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The Crisis and After: There Is No Alternative?

Summary: The present paper devises an account of the possibilities that the recent crisis opens up for capitalism, which dwells upon its history. The paper takes three propositions as its starting point: First, capitalism, which must solve the problem of coordination of the decisions of different agents in changing environment, is prone to periodic and structural crises because of its very institutional structure. Second, thus, crises should be seen as signs that indicate that economic and social institutional matrix is at fault, which requires new "solutions". Third, an appropriate account of capitalism must also take into account that crises usually require transformation almost the entire economic and socio-political institutional structure of the system. Having said this, we try to address briefly to possible and likely transformation.

Key words: Capitalism, Crisis, Institutional transformation.

JEL: E5, G01, P16.

The present paper is a rejoinder to a recent account of the current crisis of capitalism, which argues that crisis is both systemic and structural, rather than being merely cyclical (Kosta Josifidis, Alpar Lošonc, and Novica Supić 2010). The present paper too argues that crises should be understood as systematic failures of the capitalist institutional structure, both economic and political. That is to say, crises require a somewhat comprehensive transformations in both economic and the social-political structure of the system, a process which should be considered from an international, or global perspective. In this regard, the alternative scenarios that the authors of the aforementioned article lay down is the basic starting point of the present paper. We do not by any means to present an alternative scenario that could replace the ones presented in that article, but we try to devise a "pessimistic/realistic scenario" that could be supplemental to the ones presented. With this aim, we proceed from three related propositions. First, the basic problem of capitalism is the coordination of the decisions of different agents in a dynamic environment in which capital accumulation takes place, and this process is a contradictory one, that is to say, periodic crises are hallmarks of capitalism. Second, crises are to be seen as systemic failures that indicate the economic and social institutional matrix is at fault, which requires new "solutions". And third, an appropriate account of capitalism also necessitates to understand possible responses to crises which usually require entire economic and socio-political institutional structure of society is to be changed. On the basis of these three propositions, we try finally to devise an account of possible transformations to come as a consequence of the recent crisis.

1. The Economic Problem: Coordination of Economic Activities in a Dynamic Setting

The reluctance of the mainstream economics to acknowledge crisis, not in the sense of temporary fluctuations or business cycles, but of "a generalized set of failures in the economic and political relations of capitalist reproduction" (Anwar Shaikh 1978, p. 219) is a well-established fact. However, this reluctance becomes a real burden for mainstream economics to explain, let alone understand, when it faces with an actual crisis, as in the most recent one. Such turbulences are usually attributed by the mainstream economics either to some external technology and/or policy "shocks", or to some form of "incomplete rationality" (e.g. George Akerlof and Robert J. Shiller 2009), or "moral hazard" problem. Such *explanan*s, however, clearly fail to explain the fact that crises must be understood as "systemic" failures (Josifidis, Lošonc, and Supić 2010). In this regard, such understandings of economic fluctuations and crises can be said to rest upon a "hitchless" conception of capitalism, to use Schumpeter's distinction between "hitchbound" and "hitchless" theoretical systems (Joseph A. Schumpeter, pp. 565-567). A "hitchless" conception excludes the tendency of capitalism to suffer from periodic fluctuations or even crises because of its "design", and limits itself mainly with a static or comparative static framework. On the other hand, a more dynamic vision acknowledges that the market system is a "hitchbound" system (Schumpeter, p. 565) characterized by some sudden and drastic variations in economic variables, infusing even some theoretical indeterminacy into the system's behavior. Hitchbound models assume that the economic system has an inherent tendency to create hitches, or some disturbances by design, whereas in hitchless models such disturbances should be attributed to some external factors, thus securing the self-reproduction of the system indefinitely.

In the hitchless models, "shocks" seem to come from two sources, namely, monetary and real ones. The real shocks usually are of technological nature (e.g. the "real" business cycle theory of Finn E. Kydland and Edward C. Prescott 1982), whereas monetary shocks are mainly due to the misbehavior of the monetary authorities. Ranging from the Austrian Economics (e.g. Friedrich A. Hayek 1941) to the New Classical Economics, in a number of theories fluctuations are explained through the temporary changes in relative prices due to monetary authority's behavior (Kevin D. Hoover 1984). The same applies to the recent "three generations of crisis" theories as well (Craig Burnside, Martin Eichenbaum, and Sergio Rebelo 2008).

In the "first generation" of the crisis theories,[1] for example, crises are mainly due to the weaknesses in the economic foundations, namely to the imbalances within the public sector. The overexpansion in the credit volume that emanates from the monetization of public deficits results in melting down the reserves of the central bank because the credit volume increases faster than the money demand. This in turn creates the expectation that fixed exchange rate regime cannot be sustained, and domestic currency holders turn into the foreign exchange in order not to have losses

[1] See, among others, Paul Krugman (1979), Michael B. Connoly and Dean Taylor (1984), Robert P. Flood and Peter M. Garber (1984), Guillermo A. Calvo (1987), Sebastian Edwards (1989), Krugman and Julio J. Rotemberg (1992).

because of a possible devaluation. This process ends with a devaluation which is the result of the speculative run to the domestic currency and destroys the drive of the central bank to protect the exchange rate. As can be seen, in these models, the basic cause of crisis is the increasing money supply as a result of the public deficit that results from macroeconomic policies.

In the "second generation" of the crisis models,[2] on the other hand, crises are attributed either to some deteriorating domestic conditions or to some shifts in the expectations. Here the basic source of crisis is the pessimistic expectations created by the worsening of some indicators in the welfare function of the government, such as high interest rates and unemployment. This in turn creates mistrust to the fixed exchange rates and makes the domestic currency open to speculative attacks. Such "self-fulfilling prophecies" may lead to multiple equilibria, depending on the state of the expectations: whereas pessimistic expectations may force the government to devaluation, optimistic ones may restore the trust to the exchange rate regime. In this framework, monetary crisis starts either with a worsening of the economic foundations, or a shift from the expectations. However, the mechanism that creates such shifts in the expectations is not explained in these models. Once again, the problem seems to lie in the government actions and the resulting expectation shifts (Krugman 1997; Jason Furman and Joseph E. Stiglitz 1998).

After the failure of these two generations of models, alternative accounts have been developed to explain crises, and they still are used to understand the most recent one. In this regard, two approaches have come the fore, namely, the "herd behavior" and the "moral hazard" problems. According to the former, speculators, who try to understand what other speculators know, emulate their behavior with the assumption that these reflect knowledge sets of others. Under these conditions, multiple equilibria are likely to occur, and even the actors may choose an equilibrium which is completely in contradiction with the economic foundations (Kenneth Froot et al. 1992; Krugman 1997). According to the latter, especially after financial liberalization, implicit guarantees granted to the financial institutions that are already ill-regulated and not monitored closely lead them to over expand their supply of financial instruments, including derivatives (Ronald McKinnon and Huw Phil 1996; Krugman 1998; Graciela L. Kaminsky and Carmen M. Reinhart 1999). Coupled with the information imperfections and asymmetric information, these explanations seek the cause in either some forms of imperfections, or some forms of irrationalities (George Akerlof and Robert Shiller 2009; Shiller 2009). And this form of reasoning has not change a bit in explaining the most recent crisis.[3]

For example, Reinhart and Rogoff (2008) argue that the crisis of 2007 shows close similarities to the previous financial crises, in respects of some macroeconomic variables such GDP, current account, public debt, and equity prices. Yet, John B. Taylor (2008) argues that specific government actions and interventions are primary causes. Taylor admits that loose fitting monetary policy, global saving glut, and

[2] See Maurice Obstfeld (1994, 1996), Harold L. Cole and Timothy J. Kehoe (1996), Jeffrey Sachs, Aaron Tornell, and Andres Velasco (1996).

[3] Yet, there are alternative accounts of the crisis as well. For example, Arthur MacEwan (2009), argues that the crisis was the result of growing inequality in income distribution.

complex securitization certainly played a role, but the decisive role was played by the central bank's deviating from historical precedents and principles for setting interest rates, which caused prolonged and worsened crisis. According to him, monetary policy was too easy during the period of 2001 to 2006, indicating an unusual big deviation from the Taylor Rule. Taylor's major conclusion is that monetary excesses and unusually low interest rate decisions by the Fed led to the housing boom in the U.S.

Ben S. Bernanke (2005), as to the sharp decreases in the interest rates, states that a huge supply of foreign saving flooded into the U.S. inevitably leading to decreases in interest rates. A similar point is made by Janette L. Yellen (2009), who thinks that the Fed promoted very low interest rates after the tech bubble burst to prevent deflation, and the whole process started to feed on itself. While interest rates were falling, loan standards were increasingly relaxed and just about everyone was able to obtain loans on unbelievably generous terms, particularly in housing market till the year of 2006. In the following stage, house prices start to increase dramatically with the help of relaxed loan terms and conditions by many financial institutions. After the year 2005, the Fed started to reverse such a loose fitting monetary policy and intervened into economy one more time. The federal funds rate increased sharply and this increase was probably the most important factor for many people to stop purchasing new houses. It suddenly changed the upward trend in housing prices due to a major change in people's expectations. That was the beginning of the new turmoil in the U.S. financial system.

By the same reasoning, Gregory D. Sutton (2002) argues that shocks to macroeconomic variables such as interest rates, national income, and stock prices deeply influence housing prices, and that some of the large changes in housing prices can be explained in terms of the favorable economic developments captured by these macroeconomic variables. Sutton reports that low real interest rates definitely lead to an increase in housing prices, and an increase in the growth rate of the national income generally results in higher house prices over time. He suggests that favorable economic developments plays an important role in house price gains, although in some instances house prices appear to have increased by more than warranted by the macroeconomic variables considered in his empirical analysis.

In regard of Fed's conducting monetary policy, Frederic S. Mishkin (2007), argues that the Fed's policy regime might best be described as a "just do it" policy. It has no nominal anchor, much less transparent, and differs from inflation targeting and other monetary policy strategies in many aspects. The United States adopted such a monetary policy strategy in the last twenty years and achieved a good macroeconomic performance. The U.S. economy has reached particularly low and stable inflation rates with reasonable national output and employment growth until the crisis of 2007. The authorities in charge of monetary policy should intervene and act immediately with the use of monetary tools, mostly short-term interest rates, in case of danger of instability seen in the near future. Mishkin also states that monetary policy with "just do it" strategy basically focuses on domestic macroeconomic concerns. This means that monetary authorities can intervene whenever they think it is necessary in reaching price stability as well as a reasonable economic growth and employment.

When one looks at all these explanations one cannot fail to see that almost all of them seek the cause in either some external policy “shocks” or in some “irrationalities”. This means that the basic, underlying model (characterized by the rational choice theory and equilibrium method) is sound, but some, mostly temporary, “imperfections” are responsible for “crisis-like” situations. These situations are of course transitory and when things become normal they will vanish again. However, such “hitchless” models in which the sources of “hitches” are imposed to the model externally (in the form of shocks) cannot by default understand the real problem of any economic model of capitalism should deal with: the coordination in a dynamic setting.

That the problem of the continuous coordination of the decisions made by different individual units in the economy, without any outside intervention on the part of any agency or authority, can be solved in the most efficient way in a market system has been a most-frequently heard claim of the mainstream economic thought. However, as different critics, from Marx to Keynes, emphasize, the system has some important deficiencies in respect of this coordination. Such an outlook requires a “hitchbound” conception of the economy. The differences between “hitchless” and “hitchbound” models are given in Table 1.

Table 1 Analytical Models for Capitalizm

	“Hitchless” models	**“Hitchbound” models**
Analytical framework	“Synchronic” and “Diachronic”	Dynamic
Theoretical structure	Closed	Open
Method	Static/Comparative Static	Comparative Static /Dynamic
Order	Spontaneous (Efficient)	Evolutionary (Inefficient)
Equilibrium	Newtonian (“State of the Rest”)	Boltzmanian (“Absence of Structural change”)
Source of instability	External	Internal

Source: Prepared by the authors on the basis of Schumpeter (1954, p. 565) and John Foster (2000).

Since in a “hitchless” conception, time, change and transformation are either simply omitted or only used as a “shift” variable (Korkut Ertürk 1996), they can hardly handle the coordination problem in a setting in which capital accumulation take place. Both the Neoclassical microeconomic models and the Synthesis “Keynesian” macroeconomic models are of this type, and thus they are not capable of depicting and solving the dynamic issues raised by a capitalist accumulation process characterized by a Schumpeterian creative destruction process. Even if a comparative static framework could be useful for handling the “diachronic” coordination problem,

it cannot deal with the "dynamic order" problem that focuses on notion of "development" in the sense of Schumpeter (2005), as "an emergent process with an unknown outcome" (Foster 2000, p. 323). So defined, this notion refers to dynamic change or evolutionary change in the system, the end result of which cannot be known *a priori*. That is to say, unless the importance of the notion of "development" is acknowledged, even a "dynamic" analysis is confined only with some mechanical metaphors, rather than biological or evolutionary ones that involve dynamic and nonlinear interactions between different agents and markets in the economy that eventually may lead to instability, disequilibria, bifurcations, and even indeterminacy. On this conception, equilibrium should be conceptualized, not in a "Newtonian" way as the balance of forces, but in a "Boltzmanian" way as the absence of structural change. In a nonequilibrium setting in which changes in the "norms" of the system is a rule rather than exception, change must be adaptive, non-linear, and irreversible, involving ideas such as self-organization, complexity and dissipative structures (Foster 2000). It is about the emergence of a "dynamic" order in a changing setting.

The emergence, and/or dissipation, of such an order has been the most challenging task to economists for centuries, since at least Adam Smith (1976). The question of how such an order could emerge as a result of decentralized decisions of different units in the economy in a changing, evolutionary setting. That is to say, the problem is to explain the "dynamic coordination" problem in the long run. The usual answer to this question is the process of competition that is emphasized both by the Classical and Marxist economics in their quest to explain the emergence of a dynamic order. These approaches explore the possibility of competition among entrepreneurs that forces them to adopt new technologies or new methods of production that change the very structure of the market or of the industry itself.[4]

Such a "hitchbound" conception, arguably, is based upon three related propositions. First, the basic problem of capitalism is the coordination of the decisions of different agents in a dynamic environment in which capital accumulation (and distribution) becomes decisive. Thus, the problems and discontinuities in the capital accumulation process that is a contradictory one, i.e., periodic crises, are hallmarks of capitalism. Second, crises are to be seen as systemic failures that indicate the economic and social institutional matrix is at fault, which requires new "solutions". And last, but not the least, an "evolutionary" account of capitalism is needed to understand possible responses to crises which usually require full-blown transformations in both the capital accumulation process (or the "regime") including the "techno-economic" paradigm, and social-institutional structure of the entire economy, if not the whole world. On the basis of these propositions, we can now take a brief look at capitalism's history since the late 19th century because we believe that such an account may provide us with some leads that could be used to devise alternative scenarios as to the coming transformation after the crisis.

[4] Interestingly, such a dynamic effect of competition had already been recognized by Smith in his immortal discussion of the division of labor in *The Wealth of Nations* (Smith 1976).

2. A Brief History of "Globalization": Three Swings of the Capitalist "Pendulum"

Since at least the 19th century, the history of capitalism, arguably, can be depicted as the movement of a pendulum swinging back and forth, from an unregulated market to the regulated one, and back to the unregulated one. It can be said that the first swing of the pendulum, as a wave of globalization, had started in the second half of the 19th century.[5] The formation of the gold standard as the world monetary system and elimination of the controls over the international movements of capital, labor and goods –which were already low compared to the interwar period– helped the emergence of the global economy. Throughout the 19th century, world merchandise trade increased rapidly with the help of the decline in transportation and communication costs. International mobility of labor, and capital had all increased dramatically and the capital markets became steadily more integrated during this period.

The expansion of markets came to a halt with the First World War. After the war, attempts to rebuild global economy based on a renewed gold standard failed because of the political pressures of working class parties and rising social spendings.[6] Unemployment in developed countries soared and output declined. The Great Depression of the 1930s increased doubts about the efficiency of markets as an efficient allocation mechanism of the resources. Governments began to intervene to markets boldly and sometimes desperately. One of the first areas of intervention was the international trade: during the 1930s trade barriers proliferated. As a result, the growth rate of international trade among the industrialized nations fell drastically. Countries adopted capital controls to avoid currency crisis and outflow of gold. Monetary policies became an instrument of beggar-thy-neighbor devaluations. Capital markets which already began to recede in 1920s collapsed in 1930s. Labor migration also fell down. The pendulum had started to swing in the other direction, this time towards the interventionism throughout the world.

Between 1917 and 1950 many countries broke away from markets and switched over to central planning. In 1950 almost a third of the world population was living in centrally planned economies under a socialist party rule (The World Bank 1996). Many of the developing countries used planning as a basis for their development strategy and adopted industrialization policies based on import substitution and trade restrictions. Even industrialized countries such as the U.K. or Norway used planning at various levels. In industrialized countries, the welfare state began to rise.

The second wave of the globalization had a slow start in 1960s but gained momentum in the 1980s. After the collapse of the Bretton Woods system in the early 1970s international capital flows begin to rise and reached very high levels. International trade also increased very rapidly.

In 1990s, after the collapse of the communism, centrally planned economies of the Eurasia switched back to market economy. In many developing countries so-

[5] For competing views about to the question "when did globalization begin?", see: Kevin H. O'Rourke and Jeffrey G. Williamson (2000).
[6] Barry Eichengreen (1996, p. 4) summarizes the situation quite well: "Universal male suffrage and the rise of trade unionism and parliamentary labor parties politicized monetary and fiscal policy making."

called market friendly reforms are implemented: state-owned enterprises are privatized, markets are deregulated and governments' interventions to markets are restricted. In order to limit the responsiveness of the monetary and fiscal policies to the short term economic objectives, central banks are given independence and governments tied their hands by "fiscal discipline". In terms of economic policies the line separating right and left political parties faded away.

However, such subsequent swings of the pendulum could not take place without the accompanying institutional adjustment. In order to understand this "evolutionary" movement, one can use Karl Polanyi's framework in his *Great Transformation* (Polanyi 1944), as can be seen from the Table 2.

Table 2 1834-1914: The "Liberal" Phase (*First Swing*)

	Economic	Political
Domestic	The Market (Unemployment)	"Liberal State" (Class Conflict)
International	Gold Standard (Pressure on Exchange Rates)	Balance of Power System (Imperialist Rivalries)

Note: Main Link between Economic and Political Institutions: *haute finance.*

Source: Polanyi (1944, p. 3).

As is well known, according to Polanyi, the institutional structure of the market system is based on the separation between the "economic" sphere, as characterized by the market, and the "political" sphere, simply called the "rest" of the society. The market economy is a unique and peculiar economic system in the human history; never before capitalism has the economic sphere been institutionally separated from the rest of the society, in the specific sense that the economic system functions according to its own "laws". Before the market system, the "economic" sphere, or the market, is "embedded" into social relations and consequently it is not possible to distinguish between the market as a self-regulating, independent institution and other social relations. In these societies, the elements of the economy are always subject to essentially non-economic considerations such as social status, political or religious motives. In other words, the term "economic life" has no obvious meaning in these societies (Polanyi, Condrad M. Arensberg, and Harry W. Pearson 1957, p. 70). On the other hand, the disembedded, "market economy" is characterized by an independent economic sphere, which stands apart from the society, more particularly from the political and governmental system. In this system, no factor such as bloodties, legal, or religious considerations other than the motive of gain and the fear of hunger plays essential role (Polanyi, Arensberg, and Pearson 1957, p. 68). Such a self-regulating system, based on "the" market, which is comprised by individual markets, each of which sets its own price without any outside intervention, must be free from all political considerations. In other words, the whole of economic life is to be governed by the market prices in such an economy (Polanyi 1944, p. 43).

Although the market was the central institution, three other institutions were also important in this market society. Of these four institutions, two of them were economic in nature, whereas the other two were political, a manifestation of the separation between economic and political spheres. The economic institutions were the

self-regulating market and the gold standard. The two political institutions, on the other hand, were the liberal state and the balance of power system. As can be seen, these institutions can also be classified according to another distinction: national (liberal state and the market) and international (balance of power and the gold standard) (Polanyi 1944, p. 3). The importance of this latter distinction lies in that Polanyi treats capitalism from the very beginning as an international system, or as a "world capitalist economy".[7] Yet what is significant in this institutional structure is that all the three remaining institutions served for the functioning of the self-regulating market. At the international level, the balance of power system was maintaining the peace among the Great Powers, which was necessary if the market system was not to be disrupted; the gold standard, through its maintaining stable exchange rates, functioned to prevent the equilibrium from being disturbed. The main link between political and economic order at the international level was a peculiar institution existing in the last third of the nineteenth and the first third of the twentieth centuries, namely, the "*haute finance*". The primary function of this institution was to ensure the protection of the peace by way of economic transactions (Polanyi 1944, p. 10). Even if this institution aims to secure profits, it indirectly also protects the peace among the Great Powers through financial transactions among the enemies, as was the case between France and Germany, since 1870 (Polanyi 1944, p. 12). This Nineteenth century international order was governed by two seemingly contradictory principles: "anarchistic sovereignty" and "justified intervention" into other countries when necessary so that the balance of power would not be broken (Polanyi 1944, p. 253).

At the national level, on the other hand, the function of the liberal state was again to make the working of the self-regulating market smooth. The state has always been important for the market from the very beginning, even to the extent that "the liberal economic order was designed by the early English political economists and was instituted by the power of state" (Polanyi-Lewitt 1995, pp. 10-11). Therefore, with all these institution, a self-regulating market system is thought to operate in a smooth way.

Unfortunately, this institutional structure also had its own contradictions that could lead to the "collapse" of the entire system. Such an institutional structure could not survive because of the existence of a "double movement" in the sense that "the extension of the market organization in respect to genuine commodities was accompanied by its restriction in respect to fictitious ones" (Polanyi 1944, p. 76). That is, two simultaneous tendencies that exist in the capitalist society constitute this double movement: the process of commodification, i.e., extension of exchange relations to the fictitious commodities, on the one hand, and society's "response", i.e., the resistance carried out by different classes and organizations within the society to the extension of the market on the other. These two contradictory movements give the market society an unstable character: the protective countermovement as an attempt at restricting or at least slowing down the extension of the market will eventually impairs the working of the self-regulating market.

[7] The influence of Polanyi on the "world system" theorizing has been noted by various commentators, e.g., Fred Block and Margaret R. Summers (1984, p. 73). For a recent work within this tradition which uses Polanyi's analysis of the system at an international level, see Giovanni Arrighi (1994, 2005).

Since the system is organized on the basis of "fictitious commodities", that is, labor, land and money, any intervention on the part of the social classes or the state, or both, into the markets, for these fictitious commodities create impairments in these three markets. These impairments will in turn intensify the tensions already inherent in the society which will obstruct the working of the market as a whole. Therefore, the double movement, the extension of the market and society's "response" to it, actually signifies a circular process. Since the social classes themselves and their conflicts emanate from the economic sphere in a capitalist society and since this society is subordinate to the market, conflicts between these classes will necessarily have social dimensions even when they are purely economic in character, and this in turn will cause further disruptive effects on the economic sphere whose impairment will intensify the tensions existing in the society (Polanyi 1944, p. 201). In other words, since the protectionist countermovement is a direct intervention to the working of the self-regulating market, which inevitably has political consequences, the process of double movement will tend to break the institutional separation of the economic and the political upon which the market system is built. The result of such a breakdown would be the disintegration of the society, for the attempt to reestablish this institutional separation requires eradication of every form of social opposition against the market by any means, including the use of overt force as the fascist period has shown.

Therefore, the double movement should be conceived at two distinct yet related levels: the class level, for the social classes, above all the working class, were the causal agents who actually carried out the protective countermovement, and the institutional level, for the protectionist countermovement created strains in the institutional structure of the market system, which eventually led to the catastrophe (Polanyi 1944, p. 134). At the institutional level, Polanyi identifies two sources of the disruptive strains that had arisen in the organization of the market system. These sources were the institutional separation of the economic sphere from the political one and the conflict between the international and the national spheres within the system. On the one hand, although the system required this institutional separation between the economic and the political spheres, the tensions between social classes created in the market sphere sooner or later had to be transferred to the political sphere, which in turn produced further problems in the market. On the other hand, the functioning of the system required the gold standard and the balance of power at the international level, both of which demand that the domestic economy and politics must be at their service. However, such a demand requiring the negation of popular and nationalist considerations could not be met because these considerations played a significant role in the domestic sphere from the very beginning of the market society. Polanyi argues that the resulting disruptive strains are, according to the institutional spheres they belong, "unemployment" (domestic economy), "tension of classes" (domestic politics), "pressures on exchange rates" (gold standard), and the "imperialist rivalries" (balance of power system) (Polanyi 1944, p. 209). All of these condi-

tions characterize the crisis of the capitalist "world order", the result of which would be disintegration of the system out of which fascism came as a "solution". [8]

In short, what the double movement describes is an entire social process within which the disruptive strains already inherent in the organization of the market system manifest themselves in the form of class struggle and lead not only to the impairment of the self-regulating market but even to the "collapse" of the whole market system with all its institutions. Here, with respect to the institutional structure of the market system as a whole, it might be helpful to mention the three levels of analysis in Polanyi: the world economy, actions of the (national) states, and class (and other group) conflicts within society. These three levels are integrated with two "opportunity structures": a global opportunity structure which shapes what is possible for states (like the one which allowed Germany, Italy, and Japan to break with the nineteenth century "order" in the 1930s), and a national opportunity structure which determines the options for social groups to affect state policies, like the rise of nazism and fascism in Germany and Italy (Block and Somers 1984, pp. 74-75).

The second swing of the pendulum of the market system, as is well known, the welfare state period. Following Polanyi's lead, one can also draw a general framework about the institutional framework, and the corresponding contradictions, as can be shown in the Table 3.

Table 3 1945-1973: The "Welfare Capitalizm" (*Second Swing*)

	Economic	**Political**
Domestic	The (regulated) Market (Stagflation)	"Welfare State" ("Legitimation Crisis")
International	Bretton Woods System (Capital Flows and Pegged Exchange Rates)	"Cold War" - "Balance of Terror" (Rivalries between the "West" and the "East")

Note: Main Link between Economic and Political Institutions: IMF, World Bank.

Source: Prepared by the authors.

The collapse of the market system in the 1930s naturally led many people to think about different solutions (other than fascism, especially after the catastrophe it caused). The "best" solution, so it seemed at the time, was the welfare state or, as it is sometimes called, the "Fordist Accumulation regime", a compromise that "consisted of matching mass production and mass consumption" (Alain Lipietz 1997, p. 117).

Since the market system must be organized along the dualistic lines, i.e., the institutional separation between the "economic" and the "political" spheres, this new solution, which did not eradicate democracy as fascism did, represents a more

[8] This history of the market capitalism can be characterized with the following turning points (Alan M. Sievers 1949, pp. 344-347): *strain*, which begins in 1879, marking the date at which the protectionist movement started to inhibit the self-regulating character of the market mechanism; *collapse*, which refers to the collapse of the Concert of Europe, thus triggering the events that led to the war; *rejuvenation,* which refers to the attempt to reestablish the international political order and the gold standard; almost immediately followed by the fourth phase, *strain*, which is characterized by the crisis and the rise of the popular government; and finally, *collapse and abrupt transformation* in the form of fascism, Russian five-year period, and the New Deal.

“peaceful” way to maintain this institutional separation. This postwar institution involving a “social contract” with the workers in the form of full employment and comprehensive welfare (Ethan B. Kapstein 1996, pp. 16-17) has been devised as an “economic” solution in order for the social tensions between classes not to develop and take the form of opposition to the market system itself. A closer examination of this "compromise" actually reveals the contradictory character of the state in a capitalist society, regarding especially the contradictions between the accumulation and legitimation functions of the state.

As has been examined by a number of authors, such as James O'Connor (1973), Alan Wolfe (1977), and Claus Offe (1982), there is a contradiction between the two functions of the capitalist state, i.e., between "legitimization" and "accumulation". According to this framework, the state must fulfill these two contradictory demands at the same time: it must create the conditions for both accumulation and social harmony. However, the state's use of its coercive force openly to help one class to ensure capital accumulation at the expense of the others would undermine its legitimacy (O'Connor 1973, p. 6). For example, Anthony Giddens (1994, pp. 136-137) identifies three structural sources of welfare state: 1) enforcing labor contracts; 2) creation of national solidarity in the nation-state building process; 3) management of risk, especially in the form of Keynesian policies. These three aspects seem to function to protect capitalist production process, displaying the "economic" character of the capitalist society once again. On the other hand, with respect to the risk management function, we can mention Stanfield's argument that the modern corporation too can be seen as a part of the protective movement, for the "principal animus behind the corporate revolution is to urge stabilize and control the exigencies of the corporate environment, and these exigencies are largely the uncertainties concomitant to the operation of the market mechanism" (James R. Stanfield 1986, p. 119).

However, such a dual function would necessarily leads to the outcome that the "demarcation line" between the economic and the political spheres becomes blurred because of the increasing and intensified state interventions into the "non-economic", "decommodified" sphere which supposedly fulfills the function of reproduction of labor power. However, since such interventions also disturb the working of the market, the result of them would be opposite of what they had been expected to achieve. That is to say, the expansion of the state actions actually becomes a vehicle for the expansion of the market, rather than to curb it.

Besides, the increasing interventions also create pressure on the resources of the state, thereby producing a “fiscal crisis" (O'Connor 1973; Offe 1982). As long as the accumulation process continue without strains, such compromise between the need of the economic sphere and the societal sphere would be possible. But as soon as it becomes increasingly difficult to sustain accumulation, the state’s function to preserve the institutional separation is destined to be failed. The result of this "legitimation crisis" (Jürgen Habermas 1973), or to mean the same thing, the "compromise crisis" is of course, the welfare state's own "crisis of crisis management" (Offe 1982, pp. 35-63).

The contradictions of the welfare state in fact stems from the contradictions existing in the reproduction process of the market society. Even if the capitalist state

in general is a convenient way to protect and enforce the institutional separation of the economic from the political, the same state also has to protect the very society from the destructive effects of capitalism, as the history of the double movement in the first period of the system reveals. Then, the state itself becomes embodiment of a contradiction, although it is by no means the only institution that has the same contradiction: it both promotes and obstructs capitalist relations at the same time. Such a contradiction is especially acute for the welfare state because it is an "instutionalized form", as it were, of the protective countermovement. This state, both being the governing organ of the ruling classes and claiming to represent the whole society[9] at the same time, is forced to protect the "interest" of the society as a whole, that is, it takes measures to protect the society from the destructive effects of the market mainly through its redistributive role and it is forced to promote capitalist relations by all means, since even the very existence of the state depends upon capital accumulation. In this regard, it should be noted that state's centralized power, which actually is a result of the fact that the state has the monopoly over the means of violence in capitalist societies, gives it a unique position in both enforcing and protecting property rights and the formation of money and the credit system (Giddens 1986, pp. 152-154). Since the very beginning of the system the state had participated not only in the creation of the market, but also in the protective movement, through legislation, and, even more importantly, in the process of nation-building. Such a position that the state occupies also gives it the power to intervene directly into the economic sphere by political means. That is to say, although on the one hand the state has the function to maintain the separation between the economic and the political spheres, it also becomes an agent that carry out the "protective countermovement" to prevent the social fabric from disintegrating. In other words, the process of double movement can be understood as a conception of the "the self-organization of the society, sometimes with the help of the government and sometimes in spite of it, to protect people and land against the disintegrating forces of the market system" (Gregory Baum 1996, p. 10, p. 55).

Nevertheless, this contradiction is by no means limited to the state itself; it can be argued that in a capitalist society almost all social institutions, including family and even religion, have this contradiction: that is, they, at the same time, both carry the conditions of capitalism and, as expressions of freedom and meaning, affirm humanity of individuals and therefore also function to resist the very market relations. Such contradictions can be seen to emerge in different areas in the "welfare capitalism" phase. For example, extensive welfare practices in the social sphere may create a situation in which a kind of "welfare dependency" or a "culture of poverty" develops (Isabel Sawhill 1988, p. 1085, p. 1105). On the one hand, these measures cause to diminish "the fear of starvation", thus making individuals to take advantage of the

[9] There has always been a close association between the nation-states, themselves products of capitalism, and "societies", even to the extent that the "'capitalist society' is a 'society' only because it is also a nation-state" (Giddens 1986, p. 141). That is to say, the term "society" has come to be identified with the people living within the boundaries of a nation-state and thus the "discovery" of the society goes hand in hand with the establishment of the nation-state. For a discussion of the ambiguities of the term "society" and its relation to nation-states, see Giddens (1986, pp. 135-136).

system at the expense of the fiscal pressures on the state. On the other hand, however, they simply mean as interventions into the working of the market and thus impairing of the "self-regulating" character of it. At the level of the family, as Christopher Lasch (1977) points out, the welfare practices causes the family to lose its function to be a "haven in a heartless world", which is used to escape from the harsh realities of the market.

Another institutional strain occurred in the international system, both politically and economically. The welfare capitalism also rested on the Bretton Woods system, which supposed a separation between the domestic and the international economic affairs. On the one hand, the system rested on a regime fixed exchange rates, which is to be maintained through international cooperation and IMF, and through the effective bans on capital flows among nation-states. But on the other, in the domestic affairs, the welfare state is supposed to be independent. Such a scheme is actually predicted by Polanyi. Speaking in 1944, he says:

> *"The situation may well make two apparently imcompatible demands on foreign policy: it will require closer co-operation between friendly sovereignty, while at the same time the existence of regulated markets will make national governments more jealous of outside interference than ever before. However, with the disappearance of the automatic mechanism of the gold standard, governments will find it possible to drop the most obstructive feature of absolute sovereignty, the refusal to collaborate in international economics. At the same time it will become possible to tolerate willingly that other nations shape their domestic institutions according to their inclinations, thus transcending the pernicious nineteenth century dogma of the necessary uniformity of domestic regimes within the orbit of the world economy"* (Polanyi 1944, p. 253).

This new setting was based on the idea that "economic collaboration of governments *and* the liberty to organize national life at will" (Polanyi 1944, p. 253). In order for this system to work, "effective co-operation with domestic freedom" (Polanyi 1944, pp. 253-254) was required. Yet, however, the collapse of the system can be attributed to its weaknesses in both international reserve currency, the US Dollar, and the pressure, especially after the "oil crises", put by the financial capital to flow freely on a global scale.[10] These pressures lead to the dissolution of the international monetary system in the early seventies.

However, it should be emphasized that these strains and tensions again were result of the market institution that "refused to function". Since welfare state policies required autonomy domestically, its failure to cope with the international pressures should not be seen as a surprise. Intensified by the political strains and tensions in the form of the Cold War, and the rivalry, this time, between the East and the West, in the form of increasing military expenditures, would increase fiscal pressures on the welfare state. And when capital accumulation stagnated, coupled with inflation, the international system once again collapsed, and the pendulum started to swing in the other direction, this time in the liberal, "stark utopia" (Polanyi 1944, p. 3) once again. Thus, with respect to the third "swing" of the pendulum, namely the neoliberal globalization, one can still argue that.

[10] For a story of this process along Polanyian lines, see Claus Thomasberger (1997).

Table 4 1980s To the Present: The “Global” Phase *(Third Swing)*

	Economic	Political
Domestic	The Market (Poverty)	The “Liberal State” ("Multiculturalism" / Conflicts of Life Choices)
International	The “Global” Financial (Non-) System (Financial Crises – North-South Divide)	“The New World Order”? (after 9/11) ("New Middle Ages" / "Clash of Cultures")

Note: Main Link between Economic and Political Institutions: IMF, World Bank, WTO, BIS.

Source: Prepared by the authors.

Even thought it might be a little premature to argue that the “dusk” of the phenomenon of globalization seem to be here with the recent crisis, it seems clear that the golden age of the “welfare capitalism”, has come to the end, since the early seventies. From the beginning of eighties onwards, the world seems to have been “launched on another disastrous attempt to realize the utopian and socially destructive idea of the self-regulated market” (Manfred Bienefeld 1991, p. 16). This new “global” setting heralds the “death” of the welfare state. It seems that the nation-state is abandoning the working people exactly at a time when they need the state most as a buffer from the world economy in its globalization phase (Kapstein 1996, p. 17). With this new phase, in other words, the optimism regarding the possibility of living in a “post-industrial society” has been gradually being replaced by a pessimism regarding the economic and social security of ordinary people.

At first sight, this new global setting is characterized by the absence of a “system” both domestically, and internationally. Yet, since this new setting heralds the victory of the (unregulated) market, it should be clear that it’s a new attempt to organize human society along the “dualistic lines” (separation between the economic and the political spheres) once again. Therefore, since again the unfettered market is the central institution, all other institutions, the state and the international institutions must be at the service of the market. In this regard, one can mention the “Neo-Liberal” state, which is supposed not to interfere with the working of the market. In the international setting, however, we do not have a system yet. Unregulated capital flows on a global scale are perhaps the symptomatic of this period. In the political sphere, the collapse of the “East”, the Soviet Union and its allies, seems to have created some turmoil. This gap is tried to be filled by the US, even though it does not seem so successful so far. Then, the problem today seems to establish a viable international economic and political system. Even if the future is uncertain, one can speak of different tendencies or potentials that could become actualized. One tendency is the possibility of the “New Medievalism” (Philip Cerny 1998). Since the rhetoric of the “death” of the nation-state in the wake of the globalization has been a prevalent theme in many circles, another institutional structure that does not give a role to the nation-state might be conceivable. In this regard, the growing emphasis on local communities and cultures make us think that a new nexus of semi-autonomous local communities, like those in the Middle Ages, could replace the nation-state. Yet, these

communities need to be monitored and organized by a “big brother”, or an “empire”, like the US, in the economic matters, IMF, World Bank, WTO, and BIS, in order for these communities not to clash with each other, thus threatening international peace, and in order to maintain a smooth capital accumulation on a global scale.[11]

Yet, the institutional strains and even tensions can be said to exist in this “non-system”. In the market institutions, the problem of poverty, both domestically and internationally in the form of the North-South divide, become more serious after this neoliberal attack to the human society, even to the extent that it may produce a real crack in the stability of the market. At the political sphere, the issues of “multiculturalism” and “communitarianism” seem to have become important to the degree that it would lead to the questioning of the Christian (and Enlightenment) idea of the “uniqueness of individual and the oneness of mankind”. But the basic casualty of this “global” setting seems to be the individual himself. They increasingly become fragmented, isolated, and "post-modern" individuals.[12] On the other hand, the prevalence of the notions of equality, our own transformative power, or “efficacy”, and the view that both the nature and even other individuals around us “as potentially raw material for our purposes” (Taylor 1985, p. 266), all bestowed on us through capitalism, would lead to another form of “legitimation crisis” (Taylor 1985). Since our transformative powers, our own efforts to transform the nature and the world around us, becomes important, poverty, or the threat of poverty, becomes a real problem that hinders us to develop our own potentialities. Therefore, we try to overcome poverty by using exchange relations and our own labor power and thus try to climb within the social ladder. When we cannot achieve this through market relations, the contradiction between the ideal of equality and actual inequalities created within the market sphere becomes more and more problematic, not only from the individual’s point of view, but from the society’s point of view as well, for the growing dissatisfaction with the widespread poverty creates tension and potential conflicts that would undermine the very basis of the market society. Furthermore, as we are drawn into exchange relations more and more, we also give way our own individuality and efficacy to the machine through an alienation process in the sense that commodities themselves become “fetishized”, endowed with the properties of the life to which they are supposed to serve, as if the more we consume, the more powerful we will be (Karl Marx 1975). Such a tendency is even more visible within the “welfare capital-

[11] Of course, another solution would be a return to the nation-state, especially if and when the pendulum swings in the direction of protection and reclaiming the nation-state. Still another “solution” could be the “clash of civilizations”, to be mediated by the rhetoric of “İslamic terrorism” promoted by the “West”. Such a creation of enemy was a useful tactic used by the Nazis in the 1930s (Franz Neumann 1945). Yet, these days, heavy emphasis on communitarian identities and values makes us assume that “communitarianism” could be the primary vehicle for globalization.

[12] For an important analysis of the transformation of the individual under capitalism, see Ertürk (1999). Likewise, Zygmunt Bauman (1997) characterizes the same process from an international point of view. According to Bauman, the collapse of the Soviet Union and the resulting effects signifies the fall of the dreams and ambitions of modernity. That is to say, these events shattered the project of a "total order, an artificially designed, all embracing construct of human actions and their setting, one following the rules of reason rather than emerging from the diffuse and uncoordinated activities of human agents." (Bauman 1997, p. 19). From now on, argues Bauman, we have to live with our impotency, fragmented, individualized existence within such an institutional setting in which "there is no alternative."

ism" phase, in which there is a continuing escalation of the living standards, that is, the standards defining the "poor". In other words, "the cost of being poor" is increasing as the society becomes more and more affluent, that is, "it ends up costing much more to be poor in New York, than to be middle class, say, in Madras. Growth can thus make the lot of poor people worse" (Taylor 1975, p. 283).

This "legitimation crisis" also leads the individual to define herself with reference to some *Gemeinschaft*-like "communities" within which they can not only define their own identity, but also affirm their connectedness as a "social" being. The growing emphasis upon minorities or even religious communities can also be partly regarded as such an attempt to find some "safe havens". Nevertheless, the extension of the market into every aspect of life makes it illusory to refuge into these types of communities. And it appears that such a tendency is prevalent and increasingly dominates in the contemporary, "global" system. For the problem with the search of the community is that the advance of the market system has made obsolete the conditions of the "Gemeinschaft". For example, "never was the word 'community' used more indiscriminately and emptily" says Eric Hobsbawm (1994, p. 428), "than in the decades when communities in the sociological sense became hard to find in real life – 'the intelligence community', 'the public relations community',..." For him, the "extraordinary dissolution of traditional social norms, textures and values" in especially the last three decades of the twentieth century led to the attempts to form Gemeinschaft-like associations, which becomes, actually "pseudo-Gemeinschafts" (Fritz Pappenheim 1959, p. 68).

Now, we can lay down some possibilities of transformation that the recent crisis may induce, in the concluding section.

3. Epilogue

Following Polanyi's lead, we can conclude that an institutional separation between the economic and political spheres, a necessary condition for capitalism to function smoothly irrespective of its specific mode of accumulation (liberal, welfare, neoliberal etc.), is almost by definition impossible to maintain over a long period. The constant interactions between these two institutional realms, and more importantly, continuous interventions of the political sphere to the working of the market creates the tendency of "social breakdown". Crises can even be seen as results of this tendency. Since such a process always is an evolutionary one, in which both the economic, political and social structure all undergo significant changes, it is not possible to predict the future course of the system. Yet, one can argue that a new intuitional matrix is in order currently, but such a transformation always take place at the expense of humanity. One can only hope now that these human costs would be minimal, if the humanity had learned something from the past. Otherwise, the "barbaric" days will not be over soon.

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