

## THE CONTRIBUTION OF RADICAL POLITICAL ECONOMY TO UNDERSTANDING THE GREAT RECESSION \*

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**Abstract.** *Radical political economy represents creative development of Marx's analysis of capitalism in contemporary conditions. Its conceptual apparatus is based on the consideration of the modern society in terms of power relations, present at different levels of socio-economic system and manifested in the forms of inequality, exploitation, relations of domination, alienation, dependent development. The current crisis is a natural result of normal functioning of the world capitalist system. The main generator of current crisis is the neoliberal model of capitalism, which sabotages the growth of both wages and aggregate demand, creating chronic excess capacity, growing volume of speculative capital and reckless and greedy financial sector. The above mentioned model of capitalist economy is not viable without an explosion of debt, fueled by growing speculative bubbles. In order to avoid long-term reproduction of their peripheral status within the world capitalist system, developing countries must establish institutional policies sensitive to local circumstances and resources, as well as to the complex relations of power, present at different levels of the modern economy.*

**Key Words:** *neo-Marxist political economy, power relations, inequality, world capitalist system, accumulation, neoliberal capitalism, institutional policy.*

### INTRODUCTION

The spiral of undesirable economic developments, initiated by the financial crisis in 2008, followed by the Great Recession, is still unfolding, and represents a serious threat to the long-term development capacity of the global economy. On the theoretical level, the recession has caused critical reconsideration of the ruling neoclassical economic paradigm, which has largely ignored the possibility of excessive flows within a consistently

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organized market economy. Rival schools offer alternative explanations of generators, mechanisms and repercussions of the financial crisis and the Great Recession. Viewpoints of the theoreticians of neo-Marxist provenance deserve special attention in this respect. This current of economic thought has been marginalized and somewhat proscribed due to the collapse of socialism and accompanying neoliberal euphoria in the last twenty years. The current turmoil in the global economy is the source of some sort of revitalization of neo-Marxist political economy. The paper will present some of the conceptions of modern capitalism within this theoretical corpus, or more precisely, the current of neo-Marxian political economy unified under the label "radical political economy". Observations of the protagonists of this doctrine appear to be surprisingly realistic and powerful in their predictions.

#### GENERAL FEATURES OF THE RADICAL POLITICAL ECONOMY

Radical political economy is articulated as a school of economic thought in the late 1960's and 1970's in the United States and Western Europe. The term "radical" is interpreted as a theoretical and practical rejection of capitalism, while "political economy" refers to return to tradition of classics and Marx [12, p. 327]. This economic doctrine is focused on Marxist-based analysis and critique of contemporary capitalism, while the influence of other doctrines, such as Keynesianism, neo-Ricardian economics and institutional economics, is noticeable. Radical political economy encompasses a wide range of ideological orientations: anarchism, reformism, environmental, feminist, ethnic, social democratic and communist movements. As the common denominators of supporters of radical political economy, regardless of their ideological orientation, may be indicated [12, p. 327]:

1. critique of contemporary capitalism;
2. rejection of neoclassical economics;
3. search for a socialist alternative to capitalism.

The main subject of analysis of this doctrine is contemporary capitalism and its repercussions, both internally, as well as in international relations. The dynamics of capitalism and its socio-economic structure (classes, the role of monopolies, state, etc.) is analyzed also. Supporters of radical political economy strongly criticize neoclassical economics as the theoretical justification of the capitalist system. Concentrating on the problems of optimal allocation of resources, neoclassical economics ignores class relations and the mutual influence of economics and politics [7, p. 43]. In contrast to neoclassical positivism, which inclines towards value-neutral science, radical economists tend to build normative theory, which should guide radical social change. Contemporary socio-economic problems cannot be resolved within the framework of capitalism, but by radical restructuring of the existing social order [15, p. 475].

One of the leaders of radical political economics in the United States, Sherman, believes that the main theoretical achievements of this current of economic thought lie in the field of financial regulation and financial crisis, environmental issues, racial and gender discrimination, inequality, labor relations, monopolies, imperialism, economic underdevelopment, history of thought, methodology, etc [17, p. 348].

There are views that the emergence of radical economics can be interpreted in terms of Kuhnian paradigm shifts. The neoclassical paradigm is based on the utility maximization as a driving force, and studies the relationships determined by the market. It is unable to provide an explanation of contemporary issues such as war, racism, alienation of workers etc [26, p. 275]. Radical Political Economy claims that all aspects of economic relations between people are ultimately determined by power conflicts. In this sense, neoclassical economics can be seen as a special case of radical economy, which could explain the reality of the time when the power was so pervasive that its market impact could pass unnoticed [26, p. 281]. Changed circumstances led to its replacement with a new paradigm, which considers problems of contemporary capitalism as a normal outcome of power shifts in society.

#### THEORETICAL CURRENTS OF THE RADICAL POLITICAL ECONOMY

Radical economics is theoretically heterogeneous corpus. A significant contribution to its establishment has been provided by Sweezy and Baran's research. Nowadays, this current of economic thought can be divided into the world system theory, the theory of dependency, unequal exchange, the social structure of accumulation, "analytical" Marxism, etc.

In their joint work "Monopoly Capital" (1967), Sweezy and Baran analyze monopoly capitalism in the U.S., which, in their view, represent the blueprint for the future development of other capitalist countries [20, p. 40]. The economy of the United States is dominated by giant corporations, whose power and behavior, backed by of the government (providing various sorts of assistance and privileges) determine economic trends. Baran and Sweezy somewhat modified Marx's concept of surplus value, through their usage of the concept of "economic surplus", which represents the difference between what society produces and the cost of production [20, p. 41]. Given that the costs within capitalism tend to decline (productivity must rise to increase profits), the surplus has been steadily increasing. The growing economic surplus cannot be realized within the main classes of society, which discourages its production. However, there must be forces that provide continuity of capitalist accumulation: sales costs and government expenditures (especially military) [20, pp. 42-43]. Crises in capitalism will not occur because of decreasing profit rate, but because of under consumption [15, p. 474]. Consequently, modern capitalist society is an irrational society, which demonstrates exceptional ability in production, behind which comes highly inefficient and unproductive consumption of produced goods [3]. The analysis of monopoly capitalism of Sweezy and Baran also points to defects of the American education system, lifestyle, alienation, deviant behavior, disturbed relations between the sexes and within the family decadence in culture and arts etc. Industrial workers in the U.S. are not a revolutionary force, because, they are, as consumers, already integrated into the system. The subject of a revolutionary mass action is the exploited classes in developing countries.[20, p. 44] In his book "The political economy of growth" (1957), Baran discusses implications of monopoly capitalism in the less developed countries. Unlike Marx, who wrote about simultaneous existence of both positive and undesirable repercussions of installation of capitalism in these regions (destruction and regeneration), Baran believes that monopoly capital has an interest to maintain the backwardness and underdevelopment on its periphery, through the extraction of its economic surplus, instead of directing it in productive investment [2, cited in: 5, pp.190-191].

Prebisch and Singer, during the 1950's developed the hypothesis that the Third World countries are drawn into the international exchange that transfer economic surplus into the developed capitalist countries. In fact, less developed countries in the capitalist division of labor, specialize in producing and exporting primary goods, while developed countries export manufacturing goods. Free trade between the two groups benefits the development of developed countries while harming the development of less developed nations [5, p. 175]. This situation is the result of structural differences between the economies at different levels of development and unequal distribution of economic power on international scale. Developed countries are dominated by oligopoly structures and powerful labor unions, so the increase in labor productivity due to technical progress shall be followed by an increase in real wages. This, however, does not cause increase in prices, since oligopoly companies have prices under control. In less developed countries, the economic structure is dominated by industries oriented toward primary production (agricultural products, minerals), which is exposed to competition in the domestic and foreign market. Technical progress in the dominant industries does not result in higher wages as compensation for the increase in productivity, because unions are weak. Hence, the prices of the products produced and exported by these countries, decrease with technical progress [5, p. 175-176]. In international trade, less developed countries face a permanent worsening of the terms of trade, export prices of goods are falling, while prices of goods imported from the developed world increase or remain constant. Technical progress is almost not useful for the less developed countries, as it leads to lower prices of their exports, so they have to export increasing quantities of goods to pay the same amount of imports from developed countries. The result of such relations of exchange is the transfer of income from poor to rich countries.

According to Emmanuel, the unequal exchange occurs due to exchange of unequal amounts of labor between the two countries, whether developed or undeveloped [6, cited in: 12]. The capital is internationally mobile, so that the profit rate (as an yield on capital assets) equals at the global level. On the other hand, wages, as a reward for the same labor productivity are higher in developed than in less developed countries. Differences in wages cannot be equated because labor is not internationally mobile factor of production. Due to higher wages, the products of developed countries are relatively more expensive than the products of less developed countries. Less developed countries exchange more labor contained in commodities they export for less labor in the goods they import. This leads to an outflow of surplus value from less developed to developed countries.

Wallerstein conceptualize capitalist economy as a world system that emerged during the "long" 16th century (1450-1650) in Western Europe, where the feudal system gave way to market economy. The countries of this part of Europe became the center of the capitalist division of labor imposed on other regions [24, cited in: 12, p. 335]. The structure of the system is made of unique world economy with the corresponding interstate system, and its driving force is endless process of accumulation [23, p. 25]. Capitalism as a world system is a kind of trans-state structure, where the state, which decides upon the distribution of wealth, is essentially in the service of the subjects of accumulation, through the pressure on workers, enabling monopoly advantages and other benefits [23, pp. 17-18]. The world system exhibits tendencies to 1) hierarchization of space, 2) the class polarization on a world scale, and 3) the emergence of states of unequal power that corresponds to hierarchization of space. The world system is characterized by the states of the

center, semi-periphery and periphery, which differ in the degree of capital intensity of production processes, level of real wages of skilled workers and the percentage of people who manage human capital and have a medium-high income. In the center, all three features are highly represented while their levels decrease in semi peripheral and peripheral countries [23, p. 21]. Countries of the center, which are considered as the "strong" states, where leading industries are located, are able to appropriate the bulk of the surplus value generated in the global economy. The periphery countries are "weak" states that are economically dependent of the countries in the center. Leading industries and states have historically alternated, but the basic structure of the system remained the same. [23, p. 25] Such a structured system enables the smooth process of accumulation, which operates through the production decisions of individual or collective entrepreneurs, and creates the ever increasing world supply. World demand, however, in the medium term tends to stabilize, since it depends on political arrangements relating to distribution, which are generally slowly changing. Such a behavior of world supply and demand is the source of problems in the realization of global supply, leading to the "bottlenecks" of accumulation and crisis, that breaks out approximately every quarter of a century [23, p. 20]. World system partially overcome these limitations through temporal expansion of demand by means of the redistribution of surplus, as a result of inter-class or inter-state conflicts over the distribution, and by means of transfer of once leading industries to the semi-peripheral countries (which stimulates the growth of wages in these countries). Recovery on the supply side, which is the most important, is achieved through two mechanisms: geographic expansion (incorporation of new zones into the world system, and extra-exploitation of the workers within these newly incorporated zones) and the universalization of commodity production (conversion of entire spectrum of different human and material resources into the commodities). These mechanisms are limited in scope. Capitalist economy reached all of its external and internal borders by the end of the twentieth century [23, pp. 25-28]. Also, a tendency towards the free circulation of factors of production is gradually exhausting the list of resources that could be involved in capitalist production. Paradoxically, it is the success of capitalism in removing barriers to accumulation, its resilience, which deepens structural crisis, and makes this system most vulnerable at the time when it is most efficient [23, p. 16].

Frank believes that capitalism creates a kind of metropolis-satellite chain-type relations. Millions of peasants and workers produce surplus value for their exploiters, who, however, are also exploited by the exploiters at higher instances. Exploitative relationships link the advanced capitalist countries, to national capitals, regional centers and local areas. The result is economic development for few and underdevelopment for the majority [8, pp. 6-7, cited in: 12, p. 335].

According to Amin, it is meaningless to consider the underdeveloped and developed societies independently, because both are parts of a single and unique entity -world capitalism. Every time capitalism enters into a relationship with less developed socio-economic formations, through the mechanism of primitive accumulation, it draws value from them. This mechanism is also present nowadays in the relations between the capitalist center and the periphery. It is represented by the transfer of value in favor of more developed parts of the world. Therefore, the underdeveloped countries have a function within such a system, they serve as a source of accumulation on a world scale [1, pp. 265-270]. Position of the less developed countries in the world economy determines their socio-eco-

conomic structure: the sector imbalances in productivity, "depravity", sector disconnection within the economic system, foreign domination in the production, trade, accumulation. With economic growth, each of mentioned structural characteristics becomes even more expressed, so that the growth on the periphery produces not true development, but the development of underdevelopment [1, p. 270].

Reflections on contemporary capitalism in terms of peripheral and dependent economies and dependent development occupy an important place in neo-Marxist literature. According to Vernengo, there are two traditions within this research orientation: American Marxist (Baran, Frank, Dos Santos and others) and structuralist (Prebisch, Kardoso, Faletto and other authors). Both traditions agree that the essence of the dependency is the inability of the peripheral economy to develop autonomous mechanism of technological innovation [22, p. 552]. According to representatives of the first tradition, industrial development in peripheral economies is controlled by foreign capital. In cooperation with local special interests foreign capital controls domestic market, and extracts the economic surplus. The surplus is spent in the center countries. It is also partly spent for conspicuous consumption of domestic land aristocracy. Such a distribution of surplus significantly reduces the potential for domestic investment. The only way to stop the reproduction of underdevelopment in the periphery is revolution [22, p. 555]. Structuralists believe that the development of peripheral economies is possible, foreign investment may even encourage the formation of domestic capital. For adherents of this tradition, internal conditions are important. Crucial is the willingness of domestic elite to begin to act independently and to trace the national economic development (still as dependent) with the help of foreign capital [22, pp. 557-558].

Representatives of analytical Marxism analyze Marx's theoretical system, in order to modify the contents of his methodology [21, p. 599]. Unifying feature of various streams of the analytical Marxism are: the claim of lack of clarity and rigor of Marx's theories, opposition to dialectics, denial of any peculiar methodological features of Marx's theory, critique of the labor theory of value [21, pp. 598-599]. The beginning of this theoretical current is related to Cohen's defense of historical materialism by means of the functional explanation. This school also includes the Romer's neoclassical reconstruction of Marx's economic theories, and Elster's comprehensive analysis of Marx's system through the use of methodological individualism, which served as a source of interpretation of Marxism with the instruments of the rational choice theory [21, p. 615]. Judging by its ideological orientation, the methodological principles and relationship to Marx's theoretical system, this theoretical school in many ways is at odds with the Marxist system, and is only conditionally a member of the neo-Marxist theoretical corpus.

#### RADICAL POLITICAL ECONOMY ON THE CRISES OF CONTEMPORARY CAPITALISM

Since the outbreak of financial crisis and Great Recession several explanations have been offered of their generators and mechanisms. Among the most frequently mentioned are expansive monetary policy of the U.S. Federal Reserve (Austrian school), the global imbalances (between net exporter countries and the United States), the global credit glut (effect of global "shadow" banking system) and others. There are also explanations, which, in the search for the causes and mechanisms of the crisis, analyze changes in the

institutional structure of American capitalism. Thus, there are analyses of cyclical increase in vulnerability of the financial system as a natural consequence of the institutional evolution of the financial systems of developed capitalism (supporters of Minsky's theory of business cycles). Institutionalization of greed and market fundamentalism in the U.S. financial markets is also seen as the source of the crisis (Stiglitz) [19, pp. 336-348].

From the perspective of radical political economy the current crisis is seen not as a result of excessive occurrences outside or within the system (natural disasters, errors of the state or greed of bankers), but as a natural outcome of capitalist institutions that encourage destructive behavior [17, p. 351]. According to Sherman, capitalism naturally passes through stages of recovery, boom, crisis and contraction. During the boom profits increase along with other economic indicators. However, growth is exposed to limits: demand growth slows, while the costs rise faster. The causes of the demand staggering are: decline in consumer spending (wages grow more slowly than profits, which can be temporarily neutralized by the increase of debt, with subsequent disastrous consequences in the form of financial collapse) decline in the national stimulus (taxes are growing faster than public spending) faster growth in imports than exports. On the other hand, costs increase due to: rising interest rates (rising demand for loans), rising taxes and imports, especially of raw materials (demand for raw material grows faster than their production for the domestic market). Businesses revenues start to decline, due to faster growth of costs relative to demand, leading to declining profits, and decreasing of investment. Vicious circle emerges, where the decreasing investment lead to increasing unemployment and falling private consumption and profits. In the phase of recession, the aforementioned trends are reversed and recovery phase begins. The recovery of private consumption and investment during the Great Recession will last longer, due to high unemployment generated by the crisis [17, pp.348-349].

The founder of the theory of the world system, Wallerstein, believes that capitalism has entered a phase of systemic crisis, which is paradoxically the result of its success in ensuring the continuity of the process of accumulation. This phase began in 1914-1917. In his analysis of the crisis that broke out at the beginning of 1970's, Wallerstein anticipated its successful overcoming, and the following two decades of prosperity of world capitalism [23, pp. 15-16]. Renewal of the accumulation capacity of world capitalism over the last two or three decades was the result of the domination of neoliberal ideology, which has managed to reverse trends unfavorable to carriers of the world accumulation: increase in personnel costs, rising costs of other inputs and increase in taxes, but only temporarily, and not to their pre-World War II levels [16]. The effectiveness of neoliberalism is reaching its limits. The systemic crisis, which extends to the beginning of the 21st century, creating a chaotic situation in the world, announce the emergence of a new society, the next world system, whose characteristics are not yet known: it can be hierarchically structured and exploitative as well as democratic and more egalitarian society [16].

Wallerstein believes that globalization is just another name for neo-liberalism and predicts that the term will be forgotten in the next ten years [16]. The debate on globalization has, according to Hoseini, generated two neo-Marxist viewpoints of the above-mentioned phenomenon. According to the first one, the changes in contemporary capitalism have qualitative character and indicate the end of Lenin's notion of imperialism. This theory suggests that capitalism has entered the new benevolent phase. Creation of a new form of global postcolonial and postimperial sovereignty, named "Empire" is taking

place. Empire runs a comprehensive, peaceful and conciliatory policy [11, pp. 8-10]. By contrast, other stream of neo-Marxist theories of globalization insists that current changes in contemporary capitalism are only quantitative. Global changes in contemporary capitalism are the result of its natural development and the tendency to spread, which is, after all, described by Marx and Engels themselves in the "Communist Manifesto" [11, pp. 11].

Interpretations of the Great Recession within the radical political economy largely rely on the dominance of neoliberal ideology in the last three decades and its impact on the intensification of structural disparities within capitalism. Crotty believes that reliance on the neoliberal paradigm in the world economy led to a simultaneous decline in global demand and chronic excess capacity in the economy. The neoliberal policies contributed to the slowdown in aggregate demand by reducing the share of wages in GDP, promotion of restrictive fiscal policies, fiscal austerity programs of the IMF, "structural adjustment" programs of the World Bank in less developed countries etc [4, p. 363]. On the supply side, neo-liberalism has caused a change of regime in which companies operate – from corespective to coercive competition. In the first type of environment, that preceded the neoliberal era, the state was concerned about maintaining adequate level of aggregate demand and in control of foreign trade flows, while the companies partially cooperated, avoiding predatory pricing and other hostile actions, which could reduce the level of profit for the industry [4, pp. 363-364]. There was also a policy of labor rewarding, which contributed to increase in productivity and real wages, reflecting in the steady growth in aggregate demand. In other words, an environment of contained uncertainty and secure oligopolistic profits was created, which induced restraint in investment [4, pp. 363-364]. While the world's leading industries were highly profitable in the previous conditions, with the appearance of neoliberal policies, the situation was changed: the opening of borders exposed them to competition from newly industrialized countries, which in the conditions of slow growth in aggregate demanded gave rise to a new market regime - enforced competition [4, p. 365]. Given that the firms from the leading industries cannot withdraw because of previous investment and sunk costs, they must maintain their vulnerable profitability through "forced" continuous investment in cost-cutting technologies and extension of production to areas where costs are lower. The stronger the competitive pressure on firms, the more they are forced to reduce wage costs, and press the governments to cut spending and budget deficits. This, however, reduces aggregate demand, which encourages even more competitive pressure [4, p. 367]. Banks are also exposed to liberalization and enforced competition from other financial institutions, which forces them to engage in riskier activities, thus creating conditions for the relatively frequent financial and banking crisis [4, p. 367]. Modern capitalism is subject to chronic excess capacity, due to lack of consumption, excessive investment and behavior of the financial sector (which squeezes the profits of industrial capitalists and further pressure them to reduce costs). Generator of the crisis is the shift in balance of power from labor to capital, from industrial to finance capital and transition from corespective to coercive competition [9, p. 307]. The root of these shifts in the balance of power is the neoliberal policy, which has been dominating capitalism in recent decades.

Fruitful development of Marx's views on capitalism, based firmly on empirical material, is present in analysis of capitalism in the neoliberal era, by radical economist Kotz. The analysis starts from the premise that each stage of capitalism is faced with certain contradictions in the process of accumulation. In the era of regulated capitalism (from the



end of the Second World War to the beginning of the 1970's) the main problem was the decline in profits due to rising wages and labor union power and weakening labor productivity. The emergence of the crisis increases the number of unemployed and reverses the aforementioned trends. However, social "generosity" of regulated capitalism and government intervention in order to mitigate and reduce the impacts of crises isolated the bargaining power of workers from the threat of unemployment. Permanent decline in profits and rising inflation led to the replacement of the earlier model of capitalism with the neoliberal institutional model [13, p 175]. Neoliberal capitalism significantly weakened the bargaining power of workers and removed the main obstacle to the rise of profits. Thus, more favorable conditions for the production of surplus value were created. However, the stagnation of wages over the past 30 years as a result of neoliberal policies, created problems for the realization of surplus value, due to insufficient aggregate demand [13, p. 175]. This contradiction in the American economy was, however, solved, the aggregate demand was increasing. In fact, the rise of different forms of consumption in most developed capitalist economy, in the conditions of stagnant wages was maintained through the accumulation of debt. U.S. economic growth for several years before the outbreak of financial crisis was maintained through the growth of consumer spending, investment (domestic and foreign) and the budget deficit [13, p. 185]. It is particularly important that consumer spending grew despite stagnant wages.

This is explained by the structural phenomenon of neoliberal capitalism - speculative bubbles. Faster growth in profits relative to wages led to redistribution of income in favor of the richest subjects and the growing concentration of income at the top. This created a large volume of liquidity for investing funds that exceeded productive investment opportunities. These cash funds were channeled in speculative activities such as investments in housing or securities [13, p. 185]. Stimulated by the increased speculative demand, the asset prices increased excessively. This led to emergence of a speculative bubble, tied to a particular form of asset (the crisis of 2001 was related to the growth of prices of stocks of companies in the field of computer software). The growth of bubbles is supported by the financial system which was deregulated in the era of neoliberalism and prone to risky activities [14, p. 308].

The growth of speculative bubble, related to the housing market at the beginning of the 21st century had an impact on the maintenance of consumer spending. Under the conditions of stagnant wages, the consumption households could increase by borrowing, by using their housing, whose market value grew steadily, due to effects of speculative bubbles in real estate, as collateral [13, p. 184]. The Federal Reserve's pursued a policy of low interest rates (reaction to dot.com recession from 2001), which relieved the debt burden of households thus stimulating further borrowing, which, just before the crisis had strongly increased. Excessive growth of housing prices had an impact on the growth of domestic consumption and investment in the United States [13, p. 185]. Bursting of speculative bubble brought about the beginning of the systemic crisis of neoliberal capitalism. In neoliberal era, the rise of the aggregate demand, necessary for the survival of the system, was artificially maintained by a group of actors who spent beyond their means. Such spending was fed by speculative bubble, through the rise of the prices of real estate, which served as collateral for the accumulated debt of households. Kotz concludes that the economic expansion within the neoliberal capitalism seems dependent on the expansion of debt and creation of speculative bubbles [13, p. 185]. It should be noted that

Kotz had presented his observations on the functioning and structure of neoliberal capitalism in the United States before the outbreak of financial crisis. In many ways, his conclusions anticipated subsequent events.

Representatives of radical political economy stress the importance of neoliberal institutional model in generation of crisis, while mechanisms like non-egalitarian distribution and lack of demand also play significant role. Similar determinants of the crisis can also be found within the Keynesian view (Krugman, Stiglitz). Current movements against social inequalities in the developed capitalist economies also use arguments that resemble those of radical political economy.

#### MESSAGES OF NEO-MARXIST ANALYSIS FOR LESS DEVELOPED COUNTRIES

From the perspective of radical political economy, contemporary structure of world capitalism does not offer to less developed countries much more than a peripheral position and dependence on developed countries in financial, technological and economic domain. The neoliberal era in the development of capitalism has further aggravated the position of these economies in the world system, through production of internationally institutionalized requirements for non-selective opening of capital accounts, liberalization of domestic financial markets, labor markets, restrictive monetary policy etc [25, pp. 375-376].

Serbian economy, in such harsh conditions, additionally exacerbated by recession, as a small and open economy, struggles for a share in the global market. This position is popularly portrayed as an attempt at building competitiveness. The economy that belongs to the peripheral substructure of the world economy, traditionally gain competitiveness through increase of availability of cheap resources (especially labor) for the international capital. Low-wages competitiveness strategy is however of limited effects and can be socially destructive [18].

Competitiveness must be built on long-term sustainable basis. Particularly sensitive is question related to the institutional foundations of competitiveness. Modeling institutional changes through imitation of ideal model, or import of institutions is not appropriate strategy. Examples of economies that have managed to get away from the peripheral position (fast-growing countries of pacific, China, Brazil, Argentina and other economies.) show that institutional engineering has to be especially sensitive on domestic circumstances and resources. In this sense, instead of institutional recipes from the international financial institutions, it may be more useful to use the growth diagnostics, which identify important domestic constraints and consequently defines appropriate institutional policy [10].

The question is, however, whether the current configuration of the world economy, including domestic quasi-institutionalized market structure, burdened by monopolies and the gray economy, leaves enough space for shaping well-adapted institutional policy. Power dynamics and economic courses structured as center-periphery relations, which radical economy so persistently and extensively elaborate, are essential constraint to autonomous institutional policy. Therefore, the conclusions of neo-Marxist economist provenance cannot be ignored in the search for adequate model of institutional change.

## CONCLUSION

Radical political economy creatively develops Marx's theoretical system in contemporary conditions, by testing its validity in a critical assessment of the problems of the modern capitalist economy. The backbone of this neo-Marxist approach is the conceptualization of problems of modern capitalism through the dynamics of power relations at different levels of socio-economic system. The result is a distinctive conceptual apparatus that relies on categories such as inequality, exploitation, center-periphery types of relations, dependent development etc. Crisis of modern capitalist system is a natural result of its normal functioning. The main cause of instability of capitalism in its current stage is the domination of neoliberal ideology in the last 30 years. Neoliberal policy has generated a concentration of income in favor of the recipients of profits at the expense of wage stagnation, as well as the fierce competition in the global economy, the growing imbalance of supply and demand, chronic overcapacity, and the development of a greedy and risk-prone financial sector. Expansion of the system was maintained through the explosion of household debt, fed by the growth of speculative bubbles (related to stocks and real estate market) and the policy of low interest rates. It seems that the economic growth in the neoliberal phase of capitalism depends on these speculative movements. Due to the impossibility of continuation of this type of development, neoliberal model entered the systemic crisis. Conclusions of radical economics are not promising for developing countries, including the less successful countries in transition. Within the world capitalist system, this group of economies is faced with long-term prospects of peripheral status and center dependent economic development. The position of these countries in international economic relations must be maintained by strengthening "competitiveness", which is largely articulated as the increased availability of domestic resources at lower costs to international capital. The economies of the periphery have to build competitiveness on a long-term sustainable basis. It is necessary to formulate a model of institutions development that would minimize the negative effects (on the external and internal level) of the peripheral status of the domestic economy. The existing power relations in the global and national economies certainly define the limits and possible effects of domestic institutional policy.

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## DOPRINOS RADIKALNE POLITIČKE EKONOMIJE RAZUMEVANJU VELIKE RECESIJE

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*Radikalna politička ekonomija stvaralački razvija Marksovu analizu kapitalizma u savremenim uslovima. Osnovu njenog konceptualnog aparata čini promišljanje savremenog društva u kategorijama odnosa moći, koji se na različitim nivoima društveno-ekonomskog sistema manifestuju u obliku nejednakosti, eksploatacije, odnosa dominacije, alijenacije, zavisnog razvoja. Aktuelna kriza svetskog kapitalističkog sistema prirodni je rezultat njegovog normalnog funkcionisanja. Njen generator je neoliberalni model kapitalizma, koji sabotira rast nadnica i agregatne tražnje, stvarajući hronični višak kapaciteta, narasli volumen špekulativnog kapitala i finansijski sektor sklon riziku. Održanje pomenutog modela kapitalističke privrede nije moguće bez eksplozije duga, poduprtog rastom špekulativnih balona. Kako bi izbegle dugoročnu samoreprodukciju perifernog statusa unutar svetskog kapitalističkog sistema, zemlje u razvoju moraju voditi institucionalnu politiku osetljivu na domaće okolnosti i resurse, kao i na složene relacije moći prisutne na različitim nivoima savremene privrede.*

Ključne reči: *neomarksizam, odnosi moći, nejednakost, svetski kapitalistički sistem, akumulacija, neoliberalni kapitalizam, institucionalna politika*