CHAPTER 5

DIFFERENT FORMS OF CAPITALISM

1. The need for a general theory of capitalism

Today there seems to be a vast series of different institutional arrangements capable of regulating the functioning and evolution of production organisations and, at a first glance, it seems impossible to reduce all of them to a common institutional setting. Is it reasonable to speak of “capitalism” when referring to such diverse phenomena as public companies, state firms, financial markets, the managerial revolution, the pension funds revolution and the like? What hampers our capacity to understand all these phenomena as particular forms of a unique and general mode of production is the widespread acceptance of a traditional notion of capitalism whereby ownership of the means of production unites the claims on residual control and residual income. This view, even if it has been rediscovered and refined in recent research, corresponds to a common sense doctrine, going back to the classical economists and Marx, according to which capitalism is an economic system based on private ownership of the means of production and a set of market institutions regulating the allocation of real and financial resources. It is a theory elaborated on the ground of observation of the economic system prevailing in Great Britain in the late 18^{th} and early 19^{th} centuries.

It certainly does not correctly describe the capitalist forms prevailing in modern industrialised economies, and a number of economists, starting with the path-breaking work of Berle and Means have attempted to reformulate the notion of “capitalism” to cope with a reality that Smith could not have envisaged. The real problem is that a number of processes, like the growth of mega-corporations, the diffusion of financial wealth among vast strata of the population and the development of financial institutions specialised in risk pooling, are continually driving towards an ever increasing separation of the claims on residual control from those on residual income. Is there a sense in using the notion of “capitalism” in investigating such a world?

Any affirmative answer to this question has to face a decisive theoretical problem: how to account for the fact that modern economies are propelled by the motor of capital accumulation, if the distribution of surplus value does not legally warrant its use for backing the growth of firms and if the decisions to invest in real assets are not necessarily motivated by the profit goal? What we need, to tackle this problem, is a theory of capitalism in which the function of property rights in allocating surplus value is separated from the function of governance structures in disciplining investment activity. This is what I try to do in this chapter by introducing the two concepts of "property rights regime" and "accumulation governance structure". Furthermore, we need a theory which is general enough to encompass all possible forms of capitalism, but, at the same time, flexible and complex enough to accommodate all their idiosyncrasies. In other words, we need a general theory of capitalism articulated into a series of models of some specific forms.

2. Institutional systems, modes of production and institutional forms

In chapter 3, in order to account for the role played by the state in stabilising and making consistent an "institutional system", I had to introduce this latter notion. There, however, I confined myself to a few outlines, referring to the present chapter for a more complete treatment, which is what I am going to do now.

Here is a simple and precise definition: an institutional system is a set of consistent institutions sustaining the structure of a society and regulating its life. And here is a qualification: it is difficult to observe an institutional system in the real world; indeed it is impossible if the principle if institutional plurality holds. Since a society is made up of heterogeneous social actors, i.e. subjects endowed with different and contrasting aspirations and behavioural attitudes, the institutional system which regulates it will be composed of heterogeneous institutions. These hardly can be fully consistent with each other, for they may govern behaviour in different and alternative ways and may therefore generate chaos and conflict rather than order and harmony. However it is also difficult for a society to survive for a long time if it is completely chaotic. Actually, when we think of a society we have in mind a set of social actors and social relations enjoying a certain stability and some form of structural consistency. And, since a social structure is sustained by institutions, we must assume that at least part of them are consistent with each other.

Thus, let us start again: an institutional system is a set of institutions which *tends* to self-consistency, with at least one well structured subset in a given time. I will call the latter a "core subset". The institutions that belong to it will be called "dominating" or "core" institutions. To say they are self-consistent means that each of them is in a relation of complementarity with the other elements of the subset.[1] They sustain and justify each other and form an organic whole, so that it is not possible to change or modify one of them without modifying the whole core subset. I will call "promiscuous" institutions those which are extraneous to the core, and which can be changed without altering the structure. They may play ancillary or auxiliary functions with respect to the core institutions, but they can even contrast them. Let me insist

[1] For the moment this definition of self-consistency of institutions will suffice. I will return to the argument in section 10, where I delve into the question of institutional stability.

on this point: the most important functional and dynamic difference between core and promiscuous institutions is that changing one of the former type brings about a change in many others, while this does not occur with a change of one of the latter type.

Since I posited a “tendency to consistency”, one might think that, in the evolution of a society, the weight of its core institutions tends to grow with respect to that of the promiscuous. Fortunately this is not so. Society is the environment where the struggle for existence and dominance of human beings takes place. In this environment, social relations are continually changing, because the relations of power, exploitation and co-operation change incessantly and because the social actors themselves are continually changing. Therefore the institutions will also change. There will be conservative forces, which tend to consolidate the institutional system by eliminating ineffective and destabilising institutions, absorbing promiscuous institutions in the core, repressing and isolating conflicting institutions. But there will always be innovative and revolutionary forces too, which produce alternative institutions, weaken the dominating ones and undermine the core consistency. After all, the innovation process contributes to create that institutional variety which is a fundamental condition for evolutionary change.

For all these reasons, one must admit that, even if intrinsic forces exist which tend to reinforce the core subset, this tendency will never get the upper hand of history. There may be long periods in which the processes of social stabilisation and institutional consolidation prevail, but not even asymptotically can an institutional system tend to perfection.

Yet, what I will do in this chapter is to assume precisely this perfection. If what is at stake, in studying society, is not description, but understanding, then some theoretical violence is necessary. This I will do by means of an operation of amputation: I will define some ideal-type institutional systems merely in terms of core institutions and by assuming that no impurity, no promiscuous institution, infect them. Following Karl Marx, and slightly betraying him, I will call “mode of production” an institutional system composed only of core institutions. To define the structure of a mode of production it is necessary to structure it, which I will do by dividing its institutions into four subsystems.[2]

The first is the *labour utilisation subsystem*, which regulates the extraction of surplus from production and therefore defines the fundamental class relationship. In the “ancient” mode of production, for instance, this subsystem is centred on the institutions regulating slavery; in the capitalist mode of production it is based on the employment contract.

The second is the *distribution-allocation subsystem*. It regulates the way surplus is distributed among the social actors and the exercise of its uses. To be

[2] Note that a core sub*set* is an element of a set which is not fully organised into a system, while a sub*system* is an element of a set organised into a system as it coincides with a core subset.

more precise, it consists of the institutions defining and sanctioning property rights, the transfer of wealth, the determination of its yields, the practice of its uses. For example, it will make a difference, as I will show below, whether ownership is considered a *potestas procurandi ac dispensandi* or a *jus utendi, fruendi et abutendi*.

The third is the *legal-political subsystem.* It determines the state form and its relation with civil society. Thus it defines the rights and duties of social actors; the prerogative and functions of the political class; the ways of action and organisation of the political actors and the rules of law formation. The normative and government action of the state is bounded by this subsystem. The products of the action itself, however, i.e. the laws and political measures, are not necessarily part of the legal-political subsystem. In fact, apart from the constitutional rules and regulations governing the life of the state apparatus, most of those rules and measures contribute to define the other three subsystems.

Finally, the fourth is the *ideological subsystem.*[3] Perhaps this is the most complex of all, certainly the most difficult to define, if for no other reason that beliefs are among the most fleeting and evanescent attributes of the individuals' behaviour, but especially because many ideological beliefs are entertained by a great number of people in an implicit, informal, often even unmindful way. At any rate, it should be possible to single out at least the essential characters of the ideology dominating in a mode of production. An ideological subsystem furnishes, on the one hand, the ethical and theoretical justifications for social and political action and, on the other, the cognitive bases of decision-making. Therefore it does not just have a rationalisation function, it also has a cognitive and a pragmatic one.

The fact that a mode of production is characterised by a stable institutional system does not mean that it cannot change. Since some external conditions, i.e. the natural and technical environment and the social actors themselves, continually change, an institutional system will be the more stable the higher its capacity to adapt institutions to historical changes in external conditions.

A theoretical problem immediately arises: since a mode of production has been defined on the ground of its core institutions alone and since these constitute an organic, consistent and stable whole, how is it possible to speak of the adaptive change of a mode of production rather than of the mutation from one mode of production to another? In other words, is it possible to speak of internal modifications in a mode of production, i.e. modifications which leave its fundamental characteristics unaltered?

The answer to this question is affirmative and is implicit in the way the question has been raised. It is necessary to distinguish, in a mode of production, the *fundamental* or *general characteristics* of its institutions or of its

[3] It can be considered as a system of *institutions* (rather than beliefs) if one accepts the extension of the concept suggested in note 4 of chapter 2.

subsystems, from what could be defined as its *special characteristics.* Only a change in the former implies the transition from one mode of production to another. The latter can be modified without altering the former. However, since they are core institutions anyway, so that they cannot be changed independently of each other, modifications of special characteristics will consist in structural changes. It is possible for a mode of production to remain unaltered in its fundamental characteristics, and yet take different specific forms. Therefore the notion of a "mode of production" has to be completed with that of "specific institutional forms of a mode of production", for brevity, "institutional forms".

These concepts will be clarified in the rest of the chapter by applying them to the capitalist mode of production. I will show that this can take, and actually took in the last two centuries, different institutional forms. In particular it is possible to bring to light four different capitalist institutional forms, which I call "classical capitalism", "market-oriented corporate capitalism", "bank-oriented corporate capitalism" and "state capitalism".

3. The fundamental characteristics of capitalism

Capitalism is an economic system in which surplus value is extracted from the production process by using wage labour and is utilised in the circulation process for sustaining capital accumulation. This simple and synthetic definition calls for a more detailed description, which is what I am going to do by singling out the fundamental characteristics of a capitalist mode of production.

I have already clarified that the fundamental institution of capitalism is the *employment contract.* This is the nucleus of the labour utilisation subsystem. It can take different specific forms: it can be an individual or collective contract; a fixed-term or open-term contract; it can be defined implicitly in different measures; it can be combined with other kinds of labour utilisation transactions (contract for services, sharecropping contract etc.); it can give rise to different forms of payment (piecework and overtime pay, bonuses, profit sharing etc.); it can be stipulated by different categories of employers, private owners, public companies, state firms etc. What cannot be changed is its fundamental characteristic, i.e. its ability to generate the workers' obligation to obedience and the employers' prerogative to command.

The employment relation differs from other forms of exploitation, for instance from some forms prevailing in pre-capitalist modes of production like slavery and serfdom, in that both contracting parties are endowed with freedom of contract. This gives us a clue as to the fundamental characteristics of the legal-political subsystem. Freedom of contract presupposes that individuals are also endowed with a vast series of universal rights of freedom. These must be attributed to citizens as such, that is, irrespective of any difference in class, gender, race etc. Freedom of contract can be effective only if it is accompanied by rights of association, speech, assembly, thought, ownership etc. Universal rights cannot be generated by transaction institutions, because these produce effects which only involve the contracting parties. Therefore it is necessary for a normative sphere to be constituted which founds, and at the same time is founded on, the citizens rights. This is the *constitutional state*.[4]

On the one hand the state, as a subject of normative action guaranteeing the citizens' rights, cannot emanate from a private will (like an absolute king or a Machiavellian prince), nor can it boast a legitimacy which is different from the law (like God's grace or papal Investiture). In a constitutional state the citizens are subject to the law without functional distinction, so that the political class itself, as well as the legislative, executive and judicial bodies, must be subject to the law. And this implies the existence of constitutional laws.

On the other hand, the state must draw its legitimacy from the will of free citizens. If these are recognised as individuals endowed with freedom and inalienable rights, the state cannot rule against their will. Yet human rights are not a gift of nature. They originate from the law and therefore are constituted with the state constitution. Modern constitutions define the fundamental laws of the state together with the fundamental rights of citizens. Thence they found these rights. This may seem a circular reasoning: the state is founded on the citizens' rights, and these are founded by the state. That's it. Since an original social contract never existed, except in the dreams of some French philosophers, and since natural rights never existed, except in the dreams of some German philosophers, only the state can found itself, which it does by founding the source of its legitimacy, i.e. the citizens' rights.

This philosophical circularity necessarily causes some arbitrariness in defining the rule of law: everything depends on how the fundamental rights of citizens are defined. If, for instance, ownership is considered as the most important right in a capitalist system, then it will be unavoidable to limit franchise to the owners. Thus different institutional forms may structure a constitutional state. There may be different electoral franchises, electoral systems, divisions of powers, different forms of monarchy or republics and so on. But all of them will have a general characteristic in common: sanction of the freedom of contract. There can be no capitalism without freedom of contract and a state which guarantees it.[5]

Perhaps, even more variegated than the legal-political subsystem, is the ideological one. Actually in history different countries developed different ideological supports for capitalist development. Just think of the role played by

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[4] This terms aims at abstracting from the many different, and often irreconcilable, traditions of thought existing in modern capitalist systems. *Grosso modo* it translates notions like "*Rechtsstaat*", "*stato di diritto*", "limited government" or "rule of law".

[5] Note that a constitutional state so defined need not be a democratic state. The rule of law is compatible with a liberal state with limited franchise as well as with a totalitarian "people's republic", not to speak of the modern "mediocracies" (the rule of the mediocre by means of the media, or Berlusconism). After all, as Jurgen Habermas (1973) observed, the modern constitutional state has always been in contradiction with the democratic principle.

the Protestant and Catholic religions in the establishment of capitalism in the North and South of Europe. Even a “Marxist-Leninist” ideology has been used to sustain capitalist development. Moreover, different ideologies may prevail in the same country at different periods. What must all these ideological systems have in common for us to be able to speak of a general characteristic which is typical of the capitalist mode of production?

I think the answer to this question is simple: *individualism*. All the capitalist ideologies have this idea in common, that the foundation of the social being lies in the individual subject. In the Middle Ages there was the idea of a community as a “mystic body”, i.e. a collective being, transcendentally constituted, which gave sense to individual lives only to the extent that they functionally participate in the life of the social organism. With the birth of modern capitalism the social being is constituted immanently and is embodied in the individual, an egoistic, rational and free social atom (I am speaking of ideology). Social life, political structure and motivation to action, are thought to originate from individual wills. The very faith in God is now conceived as deriving from individual choices, even in the Catholic church. After all, what other idea, better than this, can give legitimacy to the freedom of contract and the constitution of economic agents as autonomous contracting parties in a transaction?

This gives us a clue as to the fundamental characteristic of the distributive-allocative subsystem of a capitalist mode of production. This subsystem governs the allocation of economic effort and the attribution of its yield so as to nurture capital accumulation. Also in this case the property regimes and governance structures can be the most disparate, from private property to state ownership of the means of production, from concentrated to diffused wealth, from the owners’ to the managers’ control, from the goods to the companies markets and so on. But a principle remains firm in all institutional forms: the principle of *individual competition*. Investment and production decisions are taken by autonomous individuals in competition with other individuals and the consequences of decision fall on the decisors themselves. This implies individual responsibility. The results of actions, whether positive or negative, are commensurate to performances and attributed to the people who are responsible for them.

The principle of individual competition holds independently of the organisational form within which action takes place. Whatever these forms, markets, small or big businesses, bureaucratic apparatuses, they must function so as to make the individuals responsible for their performances and recipient of their results, which is accomplished by making the individuals compete with each other. In this way the objective conditions are created to compel individual decisions to serve the process of capital accumulation.

4. Property right regimes

Let us now turn to consider some specific characteristics of the subsystems. In this way we prepare the ground for classifying specific institutional forms. And let us start by focusing on the distribution-allocation subsystem. The allocation and distribution aspects can be distinguished and separated by means of the notions of “property right regimes” and “accumulation governance structures”.

A property right regime is a system of normative, transaction and behavioural institutions that regulate the distribution of wealth and surplus value. In particular it establishes who are the social actors entitled to acquire property rights, as well as the rules governing their transfer. Of great importance are the norms which, by defining the limits of use, determine the attribution of residual incomes, and thence the personal distribution of wealth. Some of these norms may be defined by law, others by custom, still others may be ingrained in the common values and beliefs of a society. Observation of the history of modern capitalism enables us to single out three main types of property rights regimes. Let me call them “concentrated private property”, “diffused private property” and “state property” regimes.

In a regime of *concentrated private property* wealth is concentrated in the hands of individuals belonging to a specific class, the bourgeoisie, while individuals belonging to the working classes are propertyless. In this regime it is the distribution of wealth that creates the conditions for exploitation of the workers. In fact the lack of wealth deprives the latter of any control of their life conditions and therefore compels them to work as wage workers under the command of the owners of the means of production. Since the workers do not possess any wealth, they are in the condition of being able to earn their living only by furnishing labour activity.

Diffused private property, on the contrary, prevails in contemporary capitalism, especially in advanced countries. In this regime, whilst capital is still highly concentrated in statistical terms, a vast and growing mass of people have obtained access to wealth, both directly, as savers possessing shares in joint stock companies, and indirectly, as investors or beneficiaries of various kinds of financial institutions, investments funds, pension funds, employee stock ownership plans, etc. Furthermore many forms of financial assets, like bonds and other types of credit, including bank deposits, qualify the investors to receive part of the surplus value produced by firms, even if they have no title to ownership. It seems that modern capitalism tends to transform any citizen into a wealth owner.

State property takes ownership diffusion to the extreme, since publicly owned wealth is legally the property of all citizens. No matter what the ideology sustaining or justifying state property is, nor even the mechanisms ensuring actual control of production and the prerogative to take accumulation decisions, the formal owners of state firms are the citizens, who possess national wealth collectively. Legally they are all shareholders of equal importance, since in this system the "one head one vote" principle formally overrides Mises's "one penny one vote" rule holding in private property regimes. This kind of property regime is not necessarily socialist, if a socialist system is defined as one in which the workers actually control production decisions and the use of value added. If control is out of the workers' reach and decisions are taken, no matter by whom, in view of capital accumulation, then this regime entails a capitalist system.

Note that what really counts, in the attribution of surplus value in private property regimes, is not so much control of the means of production, as the possession of wealth in general, i.e. of any kind of rent-bearing assets, both real and financial, as well as credit and possessory titles. A property right, in this sense, is none other than a claim on the future yields of an asset. An important aspect for which a state property regime differs from private property regimes is the severing it brings about between the title to wealth and the claim on its yields. If all citizens were formally peer shareholders of national wealth, the "national dividend" should be divided and distributed democratically, and the political class should have no discretionary control over these payments. In reality this did not occur, at least not in the historically known systems, where the national dividend is formally attributed to the state and materially controlled by the ruling class. This means that the expression "public wealth" is only a euphemism. The proper word is "state wealth".

5. Accumulation governance structures

What really matters is capital accumulation. Whatever the property right regime, an economic system can be defined "capitalist" if surplus value is used to sustain capital accumulation. The systems of institutions regulating capital accumulation are called "accumulation governance structures". Note that the difference between a property rights regime and an accumulation governance structure is that the former governs the allotment of surplus value ownership to the owners of wealth, whilst the latter governs the attribution of its uses to the investment decisors.

The working of an accumulation governance structure is based on three mechanisms: disciplinary, selective and financial. A *disciplinary mechanism* regulates the distribution of rewards and punishments in relation to the decisors' performances, so that control activities enhancing accumulation are encouraged and those hampering it are prevented or dissuaded. A *selective mechanism* regulates the allocation of actors to jobs and positions so as to assign the fittest person to each office and to dismiss the unfit. A *financial mechanism* regulates financial flows so as to make them accrue to the decisors who are better able to use them in view of accumulation.

There are two fundamentally different governance structures: networks and hierarchies. *Economic networks* are institutional systems that regulate markets. All the social actors are independent subjects endowed with freedom of contract, and interact with each other through *exchange relations.* The disciplinary, selective and financial mechanisms work through *market competition*. *Economic hierarchies* are institutional micro-systems regulating economic organisations. The social actors are linked to each other by *formal* bonds of subordination[6] and interact through *command relations.* The disciplinary, selective and financial mechanisms work through *organisational competition*.

In particular, there are *goods markets* and *companies markets.* In the former individual consumers and firms appear as subjects, the objects of transaction being real inputs and outputs, money and credits. On the contrary, in companies markets, or markets for corporate control, the firms themselves are treated as things and made the object of transaction. There are, on the other hand, *internal hierarchies* and *external hierarchies*. The former are structures of relations binding the members of an organisation, the latter structures of power and subordination relations among organisations.

6. Internal hierarchies

An internal hierarchy is a necessary condition for the extraction of surplus value in the production process in any form of capitalism. Therefore, not only must it be present in all of them, but is in fact a fundamental structure of capitalism in general. It is constituted through the employment contract and ensures the existence of the power relationship enabling the capitalists to govern labour activity and thence to implement exploitation. As such, an internal hierarchy is a general characteristic of the core institutions of capitalism, and is essential both in the labour utilisation and in the distribution-allocation subsystems.

In the former subsystem it functions as a *production governance structure*. Besides working in general as an exploitation implementation device, an internal hierarchy also serves: 1) to co-ordinate production activity in the presence of technical complexity due to team production, economies of scale and scope, innovation and the development of specific capabilities: 2) to exert control and monitoring activity when strong information asymmetries threaten to impair the extraction of surplus value; 3) to organise and develop knowledge when innovation and adaptation to a changing environment require problem-framing and problem-solving activities to be undertaken collectively. However I will not delve into these problems here. They are rather complex and deserve at least an entire chapter of their own to be dealt with in some detail.

There is an aspect of internal hierarchies, though, that will be investigated here, namely their capacity to work as *accumulation* governance structures.

[6] Note that these bonds of subordination are “formal”, not personal as in a feudal system. They are explicitly defined by transaction and normative institutions and pertain to roles not to the persons holding them.

This function does not involve the whole organisational structure of a firm, but only its upper layers, the upper hierarchy that organises cadres and executives.

The command hierarchy of a firm is normally structured in the form of an internal labour "market". Officers are enrolled in the lower layers of the hierarchy, and are engaged on long term contracts. Salaries are not determined by market conditions, but by efficiency considerations in view of the duties and abilities required by the position in the hierarchy. A different class of salary is associated to each layer. Although incentive pay may entitle officers to differential salaries within each layer, substantial pay increases are mainly achieved through promotion.

Furthermore, the amount of power assigned to any one officer is greater the higher his position on the hierarchical ladder. And power is desired by officers and executives, who are thus strongly motivated to climb the organisational structure of the firm. There may be some horizontal, inter-firm mobility at the bottom and top layers of the hierarchy. But for the great bulk of officers it is intra-firm, vertical mobility that motivates choices and effort. In other words hierarchies work as competitive environments. Since there are always many candidates for promotion to any position, competition is strong and takes the form of tournaments. And the road to promotion is good performance.

A hierarchy activates all three mechanisms of an accumulation governance structure. The *financial mechanism* operates by allotting internal cash flows to the divisions and departments exhibiting better profits and growth opportunities. These allotments furnish resources for future success. At the same time they are perceived by the division or department managers as rewards for their actual performance and a spur for future achievements. But often the allocation of funds to the intermediate officers of a division or a department takes place in an implicit way. The possibility of implementing a decision implies the possibility of using funds. The overall funds of a division are procured by means of good performance. If there is team production, the decisions of the single officers or cadres affect the team (or division or department) performance and its assignment of funds. Therefore it is in the interests of every officer to control the effort of his subordinate workers and clerks: effective control leads to good performance and, as a consequence, procures the funds required to take decisions and extend power.

The *disciplinary mechanism* operates by granting rewards - in the form of incentive pay and higher salaries and prestige for higher positions on the ladder - and punishments - in the form of fines and income setbacks caused by demotions and dismissals. The *selection mechanism* too operates through the promotion and dismissal system. Since organisational competition is won by ability and good performance, the winner of any position normally turns out to be the fittest person for it. Inefficient officers are prevented from reaching high positions and are often fired straight away.

In what sense is an internal hierarchy an *accumulation* governance structure? Good performance for an intermediate director or officer normally boils down to having the ability to exert control over production activity in order to foster productivity growth and extract surplus value. But it often also entails the ability to increment output and market shares, in other words, the size of the firm. And growth in size means growth of capital. This is especially true for directors of divisions in multi-division companies. Success in managing a division or a department attracts internal funds and therefore contributes to allocating surplus value for uses which better enhance accumulation.

The problem now is: when top executives have reached the top of the ladder and have no further promotion prospects, what motivates their effort and how is their performance disciplined and rewarded? Executives, directors and officers are normally not motivated by profit, but by power, prestige and pay. Typically these three variables are isomorphic, in the sense that they are all increasing functions of the position on a hierarchical ladder. And since the number of total subordinates to a position is greater the higher the position, pay, power and prestige also increase with the number of subordinates - a principle which, starting with Lydall (1959), has been demonstrated empirically in a number of researches on the personal distribution of executives' pay.[7] Thus the best way for top managers to pursue their goals is to increase the number of subordinate employees and enhance company growth, i.e. capital accumulation. Furthermore, since they are interested not so much in transitory pay increases as in the accretion of their permanent income, power and prestige, what they actually try to further is *long-run* company growth. An internal hierarchy works as an accumulation governance structure in its disciplinary function also because the width of the hierarchy in itself is a value for the managers. Its growth is a reward for the ability to make it grow, its shrinking is a punishment.

7. External hierarchies

The disciplinary mechanism based on organisational competition works better still when a firm is part of an external hierarchy of business concerns. This is the accumulation governance structure prevailing in the Japanese *Keiretzu* and in the German system of bank control. The firms belonging to a corporate group are organised in hierarchical structures in which minority shareholdings, debt fetters, technological interdependencies, legal and customary rules, and many other kinds of institutional arrangements, are used to enable big concerns to supervise, monitor and discipline small ones.

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[7] The distribution of executive salaries fits Pareto law rather well. This fact can be explained on the grounds of two assumptions, namely, that the number of *direct* subordinates of an executive does not vary greatly and that the ratio of an executive's salary to his direct subordinates' salary is fairly constant (Simon, 1979, 1982). The two assumptions imply that both the number of *total* subordinates of an executive and the executives' pay grow exponentially with the position on the hierarchical ladder and with firm's size.

These corporate groups are normally led by a “main bank”, which possesses and controls, directly or indirectly, small but effective minority stakes in all the other firms. Moreover a main bank also ensures flows of finance and entertains customer relations with members of the group. Finally officers of the main bank are members of the boards of directors of the supervised companies. In this system the “external” controllers of a firm can no longer be considered outsiders, since they possess relevant internal information, they can monitor and supervise the managers’ activity, they can finance their investment decisions, and they can even promote or remove the chief executives of controlled firms. The latter however preserve extensive decision-making autonomy, and actually render account of their actions mainly for their effects on accumulation.

The disciplinary mechanism of this accumulation governance structure works through a system of promotion of good executives from the management of small firms to that of big enterprises, whilst inefficient officers are not only punished by the slowdown of their companies, but may also be demoted to the management of smaller firms or even fired. The selective and disciplinary mechanisms are closely associated, since the promotion-demotion system also aims at ensuring the best allocation of personnel among firms: good managers to the big or fast growing firms, poor managers to the small or slow growing ones. The financial mechanism, on the other hand, works through the financial policy of the main banks, which handle credit facilities and assist and sustain new share and bond issues with the aim of favouring long run growth of the most promising companies.

8. Companies markets

The accumulation governance structure prevailing in the USA is rather different, especially in the form that gave its “best”[8] in the 80’s. Big concerns, in this system, have widely dispersed shareholdings and are actually controlled by their managers. Financial capitalists are normally not interested in controlling insiders, nor have the necessary competence to do it. Yet financial markets do exert some control, for managers who outrageously disregard the shareholders’ interests, may be compelled to respond to the raiders. A strategic variable in this accumulation governance structure is the value of the firm. Strategic, in the sense that, since the managers’ performances are reflected in the market valuation of their companies, this is the lever through which the financial, disciplinary and selective mechanisms work.

When the shareholders lose control over the firm the difference between title documents and negotiable instruments, between shares and bonds, tends to

[8] This is not the right place to make efficiency comparisons among systems, nor to focus on the changes they are presently undergoing. Therefore I will ignore both the debate on the effectiveness of corporate control markets and the institutional transformations the American system of external control has been enduring in the 90’s.

vanish, at least on economic grounds. In both the cases of shares and bonds the owner is deprived, not only of the residual control of the firm, but also of the control on residual income. In both cases the values and market yields of the two financial assets are determined by a combination of managers' decisions and market valuations, the owner being unable to affect either. The only real difference boils down to the degree of riskiness of the two assets, which is lower on bonds.

External finance accrues easily and cheaply to high value firms. In fact, not only can these firms successfully resort to new issues of share capital, but they can also obtain cheap credit without needing to raise leverage. Not so with companies whose performances are badly valued by the market. In other words, the financial mechanism of this accumulation governance structure tends to reinforce the positive effects profitable growth has on cash flow and internal finance, as well as the negative ones brought about by low profitability.

Market valuation also works as a disciplinary and selection device. Firstly, it gives signals as to the ability of managers, which contributes to their reputation and increases their probability of finding new, more prestigious and better paid jobs in other firms. As is well known, inter-firm mobility of top managers is higher in the American system than in the German and Japanese. Secondly, there is a widespread use of incentive pay in this system, especially of schemes linking rewards to the value of the firm. Thus good managers are paid better than bad ones, and pay differences tend to reflect the differences in market valuations. Thirdly, managers are constantly under threat of hostile take-overs. But while this threat may be kept at bay by a high market value, it is more likely to become effective on unsuccessful managers, i.e. those who are unable to make the value of their firm come up to its potential.

9. Goods markets

The most widespread accumulation governance structure in the world is based on the working of goods markets. It operates in all modern economies, even in the most advanced ones, and even in state capitalist systems, because it regulates accumulation in the small business, retail trade and service sectors. It was the dominant structure in 19th century capitalism and is still dominant in many backward economies.

Goods markets are here defined as encompassing both real commodities and credit, but excluding transactions in company shares. The financial mechanism sustaining growth in goods markets works through the allocation of internal finance and bank credit. Firms with good performances in goods markets also have high profits and cash flows. Therefore they can self-finance their growth. Furthermore their profitability ensures easy and cheap access to credit facilities, as well as the ability to repay debts. Badly performing firms, on the contrary, have to face financial distress and growth regression. The disciplinary mechanism is based on the allotment of profits and losses. Efficient entrepreneurs enjoy profits and growth, and therefore increases in income, prestige and power. Inefficient ones are punished with losses, economic slowdown and social setbacks. Finally the selection mechanism is based on the working of goods markets as a competitive environment, i.e. a milieu where the struggle for survival is regulated by the jungle law reinforced by bankruptcy law. Structurally inefficient firms face permanent losses and sooner or later are expelled from the market. Thus inept entrepreneurs are doomed to failure, whilst the able ones enjoy success. This mechanism ensures that capital accumulation is correlated to entrepreneurial ability, but also that unfit entrepreneurs are eliminated from the market.

10. Institutional forms and the problem of institutional stability

Table 1 organises the notions of the property rights regime and accumulation governance structure into a classification of some ideal-types of capitalism. Of course the historical examples to which this classification refers do not completely fit the scheme. The ideal-types, on the other hand, do so very well, although they do not completely fit history.

Table 1
Institutional forms of capitalism

		PROPERTY RIGHTS REGIMES		
		CONCENTRATED PRIVATE PROPERTY	DIFFUSED PRIVATE PROPERTY	STATE PROPERTY
ACCUMULATION GOVERNANCE STRUCTURES	GOODS MARKETS	**Classical capitalism**		
	COMPANY MARKETS		**Market-oriented corporate capitalism**	
	EXTERNAL HIERARCHIES		**Bank-oriented corporate capitalism**	**State capitalism**
	INTERNAL HIERARCHIES	**All**	**All**	**All**

The principle of impurity suggests that no real economy ever coincides precisely with a typical form. Yet the principle of dominance grants that some institutions are organised into systems able to regulate the great bulk of transactions. Impurities cannot be ignored when accounting for historical evolution, since they furnish the variability through which competitive evolution drives institutional change. On the other hand, not even the principle of dominance can be ignored, for history evolves, not only through change, but also through the '*long durée*'. There are periods of structural instability, revolution and catastrophic change, in which chaotic movements prevail, institutional forms are in disarray and the distinction between core and promiscuous institutions is temporarily blurred. And there are long periods of rest, during which change is slow and gradual and dominating institutions are organised in structurally stable forms capable of enduring institutional evolution by smoothly assimilating innovations and external shocks. Thus history can be read both as a process of recurrent structural change, and as a succession of stages in which stable forms of social and economic organisation persist undisturbed for a long time. Since in this essay I am mainly interested in a model classification, let me indulge in abstraction. I will now free some historical cases of all impurities, thus defining a few ideal institutional forms of capitalism which vaguely resemble reality.

In the rest of this chapter I will try to reconstruct the institutional systems of four forms of capitalism: classical capitalism, market-oriented corporate capitalism, bank-oriented corporate capitalism and state capitalism. They will be partial attempts at reconstruction, since I will focus on the distribution-allocation subsystems in trying to show how it is possible to define the peculiarities of the four forms on the basis of the way they combine a particular property rights regime and a particular accumulation governance structure. And, while I will reserve ample space for a description of the special characteristics of the distribution-allocation subsystems, none will be dedicated to the labour utilisation subsystem, which, as I have already said, deserves a chapter of its own. Finally, some limited space will be reserved for a description of the special characteristics of the legal-political and ideological subsystems.

To reconstruct an institutional form does not just imply analysing its structure, i.e. the institutional system in which it consists. An institutional form, as an ideal-type, has been defined as being made up solely of core institutions organised into a self-consistent system: the various institutions and subsystems must be consistent with each other. But what does this mean? Institutions are not logical assertions or mathematical equations. Their consistency therefore is not a formal property. Institutions pose constraints on social action. Thus, to say they are consistent with each other means that the constraints posed by each of them do not contrast with those posed by the others. In an institutional system which is self-consistent in this sense different institutions are complements. They sustain each other and thus contribute to produce stability in social relations.

In other words, the problem of institutional self-consistency is reduced to that of the institutional stability of the system. It is not sufficient to describe the structure of the various subsystems. It is also necessary to show how the influence on social action exerted by any one of them upholds that exerted by the others. When this condition holds, the social relations determined by the decisions of social and political actors are stable. On the other hand, since institutions, their survival, change and innovations, are produced by social and political action, the stability of relations and behaviour bear on the stability of institutions. Therefore the stability of a society is ensured by the institutions which govern it and is reflected in the stability of the institutional system.

The institutional stability of a capitalist form is a dynamic property and, to be precise, consists in the capacity to resist institutional invasions, innovations and shocks in such a way as to maintain its structure substantially unaltered. I say that some institutions are consistent with each other if they are structured in a system endowed with this dynamic property.

Note that the notion of "institutional stability" is slightly different from that of "evolutional stability". The latter has been developed especially in game theory, where it defines a property of repeated games whereby a "strategy" or "rule" or "institution" governing social interactions is capable of resisting the emergence of a new strategy and avoiding its invasion of the social system. The stable rule or strategy affects the behaviour of most players, and this contributes to diffuse and reinforce the grip of the rule itself. The rule is evolutionally stable if it remains dominating when a new rule arises. "Institutional stability" differs from "evolutional stability" mainly in three aspects. First, it refers to systems of institutions and not to a single or a few institutions. Second, instead of focusing on the process of behavioural change and rule substitution it stresses the structural-functional relations of the institutions making up a system, trying to show the capacity of the various institutions or institutional subsystems to sustain and reinforce each other. Third, as a consequence of the fact that an institutional system cannot be changed gradually and piecemeal, but can only by modified in block, it conveys a vision of social change as catastrophic and morphogenetic rather than smooth and slow.

In looking at the interactions between the structure of social relations and that of the institutional system, the method of institutional analysis focuses on the latter kind of structure. It is not the only way of studying the conditions of social stability. There is another, more traditional one, which focuses directly on social relations. It is the method prevailing in Marxist theory, in which the study of stability conditions takes the form of an analysis of social reproduction. A social system is socially stable if it is able to reproduce in time the social relations on which it is built. In the preceding chapters I have shown that there are four sets of conditions for social reproduction: technological, financial, political and ideological. Now I can add that these conditions are ensured by the structures of the labour utilisation, the distribution-allocation, the legal-political and the ideological subsystems.

In the rest of this chapter I shall investigate the various forms of capitalism by using mainly the method of institutional analysis, i.e. by reconstructing the structure of their institutional systems and the conditions of their stability. However the method of social analysis will not be completely ignored, and something will be said also on the conditions of social reproduction.

11. Classical capitalism

The first institutional form is described by the “classical capitalism” model to be found in any microeconomics textbook. It is based on the association between a concentrated private property regime and a goods markets governance structure. The control of labour in the production process is ensured by a relational contract whereby a *personal* employer buys command over an employee in exchange for a wage. Since operation of the labour process requires the use of some means of production, a condition for workers to agree to enter an employment contract is that wealth is out of their reach and is concentrated in the hands of a class which aims at using it to produce profits. Thus control of the production process is secured by the ownership of the means of production. The capitalist firm is a thing, an asset owned by a person who bears unlimited responsibility for its activity. Firms are small in size and internal hierarchies are relatively tiny and simple. Society is divided into two groups: the capitalist class, or bourgeoisie, which includes all the owners of the means of production; and the working class, or proletariat, which comprises all the propertyless employees.

The political class responds to the bourgeoisie. This relation is legally warranted by a limited franchise, privileging wealth owners, which keeps the right of vote out of reach of the working class.[9] The state sanctions and protects property rights and the ensuing rights of freedom. In particular it guarantees freedom of contract in all transactions, not only *de jure*, but also *de facto*. And since free competition is considered one of the basic conditions of freedom, the economic action of the state aims, above all, at limiting or abolishing monopolistic practices. This action is particularly strong in the so-called “labour market”, where state intervention mainly boils down to promoting labour mobility and flexibility and forbidding and punishing workers’ coalitions. As Adam Smith had already realised, it is this kind of “competition” in the labour market, whereby the capitalists are organised in the state and the workers are disorganised by the state, that ensures the social and economic conditions for wealth concentration, i.e. conditions that compel workers to

[9] In the advanced capitalist countries of the 19th century the electoral franchise was restricted on many grounds, gender, race, literacy, wealth, income. These restriction bases could be combined in various ways in different countries, but they all conspired against an extended form of democracy. In France a revolution was needed in 1830 to bring the number of electors to 240,000. In Great Britain the Reform Act of 1832 increased the number of electors from 500,000 to 813,000. Around mid-century in this country there were 1 million electors in a population of 27.5 million. Then the Reform Acts of 1867 and 1883 brought the number of electors to 29% of the male adult (over 20 years old) population. The USA was one of the most democratic countries of the epoch, yet Abraham Lincoln was elected by less than half of the 4.7 million citizens with a right to vote. In the 70’s universal male suffrage was well established in most capitalist countries, and the result was that in France, Germany and the USA about 20-25% of the population had a right to vote.

accept a subsistence wage. Thus property rights secure the microeconomic and microsocial conditions for controlling the labour process and the state; while the state guarantees the macroeconomic and macrosocial conditions for exercising property rights.

The dominating ideology in classical capitalism is liberalism, a complex philosophical construct plunging its roots in 17th and 18th century enlightenment. Liberalism evolved in different ways in various countries and epochs. It is useless and impossible to summarise its basic traits here, let alone do justice to the richness of its varieties. What I want to do, instead, is to bring to light the role it played in linking the political action of the ruling classes to the fundamental interests of the bourgeoisie. There is in fact a double link.

The first runs in terms of philosophical guidelines for politics. Even if the ruling class were fully and really autonomous from the capitalists, the liberal world view would have compelled it to work in their interests, e.g. by establishing the rule of law, rights of freedom and freedom of contract; by enacting free trade rules and fighting monopolistic practices; by preventing and repressing workers' organisations that could threaten freedom and competition in the labour market and the political arena; by defending the natural rights of men, the most important of which being universally considered property rights.

The second link runs in terms of philosophical justifications for a restricted franchise privileging wealth owners and discriminating workers, women and black people. This link ensures that the ruling class is in fact not fully autonomous from the capitalists and is, also *de jure*, the "business committee" of the bourgeoisie. The precise philosophical justifications for a limited franchise may be different, but all of them must have a principle in common, namely, that the right of ownership is the most important human right and the one deserving the attribution of complete political rights.[10]

[10] A brief detour on early 19th century capitalist ideologies may be useful to bring to light the nature of some of these justifications. One view was based on natural law philosophy. It was put forward in its most authoritative form by John Locke. Property rights are natural rights deriving from the right any individual has on his person, his labour and the products and instruments of his labour activity. Therefore they must be defended by any state based on the rule of law and a law based on natural rights. Since the parliamentary representatives' authority is delegated by the people, and since public administrators have to defend property rights, only wealth owners must have the faculty to give up a part of their freedom by delegating it to Parliament. The weakness of this argument is apparent: if a natural right to property is derived from a natural right on labour, why should political rights be conceded only to the owners of accumulated labour and not also to the owners of living labour? This was in fact a major argument of the democratic and socialist parties that fought in the early 19th century to overcome the gap between "the legal country and the real country".

A more compelling and theoretically valid justification for restricted franchise was based on the view that freedom implies independence. The right to elect political representatives should be assigned only to persons who can enjoy real freedom. This implied not only that the possession of wealth, as a base of economic independence, was a condition of political freedom, but also that women, slaves, servants, indentured and waged workers could not be

The legal-political and ideological subsystems ensure the political and cultural conditions for social reproduction. The former takes care of the political stability of the class system, the latter furnishes the knowledge and belief apparatuses required to frame and justify political and social action. But the basic conditions of social reproduction are warranted by the working of the labour utilisation and distribution-allocation subsystems.

Control of the production process is effected to produce surplus value. Since this belongs to the firm, and since the residual claimants are the firm's owners, surplus value legally accrues to the owners themselves. The capitalists' goal is valorisation of capital, and surplus value is mostly reinvested in the firm. On the other hand, since the workers' pay is determined in "competitive" markets that tend to fix it at a subsistence level, wages are unrelated to labour productivity. Thus wealth concentration is stabilised. Social reproduction works through a distribution mechanism whereby the wealth-owners increase their wealth and the proletarians replenish the labour force.

Wealth concentration also has the function of raising the average saving propensity, thus contributing to boost capital accumulation: workers' consumption is very low and their saving is nil; capitalists, on the contrary, save most of their income. Financial markets reinforce this condition. Banks supply finance to profitable investment projects. Capitalists who reinvest less than they earn supply savings; those who invest more than they earn, demand them. Banks make profits by transforming the savers' credit into the investors' debt. They supply credit by selecting borrowers on the ground of profitability and riskiness of their investments, as well as the availability of wealth assets to be offered as collateral. As a consequence, financial capital accrues to fast-

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recognised any political right. In fact they were dependent on their masters, employers, fathers and husbands. They had no autonomy of interests and thought, so that their will could effectively be represented by their superiors. This theory is far from trivial and is indeed much more honest and sound than the natural law justification and certainly less hypocritical than contemporary democratic ideologies. It reveals a simple truth: that real freedom is not just a formal property of legal systems, and that legal freedom disjoined from the material bases of individual autonomy is a fake. A slave gave up his decision-making faculty with an "original slavery covenant", a woman with marriage, a wage-earner with an employment contract. The entire lives of these individuals are marked by an obligation to obedience. They have lost any real freedom by virtue of a transaction institutions that cannot be contrasted by the normative institutions produced by a state based on the rule of law. The trick, of course, is to assume that obligations to obedience have been undertaken willingly and autonomously. With these undertakings slaves, servants, wage workers and women freely gave up their freedom and decision-making capacity. The right to elect a political delegate implies the faculty to renounce a part of personal decision-making capacity and empower an agent with it. Which part of personal decision-making ability can be delegated by those who have none? To this must be added the observation that a person who spends most of his life at work, and who earns a subsistence wage or no personal income at all, cannot acquire the culture and the competence required to exert political rights.

growing firms, thus sustaining capital accumulation, while it cannot accrue to the workers, thus reinforcing social reproduction.

Finally, goods markets take care of the selection and discipline of capitalists. Efficient entrepreneurs expand their markets and are rewarded with high profits and increasing power. The laws of competition foster capital accumulation in efficient firms. Inefficient entrepreneurs, on the contrary, are punished with losses, slow growth and often bankruptcy. The laws of competition hinder accumulation in inefficient firms and expel incompetent entrepreneurs.

There is also a technical condition of social reproduction. The governance structure based on the working of goods markets ensures that only competent entrepreneurs survive and accumulate. But entrepreneurial competence is a firm-specific asset. It is acquired through long experience and consists of a set of particular abilities developed both through family education and through managerial practice in the family company. On the other hand, the choice of techniques is a prerogative of entrepreneurs, who exert it to extract surplus value and nurture accumulation. Historical experience shows that the mechanisation processes brought about by capital accumulation tended to de-skill manual work and impoverish the workers' technical abilities. Employees tend to be deprived of any firm-specific ability. In these conditions, it is efficient to assign control and ownership to the entrepreneurs. In other words, whilst the market-based accumulation governance structure tends to attribute control to efficient owners, the private property regime enables the latter to choose the techniques that justify and sustain their control.

Classical capitalism is institutionally fairly stable because its property rights regime and accumulation governance structure reinforce each other. Actually historical instances of classical capitalism did exhibit institutional stability for a long time. Yet this is not an absolute stability, for classical capitalism contains the conditions for its own transformation. History has proved it to be unstable in the very long run. Its final collapse was brought about by three main trends: the growth of personal wealth, the growth of the size of firms and the growth of the workers' movement.

The great fortunes accumulated during century-long development induced capitalists to diversify risk. On the one hand personal or family companies were gradually superseded by joint stock companies. On the other, capitalists tended to invest their financial wealth in many firms. Thus a class of financial capitalists was formed who specialised in the practice of portfolio management. The growth of firms, which took place through extensive processes of concentration and centralisation, led to the expansion of internal hierarchies. Family education was no longer sufficient for training entrepreneurs. The old kind of selection was exposed to hereditary taints and family disputes. Entrepreneurial ability became more and more firm-specific with the growth of firms and the development of firms' capabilities. It could be acquired only through long experience within the internal company hierarchies.

This led to the formation of a class of managers who specialised in the management of organisations, production activities and real investment decisions. Eventually the public company proved to be the most efficient form of ownership structure in big concerns. It was the most efficient to cope with the problem of manager formation, selection and discipline.

Finally the growth of the workers' movement progressively undermined the old form of labour market "competition". Union activity gradually led to legalisation of many forms of workers' actions and organisations. Moreover, political activity, as organised, for example, in the Chartist movement in the United Kingdom and in various kinds of democratic and socialist parties in continental Europe and the USA, led to extension of the franchise, development of workers' protection laws and growth of labour strength. Working time was gradually reduced, labour conditions were improved. Wage rates, which were increasingly fixed through collective bargaining, tended to rise beyond subsistence levels at least for a substantial part of the working class, typically for the "worker aristocracy" employed in big and fast-growing companies. Mutual aid and pension schemes developed, and the working classes became able to supply at least a tiny share of national saving.

12. Corporate capitalism

Corporate capitalism is based on a diffused private property regime. The great corporation supersedes the small family company. Its ownership is structured in the form of a joint stock company with a dispersed shareholding, while internal control is implemented through huge and complex hierarchies of command. The firm is no longer a thing that belongs to a person or a group of persons endowed with residual control. Rather, it is itself a person, i.e. a social entity with legal personality, able to enter into contracts and transactions with all the other social actors. The entrepreneurs are managers who formally act both as agents of the shareholders and functionaries of the company. Their objective, in the former role, is the value of the firm, in the latter, company growth. In principle there is no contrast between the two goals, since the growth variable is an argument of the firm's valuation function.[11] However, as I will show

[11] Assuming expected dividends (and profits) to grow at a constant rate, g_d, equal to the growth rate of capital assets, g, minus the growth rate of new share issues, s, the market value of a firm is

$$M = (1-r)p\sum_{t=1}^{\infty} [(1+g_d)/(1+i)]^t = (1-r)p(1+g-s)/(1-g+s)$$

where r represents the retention ratio, p the present profit and i the rate of interest. The market value of the firm is an increasing function of present profits and the growth rate of capital and a decreasing function of the retention ratio, the growth rate of new share issues and the rate of interest.

below, such a contrast might arise as a consequence of the way the accumulation governance structure disciplines managers.

Workers, cadres and functionaries are managed through internal hierarchies. Wages are high enough to enable workers to save and accumulate wealth. Many workers become rentiers and, directly or indirectly, the owners of part of the companies' shares. However, to the extent that owners are deprived of all residual control, the workers remain employees under the command of the managers and, as such, can be exploited.

Social reproduction in corporate capitalism is mainly granted by three conditions. The first, which is the same holding in classical capitalism, consists in the non-neutrality of techniques. Technical change, since it is controlled by the entrepreneurs, is class-biased: the labour process is moulded in such a way as to render efficient the assignment of control to the entrepreneurs themselves.

This mechanism, though, is exalted in corporate capitalism, where it is much more powerful than in classical capitalism. The innovation process and even invention activity are internalised in the great corporations. Research is performed in R&D departments and is oriented and controlled by managers. Science becomes a factor of production in itself and develops independently of the workers' competencies. The latter tend to lose any permanent skill specificity, their major ability being reduced to flexibility and adaptability to a continually changing technical environment. The workers' human capital, even if it increases in value, becomes ever less specific. Moreover, as the firms grow in complexity by developing their specific capabilities, their management becomes a complex job requiring particular abilities that can only be acquired through long experience and a hard career in the firms' hierarchy. The managers' human capital becomes more and more firm specific.

The second condition consists in a particularly strong form of class-biased credit rationing. Class-biased credit rationing means that, since banks and financial markets lend money to earn profits, while trying to reduce risk, they tend to privilege borrowers who: 1) are endowed with substantial wealth to offer as collateral, 2) are proponents of profitable and relatively safe investment projects, 3) have a reputation for managerial ability. The managers of existing firms normally exhibit these three qualities; not so the workers. Thus the former have easier and cheaper access to credit than the latter. This contributes to stabilise class structure.

Class-biased credit rationing too is a much stronger mechanism in corporate capitalism than in classical capitalism. This may seem strange, since a wage rate which is higher than subsistence enables workers to save and accumulate wealth, so that at least self-finance becomes an easier way to vertical class mobility.

However, first of all, entry and exit financial barriers have become enormous in corporate capitalism, with the consequence that, given the relatively low magnitude of workers' savings, no worker controlled association can ever hope to set up as a big corporation. Second, workers can enter small business, but big business has monopolistic and monopsonistic power in industrial markets. This kind of market power is normally used to establish sub-contracting relations and to externalise and localise the production components in which labour activity is less easy to control in a big internal hierarchy. Therefore the workers who organise themselves into small firms and co-operatives normally work for big business and often turn out to be even more intensely exploited than the employed workers, in spite of their being formally independent.[12] Third, not only do workers have scarce managerial expertise, but they have no familiarity with financial markets either. This deficiency reinforces the limits that the small magnitude of savings poses to efficient risk pooling. Thus workers tend to invest their wealth in financial institutions like banks, investment trusts and pension funds, so renouncing any possibility to use it to acquire control over the means of production. Finally, the financial institutions who collect the workers' savings concentrate their efforts on portfolio management, aiming at long run financial returns. They diversify investments and practice short run trading, and develop neither the knowledge and ability nor the will to effectively control industrial activity. The result is that financial markets and institutions work, among other things, at collecting wealth from the common people to finance big corporations, certainly not at fostering the common people's control over their managers.

The third condition consists in a particular interaction between the accumulation governance structure and the property rights regime. Corporate capitalism is institutionally stable mainly because its accumulation governance structure, given a diffused-property-based property rights regime, assigns control and finance to efficient managers, whilst the latter act in such a way as to reinforce that property rights regime. They do it by: 1) nurturing the firms' growth, thus making it increasingly difficult to unify shareholding in the hands of a few owners; 2) sustaining income growth among all classes, thus contributing to spread savings and wealth and induce investment diversification among the rentiers; 3) launching and financing employees' stock ownership plans, pension funds and the like, thus promoting dispersion of shareholding. In other words, institutional stability hinges on the tendency of the property rights regime and the accumulation governance structure to sustain each other by reinforcing both the technical and the financial conditions of social reproduction.

As to the working of the legal-political and ideological subsystems, a few comments will suffice. The most important ideological change occurring in the transformation from classical to corporate capitalism consists in the transition from liberalism to democracy and, in connection with this, in a modification of the conception of private property. When wealth ceases to be a title to residual control on production, ownership need no longer be considered a necessary condition for access to political rights. To make sure that the state supports capital accumulation, it is no longer necessary for it to be controlled by the

[12] This form of exploitation will be investigated more accurately in another chapter.

owners of capital. On the other hand, when wealth possession is within the reach of wide strata of population, it is no longer possible to use ownership to restrict political rights. These are entrusted to all citizens, the state becomes democratic and the ruling class formally represents all the people. To become a member of the "legal country" it is sufficient to be a member of the "real country".

Together with this change, a subtle but dramatic modification hits the notion of "ownership". Its definition departs from the Roman law principle - which views it as a *jus utendi, fruendi et abutendi,* i.e. as an unrestrained individual control and disposal of personal wealth - to approach the Scholastic principle - which views it as a *potestas procurandy ac dispensandi,* i.e. as a prerogative assigned by collectivity to individuals in the public interest.[13] So widespread becomes the idea that private ownership has a public function, that even the managers of big corporations, especially if they are "public" companies, pretend to be working in the interests of a generic public rather than in those of a few shareholders.

Evidently, a state legitimised in such a democratic way and founded on such democratic constitutions can no longer act as a simple "business committee" of one social class. A democratic state is the proper structure of the legal-political subsystem of capitalism. Only a democratic state is a capitalist state proper. With respect to it, liberal states of the 19th century should be considered as just transitional forms. Now the state can take care of overall social stability and general capital accumulation. Tactically, it can gather and offer support from time to time to one particular social group or another. It can be Keynesian or monetarist, it can act as a welfare or a warfare or a workfare state. But, strategically, it works - as Gramsci observed - as an instrument of rationalisation and acceleration of accumulation, it operates according to a plan, it pushes, spurs, stimulates and punishes. Structurally, it is the general capitalist, the representative of capital in general. As such, it guards that the technical, political, ideological and financial conditions of social reproduction work well.

13. Market-oriented corporate capitalism

There are two types of corporate capitalism, market-oriented and bank-oriented. Since their labour utilisation, legal-political and ideological subsystems do not differ widely, in defining them I will confine myself to outlining their distribution-allocation subsystems, which differ substantially.

[13] Most contemporary constitutions, while protecting property rights, attribute them a public function and reserve the state the right to limit private ownership for the good of the public.

Market-oriented corporate capitalism combines the diffused private property regime with a companies-markets-based accumulation governance structure. The disciplinary, selection and financial mechanisms are enacted by competition in the companies markets and through the activity of raiders and financial speculators.

Speculators specialise in the collection and elaboration of information on company performance, in other words in the evaluation of firms. Financial markets enjoy a high degree of information-efficiency in Fama's "weak" sense, so that the speculators' evaluations are immediately reflected in the market values of firms. As a consequence, well-performing firms, besides benefiting from increasing flows of internal funds, are rewarded by high market values, and thus face no difficulties in collecting external flows of finance, both with new share and bond issues.

Raiders specialise in evaluating the gap between the potential and the actual profitability of firms, in other words, the effectiveness of managers' performance. When this gap is perceived as positive, i.e. the market value of the firm is considered lower than its latent fundamentals, managers are judged as inefficient. Then a raid may start off. The raiders attempt to re-unite ownership and re-transform the (person) firm into a thing. When they gain control, they try to realise the full potential of the firm's value by busting up the company or firing and substituting its old management. This process works both as a disciplinary and a selection mechanism. Competition in financial markets is a disciplinary and selective device because the managers of a firm have to continually face take-over threats. If they are efficient, they are rewarded, not only with growth and external finance, but also with increasing power (brought about by growth), good reputation and high prestige (brought about by growth and market valuation), the safety of their job (ensured by a raider-proof market valuation), and high pay (often linked to market valuation). If they are inefficient, the market endangers their position, pay, power, prestige and reputation.

The main drawbacks of the companies-markets-based accumulation governance structure are well known. The market value of a firm is widely affected by the speculators' expectations. But speculators, who normally have good expertise in portfolio management and trading, are not firm insiders and do not have better information than the managers on a company's prospective profitability. Certainly they do not have better information on long-run growth prospects. Therefore they form their expectations on the ground of short-run information variables, such as present profitability, balance sheets, price-earning ratios, dividend payments and the like. This phenomenon bears responsibility for the managers' "short-termism", i.e. their proneness to comply with the speculators' preferences by privileging short-run targets to the detriment of innovative and risky investments and long-run growth. Furthermore, since the speculators have a short-term horizon, they are not even interested in forming long term expectations, and often focus their attention on guessing the other speculators’ expectations rather than evaluating the fundamentals. This injects volatility into market values. As a consequence, market-oriented corporate capitalism, although institutionally stable, may be financially fragile and highly unstable from a dynamic point of view. Speculative bubbles and financial crashes often spill over the stock exchange and hit the real economy, thus amplifying the business cycle.

14. Bank-oriented corporate capitalism

Bank-oriented corporate capitalism differs from the market-oriented type in the accumulation governance structure, since it is based on an external hierarchy governance structure. Minority shareholding is used to form pyramidal coalitions of firms led by big banks. A big bank dominates a coalition by using a variegated set of instruments, besides shareholding: proxy votes of their customers, the conditioning power ensured by their loans and their assistance in new share issues, the influence of their members on the board of directors and the like. They concede wide autonomy to the managers of controlled companies, yet not unlimited autonomy. Banks entertain customer, monitoring and supervision relations with controlled firms, and are able to collect reliable information on managers’ performances, investment opportunities and profit and growth prospects. In other words they are insiders, and are better equipped than speculators and raiders to evaluate the fundamentals. Furthermore they have effective control power, to the point of being able to dismiss and substitute the managers of controlled companies.

As already observed, an external hierarchy control structure can enact all three mechanisms of an accumulation governance structure. The financial mechanism works through the selected assignment of credit and assistance in new share issues. Banks are interested in the long run profitability of their investments, therefore they use their inside information for directing flows of finance to efficient, innovative and fast-growing firms, while they tend to ration the inefficient, risky and low profit ones. Finance flows to the channels that better feed accumulation. The disciplinary and selective mechanism works, not only through the differential allotment of power, pay and prestige ensured by differential growth, but also through a system of promotion and demotion of managers among the firms controlled by the main bank.

Bank-oriented corporate capitalism has a series of advantages over the market-oriented type, the most important of which is that it protects managers from the conditioning of myopic speculators, thus eliminating short-termism and enabling the managers themselves to concentrate their efforts on long-run growth. Another advantage is that it keeps the firms’ financial structure under control, at the same time assigning selected flows of finance. In this way financial fragility is reduced. Furthermore, since financial availability is not biased or conditioned by the vagaries of speculation, dynamic instability is also reduced. Institutional stability, on the other hand, is reinforced, because leading banks also take care of the ownership structure of controlled firms, especially shareholding dispersion, with the aim of preventing loss of control, hostile take-overs and the like.

Some recent debates have focused on a few alleged drawbacks in bank-oriented corporate capitalism, for instance, the tendency of the system to obstruct international capital mobility and to hinder direct foreign investments that might produce profitable synergies. Furthermore there seems to be an intrinsic neglect of the shareholders' will that some people judge as "undemocratic". But most of these criticisms have an ideological flavour. What really matters in a capitalist system is capital accumulation, and it has not yet been proved that this system of control is an inefficient form of accumulation governance or, at least, that it is less efficient than the market-oriented one.

15. State capitalism

The reader is warned: the model of state capitalism I am going to build in this section is more than an abstraction, it is a highly hypothetical ideal-type, in spite of its resemblance to a specific historical case. In a state capitalist system private ownership is abolished or reduced to a marginal, promiscuous institution. Productive capital is publicly owned, all citizens being shareholders of the same importance. Since the state "expresses the will and the interests of all people"[14], ownership of the means of production takes "the form of state property". "State property is the common wealth of all people". Citizens also enjoy some personal wealth, but this can only be "constituted by labour incomes". Since the state possesses (almost) all national wealth, it is the sole employer. Therefore (almost) all citizens are employed workers. They have the "right to a job... and the right to choose the kind of employment and work in accordance with their skills and education". But they also have "the duty to a rigorous observance of labour discipline". The employer, on his part, "exerts control on the quantity of labour" and, by combining "material and moral incentives, takes care of the increase in labour productivity and production efficiency". Wages are fixed, not through the market or through negotiation, but are determined by "the state on the grounds of labour productivity increases".

Evidently, a first condition to its being a capitalist system is ensured: the contract of employment is the fundamental institution for labour utilisation. But a second condition is also ensured: freedom of contract is recognised for all citizens, who also enjoy a vast series of "social, economic, political and personal rights".

However, for it to be a proper capitalist system another important condition is required: command over labour in the production process must aim at the extraction of surplus value and the decisions to invest surplus value must

[14] The quotations in this section are taken from the Soviet constitution of 1977.

aim at capital accumulation. Accordingly, “the state takes care of the increase in labour productivity” by virtue of the authority it has in the labour process. Furthermore it has “the direction of the national economy”. This is “exerted on the basis of state plans” and by “combining central management with the economic autonomy and enterprise of firms... To this end the state uses economic calculations which take into account profits, costs of production and other economic levers and spurs”. The main goal of the state’s economic action is “the increase of social wealth” or, to be precise, “the dynamic, planned and proportional growth of the national economy”, in other words, balanced capital accumulation.

The accumulation governance structure is based on internal and external hierarchies which can be mixed up in different ways and degrees. At one extreme there is the possibility of a wide autonomy of the firms’ managers, who can be endowed with extended control prerogatives in production activity and investment decisions. They can fix the prices of their products and trade with each other in goods markets. The state takes care of overall growth and efficiency by monitoring the managers, assigning them price and quantity norms or guidelines, sustaining them with financial assistance, restraining them with budget constraints and orienting them with indicative or negotiated planning. Firms may be linked to each other and to the state apparatus through external hierarchies. At the other extreme there is the possibility of a complete internalisation of hierarchy, with the national economy reduced to a single big firm and the local managers confined to the position of department or division directors deprived of any real decision-making autonomy. In this case only final goods are exchanged in goods markets, whilst investment goods are traded at administered prices in internal pseudo-markets. Finance flows through hierarchical channels in implementing central planning decisions. Both extreme cases can give rise to an accumulation governance structure capable of enacting, mainly through hierarchical governance relations, disciplinary and selective mechanisms which are similar to those operating in bank-oriented corporate capitalism.

Summing up, as far as the labour utilisation and the distribution-allocation subsystems are concerned, state capitalism is a fully-fledged capitalist form. What about the legal-political and ideological subsystems? Here is where contradictions and inconsistencies, as well as some conditions for institutional instability, can emerge.

Some students believe that this system ceases to be capitalist and becomes socialist as soon as the conditions for a proper democracy are established. By this many people mean a Western-like form of procedural democracy: it would be sufficient for citizens to be allowed to vote for candidates to parliamentary elections who are pre-selected by two parties instead of just one. Since the means of production are owned by the state - goes the story - a formal democratic control of the state on the part of workers-citizens would make it a socialist state, i.e. a state through which “the producers control production”.

I have some doubts. To start with, if a basic division of labour persists between a working class and a political class specialised in administration activity, and if some basic inequalities are perpetuated in the distribution of information, knowledge, political competence and income, one can hardly believe the workers are able effectively to control the political class, even if the latter is organised into 20 parties instead of one or two. The ruling class can even declare its pursuit of “the maximum satisfaction of the *growing* material and spiritual needs of the people”. But, if class ignorance persists, who prevents the politicians from interpreting this goal as coinciding with the “increase of national wealth”, i.e. with capital accumulation?

The basic contradiction, however, goes deeper, and resides in the fact that, in a formally democratic state-capitalist system, the workers would relate themselves to the state in a twofold relationship: on the one hand they are the citizens from whom the ruling class obtains legitimacy, on the other, they are state employees obliged to a “rigorous observance of labour discipline”. How can the producers effectively control production if they have to obey the state officers in the labour process? Obviously the workers’ (indirect) control over the state must be ineffective if the state officers are committed to managing the labour process to increase its efficiency in order to sustain accumulation. The practical consequences of this contradiction bear on the institutional stability of the system.

If there are many political parties, no political class can be confident of preserving power if it successfully performs its function of extracting surplus value for feeding accumulation. The workers will continue to feel exploited and oppressed so long as they are submitted to labour discipline, and will naturally identify their main enemy with the ruling employer. In such a system there could be recurrent élite changes until eventually a political group decides, in order to stabilise its power, to abandon its role of single employer, privatise the means of production and take the position of a socially neutral political actor. No political class is at ease in the role of the main enemy of the people who grant legitimacy.

The only way of dissolving, if not resolving, this contradiction is to stick to a one-party system, which precludes, however, the possibility of legitimising power through decent procedures of formal democracy. As a consequence, legitimation must be ensured by a strong metaphysical and/or meta-historical ideology. The ruling party must be considered as empowered, not by the people, but by God or History or some other transcendental entity. And the stronger the ideological grip of the legitimation principle, the safer and more long-lasting is the political grip of the ruling class.[15]

[15] Lenin once said that the Communist Party ruled in the Soviet Union on the strength of a “historical right”. He had a teleological view of history of the Hegel-Marx kind which enabled him to conceive the leading group of the Communist Party as the embodiment of *Zeitgeist*. The

Either way, whether it is governed through a multi-party or a one-party system, state capitalism is institutionally less stable than classical or corporate capitalism, the main reason being that there is a basic inconsistency in it between its legal-political and its labour utilisation subsystems.[16]

However state capitalism can well survive by going hand in hand with corporate capitalism, thus giving rise to mixed forms of capitalism. A mixed corporate and state capitalist form could combine some advantages of the bank-oriented system, especially as far as the ideological and legal-political conditions of legitimation are concerned, with some virtues of state-owned firms, which are particularly important in all the activities in which market failures may occur. There is ground to believe that this combination could reinforce the institutional stability of the system.

16. Toward the autonomy of capital

We can again raise the question: what do all these capitalist forms have in common that enables us to define them as particular cases of a unique mode of production called "capitalism"? The question was already posed and answered at the beginning of this chapter. Now, at the end of it, we can reformulate both the question and the answer in an historical vein.

This reformulation is facilitated by an evolutionary reading of the classification pattern reconstructed in the foregoing sections, i.e. a reading that looks at the different forms as stages of a development process and puts them in perspective. If it is true that the anatomy of man also accounts for the anatomy of the monkey, then that reading should give us a clue as to the essence of capitalism in general. And it seems that the evolution of modern economies tends toward a *pure capitalist form* in which the "autonomy of capital" settles and consolidates.

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communist vanguard understood the sense of history better than the other politicians (as their ability to conquer power proved) and, despite the fact that that sense consisted in a conception of history as a process of proletarian and human conscience awakening, better than the proletarians themselves (who were in fact not acquainted with the developments of Western philosophy). Therefore, in their interests, the proletarians should have been directed and educated by the Communist Party. History has proved that this kind of legitimation principle was rather shaky and that the institutional system founded on it was institutionally unstable. It is interesting to note that another experiment of state socialism was more long-lived: the Jesuit republic of Paraguay ruled over more that 150,000 souls, lasted almost one century and broke down by an external shock rather than by internal contradictions. Evidently God's Providence has a stronger grip on the people's minds than Dialectical Materialism.

[16] Thus state capitalism could turn out to be useful in some special historical situations of economic under-development, where a strong and rapid industrial take off is needed. State capitalism, by virtue of its totalitarian organisation, can help in strengthening national efforts, while it can help in keeping it transitional by virtue of its institutional instability.

One of the basic features of capitalism was brought to light by Marx. It consists in its tendency to destroy all forms of human relations based on personal bondage. Marx focused his attention on the institutions regulating the servant-master relationship: slave or feudal bonds were considered incompatible with capitalism. But also other societal structures, like family and political organisations, were believed to be undergoing a de-structuring transformation process in which the "natural" cement was being increasingly replaced by legal and formal instruments of aggregation and constitution. Since the basic cell of the capitalist mode of production is commodity, all social relations tend to be reduced to exchange relations. Social exchange is mediated by the market, and this implies that all social actors must be endowed with freedom of contract and, as a consequence, with a vast series of rights of freedom which make the individuals unfettered by any personal bondage.

Yet, in classical capitalism, the very essence of capital, i.e. control of the production process in the firm, was still based on a sort of personal relation. Living labour is dominated by "dead labour", but this exists as an active subject only in as much as it is privately owned by a person. The capitalist firm is not a person, but a thing belonging to a particular individual. The entrepreneur obtains control of the labour process only because he is the owner of the means of production. As a consequence, the selection and replacement of entrepreneurs, as regulated by family relations, the family law and the law of inheritance, poses an institutional constraint on the efficient allocation of control. In fact, although the family could work as an educational apparatus for the transmission of entrepreneurial *competence*, there is no guarantee that hereditary transmission of *ability* works efficiently. As already seen, this problem becomes more and more serious as accumulation progresses and firms grow in size, because, on the one hand, the accumulation of firm-specific entrepreneurial competence and ability is increasingly acquired through internal careers and massive investments in human capital that the family as such is unable to provide, while, on the other, the growth in personal wealth induces risk diversification attitudes that tend to weaken the owners' affection to a particular firm. The latter effect is reinforced by the tendency of family wealth to be dispersed among many heirs.

The solution to this problem was found through a process of institutional evolution that broke all linkage between the claimants on residual control and the claimants on residual income from the firm's activity. With the development of the joint stock company, the firm becomes a legal person endowed with rights and duties which do not coincide with those of the shareholders, while, with the dispersion of shareholding, the owners become rentiers who are *de facto* indistinguishable from the bondholders and other kinds of creditors. By the same process that tends to transform the firm into a person, capital becomes a thing at the firm's disposal. This process approaches completion in the Japanese *Keiretzu* and the German-type corporate capitalism.

The *Keiretzu* consists of a company coalition held together, not only by personal linkages among managers, but also by complex structures of cross-shareholding interests. A group of 12 top companies, constituting the core of a *Keiretzu*, can become completely autonomous from external shareholders if each company possesses 5% of shares in the others: the majority of shares of each member of the group is possessed collectively by the other members. As a consequence the managers, without personally possessing a single share, can *legally* control the entire group if they act in concert. But they can of course control a wider set of companies if the core group has relevant stakes in other, subordinate members of the Keiretzu.

The German system is even more revolutionary. Manufacturing companies are organised in hierarchical structures sustained by financial linkages and shareholding blocks led by banks. Each bank has command over at least one of these structures, so that personal shareholders are deprived of any residual control. The interesting point is that each bank is controlled by no shareholder other than the other banks, so that the bank managers, even if they do not own shares, can *collectively* control the entire system without being obliged to account to outsiders. In other words, the banks' capital is collectively self-owned.[17]

This poses three fundamental theoretical problems: who is the *formal* subject of the accumulation and production processes, if it is not the personal owner? who is the *material* subject, if the formal one is not a physical person? which institution is at the basis of labour exploitation, if it is not the private ownership of the means of production?

These problems had already been implicitly worked out by Marx, who did it by playing with a Hegelian dialectic reasoning according to which the totality of capital, through the laws of competition and accumulation, compels the individual owners to serve its own goals, i.e. the goals of a universal subject. Thus the capitalists are properly, although still in a vague sense, "functionaries of capital". Marx also clarified that capital is a social relation and not just a thing, meaning that capital constitutes itself as a self-valorising subject only when it establishes a social relation with wage labour. The problem with these ideas is that they reduce capital to an hypostatized and unreal subject. You can surmise how it operates, but you cannot see it. And you cannot see it because the firm, in classical capitalism, is not a person but a thing belonging to a person. How can a thing be a subject? And how can a person be an instrument of a thing, let alone of the totality of things? Yet the evolution of

[17] Another case of self-ownership of capital is that of a firm who buys the majority of its own shares. If self-owned shares have a right of vote at the shareholders' meeting, then that firm is considered as legally self-owned and, in fact, legally controlled by its managers. Self-owned shares, though, are not entitled to a right of vote in many modern legal systems. Yet this is a residue of a traditional conception of the firm as an entity possessed by external shareholders. It is a convention and, as such, may change.

capitalism has confirmed Marx's arguments, in the twofold sense that it has proved their validity and has given them a real content.

The formal subject of the accumulation and production processes in pure capitalism is the capitalist firm or, rather, the set of capitalist firms which are collectively self-owned through cross-shareholding. These firms are legally the owners of their means of production and not things belonging to individual owners. Therefore they are not hypostatized subjects, but real social entities endowed with contractual capacity: from a formal point of view they are able to enter transaction and contractual relations with any other subject. This works out the first theoretical problem.

The second problem too has been worked out by the evolution of capitalism. *The capitalists, i.e. the material subjects of capital accumulation, are the "functionaries of capital"*, the officers of the capitalist firms. They are no longer the owners of capital, nor the shareholders' agents. But, to the extent that firms are self-owned personal entities, they are properly the functionaries of the firms. An organisation may be the formal subject; it cannot be the material subject, though, because an organisation as such does not have a mind and cannot take decisions. Its mind is in reality the mind of its managers. Its decisions are its managers' decisions. Its goals are the managers' goals. And since these, by virtue of a personal interest in power, pay and prestige, coincide with the firms' growth, we can say that the goal of capitalist firms is capital accumulation. Moreover the personal interests of the managers cannot be arbitrary, since their activity is regulated by accumulation governance structures that discipline and select the individuals in such a way that they have to serve capital accumulation: only those managers who correctly define their personal goals and efficiently pursue them are selected and rewarded. The correct personal goals are those which coincide with the growth of the firm.

Finally, the evolution of capitalism also enables us to give real content to the view that capital is a "social relation". Marx gave a twofold meaning to this concept. On the one hand, he intended it as the authority relationship constituted through the exchange of labour power; on the other, as the functional relation by which dead labour subsumes living labour in its self-valorisation process. But the authority relationship established in the employment contract, in classical capitalism, is still a relationship between a *personal* employer and a worker, and has still much of the flavour of Hegelian servant-master dialectics. Worse still, it is not an *authority* relationship proper, i.e. a power relationship formally constituted as the function of a role and a position in an organisation hierarchy. Furthermore, insofar as "dead labour" as such does not enter the employment contract, one cannot understand how it can subsume anything under itself. Not dead labour, but its owner is the contracting party who tries to subsume living labour.

All this dialectic mist is dissipated when we realise that dead labour is none other than the capitalist firm. It really can subsume living labour in its self-valorisation process if it is a self-owned legal subject. It does this by means of the employment contract, which is now to be interpreted, not as a transaction between two individual persons, but as an institution constituting the social relations in which the firm consists. In entering into the employment contract a worker undertakes the obligation to work under the command of the other party. The other party pays a wage in exchange for the prerogative of commanding labour activity. But it is an organisation. It is structured in the form of a hierarchy of functional positions endowed with authority and constrained by obligations. This very structure is the structure of social relations in which capital consists. The capitalist firm is constituted by the employment contracts into which it enters, in the sense that the authority relations established through this institution give it life. In fact it cannot work, it cannot even exist without such relations. The capitalist firm is a nexus of contracts *of employment*. Thus the relation linking the workers to capital is not a relation with a person. The firms' officers who exert command over labour, do not do it in the form of personal power, but by virtue of their role in the firm's hierarchy, i.e. in a form legitimised by an authority position. Their power is legally delegated by the firm, and "dead labour" really and formally consists in the organisation. Now it is possible to understand the deep sense in which capital is a social relation: it is the system of obligations, prerogatives and constraints that regulate labour activity in the capitalist firm.

On sources

The notion of "mode of production" comes from Marx, but does not precisely coincides with that used in Marxist theory. In the *Introduction* to *A Contribution to a Critique of Political Economy*, a mode of production is defined on the grounds of an "economic base" and a legal-political and ideological super-structure, the economic base being articulated into a set of "productive forces" and "social relations". My approach differs from this mainly in that, instead of focusing on social and material relations proper, I concentrate attention on the institutions that regulate them. Furthermore, instead of the notions of "economic base", "forces of production" and "social relations", I use those of "labour utilisation subsystem" and "distribution-allocation subsystem", the latter being successively split into those of "property rights regimes" and "accumulation governance structures". These differences are less substantial than might seem at first glance. They boil down in fact to a differentiation in method: in the present chapter I practice institutional analysis rather than social analysis. A more relevant divergence stems from the tendency of Marx and most Marxists to consider the economic base more important than the legal-political and ideological superstructure, even worse, often to reason as if there were a one-way causal link between the former and the latter. On this problem I took advantage of a Gramsci's teaching: that the ideological and political spheres are no less important than the economic one in determining the structure and dynamics of capitalism, and that the causal links between the different spheres are complex, multifaceted and certainly not one-sided. Yet there is an aspect in which the labour utilisation subsystem is more important than the others: it is the sphere where the most fundamental institution of capitalism is defined.

The theory of "capitalist forms" or "institutional forms of capitalism" freely draws from some streams of thought that flourished in the 80s, particularly the so-called "Regulation school" and "Social Structure of Accumulation school". Literature in this field is so extensive now, that I hope to be excused if I cite only some essential works: M. A. Aglietta (1979), A. Lipietz (1987), G. D. De Bernis (1990), D. M. Gordon (1980), D. M. Gordon, R. Edwards and M. Reich (1982), J. O'Connor (1984), S. Bowles, D. M. Gordon and T. E. Weisskopf (1986), H. Gulolp (1989) , D. M. Kotz (1990).

The idea that institutional stability hinges on the interaction between the technological structure and the property rights regime of a capitalist form was developed by U. Pagano (1991a, 1991b) and U. Pagano and R. Rowthorn (1994), by combining contributions of some neo-institutional economists, such as S. Grossman and O. Hart (1986) and O. Hart and J. Moore (1990), and some radical economists, such as H. Braverman (1974), R. Edwards (1979), S. A. Marglin (1974), D. M. Gordon, R. Edwards and M. Reich (1982). G. M. Hodgson (1984, 1988, 1993) developed the idea that no institutional system can ever be pure and that institutional variety plays an essential role in sustaining institutional evolution.

On classical capitalism I limit myself to refer to three classics: Adam Smith's *Wealth of Nations*, Karl Marx's *Capital*, and Karl Polanyi's *The Great Transformation*. As is well known, a first, deep and insightful attempt at analysing the modern form of corporate capitalism was made by Marx in chapters 23 and 27 of *Capital*. But the path-breaking work in this field was done by Berle and Means (1933).

Contemporary literature on modern capitalism and the role banks and the markets for corporate control play in governing accumulation is boundless. Let me therefore refer to just two comprehensive and perceptive general treatments, namely, P. Milgrom and J. Roberts (1992) and F. Barca (1994). Some more specific contributions I have taken advantage of are: M. Bianco (1994), T. Bresnahan, P, Milgrom and J. Paul (1991), K. Iwai (1997), J. Stein (1989), J. F. Weston, K. Chung and S. Hoah (1990) and R. Zeckhauser and J. Pound (1990). Finally, on the role played by hierarchy and pay in disciplining and motivating the functionaries of capital, I have found especially useful the following: H. F. Lydall (1959), P. B. Doeringer and M. J. Piore (1971), H. A. Simon (1979, 1982), E. Lazear and S. Rosen (1981), R. A. Lambert, D. F. Larcker and K. Weiglet (1989), J. M. Abowd (1990), C. Jensen and K. J. Myrphy (1990) and S. Rosen (1990).

This chapter develops materials I already dealt with in three essays (Screpanti, 1992, 1999a, 1999b), to which I refer for extensive bibliographies.

The second of these essays defines the notion of an “institutional system”, while the first elaborates the idea that the different types of capitalism observed in history are transitional forms tending to “pure capitalism”. The reconstruction of different institutional forms of capitalism on the ground of the concepts of “property rights regimes” and “accumulation governance structures” was attempted in the third essay.