

CHAPTER 6

FACTS THAT CHANGED CAPITALISM

Over the last fifty years a new class has made its appearance on the stage of history. This class may be called the new middle class, salaried middle class, bureaucratic class, technobureaucratic class or just technobureaucracy. It originally emerged in capitalist countries, but rose to political power in the Soviet Union and later in countries under communist parties' rule. In developing countries, this new class grew in power and influence by asserting its control over the armed forces and the state apparatus. It is a considerable force even in capitalist countries, holding sway in government and corporate enterprise. These new actors on the historical scene are the outcome of new relations of production. In contrast to classical capitalism, I will call the abstract economic system, which corresponds to these new forms of property and organization, the technobureaucratic mode of production.

It is only in the Soviet bloc and in China that this technobureaucratic mode of production has become dominant. For a while it seemed that this mode of production would become dominant all over the world. Fears and the sensation of insecurity were enormous for many years in the capitalist societies. More recently these fears proved unreal as the slackening in the rate of economic growth in Soviet Union and Eastern European countries has led this form of domination to a deep crisis. The perestroika and glasnost in the Soviet Union were the first consequences of this crisis. The 1989 democratic revolution in Eastern Europe is the signal of the failure of statism or communism. As a long term form of economic organization of society technobureaucratism proved not viable.

There is no doubt as to the strength of capitalism in the western world today, but it is also quite obvious that this system is changing very rapidly. Changing in such way that the classical characteristic of capitalism are disappearing. Yet it is quite likely that long after the capitalist mode of production has disappeared from the face of the earth, there will still be those who affirm that we are in the heyday of capitalism, though it may be a "capitalism" with neither capital nor bourgeoisie, neither profit nor market.

It is clear today that technobureaucratism is not a real alternative to capitalism.⁴¹ As an economic system, it only showed effectiveness in the first stages of economic growth. Politically, it was not able to incorporate democracy,

⁴¹ As observes Adam Przeworski (1989), if capitalism is economically irrational, socialism (that he does not distinguish from statism) is unfeasible. The failure of statism, however, does not invalidate the socialist critique to capitalism.

while capitalism was. But the concept of technobureaucratism and of technobureaucracy remain essential not only if we want to understand the statist, the self-called communist societies, but also contemporary capitalism - a capitalism that quite appropriately could be called technobureaucratic capitalism.

In this part of the book I will present the theory of the technobureaucratic mode of production. It represents a theoretical tool for the understanding of capitalism, as long as we acknowledge that there is no such a thing as "pure capitalism", that contemporary capitalism is the mixed reality of capitalism and technobureaucratism. In this chapter I will examine the historical facts are behind the theory of the technobureaucratic middle class. These historical facts are changing or already changed capitalism in a profound manner.

1. The facts behind the theory

The historical facts that in this century changed the face of the world and are in the basis of the theory of technobureaucratic capitalism can be classified or enumerated in many ways. Six of them, however, are worth emphasizing:

1. Economic development has become an explicit goal of modern societies, and the state has taken on the main responsibility for the fulfillment of this goal. Marx once said that historically people establish objectives for themselves when they have a chance of achieving them. This is particularly true in relation to economic development. It was only in the second part of this century that economic growth became an explicit and major objective of societies. This was possible when modern society understood that, through the deliberate action of the state, through long term economic and social policy it was possible to promote growth and welfare.

Before that, in the end of last century, the major role of the state in promoting capitalist economic growth was demonstrated in the cases of Germany and Japan. Analyzing the backward industrialization of Eastern Europe in this period, Gerschenkron (1965) developed a theory that said: the later the industrialization in relation to England's and United States' industrial revolution, the larger will be the role of the state. In the 1930s the rise of Keynesian economic theory and policy together with the successful experiences of Soviet planning established the decisive role of state bureaucracy in promoting economic growth and social welfare.

The neo-liberal challenge to state intervention in the 1970s and 1980s is a consequence of the cyclical character of the growth of the state. It is a sign that

state intervention went too far. The neo-liberal governments in Britain, United States and Germany were then successful in establishing limits to the growth of the state, but did not succeed, or succeed in a very limited way, in reducing the state bureaucracy and the welfare functions of the state⁴².

6. The "socialist" revolutions were initially successful in developing a new strategy of industrialization, but the statist mode of production finally proved not viable as a long term form of organization of society. In statist social formations, i.e., in "existing socialism", there were no Schumpeterian entrepreneurs, but industrialization was initially successful. A group of technobureaucrats occupying the state apparatus was able to act as capitalists in accumulating the means of production. As opposed to the previous historical facts, in this case the state did not limit itself to stimulating and guiding the process of industrialization. Through its bureaucracy, the state was directly responsible for the process of economic development.

Soviet Union and the other statist countries were able to promote rapid industrialization through forced savings and economic planning. When, after World War II, it became clear to all nations that economic development was desirable and possible, and that the takeoff of capitalist industrialization depended on the conjunction of many aleatory variables, and when Soviet industrialization proved initially successful, a new and eventually attractive road to economic development was open.

Rudolf Bahro, the East German sociologist who, according to Herbert Marcuse, wrote "the most important contribution to Marxist theory and practice to appear in several decades" (1978: 25), gave special emphasis to the industrializing strategy of Soviet Union. As he said,

The specific task of these revolutions is the restructuring of the pre-capitalist countries for their own road to industrialization, the non-capitalist one that involves a different social formation from that of the European road (1978: 126)

For him, the political repression in actually existing socialism is the result of the industrial underdevelopment prevailing in these countries. The state is supposed to be authoritarian and bureaucratic given the fact that the objective to be achieved is rapid industrialization (1978: 127-128).

⁴² State expenditure as a percentage of GDP increased in the United States under Reagan and decreased slightly in Britain under Thatcher. Social expenditures were basically maintained in spite of the promise of slashing social programs. As Reg Whitaker observes, "the failure of neo-conservative 'revolutionaries' to reverse significantly the existing patterns of warfare/welfare functions is nevertheless a telling confirmation of the tenacity of the welfare state" (1987: 4).

Initially, the Soviet Union's experience in economic planning and industrial development demonstrated two things: (1) that deliberated industrialization was possible, so that it was not necessary to wait for a conjunction of favorable circumstances (a previous agricultural revolution, the primitive accumulation of capital in the hands of a group of mercantile capitalists, the capacity and motivation of this group of capitalist to turn themselves into industrial entrepreneurs, the existence of an internal market, the opportunity to reach external markets); and (2) that this industrialization could be conducted by a group of bureaucrats or technocrats who had control over the state.

However, the Soviet strategy of industrialization did not prove to be more efficient than the classical capitalist strategy, or the mixed strategy, initially state oriented and then capitalist controlled. On the contrary, in the last twenty years economic growth and the improving of standards living was quite unsatisfactory in statist countries. In some of them, particularly Poland, Hungary and Yugoslavia - that, like most Latin American countries, were caught up by the debt crisis of the 1980s - the economic crisis has been very serious. It is no coincidence that the 1989 democratic revolution in East Europe began in two highly indebted countries: Poland and Hungary.

In the Soviet Union Gorbachev, who succeeded Brezhnev as head of the government in 1985, decided on a market-oriented economic revolution, the perestroika, and on a democratically oriented political revolution, the glasnost, that triggered a unexpected and profound political transformation. In this way the Soviet government acknowledged the economic failure of statism. In China, Deng Chao Ping moved in the same direction in the early 1980s. The economic transformations, however, show a slower pace than the political transformation. In Poland, in Czechoslovakia, in Hungary, in East Germany, in Romania and Bulgaria the communist parties lost power after the 1989 democratic revolution. Paradoxically this revolution was supported by Soviet Union. As observes Michael Howard, "the liberation of Eastern Europe occurred not in face of objections from Moscow, but with positive Soviet support (1990: 23). This means that the Soviet authorities understood that, together with statism, the Soviet empire had lost "raison d'être".

In Soviet Union the results of the glasnost are also profound. The monopoly of the Communist Party was eliminated from the constitution. A democratic revolution is also under way. The amplitude of the economic transformations, however, is still limited, not only for the technobureaucratic interests and privileges that are endangered, but also because technobureaucratism is deeply rooted in these social formations. Change is needed, but the price of this change in terms of inflation and unemployment will

be very high. A revolutionary change in direction of capitalism, however, already began. The result will be a mixed economic system, that we probably will call capitalism. Business entrepreneurs are already appearing and they will increase their influence. But the basic economic and political power will remain with the technobureaucrats. In all Eastern European countries this already became quite clear. The new people in government are as technobureaucrats as they predecessors. The difference is that they profess a democratic and often a capitalist attitude, in opposition to the authoritarian and statist ideologies of the communists.

In a recent paper, Adam Przeworski says that the incapacity of anticipating the 1989 democratic revolution in Eastern Europe "was the greatest failure in the history of political science". Since the 1970s "socialism" lost its revolutionary character, the communist leadership became "bourgeoisified":

What had developed was "goulash communism", "Kadarism", "Brezhnevism": an implicit social pact in which elites offered the prospect of material welfare in exchange for silence. And the tacit premise of this pact was that socialism was no longer a model of a new future but an underdeveloped something else (1990: 1).

Sweezy and Magdoff admit that the option for a market oriented economy in Soviet Union was the consequence of the failure of the command economic system, where comparative international statistics suggest that a great deal of waste and inefficiency in the use of material inputs. Besides, investment was always oriented to the creation of addition capacity, with the neglect of the replacement of old equipment. But to this explanation for perestroika, that is consensual, they add a second one:

reformers (in Soviet Union)... reflecting the values and aspirations of the relatively privileged stratum of Soviet society to which they belong, feel in their hearts that their place in the world is with the better-off, more privileged intelligentsia of the West. (1990: 12-13).

The privileged stratum in the statist social formation is the technobureaucracy. Reform in Soviet Union was the decision of this ruling class, as their members recognized that the best way of taking part of the high-tech consumption culture of technobureaucratic capitalism was to copy it. The 1989 revolution in Eastern Europe was a broader social and political movement, as it was the result of the frustration of the masses rather than of the elites. But even there the technobureaucratic elite played and continues to play a major role in their road to some form of capitalism.

1. Economic development has become an explicit goal of modern societies, and the state has taken on the main responsibility for the fulfillment of this goal. Marx once said that historically people establish objectives for themselves when they have a chance of achieving them. This is particularly true

in relation to economic development. It was only in the second part of this century that economic growth became an explicit and major objective of societies. This was possible when modern society understood that, through the deliberate action of the state, through long term economic and social policy it was possible to promote growth and welfare.

Before that, in the end of last century, the major role of the state in promoting capitalist economic growth was demonstrated in the cases of Germany and Japan. Analyzing the backward industrialization of Eastern Europe in this period, Gerschenkron (1965) developed a theory that said: the later the industrialization in relation to England's and United States' industrial revolution, the larger will be the role of the state. In the 1930s the rise of Keynesian economic theory and policy together with the successful experiences of Soviet planning established the decisive role of state bureaucracy in promoting economic growth and social welfare.

The neo-liberal challenge to state intervention in the 1970s and 1980s is a consequence of the cyclical character of the growth of the state. It is a sign that state intervention went too far. The neo-liberal governments in Britain, United States and Germany were then successful in establishing limits to the growth of the state, but did not succeed, or succeed in a very limited way, in reducing the state bureaucracy and the welfare functions of the state.⁴³

2. The "socialist" revolutions were initially successful in developing a new strategy of industrialization, but the statist mode of production finally proved not viable as a long term form of organization of society. In statist social formations, i.e., in "existing socialism", there were no Schumpeterian entrepreneurs, but industrialization was initially successful. A group of technobureaucrats occupying the state apparatus was able to act as capitalists in accumulating the means of production. As opposed to the previous historical facts, in this case the state did not limit itself to stimulating and guiding the process of industrialization. Through its bureaucracy, the state was directly responsible for the process of economic development.

Soviet Union and the other statist countries were able to promote rapid industrialization through forced savings and economic planning. When, after

⁴³ State expenditure as a percentage of GDP increased in the United States under Reagan and decreased slightly in Britain under Thatcher. Social expenditures were basically maintained in spite of the promise of slashing social programs. As Reg Whitaker observes, "the failure of neo-conservative 'revolutionaries' to reverse significantly the existing patterns of warfare/welfare functions is nevertheless a telling confirmation of the tenacity of the welfare state" (1987: 4).

World War II, it became clear to all nations that economic development was desirable and possible, and that the takeoff of capitalist industrialization depended on the conjunction of many aleatory variables, and when Soviet industrialization proved initially successful, a new and eventually attractive road to economic development was open.

Rudolf Bahro, the East German sociologist who, according to Herbert Marcuse, wrote "the most important contribution to Marxist theory and practice to appear in several decades" (1978: 25), gave special emphasis to the industrializing strategy of Soviet Union. As he said,

The specific task of these revolutions is the restructuring of the pre-capitalist countries for their own road to industrialization, the non-capitalist one that involves a different social formation from that of the European road (1978: 126)

For him, the political repression in actually existing socialism is the result of the industrial underdevelopment prevailing in these countries. The state is supposed to be authoritarian and bureaucratic given the fact that the objective to be achieved is rapid industrialization (1978: 127-128).

Initially, the Soviet Union's experience in economic planning and industrial development demonstrated two things: (1) that deliberated industrialization was possible, so that it was not necessary to wait for a conjunction of favorable circumstances (a previous agricultural revolution, the primitive accumulation of capital in the hands of a group of mercantile capitalists, the capacity and motivation of this group of capitalist to turn themselves into industrial entrepreneurs, the existence of an internal market, the opportunity to reach external markets); and (2) that this industrialization could be conducted by a group of bureaucrats or technocrats who had control over the state.

However, the Soviet strategy of industrialization did not prove to be more efficient than the classical capitalist strategy, or the mixed strategy, initially state oriented and then capitalist controlled. On the contrary, in the last twenty years economic growth and the improving of standards living was quite unsatisfactory in statist countries. In some of them, particularly Poland, Hungary and Yugoslavia - that, like most Latin American countries, were caught up by the debt crisis of the 1980s - the economic crisis has been very serious. It is no coincidence that the 1989 democratic revolution in East Europe began in two highly indebted countries: Poland and Hungary.

In the Soviet Union Gorbachev, who succeeded Brezhnev as head of the government in 1985, decided on a market-oriented economic revolution, the perestroika, and on a democratically oriented political revolution, the glasnost,

that triggered a unexpected and profound political transformation. In this way the Soviet government acknowledged the economic failure of statism. In China, Deng Chao Ping moved in the same direction in early 1970s. The economic transformations, however, show a slower pace than the political transformation. In Poland, in Czechoslovakia, in Hungary, in East Germany, in Romania and Bulgaria the communist parties lost power after the 1989 democratic revolution. Paradoxically this revolution was supported by Soviet Union. As observes Michael Howard, "the liberation of Eastern Europe occurred not in face of objections from Moscow, but with positive Soviet support (1990: 23). This means that the Soviet authorities understood that, together with statism, the Soviet empire had lost "raison d'être".

In Soviet Union the results of the glasnost are also profound. The monopoly of the Communist Party was eliminated from the constitution. A democratic revolution is also under way. The amplitude of the economic transformations, however, is still limited, not only for the technobureaucratic interests and privileges that are endangered, but also because technobureaucratism is deeply rooted in these social formations. Change is needed, but the price of this change in terms of inflation and unemployment will be very high. A revolutionary change in direction of capitalism, however, already began. The result will be a mixed economic system, that we probably will call capitalism. Business entrepreneurs are already appearing and they will increase their influence. But the basic economic and political power will remain with the technobureaucrats. In all Eastern European countries this already became quite clear. The new people in government are as technobureaucrats as they predecessors. The difference is that they profess a democratic and often a capitalist attitude, in opposition to the authoritarian and statist ideologies of the communists.

In a recent paper, Adam Przeworski says that the incapacity of anticipating the 1989 democratic revolution in Eastern Europe "was the greatest failure in the history of political science". Since the 1970s "socialism" lost its revolutionary character, the communist leadership became "bourgeoisified":

What had developed was "goulash communism", "Kadarism", "Brezhnevism": an implicit social pact in which elites offered the prospect of material welfare in exchange for silence. And the tacit premise of this pact was that socialism was no longer a model of a new future but an underdeveloped something else (1990: 1).

3. The bureaucratic organizations take control of production and technological development guarantees economies of scale in production. A fundamental characteristic of the system of production of goods and services in the second half of the twentieth century is that it is no longer mainly carried out by family businesses, having been taken over by bureaucratic organizations. In

terms of the market, this has represented a change from the competitive capitalism of "firms" to the oligopolistic capitalism of "corporations". In sociological terms, this means that most production, except agricultural, is no longer conducted mainly by informal social systems - the family itself or family businesses. Now it is carried out mainly by bureaucratic organizations administered according to criteria of efficiency by professional managers. Bureaucratic organizations have not only become the main parties responsible for production - except agricultural production - for distribution and for financing, but also, through the state apparatus, they have assumed major responsibility in the overall coordination of the economy.

The predominance of the bureaucratic organizations could only be possible if there were a series of technical and administrative developments that would make large scale production more efficient. This is exactly what has happened: (1) through the development of production techniques such as the assembly line, automated production by continuous process, automated production controlled by computers, the Japanese "just in time" system (see Daniel and Wornack, 1985), or robotized production; (2) through the introduction of specific technologies, such as blast furnaces in modern steel production that demand very high minimal investments; (3) through the development of organizational techniques such as the model of functional-decentralized organization described by Chandler (1962); (4) through administrative techniques such as decentralization and control by objectives, or integration between assembly companies and suppliers developed in Japan (see Crisciuna, 1986); or (6) through the development of information systems based on computers.

All of these technological and administrative developments made the big corporations more efficient, and increased the scope of the bureaucratic organizations. Some cases, such as the development of crude monopoly power or the establishment of internationally known brands through advertising, were not exactly achieved through the use of economies of scale, but the result has been the same: to make viable or favor large scale production carried out by bureaucratic organizations.

4. Technical and organizational development have become new strategic factors for production, supported by theoretical rather than empirical knowledge. Galbraith (1967) noticed that capital is had begun to no longer be the strategic factor for production. According to him, power belongs to whomever has control over the factor of production that is scarce at the margin. Given this definition the new strategic factor of production is, or tends to be, technical and organizational knowledge. Daniel Bell (1973), in turn, noted that technological innovation no longer has a dominant empirical foundation. Theoretical or

scientific knowledge now has become more important for entrepreneurial decision-making. These two new historical facts are linked. On the one hand, new techniques save more and more capital and are more technologically sophisticated. As a result, the law of the falling rate of profit formulated by Marx no longer holds in practice (see Bresser-Pereira, 1986). The price of capital goods falls in relation to their productive capacity at the same time that the technical knowledge incorporated in them becomes more sophisticated. In the computer industry, for instance, hardware has become cheaper while software has become more important. On the other hand, this technical development begins to no longer have only empirical bases. Until the end of the nineteenth century, for example, decisive innovations such as electricity and the telephone had only an empirical base. Today, it is almost impossible to have an important technological advance without a solid scientific base.

5. In large capitalist corporations, the growth of shareholder control has led to a separation between control and ownership. This historical fact was first observed by Berle and Means (1932). Subsequent empirical research, such as that of Goldsmith and Parmelee (1941), Robert Lerner (1966), John Palmer (1972), and Edward Herman (1981), confirmed the empirical observations of Berle and Means, and have shown that management control tends to be increasingly dominant as time goes by. Other studies, such as those of Maurice Zeitlin (1974), which emphasizes minority control, of Jorge Niosi (1980) on Canadian companies, and of John Scott (1979) on Scottish ones, reject the managerial thesis but do not succeed in demonstrating the general tendency shown by Berle and Means to be incorrect. Some writers like S. Menshikov (1969), Jean Marie Chevalier (1970) and David Kotz (1978) tried to go back to the old ideas of Hilferding (1910) and Lenin (1917) on finance capital - the fusion of banking capital and industrial capital under the hegemony of the former -, developed for Germany at the beginning of the century. The theory of finance capital, however, was not confirmed in practice, being dismissed by Baran and Sweezy (1968), and definitely rejected by Jorge Niosi (1978).

Lastly, Marxist or neo-Marxist economists and sociologists, such as Paul Sweezy (1942), Wright Mills and Gerth (1942), and Gabriel Kolko (1962), tried to collect alternative data. The weight of the empirical evidence, however, became so great that in 1975, a representative of the theory of capitalist society, Michel De Vroey, practically admitted the separation between ownership and control, and, clearly as a fall back position, choose to emphasize the limits of the managerialist interpretation, saying that this fact would not represent a major change in capitalism. As De Vroey says:

The separation of ownership and control... in no way alters the fundamental dynamics of the capitalist mode of production. Marx's view was rather that it renders exploitation more evident since it helps to avoid confusion between profits and the owner's salary as manager. (1975:4)

In the last part of the article, De Vroey also tries to disqualify the research carried out in the United States that shows the increase of management control and therefore the reduction of stockholders' control. However the basic idea in his paper is that the empirical fact of an increasing separation between ownership and control was accepted.

The separation of ownership and control in the large American corporations is indisputable. In other capitalist countries this separation is not so advanced - in Brazil, it is only beginning (see Bresser-Pereira, 1974) - but everything indicates that in all capitalist countries it is growing. Once this fact is established, it is hard to support the statement that the separation of ownership and control in no way alters the fundamental dynamics of the capitalist mode of production. Doubtlessly the hurried conclusion of the managerialists, according to which the capitalists have lost all their power to their managers, is untenable. As Scott and Zeitlin both emphasize, control through a "constellation of interests" and through minority control, where a group of shareholders maintains effective control of the corporation, is still very important. Even when there is effective management control, the managers are still the representatives of the shareholders. Moreover, the logic of their action does not essentially change, since their corporations operate in a capitalist market, profits continue to be their basic motivation and the top managers eventually become capitalists themselves. But when professional managers instead of owners directly control the corporations, it is hard to believe that they remain the same, that the relations of production are not partially changed - that the way they are managed, their objectives, and, specially, the social formation in which they operate remain the same. The basic idea that I will try to develop is that contemporary capitalism is a mixed social formation, dominantly capitalist but increasingly statist. Consequently corporations are mixed social systems. They should obey two logics: the profit-oriented logic of capital and the expansion oriented logics of bureaucratic organization.

2. The limits of the organization

If we put together these six historical facts, they have in common that a bureaucratic or technobureaucratic group has assumed a decisive role in the management of the economy and society, as bureaucratic organizations and technological progress become more and more important: this can be seen in the advanced capitalist countries, through the control of the large corporations and of the state, in the underdeveloped capitalist economies through the orienting and stimulating action of the state, and in existing socialism, through the direct control of the state. The state bureaucratic organization has partially replaced

market coordination everywhere. In the advanced capitalist countries corporations also participate in this process of market substitution. The "visible hand" of management, in the words of Alfred Chandler (1977) has partially replaced the visible hand of the market. What happened was "the bureaucratization of the world", according to Henry Jacoby's (1969) exaggerated but significant expression.

This substitution was possible because of the techniques of social organization - the capacity to develop and manage large state or private bureaucratic organizations - increased extraordinarily. Every time that new techniques of administration, communication and control were developed, it was possible to expand the scope of management and to diminish the role of the market.

The limits of this movement, however, also became quite clear in recent years, as we saw in the last chapter the growth of the state has a cyclical character. There is no automatic control system for the growth of the bureaucratic organization. They tend to grow beyond what is economically efficient. After the first positive results the excesses of technobureaucratic control soon begin to appear. If this is true for the growth of the state, it is also true for the modern corporations. After all economies of scale are not so big. After all the myth that management can assure stable growth for the large corporations and for capitalism is just a myth, as it was a myth that communist technobureaucrats would assure stability for the growth of statist economies.