France than in Britain.

22 For various conceptual reasons I prefer this term to the term Industrial Capital used by Marx in Capital III.

23 Kindleberger (Financial History pp. 92-94) indicates the figure of 20% for Smith's Bank in Britain; he also mentions a number of exceptions to short-term lending.

24 Kindleberger, Financial History, pp. 91, 192.

25 Marx's generalizations about the joint stock company in Part Five of Capital III are rather visionary in the face of the actual development at the time when it was written (i.e. 1864-65).

specializing in a stage of the circuit of capital.[26] For developed capitalism the opposition between Finance Capital and Managerial Capital is most important here.[27]

This provides the theoretical background to what I shall say about the systematic dialectical method in section 5. However, I cannot set out the case in full detail within the confines of this chapter.

Restricting comment to the main lines, the focal point for the conflict between the two factions of Finance Capital (FC) and Managerial Capital (MC) is the general price level.[28] In general FC favors the constellation of deflation, seemingly, and MC the constellation of inflation – at least moderate deflation and inflation (later on I will briefly expand on galloping inflation). The one or the other constellation affects the relative power positions of FC and MC concerning the division of surplus-value between the two factions. Price deflation puts FC in a dominant power position since it can refuse ('strike', 'wait') to lend out capital as with deflation it reaps purchasing power anyway. With price inflation we have reverse power positions: FC is forced to lend out since any 'waiting' corrodes the capital's purchasing power. These bargaining positions affect the level of the *real* interest rate.[29] Since dividends on share capital are linked to the interest rate, the reasoning applies to both shapes of FC: interest-bearing capital and share capital.[30]

Managerial Capital is the vested interest of the higher management in the company – at the locus of production, the direct locus of the capital-labour relation. This is a vested interest in terms of *both* the fetishisation of the capital form *and* direct pecuniary remunerations related to the profit of enterprise (salary, bonuses, options). It is not merely 'management' drawing part of the company's income, it is indeed Managerial *Capital*, formally represented by the company's

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26 The former opposition is at the level of 'capital in general', the second at the level of the 'externalization of capital' as Arthur has called it (Arthur, C.J. 'Capital in General and Marx's Capital, in Campbell M. & Reuten G. (eds), *The Culmination of Capital; Essays on Volume III of Marx's Capita*l (London/New York: Palgrave-Macmillan, 2001).

27 A discussion of these categories of Finance Capital and Managerial Capital as a development from Marx's categories in Parts Four and Five of Capital III can be found in Reuten, G. 'The rate of profit cycle and the opposition between Managerial and Finance Capital; a discussion of Capital III Parts Three to Five' (in Campbell & Reuten (eds), *The Culmination of Capital*, 2001). Note that the category of Managerial Capital is a development from Marx's concept of Industrial Capital.

28 More details are in my paper mentioned is the previous note; complements of it are in Reuten, G. 'Destructive creativity', in R. Bellofiore (ed), *Marxian Economics – A Reappraisal (Volume 2)* (London: Macmillan 1998).

29 These constellations are a relative, not an absolute indicator of the interest rate. If the level of the interest rate leaves no 'profit of enterprise', MC will generally 'wait' borrowing even in times of inflation. ('Generally' since market strategic considerations may require temporary losses at the margin.)

30 The link between dividend and interest can be argued for on both theoretical and empirical grounds.

reserves as built up from 'withheld' profits and any revaluation of capital (the latter in times of inflation).

Note that even when Managerial Capital is "large", a pure fiat money constellation requires of necessity that accumulation of capital is in part accommodated by credit, unless the system is allowed to run into price deflation. (At constant prices credit money must grow parallel to the rate of accumulation.)[31]

Note also, concerning inflation and revaluation of capital, that with continuous inflation, inflationary gains on fixed capital (revaluation) and the higher depreciation allowances along with it, are continuously ahead of the repurchase of fixed means of production at higher prices.[32]

Table 1 might suggest that, historically, deflation is connected to the domestic gold standard (circulation of currency based on gold or a proportion of gold stock). Be that as it may, the important question is why the "political" standards of Bretton Woods and after, generated inflation rather than deflation. ("Political" is in inverted commas not because they were not political, but because the gold standard was equally political.) Again, why does productivity increase fail to translate into general price decrease, or general price deflation?[33]

4.3. Cope with continuous deflation?

Can the developed capitalist system cope with continuous deflation? Apart from all the reasons dealt with in Keynes's *General Theory*[34] – most importantly the postponement of investment since tomorrow's purchases are cheaper than today's – deflation extending beyond a couple of years would lead to the abolishment of Managerial Capital (but not of the managers). The point is that with continuous deflation we have continuous devaluation of capital (the counterpart of the example in note 32) – that is above any 'normal' devaluation of capital related to productivity increase. In the end this would outrun the company reserves, unless

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31 This is amplified upon in Reuten & Williams, Value-Form and the State, ch 2 §5 and §10.

32 An example may illustrate this. Suppose: (A) at the beginning of year (1) a machine is bought for $2000; (B) it is completely financed with credit (partial external finance modifies the example to that extent); (C) it is depreciated in two years; (D) there is a continuous rate of inflation of 10%. Simplifying, the depreciation allowances at the end of year (1) are $1100 and at end of year (2) $1210, together $2310. When the credit is canceled the revaluation gain is $310. At the beginning of year (3) renewal for $2310 may again be financed externally. (Cf. Reuten & Williams, Value-Form and the State, p. 153.)

33 This, I believe, was also the key point of Aglietta's path breaking work of 1976 *Régulation et Crises du Capitalisme*; my question has a different focus, and the answer will be different. For the purposes of this paper I step over the precise difference between general price decrease and price deflation (and increase and inflation) rightly emphasized by both Aglietta and De Vroey. (Aglietta, M. Régulation et Crises du Capitalisme (Paris: Calmann-Lévi 1976), Engl.transl. D. Fernbach, A Theory of Capitalist Regulation; The US Experience (London: NLB 1979); De Vroey, M. 'Inflation: a non-monetarist monetary interpretation', *Cambridge Journal of Economics* (1984).

34 Keynes, J. M. *The General Theory of Employment Interest and Money* (London: Macmillan 1936).

of course increased retained profits compensate for the deflationary devaluation. The latter seems unlikely since deflation generally boosts the level of the real interest rate (the initial thesis) and, parallel to it, the 'dividend rate'.[35]

An abolishment of Managerial Capital has two consequences. First, the management will turn into high paid labour of supervision rather than being the management of the capital–labour relation at the point of production.[36] Thus Finance Capital (now in fact Capital, since the separation is annulled) is faced with a management of which it may not be confident. Second. Given the abolishment, Finance Capital as a whole no longer secures bargaining gains from deflation (though there remains a difference between the intra FC factions of share capital and interest-bearing capital); on the other hand it has to bear the 'normal' devaluation of capital related to productivity increase;[37] hence the *general* negative effects of deflation (cf. Keynes) prevail.

Thus in effect FC may have an interest in 'merely' moderate deflation, not in continuous 'severe' deflation. (This is why I said earlier on that FC 'seemingly' favors deflation.) Be that as it may, the system *will* not fall back into generalized price deflation due to: (1) oligopolistic powers of Managerial Capital and thus oligopolistic pricing (as analyzed by Aglietta in the context of planned early depreciation of capital);[38] (2) the accommodation of oligopolistic pricing – hence inflation – by Central Banks.

The thesis that the system cannot cope with continuous deflation does not by itself exclude a temporary drop of the price level (in as much as the systemic necessity of upholding property right does not exclude robbery). The Japanese situation at the time of writing is a case in point. Once you get into a deflationary situation monetary policy becomes lame. A near to zero discount rate of interest (Japan) should stimulate Managerial Capital to act, but it is faced with incessant devaluation of capital. Nevertheless, surely the case is anomalous to the statement that the system *will* not fall back into generalized price deflation due to oligopolistic pricing and an accommodating monetary policy.[39]

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35 Keynes, the great theoretician of deflation, writing in hindsight of the first prolonged period of high corporate finance together with deflation, saw the key elements of the problem and advocated a political adaptation of the system directed at the 'euthanasia of the rentier' (i.e. Finance Capital) together with the 'socialization of investment' so as to save 'private enterprise' (i.e. Managerial Capital in my terminology).

36 Marx, in his Capital III, was rather overoptimistic about the working out of this (see my 'The rate of profit cycle ...).

37 In my 'The rate of profit cycle' (2001), this point has been worked out in more detail, especially in the context of Marx's theory of the rate of profit cycle (TRPC) – usually called the TRPF.

38 Aglietta, *A Theory of Capitalist Regulation*.

39 Generally a monetary policy moderating inflation is much easier than a monetary policy countering deflation (cf. Keynes' General Theory). In this respect target rates of inflation of some 2% in the upper boom phase of the cycle are rather dangerous to the reproduction of the system since the downturn may then easily run into a deflation against which monetary policy is lame.

4.4. Cope with continuous galloping inflation?

However, the system equally cannot cope with continuous galloping inflation. As indicated (galloping) inflation erodes Finance Capital. With the eventual withdrawal of the non-banking part of FC from business investment (investing alternatively in real estate, art etc. – the *net* effect of which is an increase in bank reserves), Managerial Capital must rely on the banking part of FC alone. Banks consequently bear the full risk, for which they will of course require a risk premium. Moreover, rather than long term loans, banks provide short term credits, which are inflation proof as the interest rate adapts. Nevertheless this builds a vulnerability into the banking system.[40] Facing this, the system *will not* fall back to galloping inflation (apart from extra systemic situations such as wars) because of the monetary policies of Central Banks and their direct and indirect ties with the rest of the banking system.[41]

4.5. Creeping inflation

The only possibility in between generalized deflation and galloping inflation is *creeping inflation*. From the arguments given above we may infer that creeping inflation is necessary to the developed capitalist system.[42] Some lower bound of creeping inflation is what the monetary authorities euphemistically call ‘price stability’ (an inflation of around 2%). It is also the point where the interests of the oligopolistic powers of Managerial Capital and Finance Capital intersect. Thus it is the ‘bliss’ point at which Finance Capital and Managerial Capital can harmoniously unite in opposition to labour. (Note that a policy target of on average zero inflation risks to turn into a deflationary spiral once is price level drops below zero.)

Aglietta rightly concentrated his analysis of inflation on ‘creeping’ inflation.[43] The question is if it is a matter of a particular monetary Regime, or a matter indispensable for the system. In both cases it hinges on the combination of a kind

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40 On these issues see Reuten & Williams, *Value-Form and the State*, ch. 5, pp. 147-57.

41 The strongest evidence for this is (1) the reaction of the US Fed in 1979 to the then growing rate of inflation – followed by CB's of the rest of the OECD countries – doubling lending rates in two or three years time; (2) the constitution of the European Central Bank which has the target of moderate inflation written into its charter. (In an earlier publication I argued that this target as upheld in boom periods, in fact implies a general deflationary bias over the cycle (‘De harmonie van het kapitaal’, in Reuten, G., Vendrik K. & Went, R. (eds) *De Prijs van de euro*, Amsterdam: Van Gennep 1998). I now think that was wrong. However, with a 2% inflation target reached in the boom period a deflation in the recession is a serious risk.)

42 Of course it is rather dangerous to make stark statements (in this case the necessity of creeping inflation) about a current era. Hegel was quite right that absolute statements about an epoch can only be made at its dusk. However, if we want to grasp the current it is preferable to cast statements about it (in Popperian vein) in a vulnerable, falsifiable, way.

43 A Theory of Regulation (1976).

of money, a particular operation of the banking system, and a particular kind of competition between capitals. (The French Regulationists saw quite early that this is crucial. In much of the rest of the Marxian tradition inflation has mostly been theorized – for too long and erroneously in my view – as merely a matter of state finance.)[44]

5. Notes on the systematic dialectic of an organic system

My discussion of inflation in the face of the conflict between Finance Capital and Managerial Capital has perhaps been too brief to completely convince every reader that creeping inflation is necessary to the reproduction of the capitalist system. In what follows I will nevertheless assume that the case is convincing since my methodological argument below extends beyond this particular case.

Generally one can make two kinds of system-mistakes within a method of systematic dialectics.[45] The first, well known, is to take an entity or process for necessary *because* it has been 'enduring': "the enduring ergo necessary fallacy" (of course necessity has to be argued for systemically, and this hopefully prevents the mistake, but nevertheless).[46] The second, introduced in this paper, is to take an entity or process for contingent *because* it has changed/varied over time or been absent for a time: "the varying ergo contingent fallacy".

Not falling into the first fallacy is already difficult enough. The second poses an even more demanding problem for the Systematic Dialectical theorization of, in our case, capitalism. 'System' seems not a once and forever issue.

Do these difficulties suggest a good argument for adopting the theoretical framework of Regimes or Stages for analyzing "contingent" constellations in the light of the 'enduring' "necessities"? No, such a framework does not solve these

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44 See, however, E. Mandel's, *Der Spätkapitalismus* (Suhrkamp 1972; Engl. revised edition transl. by Joris De Bres, *Late Capitalism*, London: New Left Books 1975) chapter 13, where he takes distance from the state finance view of inflation.

45 'System' mistakes. Of course there are all kinds of other mistakes that one can make, such as ill argumentation.

46 In the context of the discussion in this paper an important example has been to take 'commodity money' and a commodity standard for necessary. From within the Systematic Dialectical method this mistake has been extensively discussed by Michael Williams, especially concerning Marxian theories (Williams, 'Money and labour-power: Marx after Hegel or Smith plus Sraffa', *Cambridge Journal of Economics* 1998; and 'Why Marx neither has nor needs a "Commodity Theory of Money"', Review of Political Economy 2000). Note that for Martha Campbell, Marx's commodity money starting point in Capital I is a methodical devise which nevertheless allows him to end up with credit money in Capital III. However, this does not affect Williams's systemic argument. Within systematic dialectics it would be odd to introduce a contingency early in the presentation. Apart from that it is doubtful if Marx took a commodity (any) standard of money for contingent. (Campbell, 'Money in the circulation of capital' in Arthur, C.J. & Reuten G. (eds), *The Circulation of Capital; essays on Volume Two of Marx's 'Capital'*, London/New York: Macmillan/St.Martins 1998; and 'The credit system', in Campbell & Reuten (eds), *The Culmination of Capital*, 2001.)

problems: we still have to decide which are the ‘general system’ characteristics. To *evade* this problem such approaches have to stretch an ‘intermediary’ theory into a "general" structure of its own, be it against the background of a number of super general characteristics such as wage labour and money.[47] I do not want to say that this may not be fruitful. Nevertheless, when the (real) constellation as captured by the theory of Regime/Stage falls apart – e.g. the Fordist Regime – it is an inherent aspect of such an approach to have to start theorizing all anew.[48] (So be it. From the Regime perspective one is almost forced to cast change in terms of system ‘crisis’, evidently requiring new theorizing.)

Although the starting point of systematic dialectics is very different – it rather works from the other side of theorizing to the limits of necessity – the problems of the Regimes/Stages approach offer a blow-up of the Systematic Dialectical problem. From the Systematic Dialectical perspective the Regime approach generally risk theorizing too much as historically contingent (the "intermediary" theory); it historicizes too much.

Within its own framework, however, systematic dialectics is in danger of a similar risk, though on reduced scale. This is what I have tried to show in the light of the case of creeping inflation: we may be inclined to theorize inflation as contingent because this is how the issue presents *itself* historically.[49] The upshot of this paper is that a onetime contingent entity or process may *become* necessary.

Therefore we have to introduce history, time and development into the Systematic Dialectic. One implication is that a Systematic Dialectical presentation cannot claim to extend beyond the epoch in which it is formulated. Alternatively one might say that as long as the object is in a state of becoming, so also is its theory (cf. Hegel’s owl of Minerva).

With our case in mind it might be tempting to say that *at least* prior to 1973 capitalism was not ‘full grown’. However, especially since we are dealing with a contradictory entity we will never have sufficient argument for saying that it is full grown now.

Rather, since we are dealing with a social system and not with the ontogenesis of the offspring of a species, we are dealing with an organic whole to which the terms ‘mature’ or ‘full grown’ are not applicable. Therefore ‘history’, or better expressed, the course of the system affects its being. Nevertheless there are

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47 In reference to particularly the Regulation approach, a similar point has been made by Mavroudeas, but without acknowledging the problems that a general theory has to solve and to which the Regimes and Stages approaches offer a solution even if not fully satisfactory; thus although Mavroudeas has a number of good critical points, I take distance from his antagonism vis-a-vis stages approaches. (Mavroudeas, S. ‘Regulation theory: the road from creative Marxism to postmodern disintegration’, *Science & Society* 63/3, 1999).

48 The extent of the ‘all’ anew is different for different approaches. In other words, the extent of the general theory suggests to what extent the problem has been evaded.

49 This is also what we did in Reuten & Williams, *Value-Form and the State*, ch. 5 (for the mistaken part of which I take responsibility). The phrase ‘presents itself’ should not be read as implying theoryless observation.

manifold moments that apply to the leading capitalist nations of 1820 or 1870 as much as to the current.[50]

However, in the case of capitalism it is not so (as far as I am aware) that ‘previous’ systemic necessities disappear. They seem irreversible, so we have a historical organic addition of necessities. Hence the system becomes *ever more restrictive*.[51]

If this is sound, then we have a systematic plus a so-called contingent history,[52] which hits back on the systematic. What once was contingent, may not be contingent later – we have organically growing necessity.

All this should not be read to imply that we must get rid of the notion of regimes or stages, rather I have been trying to set out a possible particular marriage between systematic dialectics and Regime theory. Systematic dialectics will always end up with a set of contingent transcendence of contradiction; sometimes these may fit into a ‘constellation’ or balance of forces that grant them a more or less persistent character. Besides, one may in retrospect describe earlier periods as stages leading up to the current. I say ‘leading up’ since no reverse is possible.

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50 In sum. The key moments of wage labour and the monetary value-form, hence capitalist production, hence the subordination of human productive activity to the criterium of money, were of course realized prior to 1870. The combination of corporate finance, generally introduced at the end of the 19th century (required because of the concentration and centralization of capital) and the restriction to capital accumulation imposed by a metallic standard first initiated the move to domestic credit money (culminating in the 1944 Bretton Woods accord) and then to international credit money (the demise of Bretton Woods in 1973). The 1970s further politicized Central Banking in response to the conflict between Finance Capital and Managerial Capital, culminating in the 1979 change in policy stance of the US Fed. Thus 1979 is a further bench mark. Another bench mark is the 1991 charter of the ECB with its main duty of realizing a 2% creeping inflation, together with a cutting loose of its political policy from any democratic accountability. Thus the key element of money is neither a free market entity nor a free citizens entity. Nevertheless these apparently abstract ‘system forces’ find a fleshy counterpart. Their personification, much alike the feudal monarch, is The central banker, tied to financial "tenants" much alike the feudal vassals who kept the monarch in power. Both are cases of distant exploitation in the general(s) general interest. (It requires a little imagination to see that the ECB charter is the model for a future Global Central Bank, personified by The central banker.) However, the vassals were again kept in power by their serfs. This parallel also applies.

51 I am considering systemic necessity, that is necessity to the reproduction of the system. A short period of deflation, say five years, is `possible'. Beyond that deflation is no determinate possibility since it would disrupt the reproduction of the system.

52 This first part was the idea in Reuten & Williams, *Value-Form and the State*.

Summary

I have set out that within a Systematic Dialectical method, contingencies may become necessities. Necessities are entities, forces, institutions and processes required for the reproduction of the system, in case the capitalist system. Contingencies may *become* necessities to the extent that the object of the dialectical presentation is an *organic* system. (It seems, however, that there is no analogous process whereby necessities become contingent, thus the system seems to become ever more restrictive.)

The case I have discussed is the notion of inflation, in particular creeping inflation. The growing concentration and centralization of capital – itself a necessary expression of the cyclical accumulation of capital – necessarily requires the 'externalization of capital' into Finance Capital and Managerial Capital. Though separate entities, they are an 'opposition-in-unity' vis-a-vis labour. Their existence – especially their existence in relative harmony – requires of necessity creeping inflation, rather than deflation or galloping inflation.

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