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BREAKING NEW GROUND
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ETHICS AND DEVELOPMENT – BETWEEN WELL-BEING, LIVELIHOOD AND MARKET

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Abstract
In today's development discourse, the implementation and facilitation of a liberal market economy is assumed to be the crucial asset to success in the developing world. However, this article elaborates on the role of ethical values such as freedom, justice and care as necessary for a development concept that is concerned with the improvement of people's well-being and livelihood. It therefore takes as a point of departure the ethical capabilities of people, and sees this as important for daily interaction and economic behaviour, while concurrently claiming that substantial understanding of freedom, justice and care has developmental features when exercised at the national level. The Listian concept of "capital of mind" augmented with the Aristotelian urge for "Eudaimonia" constitute the basis for this elaboration.

INTRODUCTION

> *Concern for our happiness recommends to us the virtue of prudence; concerns for that of other people, the virtues of justice and beneficence; of which, the one retains us from hurting, the other prompts us to promote happiness.*
>
> Adam Smith (1759) *The Theory of Moral Sentiments:* 262

Current conventional wisdom within developmental discourses assumes that economic progress in the developing world is bonded to participation in the global market system. The impact of this assumption on development discourse has been considerable in the last few decades. Modernisation, another key word in development discourses, is also ingrained; it implies a transition from the traditional to the modern, where the latter should manifest in the capitalism inherent in liberal markets around the world. Following this logic, development is a repetition of "western" economic history in the developing world. Many countries belonging to the so-called developing world, supported by the World

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Bank, the International Monetary Fund and the World Trade Organization, appear to place their faith in this panacea of modernisation.

However, while implementing a liberal market economy globally, values and ethical capabilities and attached economic behaviour seem to be unimportant and not part of economic and developmental considerations. In contrast to Adam Smith's normative approach noted above, the neoclassical actor is assumed to be neutral regarding the ethical values influencing economic behaviour. This is deeply related to the modelling of neoclassical theory, where ethical values do not fit into an analysis built upon a non-normative positivistic paradigm. Amartya Sen argues in his book, *Ethics and Economics* (1987:7), that:

> *The methodology of the so-called "positive economics" has not only shunned normative analysis in economics, it has also had the effect of ignoring a variety of complex ethical considerations which affect actual human behaviour and which, from the point of view of the economists studying such behaviour, are primarily matters of fact rather than of normative judgement.*

Cultural variables such as ethical values are important to recognise while analysing development processes and strategies, where "development and culture are linked in a number of different ways" (Sen 2000). Since values in an ethical sense are constituted ends of the development process that help to ensure well-being, they are also means (tools of understanding and action) within the same process. Values regulate perception within social interaction, and they influence decisions at the social, political and also at the economic level.

The concept of well-being is thus linked to its societal context since it defines ethical values that are important for individual action. Sen (1999) expounds upon this with his capability approach, emphasizing the possibility to include values in the understanding of well-being. In his well-known book, *Development as Freedom* (1999:74), he explains:

> *The object [to achieve well-being] is to concentrate on the individual's real opportunity to pursue her objectives (as Rawls explicitly recommends), then account would have to be taken not only of the primary goods the person respectively holds, but also of the relevant personal characteristics that govern the conversion of primary goods into the person's ability to promote her ends.*

Well-being is, in this analogy, achieved when people have the opportunity to fulfil their objectives. This includes not only the objective of primary goods such as

food and clothing, but also the possibility to exercise ethical values important for the individual and society at large. This explanation of well-being has profoundly been captured by the Aristotelian concept of *Eudaimonia* that defines "human good, or human happiness" as the urgent centre of all human action (Aristotle 2000:X).

The particular role of ethical values in the development process is, therefore, an essential feature to be explored. This article will try to explore the role of ethical values for economic development on the national level (measured as growth) as well as for the well-being and livelihood of people. The significance of values for day-to-day acting on the micro level will be explained and outlined in the next section. This will be followed by the elaboration on the role of values within a peasant society. This part will emphasise the essential significance of values for survival and development in the context of a developing country. The last section of the article will explore the role of values for economic policies, national development and their importance on national development.

ETHICAL VALUES AND ECONOMIC BEHAVIOUR

To expound on the role of ethical values for economic behaviour and development, this article will take advantage of Irene van Staveren's ethical approach to economics. In her book, *The Values of Economics – An Aristotelian Approach* (2001), she identifies three important values for economic behaviour and subsequently national development: *freedom*, *justice* and *care*. These core values play a pivotal role for social and economic behaviour. Exercised together they ensure, on the one hand, people's well-being and, on the other hand, they influence people's way of interaction and economic behaviour. In contradiction to neoclassical rationality and utility maximisation, Van Staveren (2001) emphasises the importance of these values. Without the intrinsic value of freedom, the liberal market economy would not function as predicted by neoclassical theorists. To declare the value of freedom as natural to human life and not as a virtue is to neglect its social and economic role, especially when it might otherwise be absent.

The freedom of people to choose between products, employment, life styles and so on is the most significant virtue of neoclassical theory. Without the embedded value of freedom – according to the logic of neoclassical theory – markets cannot work properly and the allocation of capital and productive means is flawed. The often-cited "invisible hand" would not be able to act freely, which is presumed to be essential for the effective function of free markets. "Voluntary exchange," as

Van Staveren puts it, "is deemed a 'beautiful' instrument that is important to efficiency, a statement that can hardly be seen neutral" (Van Staveren 2001:26, emphasis hers).

Furthermore, the values of freedom need the "assistance" of justice in order to ensure the function of a liberal market economy. Justice guarantees all participants the freedom of participation based on equal terms. In contrast to the *formal* neoclassical explanation, the *substantial* dimension of justice needs to be integrated. People fill the formal concept of justice with urgent ethical capabilities, so that justice can be done substantively as far as people's needs and problems that arise from and are inherent within as the economic system exercised. The ethical value of justice emphasises that people are able to recognise what is just and what is not. People need to seize responsibility in the world of free markets, and this responsibility connects justice to the value of care. Van Staveren (2001) points to the ethical value of care as an essential part of freedom and justice. Freedom can only be exercised within a certain context of care. The value of care points to a concept constituted by people, a value that takes its departure from the relationship people have to each other. While being contextual and not universal in its approach, care is not "enforced" as an moral obligation but rather constituted "on the basis of contingent needs arising from human vulnerability" (Ibid.:39).

The interrelation between freedom, justice and care is characterised by the Aristotelian intermediate state wherein values are exercised between the state of *excess* and the state of *deficiency*. Aristotle (2000:9) explains in the *Nichomachean Ethics,* Book II:

> *[...] that excellence of character is an intermediate state, in what way it is intermediate between two bad states, one relating to excess and the other to deficiency; and that it is such because it is effective at hitting upon the intermediate in affections and in actions.*

A balance between freedom, justice and care ensures that no one value is exclusively determining the actor's behaviour. To further explain this point, the excess of the value of freedom can serve as an example. When exercised unattached to justice and care, another person could suffer from his or her behaviour if justice and care measures are not part of action. The integration of justice and care sustains the actor's social relationship and prevents others who might suffer from an exaggeration of free exchange. The inclusion of all values leaves the actor in a social position, which enables her or him to further engage in

social relations that in turn benefits the actor's economic and social opportunities. Economic behaviour is, therefore, influenced by ethical capabilities that are connected to the values of freedom, justice and care. Only the recognition of all three values ensures the *Eudaimonia* for all. The neoclassical dichotomy between the *economic man* and the *social man* has, in this approach, been given up and exchanged for an actor who possesses and exercises all ethical capabilities. Economic behaviour is, therefore, not only reliant on the formal opportunity to exercise utility maximisation but is also related to societally recognised virtues. However it is crucial to understand that freedom, justice and care might be exercised and interpreted differently in various societal contexts. However, following Aristotle and Sen, all of these actions need to be exercised for the sake of the *good for all.*

FORMAL AND INFORMAL INSTITUTIONS

Having explained the significance of values at the micro level – that is to say in between people – the following will explore the role of institutions for the mediation and interpretation of values between people as well as between people and institutions. The institutional role for value constitution and mediation is relevant because institutions convey different understandings of the values of freedom, justice and care. However, to put the societal function of institutions in a wider perspective, it is necessary to explain the different roles of *formal* institutions and *informal* institutions.

Formal institutions are, in this approach, regarded as being directly attached to the economic system, as exercised at a certain point of time. They guide interaction between the individual and the implemented economic system. The market, for example, is the vital formal institution for the liberal market economy. It sets the rules for how individuals can engage in economic interaction and how justice and care are executed. With its focus on free exchange, the market conveys a different interpretation of freedom, justice and care when compared to, for example, rural African exchange systems and social networks. The latter will be explained in the following section of this article. However, the mediation of values between society and people is also influenced by formal institutions (e.g. market and welfare state), which are at the centre of the respective economic system.

In contrast to the formal is the informal institution, understood as a phenomenon at the social level. It mediates values between people. The institution of marriage, for example, is such an informal institution. Marriage is exercised differently in distinctive cultural and social contexts. Beteille defines such institutions as "a

social arrangement that has not only a certain form and function, but also a certain legitimacy and meaning by its individual members" (Beteille in Giri, 2002:251). An informal institution like marriage varies from society to society and displays different values and inhabits distinct "routines," which determines its function at the societal level (Berger and Luckmann 1972:71). Informal institutions, which are different from those imposed by a ruling power, are based on a deliberate process taking place between individuals. Berger and Luckmann (1972) talk about a dialectal interaction between the socially constructed world and the individual (Ibid.:79).

Informal institutions are a product of "grassroots" interaction; one can talk about a bottom-up process of implementation, whereas the formal institution is understood as a top-down institution implemented by a political elite. Both kinds of institutions fulfil two essential roles in relation to freedom: justice and care. On the one hand, these institutions "enable mediation" between the individual and society, as they ensure that these values will have an impact on other value domains (e.g. justice and care will have an impact on freedom); and on the other hand, these institutions "constrain mediation," which means that negative outcomes of the employed economic system are counterbalanced by formal institutions such as the welfare state (formal level) and social networks exercising justice and care at the informal level (Van Staveren 2001:179). Both exemplify the function of institutions on the formal and informal level, while supporting (re)distribution (the value of justice) and taking care of people in need (the value of care).

THE PEASANT ECONOMY – AN INFORMAL INSTITUTION

The peasant economy, explained by Göran Hyden (1983) with the description of "economy of affection," will serve as an example of a distinguished African informal system that displays how the social *and* economic organisation of a society is interrelated and constitutes an important source for value formation. Hyden's concept is taken as an example because it profoundly explains how socially and economically rooted values are part of economic and social considerations in a rural African context.

Hyden's "peasant mode of production" is characterised by a rudimentary division of labour, where rural dwellers live in a "structural independency" with each other (Hyden 1983:6). This mode of production is, in the view of Hyden, a barrier to trade at the national economic level and prevents national economic development. It additionally reduces the possibility of attaining surplus and further investment in

more advanced productive means (e.g. new agricultural methods, machines, etc.). In the eyes of Hyden, this type of peasant production is pre-capitalistic in its construction and is, therefore, unattached to the national economic systems (Ibid.:6-7).

Pekka Seppälä adds that "village economics" are tremendously influenced by the question of "how people give a value and compare things" (Seppälä 1998:13). "Economics," so he states, "is here first of all a language for a discourse which tries to answer how people manage a specific balancing operation between maximising individual interests and following a cultural pattern" (Ibid.). This discourse points to the Aristotelian balancing between the values of freedom, justice and care described by Van Stavaren (2001). The *cultural pattern* Seppälä points to is the exercise of ethical capabilities related to the three core values within the economic domain. Economic behaviour attached to those values fulfils a social function of this economic behaviour taken by the individual. Hyden (1983) explains three of these social functions in his approach, and these will be outlined below.

The first function the peasant economy is concerned with is the "*basic survival"* of its members (Hyden 1983:11). This points, on the one hand, to a kind of welfare function and, on the other hand, to a kind of "micro finance institution," where people borrow money from each other. To obtain formal loans on a small scale is nearly impossible for peasants living in rural Africa (Hyden takes his examples from rural Tanzania), and the "face to face nature" of relationships makes it impossible for "rich" neighbours, friends or relatives to run from the "mutual obligation" of help (Ibid.). This help is not restricted to small cash loans because they are expanded further as help in the form of clothing, food and mutual childcare. These informal networks, grounded in the *economy of affection*, engage spontaneously when problems occur.

The *mutual obligation* to help the one in need includes not only *basic survival* but also a second function, namely "*social maintenance"* (Ibid.:13). The social and economic function of the peasant organisation maintains relationships between family members, neighbours and relatives that help each other financially and personally, for example in cases of weddings and burials. Those occasions often consume many resources and therefore bind people in rural areas together. Hyden talks about a "social companionship" between people (Ibid.). These relationships have no "macro-economic perspectives," in the eyes of Hyden (Ibid.). Furthermore, they are identified as a hindrance to economic development at the

national level, because achieved surplus is not invested in entrepreneurial activities but in "social relations" instead. What is defined as a barrier in Hyden's development approach is a kind of welfare system to Waters, who concludes that, "networks grounded in social relations are highly resilient to fluctuations in market conditions" (Waters 1992:166). With the possibility of engaging in both systems, liberal market and peasant economy, the latter constitutes the safety net for the former.

The third function that the peasant economy offers is "*development*" (Hyden 1983:13). The self-help concept between the members of a peasant society also has development features. Financial support for the education of children in poorer families is one example of such support activities (Ibid.:14). Despite Hyden's general opinion that the *economy of affection* is a barrier to macro-economic development, he identifies potentials for development at the micro level.

Ethical capabilities, important for the utilisation of the values of freedom, justice and care, might be different within peasant society when compared to Western patterns. A concept pointing to affection as a component of economy might convey another value interpretation than those presumed in a neoclassical liberal market context. Hyden explains:

> *The use of "affection" was determined by my decision to demonstrate that humans beings make their choices not only based on a dispassionate calculation of end and means (nor are they guided by ultimate values only), but that there is also room for yet another form of rationality - one based on investment in social relation with other people, i.e. the generation of affective relations* (Hyden 1997:23).

Trust and responsibility in the peasant organisation is closely related to the *mutual obligation* to exercise care practically. Van Staveren (2001) attached the ethical capabilities of *commitment*, *interaction*, *deliberation* and *emotion* to the value of care. These capabilities are, as well, part of the social and economic organisation of rural economies. However, the peasant economy introduced by Hyden is not only about "social harmony" but also explains the bounds between people and the "social sentiments" these relations produce (Hyden 1997:29).

ECONOMICS AND THE COMMON GOOD

Having introduced the function of values on the micro level, and the mediation of those values via rural institutions in Africa, the next step in this article will contain

an elaboration on the relation between economy and the fulfilment of the Aristotelian concept of *Eudaimonia*. Aristotle states in the *Nicomachean Ethics*:

> *Every skill and every inquiry, and similarly every action and rational choice, is thought to aim at some good; and so the good has been aptly described as that at which everything aims* (Aristotle 2000:3-4).

In this respect, the decision as to what economic system to implement is of great interest because it constitutes the idea of how *the good* should be achieved. The economic system, as Sen puts it, is one vital component for the constitution of the "good for man" (Sen 1987:3). The *good for man* is thereby closely tied to the adopted policy of the state concerning the economy and welfare. These political decisions manifest or dismiss people's ethical values that are otherwise important for their daily social affiliation. Closely related to Aristotle's *Eudaimonia* is the Socratic question, "How should one live?" (Ibid.:2). The Aristotelian answer to this question – formulated in the above quote from the *Nicomachean Ethics* – pictures the significance of ethical values for human beings. Economic behaviour is embedded in people's social relations and values and plays an important role in this context. A happy life is also dependent on the opportunity to "utilise" ethical capabilities within the economic sphere.

In contrast to Van Stavaren (2001), who dismisses contract theory with the argument that individuals act in an ethically responsible manner without "signing" a contract that releases them from the state of nature, this approach will make use of John Rawls' (1973) contractual approach. In his approach, outlined in *A Theory of Justice*, Rawls offers vital insights regarding social justice when applied at the formal institutional level.

Taking as a departure point the introduced dichotomy of formal and informal institutions, Van Staveren's (2001) critique of contract theory is convincing when focused at the *informal* level where people act in an ethically responsible way because of their social affiliation. Her line of reasoning has been taken a step further by Berger and Luckmann's (1972) explanation as to the formation of habits and routines and their role within informal institutions. However, Van Staveren's (2001) argument is not convincing when looking at *formal* institutions and their impact on value constitution and mediation. People find themselves in a kind of contractual relation to the state and an introduced economic system. One might argue that this relation is merely of an imposed nature rather than "contractually agreed upon," but this circumstance makes Rawls' (1973) ideas more imperative

as he clearly pleads for the societal roots of justice and their institutions. He argues:

> *A conception of social justice, then, is to be regarded as providing in the first instance a standard whereby the distributive aspect of the basic structure of society are to be asset* (Rawls 1973:9).

Social justice is understood in a contextual realm and is, for the sake of the continuation of the argument, extended by the values of freedom, justice and care.[1] The "social ideal" is achieved when "a vision of the way in which the aims and purposes of social cooperation" that is societal is also understood to be a part of this (Ibid.). This relates to the Aristotelian wish of "good for human" and the Socratic search for a decent "way of life." Rawls (1973) acknowledges that different definitions of justice exist, as they do for the values of care and freedom. The "principle of justice as fairness," which is the pillar of all understanding, is agreed upon as "the guiding idea" of justice found in the "origin society" (Ibid.:11). Rawls, thereby, pleads for a contextual understanding of justice, as Van Stavaren (2001) did for the other values of freedom and care. He puts it at the centre of his understanding of justice and the institutionalisation of the same:

> *Whenever institutions satisfy these principles those engaged in them can say to one another that they are cooperating on terms to which they could agree if they were free and equal persons whose relations with respect to one another were fair* (Ibid.:13).

The vital point is that formal institutions, such as the market, need to be augmented with values concurrently exercised within a society. The "socially agreed" upon principles of justice are the pillars upon which formal institutions should be built. Rawls' (1973) theory builds on a society, which in contrast to Hobbes, does not find people in a state of nature. The state of nature in Rawls' philosophy is merely a hypothetical society, which explains the feature of free people able to make decisions (Ibid.:12).

The question of equality and redistribution in relation to justice and, from a wider perspective, also to freedom and care is embedded in the socio-economic organisation of society. The closely attached question of what kind of state is

[1] "Justice as fairness is not a complete contract theory. For it is clear that the contractarian idea can be extended to the choice of more or less an entire ethical system, that is, to a system including principles for all the virtues and not only for justice" (Rawls 1972:17)

being referred to in terms of freedom, justice and care for a developing country is at the very centre of the inquiry. The different understanding of the values (pointing to a formal understanding of values) within a liberal market economy and a peasant economy, described by Hyden (1983), constrain people's livelihood and it is therefore important that this be taken into account.

National economic development (measured in, for example, GDP) that is unattached to development on the social level, neglecting poverty and refusing to deal with the question of social justice and livelihood, are in effect discarding *Eudaimonia*. This, furthermore, undermines a development process for the good of all.

ETHICS AND NATIONAL DEVELOPMENT – A JUNCTURE OF POLITICAL ECONOMY

The question of freedom, justice and care is, as formulated before, also a question of development, when that is understood as improved well-being and sufficient livelihood for all people. Economic development is closely related to the accumulation of wealth, which in turn impacts people's livelihood and their possibilities to enjoy *Eudaimonia*. With the help of Friedrich List's approach to "managing" the development of an economy through protective measures, the role of freedom, justice and care, formal institutionalisation and their significance for economic development is the point of departure for the following.

Friedrich List (1841) emphasises in *The National System of Political Economy*, that the way wealth is achieved is more important than the accumulation of wealth itself. The power of production "ensures not only the possession and the increase of what has been gained, but also the replacement of what has(*?)* been lost" (List 1841:130). In relation to the question of livelihood and the choice of the adequate economic system, List introduces a close relationship between production modes and redistribution. He concludes:

> *The more the mental producers succeed in promoting morality, religion, enlightenment, increase of knowledge, extension of liberty and of perfection of political institutions – security of persons and property within the state, and the independence and power of the nation externally – so much greater will be the production of material wealth. On the other hand, the more goods that the material producers produce, the more will mental production be capable of being promoted* (Ibid.:155-156).

List (1841) emphasises the relation between the way a nation accumulates wealth and the actual utilisation of it for national socio-economic development. Building national development on a nation's own power of production makes them not only independent in relation to other nations, it will also secure a nation's own production of "*mental capital*" (Ibid.:136). In his historic analysis of Europe's economic development, he emphasises that:

> *The present state of nations is the result of the accumulation of all discoveries, inventions, improvements, perfections and exertion of all generations which have lived before us: they form the mental capital of the present human race* (Ibid.).

List's approach takes people's production capabilities into account and, thus, enhances a sustainable development circle between the economy and the production of *mental capital* that provides the nation with new innovations and knowledge. The promotion of mental capital includes also the employment of values expressed in terms of morality and religion. Together with economic prosperity they frame the concept of well-being, which is the objective of economic development expressed in Aristotle's concept of *Eudaimonia* (Ibid.:170). By acknowledging the significance of morality and religion along with the embedded values of freedom, justice and care, the production of wealth *and* its redistribution depends on the adopted economic system. A further need at this juncture is the exploration on how local understanding of freedom, justice and care finds its utilisation in the chosen economic system. Leaving those concepts unconsidered would influence, on the one hand, the building of *mental capital* and, on the other, would diminish a national development process which takes its departure from the people it should serve.

The interrelation between the historical accumulation of knowledge and its significance for socio-economic development of nations leads List to the question of how beneficial the participation of less developed countries in free trade would be. List analyses the gains and losses that came from German participation in free trade while, at the same time, having the economic "superpower" of Britain as a neighbour. He emphasises, in relation to Germany's development in the nineteenth century, that nations have to pass five stages of development. In order to ensure economic development by "climbing" these stages, List suggests economic management with protective measures.

To obtain the opportunity to enhance a nation's *capital of mind*, the manufacturing, political and institutional unity should be at the same

developmental level as those they compete with. List's (1841) main assumption is that trade done on unequal grounds would lead to "a universal subjection of the less advanced nations to the supremacy" (Ibid.:123). Free trade between the developed world and the developing world would, in List's eyes, lead to the exploitation of the economically weaker nation.

The nation is the essential unit which accumulates language, literature, customs, laws and other institutions of its people (Ibid.:169). It ensures the well-being of its people by the constitution of an economy that "recognises the law of right for and within itself" (Ibid.). To evolve the opportunity to develop as an economically and socially sustainable nation – with the objective of achieving the *capital of mind* for further development – an economy in the "developing stage" needs to protect itself. Otherwise it will exclusively depend on the exchange of raw material or agricultural surplus for its accumulation of wealth. This, in the view of List, would miss the development of production power for further manufacturing technologies. The wealth accumulated via this "shortcut" not only lacks the feature of sustainability for a nation's development process. It would also not include the integration of the societally rooted values of freedom, justice and care in the economic system.

The (economic) state, as mentioned before, depends on a nation's accumulation of historically gained knowledge. However, it is imperative for development that the nationally adopted economic systems are related to the social and economic reality of its people. The essential base for development is located within the society, which should – enabled via protective measures – also develop the capital of mind. People should be the dwellers of the mode of exchange and redistribution, as suggested by Rawls (1973) before. The values of freedom, justice and care should be part of the construction of this "genuine economic system" of a nation. List resumes:

> *As the individual chiefly obtains by means of the nation and in the nation mental culture, power of production, security and prosperity, so is the civilisation of the human race only conceivable and possible by means of the civilisation and development of the individual nation* (Ibid.:169).

The nation, along with its *mental culture* and *power of production*, is the structure wherein development takes place. The values of freedom, justice and care are essential to this relation, as they are a part of what List calls *mental culture*. The power of production is concurrently related to people's exercise of values, and

these in turn define how wealth should be accumulated and redistributed. The answer to the question of how one should live is answered by the values people exercise and their opportunity to exercise them within the economic system they are a part of.

CONCLUSION

Development politics in the last decades have been focused on how far developing countries implement and follow the requirements for a liberal market economy. The conclusions have been that economic development is closely related to the fulfilment of free market conditions, in other words, that living up to those will promote economic prosperity. The policies based upon such conclusions build on the neoclassical assumption that the market and its miraculous spirit will bring a good life to those who are regarded as underdeveloped and backward. Ethical values like freedom, justice and care have not been considered in this non-normative approach to economy and national development. The "rollback of the state paradigm" and cut in social services exercised within Structural Adjustment Programs of the 1980s and further on have only emphasised further the formal understanding of freedom, justice and care.

The liberal market economy, as exercised in African countries today, offers another interpretation of the utilisation of ethical values than that of the peasant economy, as explained by Hyden. In contrast to Hyden's (1983) economy of affection, the liberal market builds on a formal understanding of values, which in turn provides an interpretation of freedom, justice and care unrelated to substantial and important features such as redistribution and care in case of hardship.

To provide welfare within the social sector, national incomes need to have the potential to accumulate in order to finance the major formal institutions. Economic development exclusively dependent on the export from cash crops, as has been the case in many African countries over many years, has not achieved this goal. To enhance innovation and new technologies, protection offered to the weak agrarian sector could potentially create space and time to develop modes of production which would be more competitive than those that are currently used. Stable and calculated incomes are ensured by stabilised and protected markets, which in turn free peasants from fluctuating prices on cash crops at the world market. This would offer the opportunity for needed investment in new productive capabilities. Without these productive capabilities, developing countries might not be able to move past dependency of the sort which has kept people in poverty over the last

two decades. Closely related to innovation, knowledge and creativity is the opportunity for people to participate in the process of innovation and production. Therefore, formal institutions that integrate the substantial (informal) understanding of freedom, justice and care are necessary. People living in poverty who receive no suitable help in leaving behind this condition will not be able to create *capital of mind* essential for the national development process. "Viewing development in terms of expanding freedoms directs attention to the ends," as Sen (1999:3) emphasises. Those ends are closely connected to the practice of justice and care, since these enable citizens to expand their freedom within a liberal market economy. Formal institutions that provide for the practise of the substantial understanding of freedom, justice and care would therefore formulate the end and destiny of the development process, and this would include *Eudaimonia* for all citizens.

Furthermore, the integration of ethical values in a particular economic system would enhance a closer relation between state and society. Formal institutions which provide education and health are the basis for a national strength which "is built on a public policy orientation founded on the bedrock of public purpose, public service and public ethics that stimulate solidarity amongst states, markets and society" (Muchie 2003:78). The state relies on its people's creativity, innovation and entrepreneurial skills, since these enhance production and wealth. A state that does not provide the formal institutions for adequate education and health will not have educated and healthy people who, in turn, could provide dynamic production and innovation that, again in turn, would provide a decent life for all citizens. The task of the developing state today is to provide *basic survival*, *development* and *social maintenance* – all features of the peasant society. These three features unify public *purpose*, public *service* and the public *ethics* of freedom, justice and care. The interrelation between those three qualities contains an intrinsic value, which stimulates the "determinant of individual initiative and social effectiveness" (Sen 1999:18).

The way people regard their own inclusion at the social and economic level of their country has an influence on their motivation and involvement in the creation of *new knowledge*. Being enabled means to take part, and it creates a personal freedom that, from a developmental perspective, will be sustained.

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DENMARK BETWEEN THE WARS: THE REASONS FOR DEFENCELESS NEUTRALITY

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Abstract

The concept of neutrality is one of the most disputed concepts in historical research and modern politics and continues to attract the attention of political scientists. Despite continuingly growing interest in the questions of responsibilities in international conflicts and war politics, there has been little research on the historical origins of neutrality within the European context. Having been transforming throughout its history, Danish neutrality, with its specific background and ideological foundation, represents an interesting topic for analysis. This article addresses the problem of Danish neutrality in the period between the two World Wars. The objective of the study is to investigate why, after having been an important player in European politics and a militarily well-equipped country throughout the eighteenth and nineteenth centuries, during the interwar period Denmark refrained from any active participation in world politics and adopted the principle of defenceless neutrality.

INTRODUCTION

The foreign policy of any state can be divided into two main categories: unilateral actions of "self-help" and multilateral actions (Møller 2005). Multilateral actions refer to alignment with other states and collective actions on a regional or global scale, while unilateral actions include the exercising of a country's military strength or using such non-military means as neutrality, diplomacy, and accommodation.

Neutrality can be defined as: "a status of a nation that refrains from participation in war between other states and maintains an impartial attitude toward the belligerents."[1] Moreover, it is essential that this attitude and status of impartiality

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[1] *Neutrality* in Columbia Electronic Encyclopedia, Sixth Edition.

should not only be announced by the neutrals, but should also be recognised by the parties in conflict. This recognition creates rights and duties between the belligerents and the neutral state.

Research into the phenomenon of neutrality in general, as both a concept and an instrument of international law, and the history of Danish neutrality in particular, has a long history. Interest in the topic of neutrality in the interwar period appeared rather early. Already in March 1941, a Professor of International Law at the University of Vienna, Josef L. Kunz, published an article in *Michigan Law Review*, "Neutrality and the European War 1939-1940," which addressed the concepts of European neutrality and analysed how it had changed from the First World War up to his time. Kunz discussed the confusions connected with defining neutrality in the sphere of international law as well as in the scientific research. In addition, he posed the question, "What was neutrality?" and asked if it had actually existed (Kunz 1941:720).

By the beginning of the twentieth century, the concept of neutrality already had a long history in European international rhetoric as well as in international law practise. Neutral duties and rights were codified by various treaties and conferences including *The Declaration of Paris* (1856), the *Declaration of London* (1909), and the *Second Hague Conference* (1907), and neutrality became an integral part of international law. However, the First World War brought the subject of neutrality into question. The neutrality of small neutral states, such as Luxemburg, Belgium, and Greece, was violated during the war by both parties of the conflict. Although protesting, these states had no power to protect their rights and thus became arenas for military actions. The end of the First World War signified, according to the Kunz, the crisis of neutrality and the appearance of a new ideology: "that neutrality is only a consequence of international anarchy, no longer fit for a world of international solidarity" (Ibid.:720). The allies propagandised the idea that, in the new post world war order, there is no place for neutrality and that neutrality itself was an immoral concept.

<http://columbia.thefreedictionary.com/neutrality>(May 20, 2005)

DENMARK: FROM "A POWER OF THE THIRD RANK" TO "SIMPLY A SMALL STATE"

Danish foreign policy changed drastically during the eighteenth and nineteenth centuries. Despite having been an important player in international relations in the eighteenth century, after the Napoleonic wars, Denmark moved away from active participation in any international alliances and, in general, from any active role in European international politics. This shift in foreign policy originated from various reasons and changes in both Danish domestic and international politics.

Beginning with the victory in the Napoleonic wars, the four members of the coalition – Russia, Prussia, Great Britain and Austria – along with France, gained great importance on the European international scene. The new world order, offered by the Russian tsar, Alexander the First, and established after the Congress of Vienna, gave these five states the status of super powers while correspondingly weakening the positions of the smaller European countries including Denmark. The tradition of congresses that continued after the first one in Vienna (1814-1815) made international politics the sphere for the great powers and their economic, political and military interests. As a result of this it "curtailed the diplomatic scope for the lesser states" (Holbraad 1991:21). Although the relations between the super powers remained controversial and rivalrous – they resulted later in the two world wars – it gave the smaller states new opportunities by "playing on these tensions." However, it also brought new dangers. Being dependant on the interests of the great powers, the smaller European states often became the objects of the rivalry between the former and, as a result, had little choice for remaining independent and conducting an independent policy.

The changes in European politics and relations among the great European powers, in particular the decline of Russian power on a European scale, had a big affect on Denmark. Due to the traditional royal family and diplomatic ties, Denmark could often rely on Russian support in the eighteenth and nineteenth century. However, after Russia was defeated first in the Crimean war and then in the war with Japan, and consequently lost its international status and influence, Denmark became diplomatically isolated. The situation was worsened with the rise of German influence after the Franco-Prussian war and Bismarck's reforms. For a long time Denmark and its foreign policy became very dependant on Germany and its interests.

Other reasons for the weakening positions of Denmark and its adoption of a policy of isolation are to be found in the sphere of Danish domestic policy. According to Carsten Holbraad, "if in the eighteenth century Denmark had been a power of the third rank, in the course of the nineteenth century it became, through the succession of losses, simply a small state" (Ibid.:23). First of all, this was connected with the territorial losses. During the nineteenth century Denmark had lost Norway, Swedish Pomerania, the island of Heligoland, Launburg, Holstein and Schlezwig, although in 1920 the northern part of Schlezwig was brought back to Denmark after plebiscites were conducted there. Holbraad analyses these territorial changes as the reasons why "Denmark …remained of some importance to the great powers…not so much because of the resources it commanded as because of the strategic location it enjoyed, particularly in relation to traffic to and from the Baltic" (Ibid.:23).

Territorial losses, although regarded to be a misfortune in Danish mentality, were announced to be compensated by the Danish internal prosperity. Consequently, the most popular slogan of the foreign policy propaganda of this period was "*Hvad udad tabtes skal indad vindes"* - What we lost externally, we shall gain internally (Hedetoft 1993:291).

Having been gradually losing its role in European politics, by the beginning of the twentieth century Denmark started to revive the priorities of its foreign policy. The new principles introduced, to become the underlying principles for Danish foreign policy, were formulated in the triad: *Neutrality – Scandinavism – Arbitration*.

NEUTRALITY – SCANDINAVISM – ARBITRATION

Scandinavism was an ideology which first emerged in Danish as well as Norwegian and Swedish political and literary circles in the middle of the nineteenth century. It was aimed at promoting the idea of Scandinavian (later Nordic) solidarity (see, for example, Carl Ploug), and later developed into the foreign policy ideology which was used to safeguard the interests of these countries and establish a certain common ideology that would give an ideological explanation for cooperative actions. Danish Scandinavism originated from different political movements that appeared in the middle of the nineteenth century and were promoting the ideas of the Nordic solidarity and Nordic historical and cultural ties. One of the concepts that was popular among these movements was the so-called "Ejder programme." Originally, the main idea of this programme was to unite Denmark with the territory of Schlezwig stretching up to the river Ejder

which separates it from Holstein. This was later broadened to include the rhetoric of creating the Scandinavian Union up to the river Ejder. Although the ideas of creating a territorial unit of all the Scandinavian countries were soon forgotten, cooperation among the three countries on different levels, including foreign policy, remained important and appeals for deepening this cooperation were brought up from time to time.

The idea of *arbitration* was first introduced to Danish public and parliamentary discussions in the end of the nineteenth century by the Danish peace movement. It was later upheld in discussions between the parliament and Liberal government, and subsequently also supported by the Social Democrats and radical Liberals. In 1891 the Danish Institute of Arbitration was founded with the mandate to assist in the settlement of any types of both national and international disputes.[2] In the years following the Hague Conference of 1899, where the principle of arbitration was announced as the underlying principle of the Danish concept of foreign policy, Denmark signed a number of permanent treaties of arbitration.

At the outbreak of the First World War, Denmark announced its *neutrality*. However, this neutrality was often accused of being ambiguous since Erik Scavenius, the Foreign Minister of Denmark between 1913-1920 and 1940-1941, at the very outbreak of the war announced that Denmark would "show favourable neutrality" towards Germany, adding, however, "as far as this is consistent with the notion of neutrality" (quoted in Bludnikow 1989:683). This became obvious during the situation of August 2, 1914 when Germany asked Denmark what the Danish reaction would be in case of German violation of Danish territorial waters. Scavenius, perhaps hoping that such a violation would not take place, stated that "in no case would Denmark ally itself with the enemy of Germany" (quoted in Holbraad 1991:50)

The neutrality of Denmark during the First World War was much more sympathetic to Germany. Maintaining friendly relations with Germany, which was not only a powerful neighbour but also an important trade and business partner, even with the unresolved problems of Schlezwig and Holstein, was a question of priority for Denmark in the beginning of the century. Moreover, Denmark also tried to maintain good relations with Britain. So the motive behind Denmark's efforts to be recognised by both Britain and Germany as neutral was not only to keep the country out of military conflict but also to preserve its traditional trade

[2] For details consult The Danish Institute of Arbitration http://www.denarbitra.dk

and economic interests while gaining new advantages through shipping and trade in case of military conflicts. Denmark was also very important for the belligerents as a significant producer of food products. For the parties in conflict, the invasion of Denmark by the enemy could pose some economic and shipping difficulties. On the other hand, the threat for Denmark was that either Germany or Britain could break trade relations with Denmark in order to hurt the other belligerent.

Neutrality was also the preferred option of Danish foreign policy for Danish business not only in order to keep the country out of wars but also as a policy to ensure the protection of their economic interests while increasing profits. Maintaining good relations with Germany and Britain, which purchased almost all Danish export products, had a great influence on Danish foreign policy. As put by Seymour (1982:13): "…the Danish Foreign ministry was often called upon by farmers to put short term gain before long term interests, for example by selling, opportunistically, to the highest bidder rather than building up a reputation in Britain or Germany as reliable suppliers."

The farmers were an especially powerful influence in Denmark before 1936 when the coalition of the largest party, the Social Democrats, lacked a majority in the Landsting.[3] As a result, the government often had to rely on the support from the *Landbrugernes Sammenslutning* or Farmers' Union. Danish neutrality and Danish foreign policy in general have traditionally had very strong links with Danish domestic affairs, and one of its priorities has been to protect Danish economic interests and assure stable trade relations with Britain and Germany.

Neutrality in the First World War was also a way for the Danish government to gain political prestige and support from its citizens. It was even more important due to the fact that, with the clearly "pro-German" orientation of the Danish government's view on Danish neutrality, the Danish population, the press and the army were siding predominantly with the British-French alliance. The official rhetoric during the war described Denmark as a country striving for peace. By participating in the various humanitarian programmes, Denmark tried to appear as if its neutrality was unselfish. Thus a set of initiatives were organised through organizations such as the Danish Red Cross, Danish Ambulance Committee, and Nurses' Aid programme.

[3] The upper house of the Danish parliament between 1849 and 1953.

INTERWAR PERIOD

Denmark's neutrality in the First World War, the reasons for it and its main postulates, constituted the concept of neutrality that Denmark followed during the inter-war period. After settling the North Schlezwig question, Denmark no longer had territorial or revisionist aims. Its interests in foreign policy became much more self-directed and aimed at the protection of its territorial integrity, independence, national security, and economic interests. As a consequence, the policy of neutrality gained its continuation and development. However, as Denmark continued to abstain from taking any active part in European international politics, Danish neutrality became *defenceless* compared with the previous period**.**

At the outbreak of the First World War, Denmark was very well-equipped, in particular, with a well-prepared and modernised navy. During the First World War a large defence force was mobilised with the Waterways Squadrons stationed around Copenhagen, in the Great and Little Belts, at the Skaw, the West Coast of Jutland (Esbjerg), the Faroe Islands, Iceland and the Danish West Indies. Danish military forces, although scarce, allowed Denmark to sustain itself against a possible military attack until help arrived.

However, in the interwar period the Danish government repeatedly reduced spending on the military (in 1922, 1932, and 1937). As a result, the Danish armed forces finally became only nominal and were unable to represent any serious force to defend the country in case of foreign aggression. The disarmament started in 1922 with the first agreement which reduced the number of battalions from fifty-two to thirty-five. This agreement was introduced by the Liberals, who were in power at that time, and was supported by the Conservatives. The Radical Liberals and the Social Democrats, on the other hand, wanted a bigger reduction of military forces or even disarmament. The next legislation, introduced in 1932, reduced the number of battalions from thirty-five to twenty-four with additional cuts to the size of the Danish navy (Holbraad 1991:66). Another reduction of military forces followed in 1937 despite the fact that the international situation had changed significantly and become very dangerous by the end of 1930s. This final legislation granted some additional funds for financing the army and navy, but their numbers were reduced yet again.

Denmark's consistent reduction of its military forces, even in the face of a new armed conflict in Europe, is explained not only by their need to save expenses or

by the relative calmness of the political situation in Europe in the 1920s. The defenceless character of Danish neutrality in the interwar period was also justified by a new ideological approach toward Danish foreign policy offered by the Foreign Minister of Denmark between 1929-1940, the radical leader and famous Danish pacifist, Peter Munch. Munch formulated the defence policy for Denmark, the main assumption of which was that it was better for Denmark to be disarmed since, in such a case, Denmark would neither be obliged to become aligned with another country nor take part in any military conflict. Munch argued that Denmark was a small country not only in terms of its territory but also in terms of its population, and would simply not be able to defend itself. An aggressor would easily have enough army or other military resources to defeat Denmark. Furthermore, he argued that it was "pointless even to be able to hold on for a few days since foreign assistance is unlikely to be forthcoming" (cited in Seymour 1982:13).

This notion of the futility of any resistance was rather widespread in Danish political and social circles in the interwar and following period. Many politicians at that time supported the idea that the protection of Danish citizens, rather than useless resistance, took a higher priority. Hiffemay, a military critic, wrote in a *Politiken* guest commentary on March 17, 1949: "All experts are united in holding that Denmark cannot be defended" (cited in Zartman 1954:132).

Although the idea of disarmament was rather widespread in Denmark as well as the rest of Europe at that time, it was not supported unanimously. With the revival of German power in the mid-1930s, the problem of defence gained a lot of attention in Denmark and more and more appeals to "defend a fine Danish house" were announced (Seymor 1982:53). It was clearly understood that Danish military forces, despite being modern and prepared for actions, were too little to act on their own. Nevertheless, it was recognized that Denmark could play a role in the conflict between the opposing blocks.

In the late 1930s, at a number of political conferences, the new Danish Minister of Defence, Thorvald Stauning, tried to persuade the Danish government to increase financing to the military sector and improve the Danish defence position. His ideas were supported by the Conservatives who believed that Danish defencelessness would make the country look weak and thus more likely to be attacked. Appeals for revising Danish neutrality were also supported from abroad. In November 1938, the British Minister in Copenhagen, Patrick Ramsay, expressed the opinion that "Denmark's defence, in size and equipment, should give expression to her

will to defend herself, both Zealand, Jutland and her territorial waters, to the best of her ability" (cited in Seymor 1982:54).

Discussions on whether to start rearmament or remain defenceless were ongoing in Danish political quarters throughout the 1930s, but supporters for rearmament never gained any serious influence. The defenceless character of Danish neutrality in the interwar period, although disputed, was preserved even in the face of a German threat. The reason for why this occurred must be further examined from the question of whether Denmark could have relied on any outside help in the case of invasion.

The idea of Scandinavism and attempts to create a certain Nordic defence union were still contained in Danish foreign policy during the interwar period. Right after the end of the First World War the geopolitical situation was very favourable for Denmark. Germany, the dangerous neighbour to the south, had been defeated, while the Tsarist government in Russia had collapsed as a result of the Russian revolution and ensuing civil war, greatly reducing the Russian factor in the Baltic and Nordic regions. The ideas and movements for Nordic solidarity were again brought on the stage.[4] However, after the end of the First World War and the establishment of peace in international relations, cooperation between the Scandinavian countries began to shrink. During the 1920s, there were no official meetings of the Scandinavian foreign ministers. Munch made an attempt to revive the meetings of Scandinavian countries in 1932 and 1934, and the meetings did take place twice a year until April 1940 with Finland also attending them. However, commerce, trade and economic cooperation remained the main concerns of these meetings with military matters and defence discussed only seldom. In Denmark there was also no unanimity about the possibility of Nordic or Scandinavian defence.

While Munch never believed that there was any real possibility for any practicable alliance, Stauning kept looking to Scandinavian neighbours for support. In October 1933, in one of his speeches, Stauning once again drew attention to the necessity of Nordic solidarity saying that the Schlezwig border represented "the frontier of the North and that an attack here would be a matter which concerned all the Nordic countries" (cited in Seymor 1982:59). However no favourable replies towards it were received from Norway and Sweden. By 1937 Stauning had to admit that "a military alliance between the Scandinavian countries was a Utopia

[4] For details see Østergård (2002).

which could not be realised" (Ibid.:59) Although Denmark, Sweden, Iceland and Norway signed the *Declaration Regarding Similar Rules of Neutrality* in Stockholm on May 27, 1938,[5] it remained mostly nominal and the Scandinavian countries failed to reach cooperation. When, in April 1939, Munch again raised the question about support for Denmark in case of military attack, he received no positive responses from his Scandinavian colleagues apart from an off-the-record assurance from Rudolf Holsti, the Finnish Minister of Foreign Affairs (Ibid.:60).

Another source of outside help that Denmark could rely on was Britain. By the mid-1930s, with Germany reviving its power, Denmark became anxious about whether they could rely on British help, both diplomatic and military, in case of a Danish-German conflict. The event that significantly increased Danish worries was the signing of the Anglo-German naval agreement on June 18, 1935. Officially, according to this agreement, Germany could increase the size of its navy to one-third the size of the British Royal Navy while Britain would withdraw its navy from the Baltic Sea. In practice this agreement gave complete control over the Kattegat[6] and the Baltic to Germany, making Denmark once again dependant on its relations with its southern militant neighbour.

In April 1937 after realising that a Scandinavian alliance was far from reality, Stauning visited London aiming once again to revive Danish-British cooperation and clarify the British position on the question of possible military help for Denmark. During the series of negotiations the British Foreign Secretary, Anthony Eden, repeatedly stated that Britain would not make any commitment for military support and, in short, could not promise much.[7] The failure of the Danish interwar search for security and alliances made Danish defence rather useless because, as previously mentioned, Danish military forces could only resist an aggression with the knowledge that outside help would be arriving.

Along with the futility of rearmament due to Danish diplomatic misfortunes, additional spending on the army appeared to be problematic for Danish finances in the end of 1930s. A very big threat to the Danish economy that almost brought it

[5] See "Denmark-Finland-Iceland-Norway-Sweden: Declaration Regarding Similar Rules of Neutrality," *The American Journal of International Law*, Vol. 32, No.4, Supplement: Official Documents (Oct., 1938) 141-163.

[6] The Kattegat, or *Kattegatt*, is a bay of the North Sea and a continuation of the Skagerrak, bounded by Denmark and Sweden. The Baltic Sea drains into the Kattegat through the Öresund and the Danish Straits.

[7] On the negotiations, see Seymor, p. 64.

to the brink of collapse occurred in 1931, when both Britain and Germany reduced their imports of Danish agricultural products. At that time, these two countries accounted for about eighty percent of total Danish exports (Holbraad 1991:63). The consequences of this, including increased unemployment and balance-of-payment problems, revealed Denmark's dependence on its economic relations with both Germany and Britain, and once again demonstrated the necessity of political balancing between these two powers.

The remaining feature of Danish neutrality in the interwar period was its growing *social support***.** As previously mentioned, even before the First World War Danish neutrality was very much supported and encouraged by the Danish middle class and business elite. During the interwar period, the policy of neutrality gained even more active support as it was regarded as the policy that had not only kept the country out of military actions in the First World War, but also brought sound economic benefits.

CONCLUSION

Danish neutrality in the interwar period, although ideologically having inherited most of the features of Danish foreign policy in the previous ages, differed in respect to its military capability. Amidst much discussion, both in Denmark and abroad, concerning the role of small countries' military power in the case of a European conflict, Denmark chose to be disarmed with the result that Danish neutrality in the interwar period became defenceless.

The factors which influenced this decisions are to be observed mainly in the failure of Danish policy to obtain any guarantees for its security and military help in the face of an invasion. Attempts to form a Scandinavian alliance never succeeded and the British refused to promise any help to Denmark in case of German aggression. In addition, as Denmark became less and less militarily equipped, the Danish policy of neutrality and neutralism as an ideology gained more and more support in Danish society. As the only real option for the country's foreign policy, Danish defenceless neutrality became highly encouraged by the Danish public, creating a favourable image of Denmark as a country striving for peace.

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CAPITAL AND LABOUR: CAN THE CONFLICT BE SOLVED?

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Abstract
This article attempts to solve the contradiction or conflict between capital and labour, as formulated by Karl Marx, with the use of Johan Galtung's theory of conflict transformation. It is concluded that, although solutions that are based upon the capitalist system are unstable, they can function for a given period of time where they are more favourable than the antagonistic structure between capital and labour. The reason for the instability of compromises and other solutions based on the capitalist system is the self-expansionary nature of the capitalist system that, over time, re-creates the antagonistic relations that Marx identified. The only solutions that are not undermined by the self-expansionary nature of the capitalist system are subsistence economies and experiments with socialist production relations, termed here as "labourism"– although the latter has not been (fully) realized in practice anywhere.

INTRODUCTION

This paper is based on the tension between Karl Marx's theory of capitalism and Johan Galtung's *Transcend method*. Where Marx argues that the capitalist structure is one that necessarily is characterized by antagonistic relations between capital and labour, Galtung's theory of conflict transformation proposes that the conflict Marx identifies between capital and labour can be arranged according to five possible outcomes concerning the distribution of surplus value.

In my experience with conflict theory, I have learned that there are many ways to solve a conflict. Therefore, the idea came to mind that Marx's theory is essentially only dealing with one type of capitalist system, namely the system where capital and labour are confronting each other as antagonists. This project is based on the tension between these two theoreticians and, in a sense, is in concordance with Marx' favourite motto: "*De omnibus dubitandum*" – You should have doubt about

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everything (Wheen 2001:403). I might add that this motto applies equally to Marx's own point of departure.

CONFLICT IN THE CAPITALIST SYSTEM

Why is the capitalist system characterized by antagonism according to Marx? Under the capitalist mode of production, the capitalist enters the market with money (M), converts it into means of production and workers (both commodities) (C) – after which another set of commodities (C*) are produced that thereafter are sold on the market for money (M*) (Marx 1974a:145ff). M* must therefore continually be higher than M.[1] Marx writes:

> *Our capitalist has two objects in view: in the first place he wants to produce a use-value that has a value in exchange, that is to say, an article destined to be sold, a commodity; and secondly, he desires to produce a commodity whose value shall be greater than the sum of the values of the commodities used in its production, that is, of the means of production and the labour-power, that he purchased with his good money in the open market* (Marx 1974a:181*).*

Where does M* come from? In the accumulation process the capitalist buys constant capital, C, which represents means of production and other inputs of production; and variable capital, V, which represents the price of labour power, that set the means of production into motion. Variable capital, according to Marx, is a commodity with special characteristics: it is the only commodity that can produce more value than the cost of maintaining it, thus, giving rise to surplus value, S, which the capitalist appropriates (Sweezy 1942:62ff). Marx argues that *the value* of a commodity is determined by the quantity of labour that is materialized in it under given social conditions of production.[2] The surplus value

[1] M stands for money, C for commodities, C* for the produced commodities, and M* for the money realized when the commodities, C*, are sold on the market.

[2] Thus, if the productive forces change; the social work necessary to produce the same commodities fall and hence the value of the commodity will as a consequence also fall (Marx 1974a:182ff). This labour theory of value has been highly criticised on a number of grounds. Marx assumes full competition which makes him generalize this principle into a measure for prices of commodities. Marx, therefore, does not take into account the circumstances where a commodity's value is realised, and he cannot explain why, for instance, water, which has no labour value, is much more valuable in a society ridden by water shortage than, for instance, a car. In addition, Marx cannot explain why a commodity that has required the same amount of labour obtains different prices on the market. In short, he neglects the demand or utility side of the equation. See Aage 2004, p.49-57 for more. But as a principle for where

therefore represents the amount of time the worker works free of charge for the capitalist. M*, in other words, is created through the appropriation of *surplus value* (Horvat 1982:12).

To give an example, suppose the working day is twelve hours and that the worker only needs to work six hours in order for to produce the *commodities* which have a *labour value* that equals the competitive price for *labour power* for one day. This means, that if sold on the market, the commodities the worker produced until this point, would equal the wages received from the capitalist. If the production process stopped at this point, there would be no surplus value. However the capitalist has hired labour power for one day, which implies that the commodities produced during the remaining six hours of the working day will be appropriated by the capitalist for free.

The rate of surplus value can then be written in the following formula: S*= S/V where S is the amount of *surplus labour*, or surplus value, relative to the amount of *necessary labour*, V, the price of labour power. In the example given above, the rate of surplus value would thus be 6/6=100, in other words, a surplus value of 100%.

Surplus value is a specific capitalist way of ordering exploitation which is created in the accumulation process by the worker. The capitalist can appropriate surplus value from the worker because 1) the capitalist owns the means of production, and 2) because the worker is forced, by material necessity, to earn a living by selling his or her labour power to the capitalist, through the means of private property relations in society (Sweezy 1942:56-57). In other words, the rate of surplus value, S*, can be expanded by depriving workers of the value they have produced. Exactly because of this relationship between the two structural positions Marx argues that the structure of capitalism *necessarily* is based on *antagonism*. The capitalist has an objective interest in paying the workers the lowest wages, giving them the poorest working conditions in the factory, and so on. Marx writes:

> *Since the labourer passes the greater portion of his life in the process of production, the conditions of the production process are largely the conditions of his active living process, or his living conditions, and economy in these living conditions is a method of raising the rate of profit…the*

value is essentially derived in society, his theory is consistent with the assumption of full competition on all inputs in production.

> *transformation of the labourer into a work horse, is a means of increasing capital, or speeding up the production of surplus value. Such economy extends to overcrowding close and unsanitary premises with labourers, or, as capitalists put it, to space saving; to crowding dangerous machinery into close quarters without using safety devises.…* (Marx 1974b:86).

The capitalist, in other words, has an objective interest in lowering the standards of working conditions because, all other things being equal, it raises the surplus value. Therefore, Marx argues that labour and capital confront each other as *antagonists.*

The human qualities of the labourer only exist in so far as they are relevant to the capital that exists external to the labourer, as abstract or general labour (Mészáros 1970:144). When labour becomes a commodity, it becomes something external to the worker; instead of being a natural element of life's activity, work becomes associated with hardship and pain. Marx writes: "The worker therefore only feels himself outside his work, and in his work feels outside himself. He feels at home when he is not working, and when he is working he does not feel at home" (Marx 1975:274). Marx argues that the worker becomes "…depressed spiritually and physically to the condition of a machine and from being a man becomes an abstract activity and a stomach…sunk to the level of the machine he can be confronted by the machine as a competitor" (Marx 1970:145).

The competition over markets implied by the self-expanding system creates a drive to invest and to create new technology in order to gain market access (Mészáros 1970:144). The competition between capital is conducive to the self-expanding nature of capitalist accumulation because it implies centralization of capital, through mergers and acquisitions. Marx writes:

> *The development of capitalist production makes it constantly necessary to keep increasing the amount of capital laid out in a given industrial undertaking, and competition makes the immanent laws of capitalist production to be felt by each individual capitalist, as external coercive laws. It compels him to keep constantly extending his capital, in order to preserve it, but extend it he cannot, except by means of progressive accumulation* (Marx 1974a:555).

Marx noticed how a capitalist might be reluctant to replace their perfectly functioning constant capital, but if another capitalist is enabled to produce

products cheaper by introducing new constant capital, the former is forced to do the same in order to remain a capitalist. When the results of introducing new machines speak in a language the capitalist understands, namely in the language of "*pound sterling*" the machines will be introduced (Marx 1974b:99). In other words, when one capitalist is able to produce cheaper than another capitalist the latter has to obtain the same ratio of constant capital in order to be competitive on the market. By increasing the amount of constant capital, less human labour is needed in the production process, which means that the necessary social labour needed to produce the same goods is decreased, and with the decrease of the amount of labour crystallised in the final commodity the price of the commodity falls proportionally.

The *attitudes* of the capitalist towards the worker, thus, has nothing to do with the moral qualities of the capitalist but with the moral qualities the M-C-C*-M* cycle allows the capitalist to have. The *behaviour* of the capitalist is steered not by individual moral but by the abstract logic of converting M into M*. For instance, the capitalist might find a particular worker loyal and stable; but if the system implies through competition that the worker becomes a burden for the accumulation process, the worker will be laid off. *Money* becomes the normative calculus by which relations between worker and capitalist are organized. Because everything in a capitalist society eventually is distributed via the monetized market, money becomes a basic value in society. Marx writes:

> *If money is the bond binding me to human life, binding society to me, connecting me with nature and man, is not money the bond of all bonds? Can it not dissolve and bind all ties? Is it not, therefore, also the universal agent of separation? It is the coin that really separates as the real binding agent – the chemical power of society* (Marx 1975:324).

By being the measure of everything in the capitalist society, it can transform normative relations between human beings into a question of the possession of money. Marx writes: "It transforms fidelity into infidelity, love into hate, hate into love, virtue into vice, vice into virtue…" (Ibid.:326).

The conflict in the capitalist system is thus based on the necessarily antagonistic relationship between exploiter and exploited, centre and periphery. What makes the worker rich makes the capitalist poor and vice versa. In this structure the capitalist has the objective goal to *continue* exploitation and the worker the objective goal to *stop* exploitation.

CONFLICT THEORY

Johan Galtung, in contrast to Marx, argues that conflicts can be solved in many different ways. According to Galtung a conflict consists of three different nodes, namely: attitudes, behaviour and contradictions. Of these, Johan Galtung gives primacy to the role of contradictions. A contradiction is the incompatibility that exists between parties in a conflict, which leads causally to different attitudes and behaviour. If A wants exactly the same as B then there is a conflict over "*something*" – this contradiction in goals can then lead to different attitudes and behaviour including violence and hatred (Galtung 2004:145ff). However, one could also postulate that a conflict starts with attitudes and/or behaviour which then lead to "objective" or real contradictions, as Galtung also acknowledges. If, for instance, a nation has a tendency to prejudice against immigrants, one could argue that the conflict originated in the attitude-dimension, which then translates into real world contradictions of, for instance, differential treatment.

One could also argue that the structure of capitalism itself is caused by a certain culture as Weber does; namely, that capitalism originated in Europe due to the existence of Protestant ethics (Collins 2000). In other words, the three analytical reference points – attitudes, behaviour and contradiction – point to different dynamics in the causation of a conflict where it is almost impossible to give primacy to one of them. Nonetheless, it is possible to take a point of departure in the *capitalist structure*, since it at some point *was created*, even though the Protestant ethics might have played a role in the creation of the capitalist structure. In other words, we do not want to examine the causation leading to the formation of the capitalist system; we want to deal with the conflict within that system when it *has been* created.

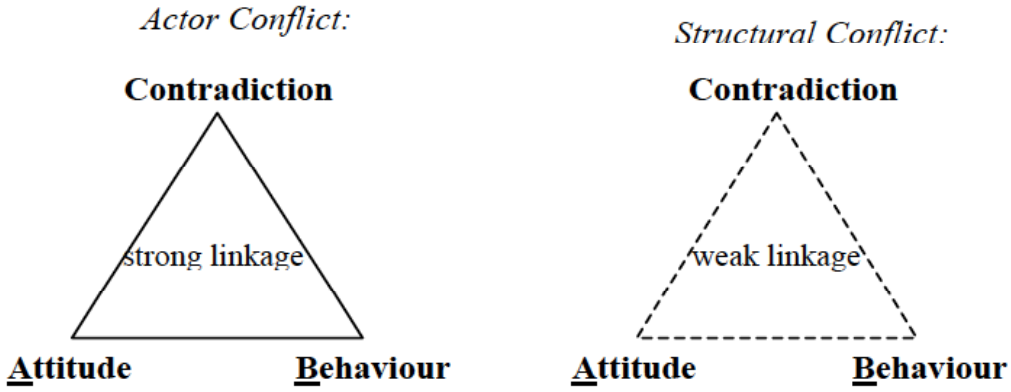
Since we are dealing with interactions between parties (capital and labour), we follow Galtung's argument that there are two types of conflicts that must be distinguished from each other: actor conflicts and structural conflicts. Galtung argues that a conflict cannot simply be defined as something that is subjectively held by the parties, but also in terms of contradictions that have not yet become conscious in the minds of the parties (Galtung 1975:111ff). As Adam Curle puts it: "In this view, conflict is a question not of perception but of fact. Thus if, in a particular social system, one group gains what another loses, there is – even if the loser does not understand what is happening – a structural conflict" (Curle 1971:4).

If one confines the definition of a conflict to the subjectively held perceptions then one cannot grasp and comprehend many aspects of reality. If a slave does not question the position he or she is placed in by the master, then there is no conflict according to the proponents of the subjectivist-actor oriented theory of conflict. Curle rejects this notion and writes:

> *In the objectivist view, however, there are certain privileges and possibilities that are not open to the slave. To the extent that he is unaware of them, ignorance may be bliss, but the fact remains that his existence is narrowed by social factors rather than by his own personal qualities* (Curle 1971:4).

This difference can be shown in the conflict triangle**:**

FIGURE 1 ACTOR CONFLICT AND STRUCTURAL CONFLICTS



SOLVING CONFLICTS

Galtung argues that it is important as a social scientist not only to understand conflicts, but also to construct solutions to the conflicts that can be observed. An analogy can be used from medical science: if we pay a visit to the doctor, we are in search for therapy and we would be offended if the doctor would only make use of us as patients for data material. Galtung has developed what is called the *Transcend method* for conflict transformation (Galtung 2004:12ff). This method argues that there are essentially five different ways by which you can resolve a conflict. In a conflict between A and B, here capitalist and worker respectively, there are five general ways of solving the problem of surplus value:

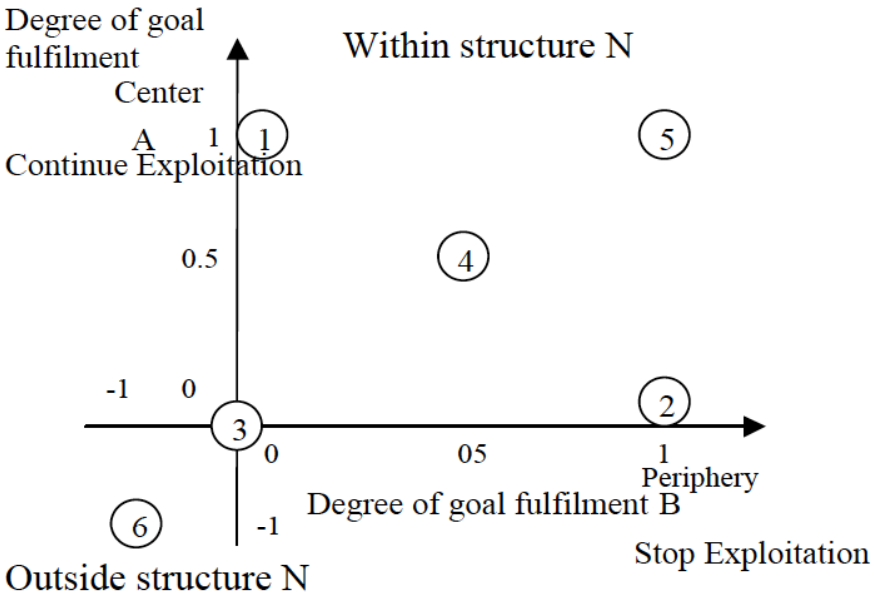
1. & 2. Either-or outcome: *either* A wins over B *or* B wins over A
3. Neither-nor outcome: *neither* B *nor* A wins; they *withdraw* from the conflict

4. Half-Half outcome: B and A negotiate a *compromise*
5. Both-and outcome: *Positive and negative transcendence*; a new reality is created that can transcend the goal of A and B

To further elaborate on the concepts, *either/or solutions* would be the equivalent to a system where either B or A would take up the position as centre/the capitalist, and leave the other party to the periphery/the worker. *Withdrawal* implies that you do not take on the conflict at all – you refuse to engage in the relation that creates the classes A and B. *Compromise* would imply that the conflict between the two are diffused through equality – equal distribution. *Positive transcendence* implies that you take the goals of A and B and transcend them within the structural context – a both/and solution within capitalism. *Negative transcendence* implies that, as in the withdrawal solution, you refuse to engage in relations that create the classes A and B – but at the same time, it implies a both/and solution in the new structure. For this reason, negative transcendence is placed at position six in order to differentiate it from the withdrawal structure.[3]

Therefore, we arrive at the following figure for the six ways of solving a conflict between A and B, where number six is negative transcendence:

FIGURE 2 THE TRANSCEND METHOD



[3] Johan Galtung does not differentiate between negative transcendence and withdrawal. I would argue that this is necessary to do because withdrawal does not imply a both/and outcome. Negative transcendence implies a both/and solution in a new structure – at least if a synthesis between Marx and Galtung is the objective.

CONFLICT THEORY AND CAPITALISM

COMPROMISE

The criteria for a compromise would be the logic of half-half distribution within the system, which would diminish the gap of exploitation between worker and capitalist, and between center and periphery within the structure of capitalism. The relation between worker and capitalist would still exist, but the interaction within the system would be fundamentally changed.

One of the most well known ways of creating a compromise in society is through the medium of the state system. One possibility is redistributive measures from the state that tax a part of the surplus value appropriated by the capitalist, with the aim of re-distributing the surplus value to the workers that produced it in the first place – after some time that is. The key dimension is time. This is a form of redistributive justice where the capitalist system's tendency to inequality is sought to be diminished through taxation. Some of the M* appropriated by the capitalist is given directly back to the workers. This could, for instance, be done in the form of creating a state service sector in society or through direct monetary transfers.

Another possibility of creating a compromise between exploiter and exploited is the model advocated in the early writings of Robert Owen,[4] one of the pioneers in the cooperative movement, who owned and managed one of the largest spinning mills in England in the early nineteenth century (Gatrell 1970:40). Owen initiated a compromise directly with the workers in his factory, with the aim of producing a more stable society. The key dimension is again time; the workers work more for themselves and less for the capitalist. Owen's main thesis was that the capitalist, as any other good citizen, should provide his workers with a decent living, a decent wage and a decent moral. For Owen the main problem of capitalism was its destabilizing effect on society – it was socially unjust, where a small minority of capitalists got immensely rich while the workers were impoverished. Owen wanted to establish social harmony again and this could, in his opinion, not be established in a system where the impersonal ties of the market mechanism were guiding the moral behaviour of society. Owen wrote:

[4] Later on in his life, Owen advocated a structure with his cooperative community, "*New Harmony,*" that bore more similarity to positive transcendence than a compromise. I have, however, chosen to describe the compromise structure he advocated because it illustrates this empirical possibility.

> *The value of mere manual labour has been so much reduced, that the working man…is now [in 1818] placed under circumstances far more unfavourable to his happiness than the serf or villain was under the feudal system, or than the slave was in any of the nations of antiquity* (Owen in Gatrell 1970:57).

Owen argued that the worker was entitled to a fair wage that would represent his hardship in the factory and not the monstrous competition on the labour market (Owen 1970:209). Owen's writings were, thus, as much an appeal to moral sense as it was an appeal to economic sense (from the capitalist's perspective). By compromising the exploitation of the worker, he tried to preserve a sense of community, security and interdependence like the relationship that had existed between the feudal peasant and master (Gatrell 1970:43). The gap between centre and periphery would, in Owen's theory of society, be reduced in such a way that the periphery would obtain a decent standard of living by appropriating some of the surplus value through the grace of the capitalist. Owen's structure would, to some extent, diffuse the tension between centre and periphery in the structure, and therefore point to the possibility of creating a compromise where the "*necessary*" antagonistic character of capitalism is circumvented by the introduction of the moral capitalist. In other words, the *necessary* relation has been modified, making the former *unnecessary*.

POSITIVE TRANSCENDENCE

Structures based on positive transcendence are characterized by the creation of a single centre where there is no clear demarcation of centre-periphery in terms of exploiter and exploited, because the former no longer appropriates the surplus value which was produced by the latter. In short, there is no exploitation but there is still capitalism. The parties realize their goals with the creation of a new reality within the structure of capitalism. The new reality maintains the original structure, and in the context of capitalism, this means a continuation of the M-C-C*-M* cycle. The exploiting relationship that was maintained in the compromise solution no longer exists structurally in the transcendence solution and no longer serves as a source for antagonism.

As an example of this ideal type of organization, I have chosen to describe the Mondragon cooperatives of Spain. The employees working in these cooperatives have the ability to control and manage their own production. In a labour-managed firm, it is labour that hires capital and not the other way around as in "traditional" capitalism. Employees employed at cooperatives in the Mondragon Group have the right to *elect* the "*Supervisory Board*" at the *general assembly* of the

cooperative. The *supervisory board* determines the policies and guidelines of the cooperative and therefore functions as the legislative body in the cooperative (Lutz and Lux 1988:258-259). Management of the company is appointed by the supervisory board and, once elected and appointed, the managers have executive power over the cooperative for a period of four years. However, significant decisions in the cooperative have to be ratified by the cooperative general assembly where all members have one vote (Wiener and Oakeshott 1987:3).

Lutz and Lux write: "…in signing the Contract of Association the cooperatives commit themselves to uniform principles pertaining to capital ownership, employment creation, earnings differentials, distribution of surplus, and democratic organization" (1988:256). The workers own the profits of their production. Of the net surplus, seventy percent is allocated to the members' *individualized internal capital accounts* (IICA). When the worker has paid for membership to the firm (around $5,000), $4,000 of this initial amount is used to create an IICA. Every year, profits will be added relative to the share of capital one has deposited. If there are losses in the cooperative, the account similarly contracts. The IICA is in principle a loan to the cooperative which the worker can get out when he or she decides to retire or to find employment outside the network of cooperatives (Ibid.:261). The surplus value will, therefore, naturally be paid out when the worker for legitimate reasons retires (Ibid.:175). Twenty percent of the net surplus goes to the company's collective reserves, and ten percent to the community, to be used to finance schools and other facilities (Ibid.:261). Because the worker appropriates the surplus of production, the antagonistic structure that Marx identified as the defining character of the system evaporates. The necessary antagonism is modified to such an extent that it no longer exists. The conflict within the capitalist system is solved.

In contrast to this approach, the remaining two forms, withdrawal and negative transcendence, entail a departure from capitalist relations.

WITHDRAWAL

The Indian economist Kumarappa's theory is a description of a system based on simple commodity production C-M-C, where the production is not oriented towards accumulation but towards the exchange and consumption of use values. The workers own their own means of production and mainly exchange goods in order to appropriate another use value. Capitalist commodity production is not favoured – capital is considered to be "evil" in this structure, which implies that the centre-periphery structure of capital is never established. The antagonism that

Marx envisioned in the capitalist structure is, therefore, completely diffused in this system – but the system does not exclude the possibility of other forms of exploitation, in principle. One possible way to modify the contradiction between capital and labour is to avoid the relation. Kumarappa writes:

> *In the first instance, […] we must proceed to organize the people to produce goods to satisfy their own needs, in regard to food materials to afford them an adequate diet, clothing to protect them against the weather and proper shelter; then we would arrange for their physical, mental and moral welfare by making available medical aid, education and other social amenities…. Money in itself satisfies nothing except the miser's pleasure of counting it* (Kumarappa 1948:127).

Money is given a whole other meaning in Kumarappa's withdrawal structure. To withdraw from something only implies that you will not take on a conflict, for instance, between exploiter and exploited. You remain in a non-capitalist economy and nothing is transcended.

NEGATIVE TRANSCENDENCE

Negative transcendence implies that you negate the existing structure and create a single centre in the new structure – if it is capitalism, then the form of capitalism itself is negated. In other words, it implies a jump from structure N to structure M. You negate the reality into which you find the categories of worker and capitalist and, at the same time, create a both/and solution.

Johan Galtung has proposed that the economic cycle could be based on labour rather than on capital. "*Labourism*" as a system would mean that one hour equals one hour. The time you work equals the time other people work for you. Alienation is circumvented through a different relation to work and *time*. One hour's dental service equals one hour of cleaning service. According to Galtung, we are all born with the potential for over 840,000 hours of work – so if this system is implemented, we are all from the outset potential millionaires. Imagine that there is a central bureaucracy that keeps account of the hours that one has given to others and the number of hours that a person has the right to obtain from others. The means to realise the human potential of the individual will be linked to the person and to no one else. The inequality in this system will be implied by *human differences* and not by *differences of capital power*. It is not the market forces or the world of things that decide if a person can get his labour used but the individual qualities of the person – you cannot lower the wage level. It is up to the

social individuals to decide if they want to make use of a person, which means that the normative relation is transformed from the *M-C-C*-M* cycle* to a *human cycle*. Some individuals will be in more demand than others, but this is because of their individual qualities and not their qualities for capital accumulation. The person that, in the capitalist society, could not get essential services like medical help will now have the opportunity to give one hour of work in return for treatment by the doctor – if the consultation only takes 15 minutes then the cleaning woman would have three consultations left in her account. In the capitalist society this relationship would have been monetised and, therefore, have implied that the power of the money would have decided the outcome.

In Ithaca, New York there have been circulating "hour-bills" since 1991. The "Ithaca Hours" is a local issued money-bill that represents the value of one hour of work in this community. The money was printed because the local community was upset by the fact that many federal dollars were used to exploit far away areas and to wage wars against people they did not have anything against. One critique of this system, however, is that they made one dentist hour equal to three cleaning hours. Paul Glover, who took the initiative, writes: "…dentists, massage therapists and lawyers charging more than an average of $10.00 per hour are permitted to collect several *Hours* hourly" (Glover 2005). With this kind of inbuilt asymmetry, the idea of equating one hour's work with another potentially loses its meaning – one could say that 2000 hours equals one hour, in principle. There is no social justification as such that implies that a dentist must have one hour more than the cleaning woman.[5] The Ithaca model is also critiqued for making the hour-bills convertible into dollars (1 hour = $10), which implies that the availability of capital is what determines the qualities of the individual and not the human qualities. But still, the idea represents an approximation of the ideal type model. If put into practice, this system would transcend the necessary antagonism *formed* by capitalist relations, and could exist side by side with the capitalist mode of production. The conflict between capital and labour would then be solved.

ARE THE SOLUTIONS SUSTAINABLE?

The withdrawal and negative transcendence structures remain stable because they are not relying on the self-expansionary system of the capitalist system, that is, they are not under the direct influence of the M-C-C*-M* cycle. This implies that

[5] However, there may be some economic justification for this in terms of covering costs associated with dental equipment, materials, support staff, education, and so on.

we need not take these structures into account here. We are left with an analysis of the sustainability of the structures of *compromise* and *positive transcendence.* Capitalist alienation implies that the solution that should have solved the initial contradiction over surplus value becomes unstable and has a tendency to degenerate into a new relation of centre and periphery. How does this play out in the structures of compromise and positive transcendence?

COMPROMISE

The structures based on *compromise* do not change the capitalist motive from M-C-C*-M*. This could explain why compromise structures within the capitalist system are unstable over time. If we take the example of Owen's moral capitalist who would pay the workers a decent wage, his moral must change or else he will go bankrupt. The behaviour of the capitalist must abide by the rules of M-C-C*-M*. If not, he or she will not be a capitalist for long and the fundament for the compromise will be eroded. If another capitalist is able to sell commodities at a lower price than Owen's factory, his factory would either go bankrupt or he would be forced to reduce wages in order to get enough investment potential by appropriating a greater surplus value in order to compete in the market. In other words, the alienated person still produces relations that are against the inherently social nature of humans. Competition and the quest for money set itself through this compromise structure and make it unstable – it turns its back on Owen with a tremendous force, namely, the force of competition and the need for larger markets. Over time, this compromise structure would thus tend to degenerate into the centre-periphery relations described by Karl Marx due to the dynamic qualities of the system.

The *external compromise* structure in space and time, where the state redistributes some of the surplus value, does not change the nature of the system either – the system remains one of alienated human relations. This structure relies on the essential alienated behaviour of the capitalist which is the embodiment of the M-C-C*-M* cycle. If, for instance, the companies in this compromise structure cannot generate enough profit, the whole system comes into crisis. The state stands as an actor outside the economic cycle and, at the same time, is dependent on the livelihood of its tax base, that is, the capitalist companies. Capital will, as Marx noted, eventually be in need of greater markets, for even the national unit cannot satisfy the drives of the accumulation process. More consumption is needed, which implies that capital has to wrestle itself loose from the chains of the national market. This was what happened, according to Robert Brenner, after the Keynesian boom period of the 1960s – the home markets became satisfied and

could, therefore, no longer absorb the greater productive powers that had been developed; hence, the state had to remove the restrictions on capital in order to facilitate continued accumulation and, in this sense, contradicted the goal of the Keynesian state that relied on the immobility of capital. The state needs to control capital in order to sustain its tax base at the same time as capital needs to expand, making for a highly unstable relation. The need for larger markets becomes a destabilizing factor for this compromise structure (Brenner 2002:13-17).

However, the export of excess capital will also increase this contradiction by increasing competition. When capital is allowed to invest abroad, it will create more productive powers that will be able to compete with the productive powers in the domestic market. This leads to even more overproduction, overcapacity and falling prices. Brenner explains:

> *…given their low surpluses, firms with low rates of return could hardly undertake much capital investment or expansion. On the contrary in response to any given increase in aggregate demand resulting from Keynesian policies, firms were rendered unable and unwilling, as a consequence of their reduced profit rates, to bring about as great an increase in supply as in the past when profit rates were higher…with the result that the ever-increasing public deficits of the 1970s brought about not so much increases in output as rises in prices* (Brenner 2002:33ff).

Hence, the external compromise structures were eroded by the essential contradiction between the state's need for control and capital's inherent drive to accumulate and expand. Globalisation sets itself through as the token of this contradiction which reintroduces the strong centre-periphery antagonism. As Zygmunt Bauman noted, there is no reason why capital should help sustain a higher living standard of the national reserve army of labour when it can find another reserve army at a lower price on the other side of the planet (Bauman 1998:54).

SUSTAINABILITY IN POSITIVE TRANSCENDENCE STRUCTURES

As with the compromise structures, the system of positive transcendence is based on the structure of capitalism. Worker cooperatives must function through the market, and must also make enough profit to continue as a company (Lutz and Lux 1988:164). In other words, even though the immediate exploitation is transcended, the cooperative is merely transformed into a universal capitalist or a *group-capitalist.*

If there is free competition, then they will have to compete with other capitalist firms. If the other companies can produce their commodities cheaper, the cooperatives will have to invest in constant capital in order to maintain the rate of profit. The result is a heightened pressure to increase the amount of machines relative to the amount of labour needed in the production process, with the result that the workers, objectively speaking, would work to replace themselves. Worker cooperatives are based on worker equality but the capitalist accumulation process implies competition, which implies innovation, which implies redundancies of the labour force, which therefore transforms the seemingly equality of the workers into a mask that confronts the workers as structural unemployment. The remaining workers of such a firm would then, in the end, consist of an elite group – the best qualified and most productive workers – and would in turn exclude all other workers from participating in the productive sphere of society. Human beings would, in extreme situations, be so worthless for the accumulation process that the capitalist system would not even care to exploit them. In a not so distant future human knowledge will be the only thing left for capital to exploit. Therefore, with the development of the capitalist system, the worker-managed enterprise would create a conflict between worker and worker in the context of competition, creating an ever larger mass of proletarians that would be excluded and alienated from their natural ability to work. The mass of the proletariat would grow. The conflict in the capitalist system is, thus, only transformed into a conflict between worker and worker employed at two different cooperatives.

Mészáros writes: "…the reformer aims at an improvement within the given structure, and by the means of the same structure, and is therefore subject to the very contradictions which he intends to counteract or neutralize" (1970:126). In other words, the worker-cooperatives would just mean a perfection of capitalism, and subjugate all human beings to the effect of capital. Even if a community owned the capital and gave equal wages to the workers, it would only transform the community into a collective capitalist. Marx writes:

> *The community is only a community of labour, and equality of wages paid out by communal capital – by the community as the universal capitalist. Both sides of the relationship are raised to an imagined universality – labour as the category in which every person is placed, and capital as the acknowledged universality and power of the community* (1975:295).

In other words, capital steers the community through the anti-social mechanism of competition and need for larger markets. The capitalist drive to expand markets in order to realize the value of their commodities will intensify this contradiction because the cooperatives in the end will fight for the export markets.

THE EXAMPLE OF MONDRAGON'S DIACHRONIC DEVELOPMENT

As a concrete empirical example of the above process, we can describe the development of the Mondragon cooperatives. The Mondragon cooperatives initially benefited from the highly protected market under Franco's regime and from the relatively low development of the home market. With the safe haven from international competition, the cooperatives could more easily establish themselves in the domestic market. This helped to provide the context for the cooperative expansions in the Basque region (Wiener and Oakeshott 1987:15-16). Increased competition after Spain joined the European Community and later on by globalisation in the 1990s had a noticeable effect on several of Mondragon's cooperatives (Ibid.:40-41). The first effect was a departure from the principle of economic democracy.

The democratic principle of "one worker one vote" was set aside during the era of globalisation. Mondragon now acknowledges that *over half* of the current staff working in the cooperatives are non-members, which in numbers means over 35,000 of the 70,000 employees. As a result, a hierarchical system has formed between members and non-members in the system. Also in the Basque region, only eighty-one percent of the workforce are members of the cooperative (Mondragon 2005). Thus, it seems that the positive transcendence structure is unstable. However, even though this was the case at Mondragon, this might not be the case if there existed what in theory is called a third sector of worker cooperatives. Therefore, the conclusion that the positive transcendence structure is unstable will only be of general quality for cases that resemble the case of Mondragon.

CONCLUSION

We can conclude that it is possible to solve the conflict over surplus value temporarily in the capitalist system and permanently in the structures that go beyond the system. This can be done in two ways: 1) one can try to solve the conflict within the capitalist system, and 2) one can solve the conflict by negating the capitalist system altogether. When the relation between the two classes is changed from inequality to equality, the antagonism in the system is diffused.

What Marx saw as the necessary relation within the capitalist mode of production does not seem so necessary after all.

Furthermore, we can conclude that *there are limits to solving contradictions when solutions are based on the dynamic nature of the capitalist system*. As is evident from the previous description, the structures based on the self-expansionary nature of capital are unstable. The solutions based on compromise and positive transcendence have a structural tendency to degenerate into a centre-periphery relation. The basic problem with these solutions is that they require a static system in order to be sustainable, and when capitalism is a dynamic system they become unsustainable. So what seemed to be an unnecessary relation between centre and periphery became necessary again over time. Even though the solution within the capitalist system collapses because the fundament is unstable, a new solution can be built when the former collapses. In other words, if the centre-periphery structure resurfaces again, then solve it a second time.

The dialectic between a conflict and its solution within the capitalist system, therefore, runs like this: the conflict arises at one level of society - here it can be solved and thereafter the conflict recreates itself at another level of society where it can be solved again. The dialectic between the conflict and the solutions to it *within* the capitalist system therefore produces a *staircase-like* progression. At the first step of the staircase, one can solve the contradiction between capital and labour, but when this solution becomes unsustainable the capitalist system expands to another level of society, which would equal the next step on the staircase, a new step of capitalist expansion where the exact same contradiction can be solved again. To create a theory that takes its point of departure in a necessary antagonism is, therefore, problematic because this antagonism itself can be seen as a deviant case. What is deviant and what is not depends on where you start your analysis. It could be argued that the capitalist system tends to produce a compromise or positive transcendence outcome as much as it tends to go towards antagonism. The conclusion must, therefore, be that you only fully understand the capitalist system when you have examined not just under what conditions the antagonistic structures have existed, but also under what conditions the alternative structures have emerged. The development of the capitalist system cannot be reduced to a movement of antagonism; one needs to know the complete formation of possibilities within the capitalist system in order to comprehend even a single possibility.

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