CAPITALISM AFTER THE GREAT RECESSION: AGENDA FOR A NEW PROGRESSIVE DEVELOPMENT MODEL

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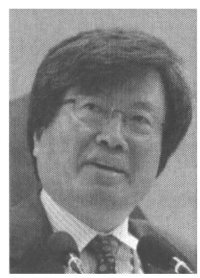

Abstract: In this article, it is argued that the Great Recession is none other than the collapse of the finance-led accumulation regime which is the core of the existing development model. Next, a new progressive development model is specified. Finally, an agenda for a new progressive development model is discussed. The core of a new progressive development model might be the knowledge-led accumulation regime (KLAR). The nature and macroeconomic circuit of the KLAR is specified. It is argued that if the KLAR is to be an economic base of the progressive development model in the 21st century, it should be embedded in the coordinated market economy and the green economy. As a major agenda of a new progressive development model, an economic safety net, social safety net, bottom-up economics, and flexicurity of labor market are proposed.

Key words: finance-led accumulation regime; knowledge-led accumulation regime; progressive development model; bottom-up economics; economic safety net; flexicurity

Introduction

The 2008 global economic crisis, the Great Recession, showed that neo-liberalism and the finance-led accumulation regime (FLAR) are unsustainable because of their severe volatility and inequality. Though the world economy is rebounding from the crisis aided by the unprecedented fiscal stimulus measures, economic recovery remains both fragile and incomplete. Some economists like Roubini (2009) and Feldstein (2009) predicted that double-dip recession would come sooner or later in the United States where the Great Recession originated. Anyway, the 2008 global economic crisis could not be the "general crisis" or the final crisis after which capitalism will collapse.

In the midst of the crisis, each country is trying to rebuild the capitalist economy with a reform of operating system, especially the financial system. There is a wide consensus that liberal market economies with a finance-led accumulation regime should be controlled by a new regulation system. But we cannot expect the end of capitalism after the Great Recession. As the Great Depression in the 1930s was overcome by the New Deal policies and World War II, so the Great Recession of 2008 is being recovered from by extensive government intervention in the market including the Green New Deal policies (UNEP 2008a).

This time, we see the collapse of the finance-led accumulation regime and the end of neo-liberalism which prevailed from the 1980s. What can be seen is not the collapse of capitalism but the collapse of a specific development model of capitalism. A new development model will emerge after the Great Recession. The emergence of a new development model is neither a spontaneous process nor preordained. What kind of development model will emerge largely depends on what set of institutions is chosen by the government and the people. If we cannot expect the collapse of capitalism in the near future, one of the realistic solutions we can choose is to build a more humanistic and democratic development model of capitalism with a long-term vision of a new economic system beyond capitalism.

In this article, a new progressive development model after the Great Recession is proposed. First, it is argued that the Great Recession is none other than the collapse of the finance-led accumulation regime. Next, a new progressive development model is specified. Finally, agenda for a new major progressive development model is discussed.

Great Recession: Fall of the Finance-led Accumulation Regime

The finance-led accumulation regime, which emerged in a classic form around the 1980s in the US, is defined as an accumulation regime in which firstly, finance capital dominates the economy as a whole, secondly, maximization of shareholder value becomes the rule of firms' behavior, and lastly, consumption based on financial income is a primary factor in the macroeconomic circuit. The finance-led accumulation regime emerged through the following four major processes: financialization, securitization, financial liberalization, and financial globalization (Chesnais 1997; Boyer 2000).

Financialization means the enhancement of three indicators: proportion of financial assets among household or corporate assets, proportion of financial income among household income, and proportion of the financial sector's profit among corporate profit.[1] Securitization is a kind of financial technique that transforms illiquid assets into security. Financial liberalization is the deregulation of the financial market such as deregulation of interest rates and international movement of short-term capital, and abolishment of separation of investment banking from commercial banking. Financial globalization means the emergence of global financial markets based on free international movement of short-term capital.

These four processes—financialization, securitization, financial liberalization, and financial globalization—which emerged from the early 1980s in the US became the root causes of the 2008 global financial crisis. Financialization has reduced the scope for development of the real economy. Growing pressures for quick and better financial returns had a negative impact on wages and job stability in the non-financial sector (ILO 2009). Securitization, which showed strong growth from 2003 to 2007 and led to a concentration of risks within the banking system, was the immediate cause of the crisis. Financial globalization has led to an increase in instability and income inequality (ILO 2008).

The most influential actors of global financial markets are the institutional investors, such as pension funds, mutual funds, and hedge funds. The institutional investors as a major shareholder, especially under shareholder capitalism in which the shareholder only has the right to make a decision in the corporate governance and firms give priority to the interest of the shareholder, forces firms to adopt the business strategy of maximizing dividends[2] and shareholder value. In order to maximize the shareholder value, firms attempt to realize labor market flexibilization that allows them to get rid of inefficient organizations and workers.

Thus, in the finance-led accumulation regime, firms have the behavioral rules of pursuit of short-term profitability and short-term flexibility. If such short-termism prevails in management, then industrial relations become unstable and thus skill formation and accumulation of social capital in the workplace would not be expected. Therefore, long-term efficiency through the enhancement of productivity cannot be achieved. As a result, growth potential might fall in the finance-led accumulation regime. Because of the primacy of shareholder value and subsequent bias toward the interests of shareholders at the cost of workers, the FLAR has an inherent tendency to intensify inequality.[3] Actually, in the US for example, income inequality increased sharply because while CEOs' pay skyrocketed, real wages stagnated in the 1990s.

The macroeconomic circuit of the finance-led accumulation regime is quite different from that of the Fordist accumulation regime. In the Fordist accumulation regime, the macroeconomic circuit of "mass production—high productivity—high wages—mass consumption" was sustained. Mass consumption by high wages was a core variable which sustained the virtuous circle of the accumulation regime. Thus, to keep high wages was essential in the regime. Moreover, stability of the labor market which would guarantee quasi-full employment and high wages was also necessary.

In contrast, in the finance-led accumulation regime, stock prices and exchange rates which are inherently volatile, are core variables in the macro economy. Instability of the FLAR comes from the volatility of these financial market variables. Consumption based on financial incomes—interests, dividends, and stock price earnings—rather than wages and salaries sustains the macroeconomic circuit of the finance-led accumulation regime.

Financial bubbles generated from the speculative behavior of institutional investors and herd behavior of individual investors made the FLAR decisively volatile. Boom-bust cycle (Soros 2009) which emerged from the formation and collapses of financial bubbles brought about periodic financial crises in the FLAR. Financial crisis mainly took the form of credit crisis or credit panic. Default followed from credit crisis and led to bankruptcy of firms. Financial crisis was transformed into a crisis of real economy, a drastic drop in production and a sharp increase in unemployment.

The 2008 financial crisis in the US was a classic financial panic whose central precipitating factor was a boom and bust in asset prices, especially house prices (US Government 2010). The 2008 global economic crisis showed that the FLAR is not sustainable. It was brought from collapse of the FLAR. As Boyer (2000) argued, the FLAR is not sustainable because it might bring about a socio-political crisis. Financial crisis from failure of the FLAR created a socio-political crisis of the Bush administration in the US, which was one of the main causes of power shift from the Republican party to the Democratic party. The Obama administration is trying to reform the financial system toward strong regulation of financial markets. At a global level, the G20 are discussing how to establish a new global financial system with stronger regulation of global financial markets.

After the 2008 economic crisis, we saw the reversal of financial liberalization and financial globalization. There was massive deglobalization of finance (US Government 2010). One can consider that this reversal is a temporary phenomenon. But, liberalization and globalization of finance are reversible permanently if government and people continually decide to regulate them even though the regulation is detrimental to economic growth. Under the FLAR, share of investment as a percentage of operating surplus declined in almost all the advanced economies. This means that because a growing share of profits has been used to pay dividends, less and less is available to fund productive investment in the real economy. Thus, if there is a reversal in financial liberalization and globalization through strict regulation on financial markets, the potential economic growth rate will be enhanced according to an increase in productive investment.

A New Progressive Development Model after the Great Recession

As of now, it is uncertain what accumulation regime will emerge after the fall of the FLAR. There are considerable arguments that a return to Keynesian type interventionism is needed. There is also revival of Polanyian argument that stresses the embedded market economy after the 2008 financial crisis. On the conservative side, there is still market fundamentalism that argues that the free market is the only solution not only domestically but also internationally. On the progressive side, some argue that the Nordic model in Sweden, Denmark and Finland is a desirable solution.

But, it is not possible to return to the old Fordist regime in the era of globalization. The Fordist regime is basically a domestic regime before the age of globalization. Globalization of production and markets undermined decisively the macroeconomic circuit of "mass production and mass consumption" at the national level. Even though financial globalization is reversible, economic globalization, whose main indicators are trade liberalization and FDI, might be irreversible.

A new accumulation regime might be beyond both Fordism and the FLAR. It will have a new productivity regime and demand regime. It will also have a new set of institutions which will stabilize the accumulation regime. In terms of Regulation theory, it will have a new mode of regulation. In short, a new development model would be expected after the Great Recession.

A new development model might have both a progressive version and a conservative version. While a progressive model will be based on the social market economy, a conservative model will be based on the liberal market economy. Both models will have a knowledge-led accumulation regime (KLAR) in common. Because of the imperative of reducing CO_2 emissions in coping with global warming, green economy should be common in both models. Green new deal or green growth emerged as a major national agenda in most advanced economies after the 2008 financial crisis (UNEP 2008a).

The KLAR is an accumulation regime in which knowledge and innovation play major roles in value creation, income distribution, and economic growth (Kim 2007). In the KLAR, a flexible quality production system is the foundation of the productivity regime and diversified consumption of high-tech commodities is the core of the demand regime. As shown in Figure 1, a virtuous circle in the KLAR is completed through the nexus "flexible quality production—high value-added—high wages—diversified consumption." High value-added is created through innovation and the economies of variety and anti-Taylorist labor process with information technology. High value-added is secured by the high value-creating ability of the knowledge labor empowered with job autonomy. The technological paradigm of the KLAR is an ensemble of information/bio/green technologies. These technologies demand knowledge workers who have job autonomy[4] in the labor process.

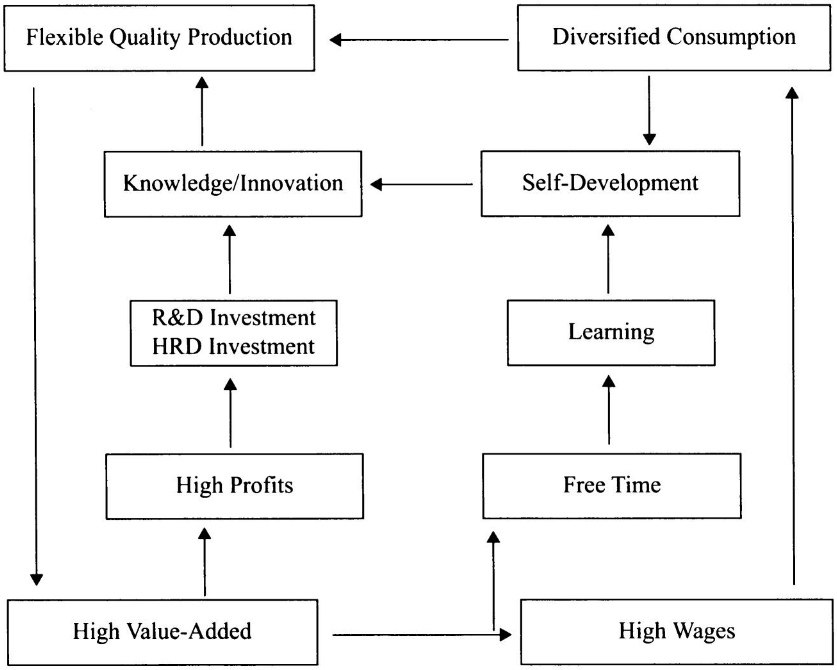

Figure 1 Macroeconomic circuit of the knowledge-led accumulation regime
Source: Kim (2007).

Institutional forms such as a collective bargaining system and skill pay or knowledge pay can transform high value-added into high wages. With high wages, knowledge workers can purchase diverse high-tech goods, information goods, and education/culture services. Rather than mass consumption of durables with less variety, diversified consumption of high quality goods and services make flexible quality production possible. High value-added is shared out into high wages, high profits, and free time. High profits can finance high levels of knowledge investment including R&D investment and HRD investment. Knowledge investment contributes to knowledge formation and innovation indispensable for a flexible quality production system. High wages coupled with the growth of free time through reduction in working time gives workers opportunities for self-development through learning. Learning transforms simple labor into knowledge labor, simple workers into knowledge workers, and reproduces knowledge labor and knowledge workers. Life-time learning is indispensable for reproducing knowledge labor in the circumstances of rapid change in technology (Kim 2007).

Both skill-biased technical change and internalization of knowledge by firms will give rise to a polarization of the labor market in the KLAR. Knowledge workers are paid higher wages than simple workers. Higher wages make knowledge workers attain more knowledge than simple workers. Thus, there is a positive feedback mechanism between knowledge formation and income distribution.

Since the KLAR requires "high skill—high participation" of workers, it is compatible with stakeholder capitalism, unlike the FLAR which is compatible with shareholder capitalism. In this respect, the KLAR has an element of a progressive development model. However, as in the FLAR, the KLAR has also a polarization tendency because of knowledge gaps between workers and skill-biased technical change.[5] Moreover, since there is positive feedback between the knowledge level and wages level, a tendency to polarization might be stronger.

Thus, a solidaristic knowledge policy that reduces knowledge gaps between workers is needed (Kim 2007). Unlike the solidaristic wages policy which targets reduction in ex-post inequality, solidarisitic knowledge policy targets reduction in ex-ante inequality.[6] R&D investments to low knowledge-intensive firms and HRD investments to low-wage workers are necessary for solidaristic knowledge policy. Assets-based egalitarianism rather than income-based egalitarianism is needed in the KLAR. Assets-based egalitarianism is a new approach to reducing inequality by increasing knowledge and skills of low-wage workers (Bowles and Gintis 1995). Life-long education is necessary for the unemployed and for marginal groups.

In order for the KLAR to be a progressive accumulation regime in the 21st century, the KLAR should be embedded in the social market economy and the green economy. In the social market economy,[7] government intervenes in the market in order to reduce instability and inequality of market economy, to realize the welfare state, and to make workers' participation in management possible (Pontusson 2005). Thus, the social market economy can realize a social democratic type of KLAR without polarization, while the liberal market economy can achieve a liberal type of KLAR with polarization.

The green economy is an environmentally sustainable economy that can reduce pollution and greenhouse gas emission (especially CO_2). A clean energy economy or low carbon economy based on renewable energy rather than fossil energy is the core of the green economy. Green technology, green institutions, and green culture are needed for the green economy. Enhancement of energy efficiency and energy conversion from fossil energy to renewable energy are major preconditions of the green economy (UNEP 2008a). Transition from the high carbon mass production economy to a low carbon green economy is essential for the progressive development model.

In short, the knowledge-led accumulation regime, the social market economy, and the green economy are core elements of a new progressive development model. This development model includes a more stable, more egalitarian and greener model of economic growth (Epstein 2009). This development model is not only compatible with capitalism but also could be an embryo for an alternative economic system beyond capitalism.

Agenda for a New Progressive Development Model

The new progressive development model suggested above might be established through institutions and policies that could reduce systemic risks and polarization. An economic safety net, social safety net, bottom-up economics, and flexicurity of labor market should be included in the agenda for a new progressive development model.

First of all, an economic safety net is needed in order to reduce systemic risk occurring from volatility of the global economy. An economic safety net comprises a financial safety net and employment safety net. The former aims to protect the national economy from the risks of catastrophic financial crisis. The introduction of a Tobin tax to regulate international movement of short-term capital could be a major financial safety net, as might strengthening the regulation of short-term foreign debt and financial derivatives. Through these financial safety nets, financial markets should be embedded in governments and other social institutions for them to work efficiently and serve the needs of society (Epstein 2009).

Financial regulations must be coordinated on a global scale. Globally coordinated fiscal expansion is needed. The IMF and World Bank should abandon the high conditionality and free capital mobility approach embodied in neo-liberal philosophy. Instead, they should promote an alternative approach that gives developing countries more policy autonomy and more resources to bolster domestic demand and capacity.

As Epstein (2009) argued, reform of international economic structure should include an agenda as follows: increasing role of developing countries in global economic governance, expanding the policy space available to developing countries by altering the neo-liberal policy apparatus, and reducing the reliance on the United States as the global buyer of last resorts by urging the surplus countries to re-orient their economies away from exports and toward domestic demand. Moreover, a New Bretton Woods is needed to build a new international financial architecture for regulating international capital flows.

An employment safety net means having institutions that can enhance dynamic employment stability and maintain jobs. Employment protection legislation which imposes legal restraint on dismissing workers, active labor market policy that provides vocational training for the unemployed, job sharing through reduced working time, creating social enterprises which provide jobs for the unemployed and the poor, social compacts for employment stability concluded between employers and labor unions, etc. are all good examples of an employment safety net. In the period of great transformation from the mass production economy to the green economy, it is important to establish an employment safety net that can transform existing jobs in the high carbon-intensive sector to green jobs in the low carbon-intensive sector (UNEP 2008b).

The economic safety net serves as an ex-ante stabilizer of the economy. It goes without saying that as an ex-post stabilizer, the social safety net for disadvantaged individuals and groups in the market should be strengthened. A universal basic income system as a universal welfare system could contribute to enhance quality of life of the poor and to improve their productivity. While the economic safety net should be covered above the national economic system, the social safety net should be set below the national economic system. The ex-ante economic safety net and the ex-post social safety net should be coupled in order to achieve sustainable growth in the era of globalization. Sustainable globalization requires both the economic safety net and the social safety net.

There might be two opposing strategies for achieving economic growth. One is top-down economics, the other is bottom-up economics. The logic of top-down economics is that tax-cut and deregulation for the rich and large firms will encourage consumption and investment by them and thus have a positive impact on economic growth. Top-down economics expects trickle-down effects through which the fruits of economic growth from the top, the rich and large businesses, can transfer to the bottom, the poor and small businesses. Top-down economics is based on a conservative economic philosophy.

The logic of bottom-up economics, a progressive economic philosophy, criticizes top-down economics or the top-down approach to economic policies. In a global economy, investments don't trickle down. They trickle out to wherever on the planet the rich can get the highest return (Reich 2007). Without trickle-down effects, top-down economics results in greater inequality and polarization as was shown in the US under the Bush administration. Bottom-up economics, instead, argues the necessity of extensive investment for the poor and small businesses for a sustainable and shared growth. Investment at the bottom enhances the productivities of workers and small businesses.

Bottom-up economics is based on the proposition that an engine of economic growth is worker productivity (Talbott 2008). If high productivity translates into high wages, the domestic market will expand because rising wages leads to an increase in consumption. High productivity creates high profits and thus induces high investments. So, high worker productivity brings about high economic growth. Moreover, in the age of globalization, capital will flow into a country where worker productivity is high, ceteris paribus. Therefore, investment in people or workers such as human resources development investment in education and job training is essential. Social expenditures on health and childcare are also important.

The bottom-up approach to economic policies requires strict regulation of the financial market. Without stabilization of the financial market, security in the labor market could not be achieved. Without labor market security, skill formation that would enhance worker productivity could not be expected. Without strong regulation of the financial market which will prevent financial crisis, productive investment rather than speculation might not be encouraged.

Flexicurity of the labor market is needed for dynamic stability of employment.[8] Flexicurity means the combination of both labor market flexibility in a dynamic economy and employment security of workers. As was best practiced in Denmark, flexibility of the labor market was realized through a so-called "golden triangle" with a flexible labor market and generous social security system and an active labor market policy (Wilthagen and Tros 2004). Low employment protection with high unemployment protection and high expenditure on occupational training for the unemployed are central to a flexicurity policy.

A flexibile labor market might be required in a KLAR in which rapid technological changes occur. And security of workers is necessary for a sustainable KLAR. Therefore, if the KLAR is going to be sustainable, flexicurity of labor market must be built into the KLAR. Flexicurity of labor market is a third way in that it goes beyond both rigid (secure) labor market in a corporatist or social democratic model and flexible (insecure) labor market in a neo-liberal model.

Conclusion

The 2008 global economic crisis, the Great Recession, collapsed the existing financial-led accumulation regime and heralded the end of neo-liberalism. It is uncertain what kind of a new development model will emerge. Capitalism is now at a historical crossroads where the future direction of a society depends largely on the political choice of the people. Today, a social consensus is emerging that the finance-led accumulation regime, liberal market economy, and shareholder capitalism are unsustainable. Now, popular opinion is that if capitalism is to be sustainable, it is needed to regulate financial markets and to control extreme free market economy. This social consensus gives favorable atmosphere to the establishment of a new progressive development model.

In this article, a major agenda for a new progressive development model was highlighted. The core of a new progressive development model might be the knowledge-led accumulation regime. The nature and macroeconomic circuit of the KLAR was specified. It was argued that if the KLAR is to be an economic base of the progressive development model in the 21st century, it should be embedded in the social market economy and the green economy. It was stressed that the social market economy and the green economy are essential to a new progressive development model. As a major agenda of a new progressive development model, an economic safety net, social safety net, bottom-up economics, and flexicurity of labor market were proposed.

What is important in the end is how to realize the components of this agenda. A coalition for the progressive development model should be formed. Generally speaking, a new development model emerges through a new grand compromise agreed among capitalists and working class and the state. Minimalism rather than maximalism is a realistic strategy to realize a new progressive development model. Any development model has its own right and left version. If a development model is to be hegemonic, it should involve both (Lipietz 1992). The new progressive development model suggested above could be a stepping stone that will lead to a new economic system beyond capitalism.

Notes

1. In the United States, the financial sector's share of total corporate profit reached 42 per cent before the crisis, up from about 25 percent in the early 1980s (ILO 2009).
2. Dividends as a percentage of total profits in the United States doubled from 22.8 percent in 1946-79 to 46.3 percent in 1980-2008 (ILO 2009).
3. For the five most financialized countries, wage share declined by 3.6 per cent over the period 1989 to 2005, while for the five least financialized countries, wages share declined by 2 percent (ILO 2009).
4. Job autonomy means workers can have conception functions in the labor process and have rights to control their own works.
5. Thus, the negative impact of jobless growth will be greater on simple unskilled workers.
6. Solidaristic wages policy which was an egalitarian strategy pursued by LO in Sweden had relevance in the mass production economy in which homogeneous simple workers were the main body of its working forces. It will lose relevance in the knowledge-based economy in which the proportion of heterogeneous knowledge workers is high.
7. Pontusson classified market economy into social market economy and liberal market economy. Hall and Soskice (2001) classified market economy into coordinated market economy and liberal market economy. Pontusson's social market economy is equivalent to Hall and Soskice's coordinated market economy.
8. In the knowledge-based economy in which technological change is rapid, to achieve static stability of employment with lifetime job cannot be expected easily. To achieve dynamic stability of employment with lifetime employment rather than lifetime job is realistic policy.

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