Title: Money, Capitalism, and Development: the South Schumpeterian hypothesis in developing countries

ABSTRACT

On one hand, inspired by the works of Amartya Sen and Martha Nussbaum, one encounters a normative definition of development as ‘capability expansion’. This definition enriches the concept of freedom by integrating an array of aspects—having, being, and doing—that contribute to a person’s functioning. On the other hand, ‘development as capability expansion’ can be discerned *de facto* as an outcome of an expanding force originating from the West and incorporating other nations and countries into its own logic. This latter perspective gains significance when considering the numerous works that conceptualize ‘capitalism’ as a unique social formation with a dynamic expanding force.

Taking into account both perspectives grounds the thesis’s main area of focus: the conceptualization of the capitalism-development nexus. To delve into the nature of this social phenomenon, appropriate meta-theories are necessary. Accordingly, the thesis is mainly guided by Critical Realism and, to a lesser extent, John Searle’s account of social ontology. The central objective of the thesis is to identify the basic generative mechanisms associated with the generality of capitalism (not its varieties) that enable it to be a dynamic expanding force.

Despite the abundance of literature addressing the concept of ‘capitalism’, understanding capitalism from the standpoint of developing countries faces a significant conceptual vacuum. Mainstream academic approaches, such as standard economics and new institutionalism, lack sufficient explanatory power to capture the *social reality* of capitalism in terms of its relational body and the emergent properties arising from this *relationality*. Typically, capitalism, if considered at all, is reduced to a mere aggregation of certain aspects.

In contrast, ‘capitalist development’ finds significant conceptual space within left-oriented approaches, generating several ramifications in debates within development studies. However, these approaches fall short in addressing the questions of ‘accumulation’, ‘differentiated agencies as a natural necessity’, and ‘contradiction’ from the perspective articulated in this research’s problem formulation.

In response, drawing upon the works of George Simmel, Joseph Schumpeter, and Albert Hirschman, the Hirschmanian Capital Hypothesis (HCH) is proposed. According to HCH, capital primarily possesses an ideational nature (rather than being material), rooted in a transcendental element in human beings as 'becoming more'. In this manner, capital is constituted by an emergent representation of money resulting from a moral doctrine that arose at the heart of power centers in the pre-capitalist order. Consequently, the field of conflict and rivalry has shifted from a material domain to an ideational one, establishing the most fundamental ground for emerging properties that render capitalism a potent dynamic expanding force.

Building on the ideational role of money, the dynamic coordinating feature of capitalism is further explored through the technical procedures of money creation, allocation, and destruction in modern banking at the institutional level. While the advantage of the ideational perspective lies in its liberation from material constraints, the perspective of limitless money as a higher end must be translated into the institutional level where money is quantitatively created as money-things denominated in specific money-titles (e.g., dollars, euros). The elastic creation of money through loans, independent of *ex-ante* savings or deposits, has facilitated the formation of entrepreneurial organizations. This process is explained through the thesis's conceptualization of *ontic obscurity*—an emergent relationality between money-title and money-thing in the process of creating new money directed towards new investment plans. This arrangement serves as a solution to liberate money from material preconditions where commodity money was previously deducted from the prior period's consumption (i.e., saving) for the following period's investment.

Although the elastic creation of money and its subsequent accumulation are freed from material constraints, they may encounter social sustainability constraints defined as the productive level and general welfare experienced by all. To the extent that the means of overcoming the material constraints are innovation and increased production levels, the continuous creation of money at the institutional level could align with the imperative of the ideational level. In this way, the integration of the ideational and material roles of money in capitalism elucidates the basic properties that set capitalism in motion, empowering it as a potent dynamic expanding force.

However, deriving practical implications for developing countries from these ontological findings requires at least two further steps: (1) an ethical framework that can integrate normative perspectives with explanatory analysis, and (2) an exploration of the potential negative and destructive roles of money. Regarding the former, the notion of 'structural development ethics' is introduced as a complementary approach within the field of development ethics. While adhering to the imperative of practical adequacy, this aims to provide a normative framework for articulating generative mechanisms that result in enhanced capability creation. Thus, instead of prescribing impractical non-capitalist modes of production and capability creation, altering the relationship between (a) the capitalist character and (b) a specific institutional setting through policy choices can introduce emergent properties that foster a more pro-social and productive form of capitalism. Although (a) and (b) are individually familiar concepts, altering their relationality in the current context can pave the way for new possibilities.

Regarding the latter, many studies characterize the present global context in terms of financialization whereby money and finance have become significantly detached from the real economy. As mentioned earlier, the unrestrained creation of money, or near-money, needs to be accompanied by social sustainability. In this regard, some studies view the emergence of financialization in the West as an effective and workable response to various interconnected deadlocks and crises. Moreover, another set of more recent studies finds financialization to be particularly costly for developing countries, who suffer from International Financial Subordination (IFS) formed after the demise of the Bretton Woods System. Accordingly, the costs of workable financialization in the global North have been borne by developing countries, necessitating the continuation of their disadvantageous position in achieving mature industrialization and social capabilities for production.

Within this perspective, this thesis puts forth the South Schumpeterian Hypothesis (SSH). SSH proposes a form of institutional reconfiguration with a focus on altering the relationality between (a) and (b) (explained above). As such, SSH incorporates key Schumpeterian elements of entrepreneurial organization that stand at odds with the current dominant discourse. However, the prefix ‘South’ in SSH denotes a modification of Schumpeter’s assumptions regarding monetary governance, specifying a systematic method for creating and allocating money in tandem with policy-guided entrepreneurial investment plans. This aims to facilitate greater policy space and equip developing countries with effective instruments in the current context of globalized financialization and IFS. To wit, this approach seeks to empower developing nations to attain productive capabilities through entrepreneurship within existing global institutional constraints.