Globalization, development and institutions: from predatory to symbiotic views

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Paper presented at the Second International WINIR Conference, Rio de Janeiro, Brazil – 10-13 September 2015.

1. Introduction

The expression of globalization (and the globalization of innovation) in terms of development should consider institutions, that is, rules and norms, but also organizations that can contribute to wellbeing. The main goal of the paper is to reflect about institutions that may enhance development opportunities within a globalized economy. This approach considers some important contributions of Institucionalist theory and the evidence of the European case in its economic, political, and legal framework. In fact, and despite the 'smart and sustainable' strategic goals present in *Europe 2010*, it is important to address critically some of the institutions that are fundamental in the articulation between the global movements and the life conditions and wellbeing of European societies.

Among these institutions it seems important to look at rules and norms that influence the way under which the production of wealth is created and distributed but also innovation dynamics. In fact, innovation and technological progress are main drivers of development/economic prosperity. However, the consideration of innovation and its contribution to development presents new and deep challenges considering the diversity and the complexity of global players but also the inequality that characterizes our societies. This constitutes the main subject of recent economics best sellers: *Capital in the Twenty-First Century* (T. Piketty, 2014), *Plutocrats* (C. Freeland, 2013); and *The Price of Inequality* (J. Stiglitz, 2013).

In its seminal work Veblen (1913) mentioned that "[I]t is always sound business to take any obtainable net gain, at any cost, and at any risk to the rest of the community". The author's "specifically distinguished business (making money) with its 'predatory' habits of thought, from industry (making goods) with its 'productive' thought habits." (Vatn, 2005: 99). Recently increased attention has been devoted to 'destructive creation', that is, job destruction and non-equitable distribution of the benefits of economic growth. Mazzucato (2013b) distinguishes between "symbiotic" and "parasitic" innovation ecosystems. The idea is that

individual actions can be based on logic of extraction or of creation of collective value. This remits to Acemoglu and Robinson (2013) distinction between “inclusive” and “extractive” institutions. Symbiotic or Mutual relations correspond to close and long-term interaction between the actors. In parasitism one species, the parasite, benefits at the expense of the other, the host.

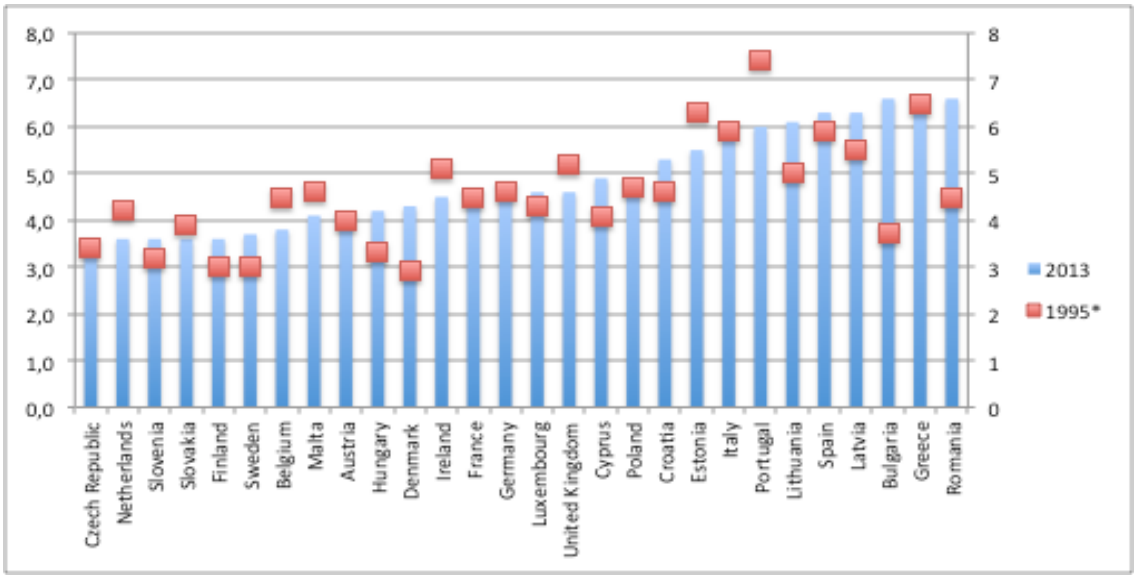
The reflection on the institutions that seem crucial in the humanization of economy within a globalized world addresses the following issues: the ‘way we live’, remitting to wealth distribution in European countries within a finance dominated capitalism; the consideration of Old Institutionalist analysis regarding the evolution of economic system towards the increase dominance of business and intangibles transaction, giving place to a deeper distance between transactions and the well being of the community; the acknowledgment of the social and political construction of this evolution and, therefore, the consideration of the role of institutions, and the way they are designed, in the explanation of economic system’s trends; reference to the shift from predatory to symbiotic logics, or alternative ways of living aiming mutual or symbiotic forms of living. This reference considers the reflection of Old Institutionalism and some recent contributions and the empirical evidence of selected indicators and perceptions on the conditions of work and living in European countries.

2. The way we live: financialization and appropriation of value

Recently we can witness an increasing awareness of the upsurge in income inequality worldwide, both in academic, media and public opinion circles. Several economists have put this topic in the research, policy and news agendas, in particular due to the impact of their best-sellers books. This is namely the case of books like: Capital in the Twenty-First Century (Piketty, 2014), Plutocrats (Freeland, 2013) and The Price of Inequality (Stiglitz, 2013).

However, the debate over inequality of income distribution is not new. What is new is the focus on developed economies, which are facing an apparent inability to grow in an increasingly globalized and deregulated world. This has become more evident and acute after the global financial and economy crisis, started in 2007/2008, namely in the EU context. This is visible, for many EU countries, if we consider data on wealth and income distribution (Figure 1).

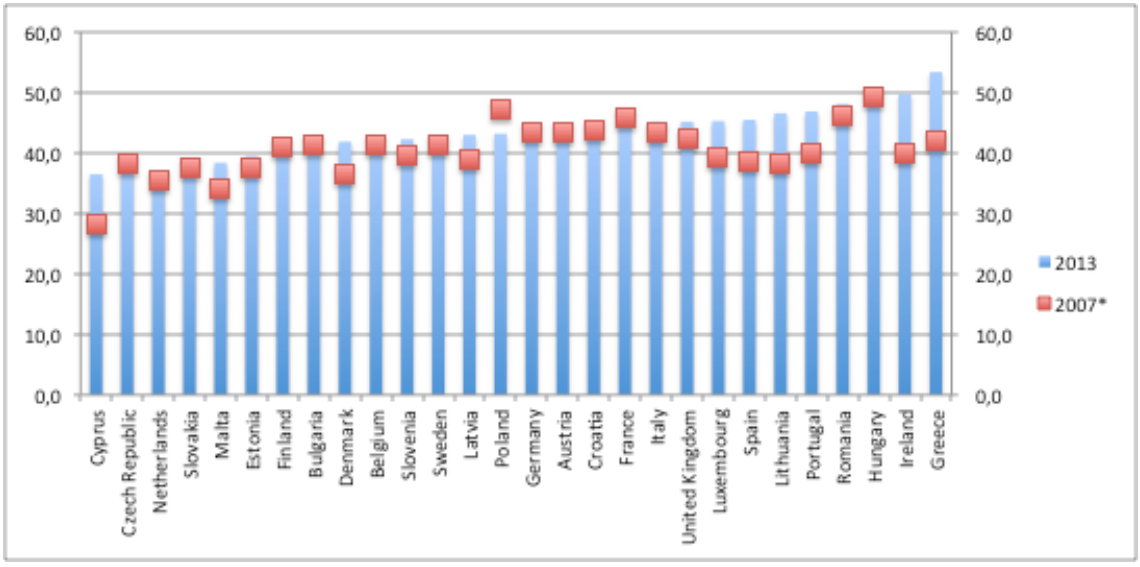
Figure 1: S80/S20 income quintile share ratio



Source: Eurostat, SILC

It is also visible if we consider the risk of poverty (Figure 2 and Figure 3). We can observe (Figure 3) that, despite European policies towards an inclusive economy, the risk of poverty presents high values in all EU countries and that, between 1995 and 2013 the situation became worse, with expressive differences in at least eight countries. This is particular the case of Ireland, Portugal, Greece, and Cyprus.

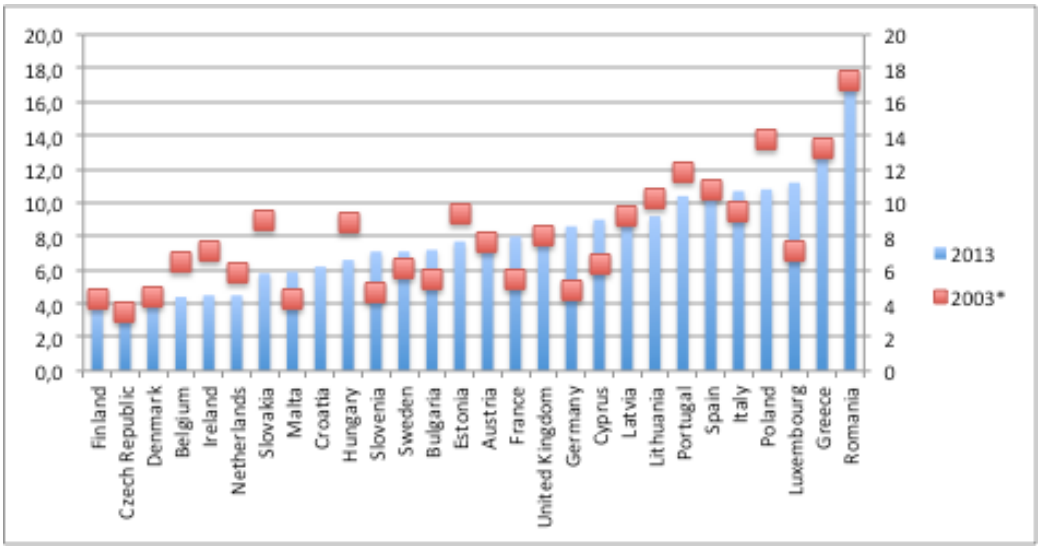
Figure 2: At-risk-of-poverty rate before social transfers



Source: Eurostat, SILC

If we consider in-work at risk poverty rate (Figure 3) it is possible to find a great disparity between countries: from 4% in Finland to almost 18% in Romania. I tis also evident the increase or maintenance of poverty risk between 2003 and 2013 (18 countries have the same or worst situation between the two periods; 9 improve their situation).

Figure 3: In-work at-risk-of-poverty rate



Source: Eurostat, SILC

In this context, scholars increasingly stress the trend towards financialization. Financialization "is the term used to summarize a broad set of changes in the relation between the 'financial' and 'real' sector which give greater weight than heretofore to financial actors or motives (Stockhammer, 2010: 2)[1]. According to Foster (2007: 1) the financialization of capitalism "is the shift of gravity of economic activity from production (and even from much of the growing service sector) to finance".

Financialization is closely related to globalization, both in terms of production and of financial transactions (Milberg and Winkler 2009). Financialization can be considered as a new stage of capitalism, which begun in the 1970s, drove by trend towards stagnation of capitalist economies that are failing to generate profitable investment opportunities in the real economy. This is the case of EU countries and occurs despite the efforts made by the European Commission to promote growth through investments in the "knowledge-based" activities, namely through the stimulus to education and innovation.

[1] In a more narrow way, financialization can be seen as "the growth of financial sector output and profit relative to others, and of financial activity as a contributor to the revenue and profit of non-financial firms" (Davies et al, 2013).

In fact, since the 1980s innovation and industrial policies were centred on innovation and high value-added activities (OECD 2003). It was understood that this focus, in combination with the footloose nature of production in mass produced, price competitive products, was the mean of attaining economic growth and creating high-skill, high paid jobs.

Alas, evidence indicates that, in some cases, investing in innovation and moving up the value-chain is not enough to ensure long–term competitiveness and economic growth. In fact, some empirical studies reveal that higher rates of innovation are not necessarily related with higher prosperity. The evidence holds at country (Dosi et al 2006), regional (Fragkandreas 2013) and sectoral (Ejermo et al 2011) levels. Moreover, recent research shows that periods characterized by plentiful smart investments in innovation, such as the 1990s, were also periods of fast rise in inequality (Lazonick and Mazzucato, 2013).

Financialization has impacts on economic actors, their goals and their constraints (Stockhammer 2010). It has had an impact on managerial behavior, reinforcing the "short-termist" perspective (Kay, 2012); on corporate governance, reducing the will to take risks in innovation (Mazzucato, 2013a), on managerial ideology based on the 'maximizing shareholder value' and not on the stakeholders value (Lazonick and O'Sullivan, 2000; Dore 2008); and on the focus on value transfer and extraction at the expense of value creation (Mazzucato and Shipman, 2014) and on rent-seeking activities (Stiglitz, 2013). In fact, recent critics of financial markets, and of the deregulation that preceded the global financial crisis, have focused extensively on the way certain powerful actors 'extracted' value that was disproportionate to the resources they committed or risks they took (e.g. Turner (2012) and Turbeville (2012) in Mazzucato and Shipman, 2014).

Managerial behavior as a "short-termist" perspective have conducted stock-market-quoted firms to under-invest in physical and intangible assets (including product development, employee skills, and reputation), and to focus excessively on "restructuring, financial re-engineering or mergers and acquisitions at the expense of developing the fundamental operational capabilities of the business" (Kay, 2012). This means a focus on value transfer and extraction at the expense of value creation.

According to Mazzucato (2013a: 860) "The speed at which the financial sector grew was mainly because of profits of financial companies, i.e. their ability to reap a gain from value created elsewhere (such as innovation in new sectors), growing more quickly than those of non-

financial ones".

Financial globalization is supported by standard neoclassical economics under the argument that it would allow capital to be allocated to its most efficient use and would benefit developing countries (Mishkin, 2006), due to its effect on capital flows from rich to poor countries and to the existence of a positive correlation between financial globalization and growth. This vision has influenced economic policy, namely IMF programs implemented in developing countries. However, there is no robust evidence supporting the growth benefits of financial globalization (Kose et al 2006). Instead it has larger current account deficits, provided the countries could attract the corresponding capital inflows (Stockhammer, 2010).

Political Economy approaches highlight the social costs of globalization and financialization, that often involved downsizing of employment and pressure on wages. Lazonick and O'Sullivan (2000) argue that there has been a shift from what they call 'retain and reinvest' to 'downsize and distribute' (Mazzucato, 2013a).

The approach to capitalism in its evolutionary nature and the increase importance of financial dimension is at the core of Old Institutionalist theory. In "Why is Economics not an Evolutionary Science" (1898), Veblen "[…] called into question the premise that the physics of equilibrium thermodynamics is pertinent to analyzing economic systems; indeed it called into question the premise that economic systems do, indeed, tend to equilibrium" (Boulton, 2010: 41). The assumption of the evolving nature of economies is the "only *rational* approach" (ibidem). Veblen describes evolution as a "theory of a process, of an unfolding sequence", "the orderly unfolding development of fact", or "the theory of a development relationship" (Idem: 42). The Spencer and "biological reductionist" influences on Veblen's work mentioned by Hodgson (1998) were mitigated in Veblen later papers which "became more critical of Spencer" and reveal the influence of "Veblen's former teacher, Pragmatist philosopher Charles Peirce and by Peirce's contemporary William James and their view of the reality of human initiative and the role of novelty and chance" (*Ibidem*). According to Hodgson, it is interesting that "Veblen does not see evolution as something that happens primarily to individuals but as a collective change to societies, and collections of institutions" (Idem: 43).

In *The Theory of Business Enterprise* (1904) Veblen presents an analysis of the main changes and characteristics of capitalism of his time, that is, the industrial capitalism based on the machine, "the physical basis of modern business traffic". According to Veblen, the economy is

dominated by a business situation: “[T]he material framework of modern civilization is the industrial system, and the direction force which animates this framework is business enterprise”; “For a theoretical inquiry into the course of civilized life as it runs in the immediate present, therefore, and as it is running into the proximate future, no single factor in the cultural situation has an importance equal to that of the business man and his work (Veblen, 1904). Therefore, “[A] theory of the modern economic situation must be primarily a theory of business traffic, with its motives, aims, methods, and effects” (Idem). The modern business traffic has its base on the machine and its “spiritual ground” is “the pecuniary norm” and the institution of ownership: “[A]s the machine process conditions the growth and scope of industry, and as its discipline inculcates habits of thought suitable to the industrial technology, so the exigencies of ownership condition the growth and aim of business” (Idem). In its “all-pervading” nature, ownership “dominates the affairs of civilized peoples more freely and widely than any other single ground of action, and more than it has ever done before” (Idem). The centrality of property in “modern times” derives from the “exigencies of mercantile traffic” or “the prevalence of purchase and sale in ‘money economy’” (Idem). The centrality of property in the business system has to be considered in connection with “the general growth of individual rights”: “For business purposes, and so far as the business man habitually looks into the matter, the last term of all transactions is their outcome in money values. The base line of every enterprise is a line of capitalization in money values. […]. The business man judges of events from the standpoint of ownership, and ownership runs in terms of money” (Idem). The late-modern scheme of economic life is a "credit economy," as contrasted with the "money economy" that characterizes early-modern times, and more precisely, “credit economy”, the “earning-capacity of the corporation as a going concern”. Thus, “immaterial wealth” and “intangible assets”, which are only “serviceable” to their owners, became “the nucleus of the modern corporate capitalization”. In this system, and “[R]oughly speaking, under corporate organization the owners of the industrial material have no voice in its management. […]. So that under modern conditions the magnitude of the business capital and its mutation from day to day are in great measure a question of folk psychology rather than of material fact” (Idem). Although goods market “is still” a “powerful economic factor as ever”, “it is no longer the dominant factor in business and industrial traffic, as it once was. The capital market has taken the first place in this respect” (Idem).

The centrality of money market, that is, the monetarization of economy, (“the very life-blood of modern competitive industry ”) and the importance of intangibility in business is also referred by Commons, which considers the notion of intangible property, presented by Veblen,

a ‘revolutionary’ step in economic analysis. Like Veblen, Commons considers that the intangible property dominates ‘transactions’: “property […] becomes human faculties in preparation for, or in occupation of, opportunities”; “[T]he changes in the meaning of the economic equivalent of property as assets and liabilities have made necessary a deeper analysis of the meaning of the terms ‘rights’ as used in jurisprudence”(Commons, 1924: 156; 77). This understanding of property, as essentially intangible and evolving human interactions in terms of rights and duties established by legal rules, remits to a change in economic system and is considered by both authors.

3. Institutionalist views on economy: rules and power

The critical approach to the naturalization of the state of affairs, namely the inequality of income and wealth distribution as well as poverty risk (vd. Figures 1, 2, and 3), remit to one of the central aspects of Institutionalist approach to capitalism. In the essay “Natural selection, social selection, and heredity” (1897), Commons refers that “social evolution is “the evolution of freedom and opportunity, on the one hand, and personality, on the other. Without freedom and security there can be no free will and moral character” (idem: 45). Thus, social institutions should allow human development in its individual and social meaning.

Institutions are the engines of the social fabric, the reason beyond the ‘nature’ of things. In “Wage theories and wage policies” (1923), it is said that “If, now, we examine the two main groups of wage theories which have claimed attention during the past hundred years, we shall see that they are based on Adam Smith’s ideal of a society of individual shifting readily from one job or industry to another, rather than on the actual society of laws, customs, mass movement, and mass psychologies” (Commons, 1923: 302). According to him, “[A]n institution is defined as collective action in control, liberation and expansion of individual action. Its forms are unorganized customs and organized going concerns. The individual action is participation in bargaining, managing and rationing transactions, which are the ultimate units of economic activity. The control by custom or concerns consists in working rules which govern more or less what the individual can, must, or may do or not do” (Commons, 1931: 443).

This definition contains the central notions that compose Commons’ research program (‘transactions’, ‘working rules’, and ‘going concerns’) and provide useful insights to reflect on the main subject of this paper, that is, the extractive or symbiotic dynamics of economic systems in its global expression. ‘Transaction’ corresponds to the unity of analysis that

Institutional Economics should adopt. In fact, and according to the Essay "Institutional Economics": "Transactions intervene between the labor of the classic economists and the pleasures of the hedonic economists, simply because it is society that controls access to the forces of nature, and transactions are, not the 'exchange of commodities', but the alienation and acquisition, between individuals, or the *rights* of property and liberty created by society, which must therefore be negotiated between the parties concerned before labor can produce, or consumers can consume, or commodities be physically exchanged" (Idem: 445). 'Working rules' indicate "the universal principle of cause, effect or purpose, common to all collective action. Working rules are continually changing in the history of an institution, and they differ for different institutions; but, whatever their differences, they have this similarity that they indicate what individuals can, must, do or not do, enforced by collective sanctions" (Ibidem).

Therefore, institutionalism deals with human interactions rather than relations between men and commodities – "It is this shift from commodities and individuals to transactions and working rules of collective action that marks the transition from the classical and hedonic schools to the institutional schools of economic thinking" (Idem: 447). According to Commons, there are three types of transactions: bargaining transactions which "derives from the familiar formula of a market" (idem: 447); managerial transactions are related with wealth distribution and involving a "superior and an inferior"; "rationing transactions differ from the managerial transactions in that the superior is a collective superior while the inferiors are individuals" (Idem: 448). 'Going concerns' corresponds to collective action, which "ranges all the way from unorganized custom to the many organized going concerns, such as the family, the corporation, the trade association, the trade union, the reserve system, the state. The principle common to all of them is greater or less control, liberation and expansion of individual action by collective action […]. A going concern is a join expectation of beneficial bargaining, managerial and rationing transactions, kept together by 'working rules' " (Idem: 444; 454).

Commons view on collective action introduces the notion of power, relying the integration of Economics, Law and Ethics. In fact, and according to Commons, the control (through collective action) of individuals always result in, and is intended to result in, a gain or loss to other individuals". Every transaction involves three social relations: conflict, dependence and order: "The parties are involved in a conflict of interests on account of the universal principle of scarcity. Yet they depend on each other for reciprocal alienation and acquisition of what the other wants but does not own. Then the working rule is not a foreordained harmony of interests, as assumed in the hypotheses of natural rights or mechanical equilibrium of the

classical and hedonic schools, but it actually creates, out of conflict of interests, a workable mutuality and orderly expectation of property and liberty. Thus conflict, dependence and order become the field of institutional economics, builded upon the principles of scarcity, efficiency, futurity and limiting factors derived from the older schools, but correlated under the modern notions of working rules of collective action controlling, liberating and expanding individual action" (Idem: 451).

By containing in itself the three principles of conflict, mutuality and order, transactions raise economic, legal and ethical issues. In the essay "The Problem of Correlating Law, Economics and Ethics" (1932), Commons presents a 'formula' that establishes that correlation: "Since it is human activities that we are investigating, our analysis resolves them into similarities of cause, effect, or purpose, which we name principles. Four such similarities are distinguishable, derived from the writings of economists and jurists, which become the principles of scarcity, efficiency, futurity and the working rules of custom and going concerns. That which in law is named property arises from the principle of scarcity in economics. […]. But it is inseparable from the principle of efficiency, which is the increase of supply brought about by overcoming the resistance of nature's force […]. These, again, are inseparable from the principle of futurity, which on the juristic side is rights, duties, liberties, exposures, and on the economic side is future commodities and money. But working rules are the principle of collective action in control of individual action, mainly under the aspect of precedent, which is the common-law method of controlling individual action by the decision of disputes. These four principles are the inseparable interaction of similarities of cause, effect or purpose, and, if a general principle is sought which shall include all of them and shall be the ultimate principle underlying the correlation of law, economics and ethics, distinguishing the social sciences from physical and biological sciences, this may be named the principle of willing-ness, defined as the whole of all the similarities of cause, effect or purpose […]" (Idem: 471).

To sum up, Institutional Economics in Commons view allow the appraisal to capitalism in its predatory and symbiotic dynamics in the following terms:

- The focus of analysis is not the relation between men and nature but the interdependent relations between men;
- These interdependencies correspond to 'transactions' (bargaining, managerial and rationing) - the unit of analysis adopted by Institutional Economics;
- Transactions take place in particular 'going concerns' characterized by certain 'working rules';

- The rules of the game ('working rules') allow the distribution of power and income and, therefore, are the expression of certain 'willingness'.

The 'artificial' or 'social selection' involves the distribution of power and is explained by the rules and contexts that prevail in society. This is in clear opposition with the 'invisible hand' and the 'natural order' where there is no discussion of rules or processes and outcomes of socioeconomic systems. The rules, contexts and the type of transactions influence the way societies deal with the principles of scarcity, efficiency, futurity, revealing particular/specific causes, effects and purposes. The more or less predatory dynamics depend on the willingness that prevails in society.

4. From predatory to symbiotic dynamics of capitalism

The rejection of the naturalization state of affairs, central in institutionalist authors, gives rise to a critical appraisal to the dominant aims and interests in capitalist system, allowing an analysis on predatory or symbiotic practices that prevail under capitalism.

In *The Theory of Business Enterprise* Veblen refers the mutation of capitalism into an essentially monetary system where "business man judges of events from the standpoint of ownership, and ownership runs in terms of money […]", (Veblen, 1904: s/p) "[I]nvestments are made for profit, and industrial plants and processes are capitalized on the basis of their profit-yielding capacity". The "natural course of things" is conceived as "a stable and orderly increase of the property invested", a "normal or unquestionably legitimate source of gain" (Idem). The 'normality' and 'natural nature' of profits allow "business men to use it without definition" and took the central place in the economic system since the nineteenth century. "The interest of the business community centers upon profits and upon the shifting fortunes of the profit-maker, rather than upon accumulated and capitalized goods" (Idem). This centrality is based on "immaterial wealth," "intangible assets", which are not serviceable to the community, but only to their owners" (Idem): "Good-will taken in its wider meaning comprises such things as established customary business relations, reputation for upright dealing, franchises and privileges, trade-marks, brands, patent rights, copyrights, exclusive use of special processes guarded by law or by secrecy, exclusive control of particular sources of materials. All these items give a differential advantage to their owners, but they are of no aggregate advantage to the community. […] they make no part of the wealth of nations" (Idem).

These statements remit to the predatory logic of capitalism in Veblen's view. In fact the interest of businessmen is "to get the largest aggregate gain from his business. It is manifestly for his interest, as far as may be, to shorten the process out of which his earnings are drawn, or, in other words, to shorten the period in which he turns over his capital" (Idem). The dominance of the capital market over the goods market has consequences in terms of the prevailing interests. At this point, Veblen stresses the fact that "the interest of the managers of a modern corporation need not coincide with the permanent interest of the corporation as a going concern; neither does it coincide with the interest which the community at large has in the efficient management of the concern as an industrial enterprise. The interest of the community at large demands industrial efficiency and serviceability of the product; while the business interest of the concern as such demands vendibility of the product; and the interest of those men who have the final discretion in the management of these corporate enterprises demands vendibility of the corporate capital. The community's interest demands that there should be a favorable difference between the material cost and the material serviceability of the output; the corporation's interest demands a favorable pecuniary difference between expenses and receipts, cost and sale price of the output; the corporation directorate's interest is that there should be a discrepancy, favorable for purchase or for sale as the case may be, between the actual and the putative earning-capacity of the corporation's capital. The business interest of the managers demands, not serviceability of the output, nor even vendibility of the output, but an advantageous discrepancy in the price of the capital which they manage. […]. Here the question is the fact that under this system of corporation finance the affairs of the corporation are in good part managed for tactical ends which are of interest to the manager rather than to the corporation as a going concern" (Idem).

Commons writings add important aspects to the analysis on predatory and symbiotic nature of capitalism by highlighting the changes that may shift these two logics, namely through the state. In the Essay "Progressive Individualism" (1895), Commons refers that "[…] in our beliefs and our enjoyments the state has taken its hand off - the result is a stimulus to individualism, a freedom for the richest and most varied growth of individuality. Herein it is a *lessening* of the state's functions which has been the source of the wonderful outburst of individualism since the Renaissance and the Reformation" (Commons, 1895: 34). In the same essay the author addresses the history of the United Sates to illustrate the movement between 'good' and 'bad' forms of competition or, in our focus, between symbiotic and predatory moves: "There is, first, a fair, open, and free competition with abundant opportunities for self-employment, and no

special privileges and inequalities. This was mainly the situation in America until after the Civil War. Since the war the vacant lands have all been occupied, population has recoiled upon itself, monopolies have sprung up, and competition has become not the hearty emulation of the first period, but a cut-throat struggle to underbid for access to the opportunities already occupied. Those who suffer are the unorganized wage-working classes and the small farmers, manufacturers, and tradesmen who are crowded into these classes" (Idem: 35).

Like Veblen, Commons presents the money market as the gravity center of "modern competitive industry", or, in his own words "the very life-blood of modern competitive industry". As long as this force is not controlled it is not possible to have "*free* competition". Only with the "assurance of equal opportunity" will men compete with the purpose not "not be directed mainly to crush the weak, but will develop the highest forms of voluntary cooperation" (Idem: 40). Control, political rules and law are very important in the design of symbiotic institutions in Commons' perspective. "Voluntary cooperation is the natural outcome of fair and open competition. Its failures at present are due as largely to discriminations on the part of privileged interests already in the field as to the inherent difficulties of the cooperative principle. Building and loan associations could never have reached their present marvelous growth had the existing national and state banks cared to enter their field, or the legislature failed to enact favorable laws. With fair competitive conditions and legislative sympathy, the cooperative idea will spread in other directions.

The importance of legal norms is central in Commons' analysis on "Wage theories and wage policies" (data): "If, now, we examine the two main groups of wage theories which have claimed attention during the past hundred years, we shall see that they are based on Adam Smith's ideal of a society of individual shifting readily from one job or industry to another, rather than on the actual society of laws, customs, mass movement, and mass psychologies" (p.302). The institutional and political dimension of wages and "national prosperity" is stressed by the conception according to which "A national economic policy is a policy of proportioning inducements to individuals and classes in order to promote national prosperity." (p.301). Therefore, the critical appraisal of policy through theory allows the introduction of changes envisaging the improvement of living and working conditions, that is, the national economic policy, which is the result of different policies. The complex and integrated view of national economic policy in Commons' view is presented in the following terms: […] a wage policy cannot be separated from a land policy, a money and credit policy, a taxation policy, or a policy regarding business profits, in its many varieties, all the way from farmers to railroads, trusts,

bankers, and financiers" (p.301). Like Veblen, Commons presents the monetary system as the economic "dominating fact": "So far has its centralization gone that today it is the financiers at the lower end of Manhattan who determine, for the bulk of the big industries of the nation, what shall be the nation's wage policy. Although strenuously competing with each other, and often very bitter towards each other, yet they act very nearly in unison on the nation's wage policy. Occasionally a business men, like Henri Ford, revolts but if perchance he should make a serious mistake in his process of forecasting, he, too, might fall under their control and likewise his wage policy" (p.301); "For, after all, it is willingness that produces wealth. There is no invisible hand about it, no natural equilibrium of forces of nature that augments the national wealth by mere unguided self-interest. There is a rather a national economic policy, whether intelligent or mistaken, conscious or unconscious, that induces individuals and classes of individual to augment or retard the national wealth while pursuing only their private wealth" (Commons, 1932: 305).

Veblen and Commons view of capitalism remits to a predominantly predatory nature commanded by business interests. This is based on particular values, institutions, policies and theories. The opposition to a 'natural order' approach to economic life is at the roots of possibility of change and improvement through the appropriate values, institutions, policies and theories allowing the shift from predatory dynamics, characterized by the dominance of business interests, to symbiotic ones, where the interests at stake are more balanced and allowing the national prosperity, that is, the Wealth of Nations, removing the "[…] handicap from those below the level and to check the arrogance of those above the level, thus equalizing the terms of competition" (Commons,1996 [1895]: 39).

The increasing of predatory dynamics has been raised also in the analysis of contemporary nature of capitalism, that is, of financialization. As previously mentioned, financialization is linked to the emergence of a 'finance-dominated' accumulation regime (Boyer, 2000; van Treeck, 2009) and to several transformations in the distribution of power, income, and wealth, and in the pattern of economic growth (Dore 2008). In terms of power distribution, it has reinforced the power of companies' shareholders and senior executives (Lazonick and O'Sullivan, 2000; Dore, 2008). In terms of the growing inequality in the distribution of income and wealth it is related to (Power et al. 2003, Dore, 2008: i) the rise of interest and dividend income and capital gains; ii) the rise of bonuses in the incomes in the financial sector; iii) the shift in the power balance between capital and labor (Figures 4, 5, 6).

Financialization and financial globalization have changed economic actors, their goals and their constraints, that is their institutional framework with profound effects on income distribution. At least three channels have been discussed in the literature (Stockhammer, 2010). First, there has been rise of what is often called 'rentiers income', i.e. interest and dividend income as well as capital gains (Power et al. 2003). Second, the rise of incomes in the financial sector, most notably in the form of bonuses, has widened income disparity. Third, financialization seems to have shifted the power balance between capital and labor in a variety of ways ranging from changes in corporate governance to the increased range of possibilities opened to firms by financial globalization (ILO 2008).

Rent-seeking can be indirectly productive when the prospect of rent, arising from market power, gives an incentive for investment or innovation. The "Schumpeterian" capture of marginal rent rewards risk-taking innovation, and can therefore incentivize value creation. However investor rewards can substantially outweigh Schumpeterian rewards when claims on real assets undergo sudden large revaluation on financial markets (Thurow, 1975). Policies can "shape" markets so they limit rent-seeking and unproductive investments (Burlamaqui, 2012).

Value is created by investment that re-arranges resources for profitable sale (production), that identifies profitable new combinations of resources (e.g. R&D), that moves products to places or into forms where they are worth more (distribution), and that re-arranges existing corporate resources for increased production and productivity (restructuring/turnaround). Value is not necessarily created by investment that merely "revalues" existing products or corporate resources by buying and later reselling them in unchanged form. Such investment-typified by speculative trading in financial instruments and property-can generate a return for the investor without creating new value, and so involves the redistribution of income and resources rather than their new creation.

The potential disconnection between those who take risks and those receiving the consequent returns, and between individual and social returns, is explained by institutions design. The fulfillment of connection between those two sides of economic system will require new forms of enterprise structure, financing, and regulation whose creation requires more than the financial sector reforms currently under way or a reform that result in the reward rather than penalization of those firms pursuing investments needed for innovation to occur. Or using language from Minsky (1992), the problem is how to reform the financial system so that it nurtures the 'capital development' of the economy, and in so doing renders capitalism not

only more dynamic but also more stable. Regulation of financial markets must go hand in hand with policies that are aimed at innovation and industrial policy providing long-term patient capital that nurtures learning and innovation through public finance.

The key problem is how to de-financialize real economy companies, and to find ways that value creation activities (in both the financial sector and real economy) are rewarded over value extraction activities. This will entail both finding and supporting sources of finance that provide long-term committed patient capital, but also specific policy mechanisms that limit the power of large shareholders, which has allowed 'trading' to be rewarded over 'investment' and also caused innovation-led growth (a result of a collective process) to lead to a less collective, less equitable, highly unstable economic structure. And surely a financial transaction tax, as well as higher capital gains taxes (and lower taxes on labor), will help to rebalance incomes and incentives toward rewarding the arduous process of value creation rather than quick and easy trades.

Today the short-sighted bond (financial) markets that are determining the recipe for the solution to the Eurozone crisis means that the proposed solutions for the weaker EZ countries (austerity and different types of structural reforms aimed at 'liberalization') are not allowing the much needed productive investments to happen: investment in skills, technology, and other determinants of productivity-areas in which the 'surplus' countries like Germany have invested drastically more.

The results of the research on evidence of the nature (symbiotic and/or predatory) of the institutions that shape today's capitalism in Europe are presented in the figures bellow. These consider the following institutional issues:

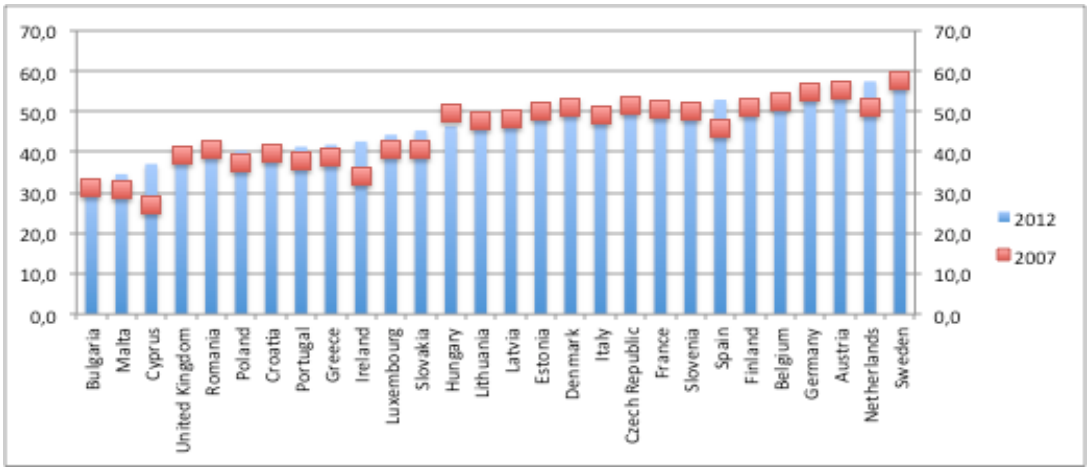
- Tax policy - capital and labor
- Increase of precarious work
- Property rights (patents)
- Education expectations

It is also considered the perception of the institutional design in fundamental areas of entrepreneurial activity development considering the information of the Global Entrepreneurship Monitor in the following issues:

- Taxes and bureaucracy
- R&D transfer

- Legal system (property rights, commercial accounting and other legal and assessment services and institutions that support or promote SME)
- Social and cultural norms that encourage or allow actions leading to new business or activities that can potentially increase personal wealth and income

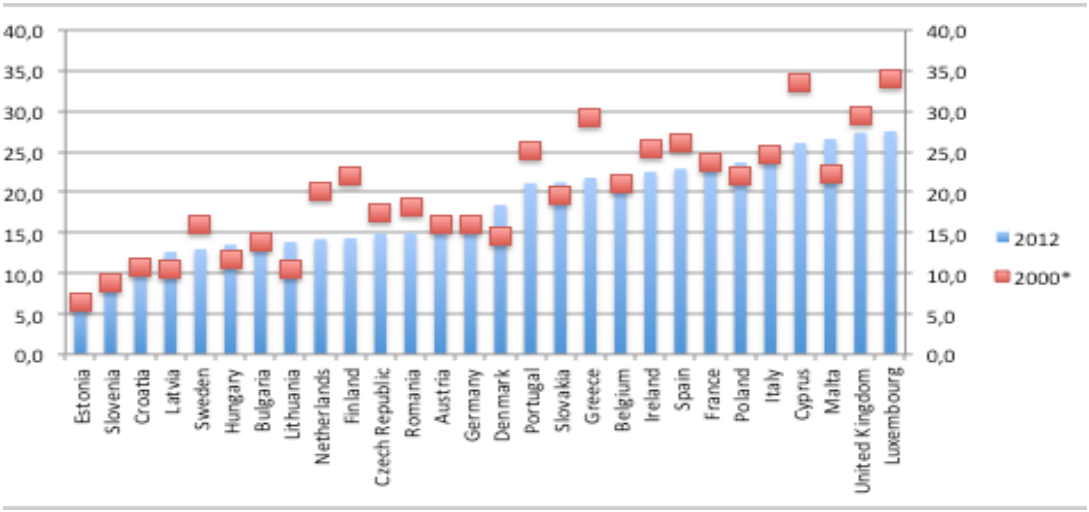
Figure 4: Taxes on Labour as % of Total Taxation



Source: DG Taxation and Customs Union and Eurostat

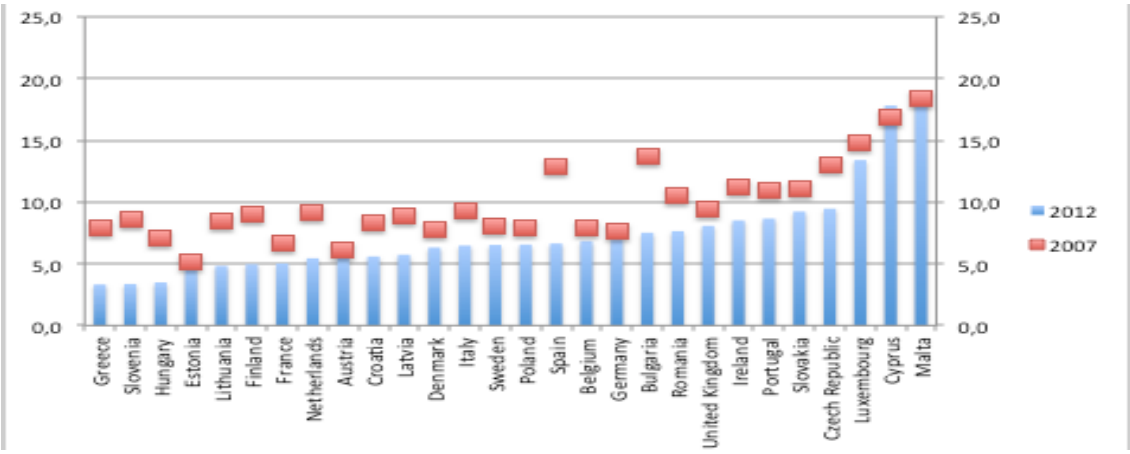
Despite the differences between the countries, it is visible a high level of taxes on labour and the maintenance of tax effort between the periods considered (Figures 4). In comparison with the tax effort on labour, the tax on capital looks lower and tending to decrease between the 2007 and 2012 (Figure 5). We also find a tendency towards the decrease of taxes on corporations between the two years (Figure 6). Again, it should be stressed the contrast with the labour situation.

Figure 5: Taxes on Capital as % of Total Taxation



Source: DG Taxation and Customs Union and Eurostat

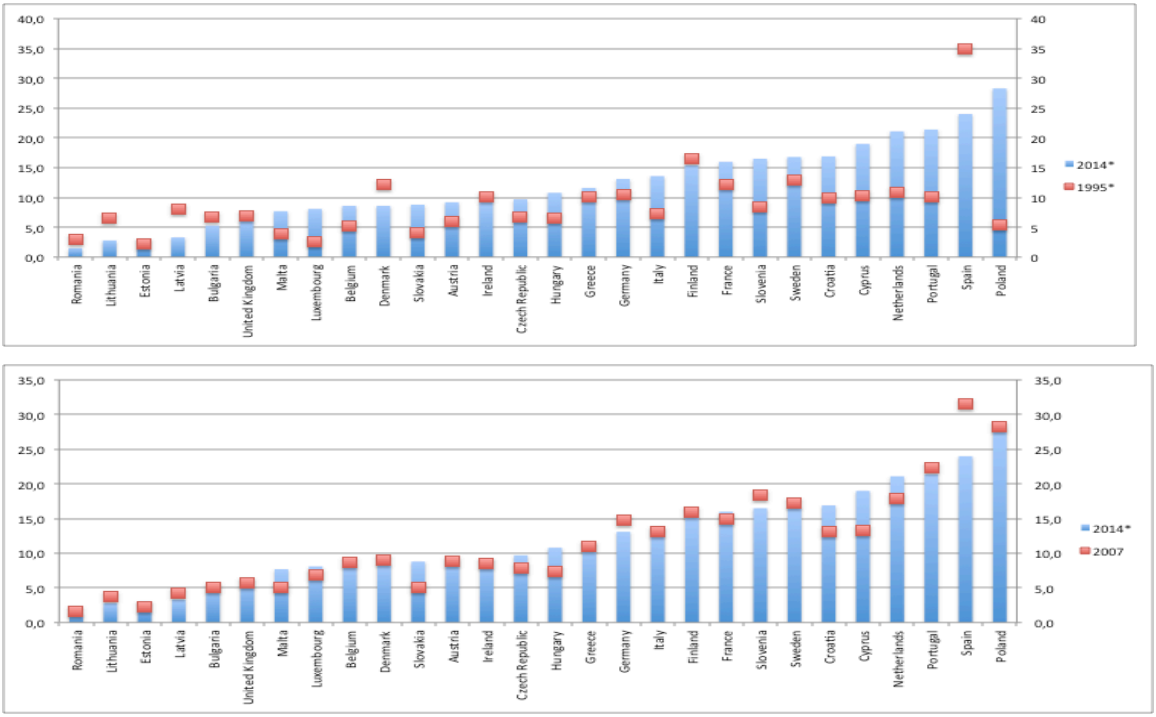
Figure 6: Taxes on Capital as % of Total Taxation - Income of Corporations



Source: DG Taxation and Customs Union and Eurostat

When we consider the labour market, namely in terms of temporary employment (Figure 7), it is patent the diversity of situations among the countries. Nevertheless the precarious situation of labour in some countries is notorious and the tendency is to become worse in the period after the economic crisis.

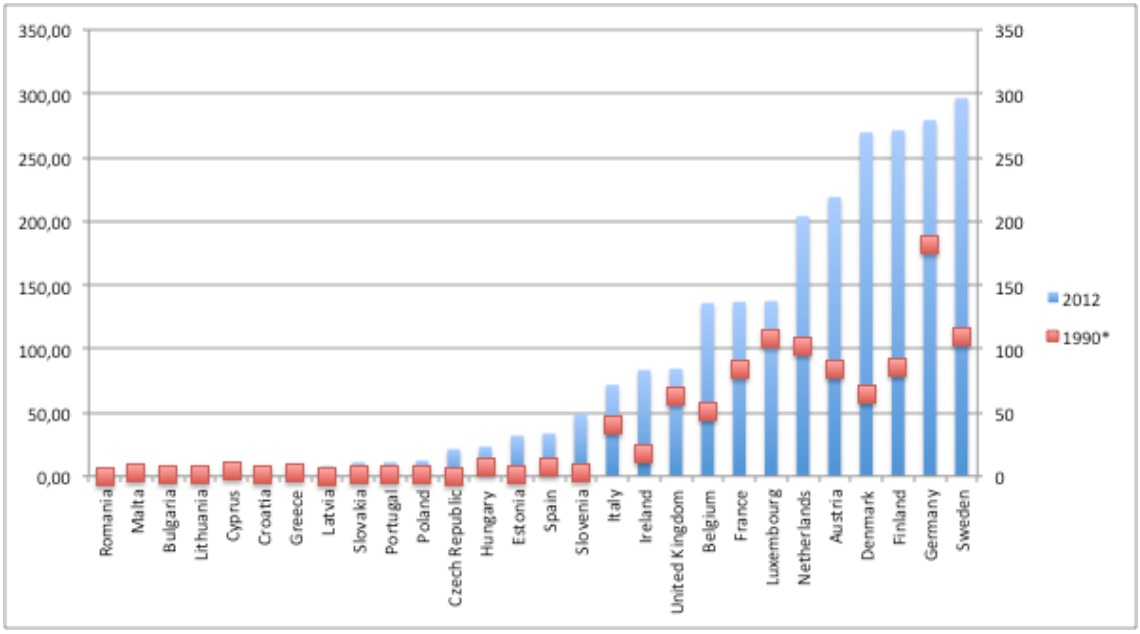
Figure 7: Temporary employees as percentage of the total number of employees (%)



Source: DG Taxation and Customs Union and Eurostat

Figure 9 shows a concentration of intellectual property rights in North European countries. This picture was aggravated after the crisis introducing a enormous difference between, for instance, South Europe from North Europe.

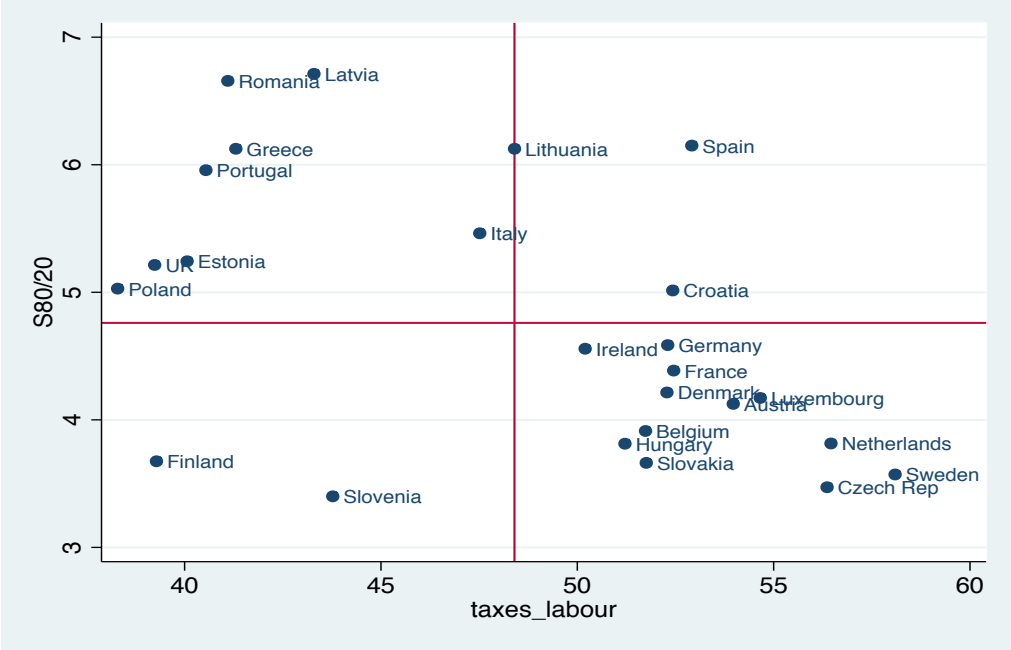
Figure 8: Patent applications to the EPO by priority year (per million inhabitants)



Source: DG Taxation and Customs Union and Eurostat

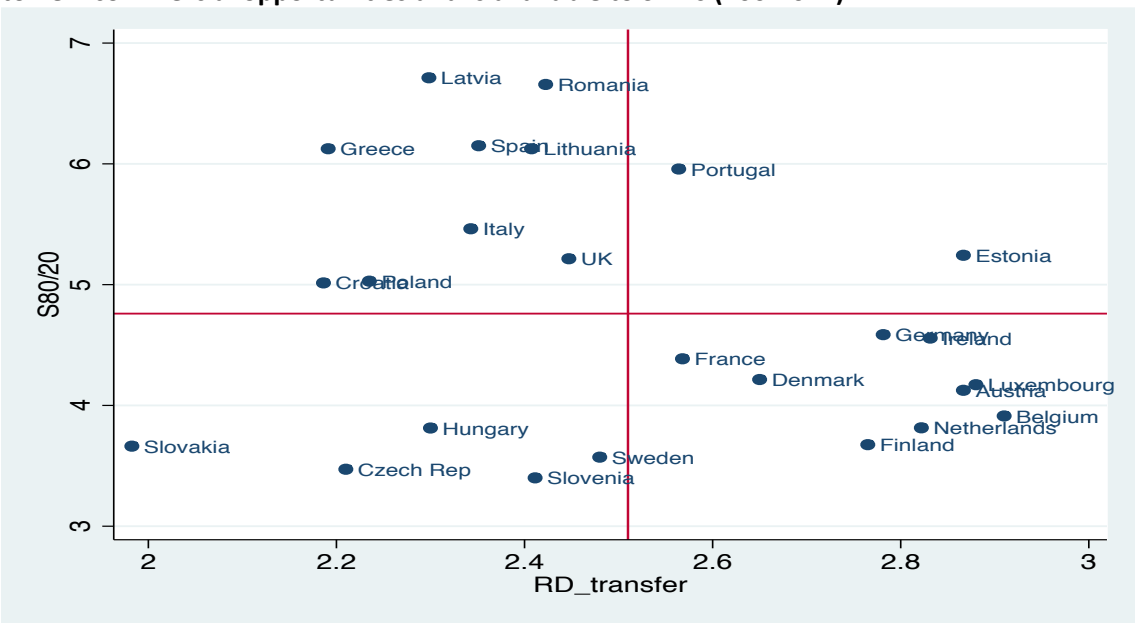
Figures 9 to 12 present the perception of economic actors related with the environment and institutional framework to the development of small and medium enterprises. The analysis of the information presented is presented at the end and considers all the figures.

Figure 9: Taxes and bureaucracy - The extent to which taxes or regulations are either size-neutral or encourage new and SMEs (2007-014)



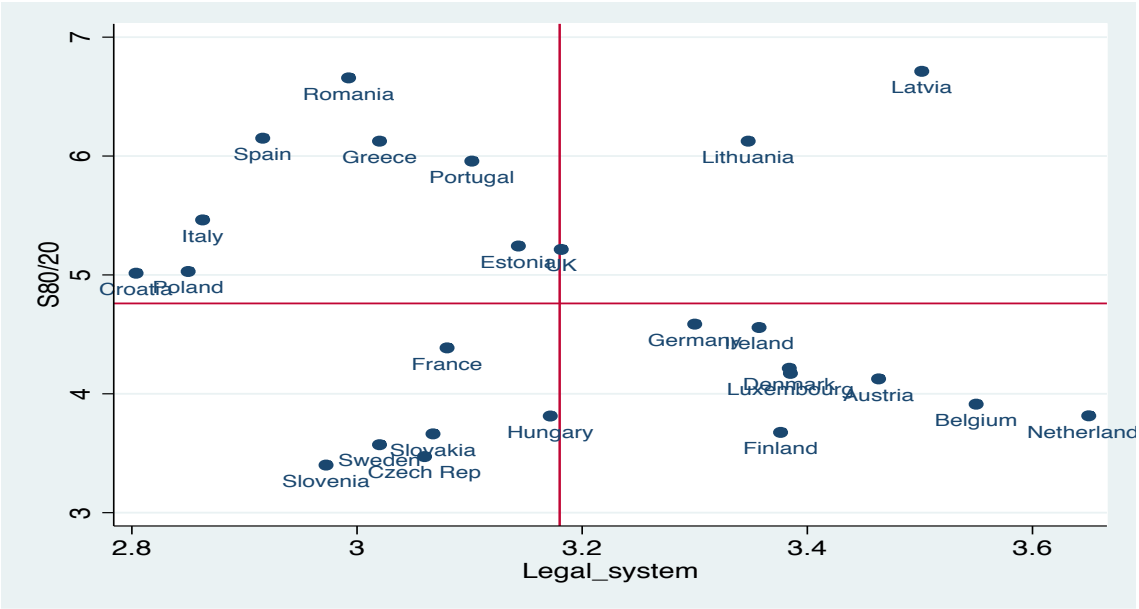
Source: GEM

Figure 10: R&D Transfer - The extent to which national research and development will lead to new commercial opportunities and is available to SMEs (2007-014)



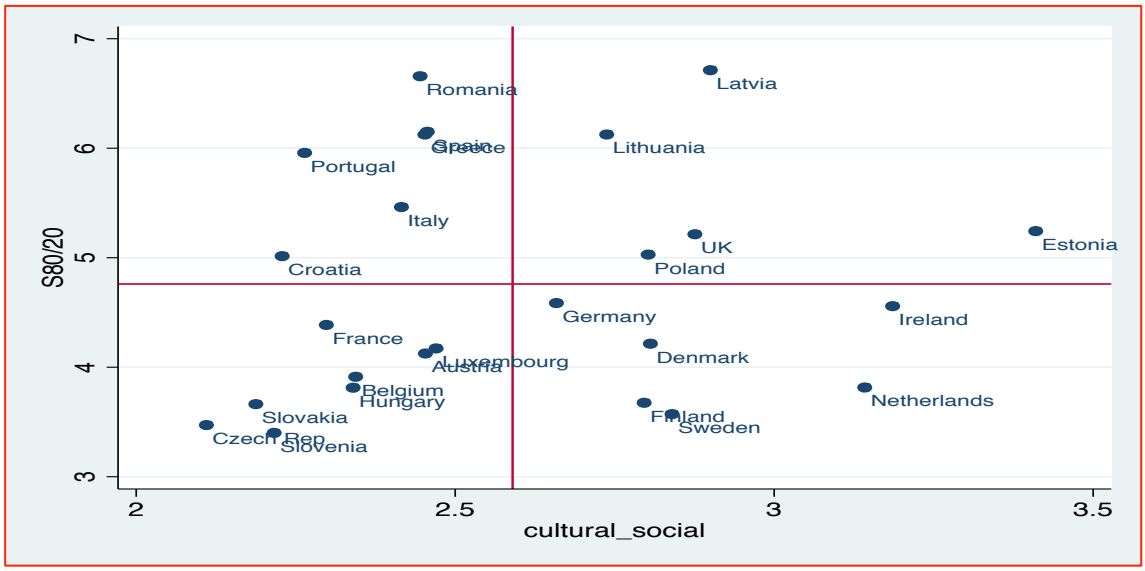
Source: GEM

Figure 11: Legal framework – property rights, commercial, accounting and other legal and assessment services and institutions that support or promote SMEs (2007-014)



Source: GEM

Figure 12: The extent to which social and cultural norms encourage or allow actions leading to new business methods or activities that can potentially increase personal wealth and income (2007-014)



Source: GEM

There data presented suggests the following remarks:

- It is possible to find 4 groups among European countries: quadrant 1 mainly composed by south and east countries; quadrant 2 mainly composed by south and center Europe; quadrant 3 mainly composed by central and north Europe and quadrant 4 mainly composed by north European countries.

- That is, the analysis crossing income inequality and some institutional aspects that are central in the development of small and medium enterprises correspond to a map where European countries locate in very different positions. The best quadrant is mostly occupied by North European countries. That is, the countries which present low levels of income inequality and good 'institutional performance' are mostly from the North.
- Nevertheless there are at least tree countries that reveal what we can denominate by a contra-intuitive behavior. This is the case of Estonia, Sweden and UK.
- In the case of Estonia we find income inequality above the average but good 'institutional performance' in almost all the indicators.
- In the case of Sweden, we are dealing with a case of low-income inequality but with not so good institutional perception regarding institutional environment.
- Finally, and in the case of UK, we find income inequality above the average and not good institutional perception in almost all the areas considered.

That is, institutional design perception is not always related with income inequality but in most of the cases it is the most equalitarian countries that present good perception of institutional environment.

5. Concluding remarks

The analysis developed addressed important aspects related with the consequences of economic globalization and financialization in terms of conditions of life and wellbeing, namely in European countries. The reflection incorporated contributions from Old Institucionalists, more precisely Veblen and Commons works. These contributions are important in both aspects: on one hand, their analysis highlighted capitalism working rules and trends that we can find nowadays as well. Although this similarities, we have to have in mind the deep changes and the evolution of capitalism from end of the XIX and the beginning of the XX century and nowadays capitalism with the globalization and financialization movements achieving new stages. Nevertheless, some of the central aspects of financialization like the prevalence of rent seeking behavior and the disconnection between the interests of corporation and the community (the real economy) and the interests of businessmen constitute a reality of current economic systems. On the other hand, Insitutionalism offers important insights to search on the 'way we live' by rejecting a 'natural order' and stressing the centrality of social and political choices, that is institutions, in that reality.

Therefore, the symbiotic or predatory nature of capitalism in its global and finance expression is the result of institutional facts and designs. With this in mind we suppose that we are dealing mostly with predatory dynamics in our societies, that is, a domain of a logic that extract and transfer the results of speculation, rent seeking and short termism dynamics, putting in risk the necessary aspects to create and distribute value in a more symbiotic and collective way.

The empirical evidence considered some institutions of our societies that contribute in a determinant way for common good. This is the case of tax policy, labor market, intellectual property rights and education expectations. This is also the case of bureaucracy, R&D transfer, legal framework and cultural values – institutions that were evaluated by economic actors through a monitor. In this last case the analysis crossed with income inequality result in the mapping of European countries following the expected patterns and, therefore, illustrating the diversity among countries but also some peculiar cases that look contra-intuitive demonstrating that institutional perception is not always linked with income distribution in the expected way.

We finalize with Commons words because they refer the movement towards more symbiotic societies.

> "But there is a higher unity – that of free and self-reliant human wills, cooperating not by compulsion, but as the natural expression of their moral, social, and industrial life. Such cooperation can only be that of equals. And this is now, and for 500 years has been, the growing function of Anglo-Saxon government, to remove the handicap from those below the level and to check the arrogance of those above the level, thus equalizing the terms of competition" (Commons, "Progressive individualism", in Malcolm Rutherford and Warren Samuels (eds), Jonh R. Commons: Selected Essays, volume I, Routledge, 1996 [1895]

> "Then the working rule is not a foreordained harmony of interests, as assumed in the hypotheses of natural rights or mechanical equilibrium of the classical and hedonic schools, but it actually creates, out of conflict of interests, a workable mutuality and orderly expectation of property and liberty" Commons, "Institutional Economics", in Malcolm Rutherford and Warren Samuels (eds), Jonh R. Commons: Selected Essays, volume II, Routledge, 1996 [1895]: 451

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