General Introduction

In this chapter we will sketch one approach to the macroeconomic analysis of the dynamics of capitalist economies which we believe is principally in line with what we observe in reality, be it on the level of historical facts or on the level of rigorous macro-econometric analysis. These statements however do not mean that this theoretical approach is already well-established in the details of its formulation or beyond any doubt, but like capitalism itself it is – though imperfect – currently without genuine alternative, as far as an understanding of disequilibrium adjustment processes which constitute the restless dynamics of capitalism is concerned. This opinion may not be shared by many macro-economists, in particular by those working in the highly sophisticated and prestigious areas of current New Classical or New Keynesian macro-dynamical model building. On the basis of this theoretical prejudice, we will then discuss in highly stylised form the three most important varieties of current capitalism, as represented by the United States of America, the European Union and as an exceptional case the People’s Republic of China. Our primary interest in this discussion is to see how close the political leadership of these economies are to a proper understanding and – on this basis – a proper institutional design and further social advancement of the parts of the world economy they are responsible for.

Against this background we will then briefly define our conceptualisation of ‘social capitalism’, a concept recently used in various ways in the academic and public debate. Our interest in this concept is the degree of precision which can be associated with these compound words, in its understanding of both the words ‘capitalism’ (characterising the forces of production) and ‘social’ (representing the mode of production). We here would be neither content with approaches that understand nearly all capitalist economies with a social design as a specification of ‘social capitalism’, as for example the meanwhile questionable concept of a ‘Social Market Economy’ for the German welfare state of the so-called Freiburg School. Nor would we accept the removal of ‘capital’
from ‘social capitalism’ and regard the resulting shortcut expression of ‘Socialism’ as a theoretical fruitful step, since a proper model of non-profit seeking socialist forces of production as a competitive alternative to the profit-seeking capitalist forces of production has not yet been provided in the academic literature on ‘Socialism’. In the individual chapters of the book we will move instead through various stages in the evolution of capitalism before we will arrive at our conceptualisation and analysis of ‘social capitalism’ and the inseparable nature these compound words should exhibit in future discussions on the evolution of the capitalist mode of production.

Goodwin’s MKS system

The core piece of Marx’s work appeared in 1867, *Capital*, Vol. I, where Marx laid the foundations for his labour theory of value on which he then built his theory of surplus value, his central tool for the investigation of the capitalist way of the exploitation of workers. Within the macroeconomic one-good world of the present as well as other macroeconomic books, the tools Marx used for his theory of exploitation are very simple to define and to apply, though this already changes when two-sector economies, producing a consumption-good as distinct from an investment-good, are considered. In such a case however not only Marxian topics have to be reconsidered, but also Neoclassical and Keynesian ones then need reinvestigation. This is however not the topic of this book which is concentrated on macroeconomic issues solely.

In 1967, 100 years after the publication of Marx’s *Capital*, Richard Goodwin published his formalisation of another important topic in Marx’s *Capital*, Vol. I, his theory of the reserve army mechanism the driving force behind the capitalist process of capital accumulation, in short, the Marxian theory of the distributive cycle. This growth cycle model has since then become the workhorse for many approaches to cyclical capital accumulation and this book is no exception in this regard. Various other laws of motion in Marx’s theory of capitalism concern however secular (quasi-monotonic) tendencies and these tendencies have not really be confirmed by history, like the tendency of the general rate of profit to fall, for example.

Marx died in 1883, the year in which two important later opponents of his theory were born, John Maynard Keynes and Joseph Alois Schumpeter. Keynes (1936) considered all theory before his own as but a special case of it, while Schumpeter, according to Goodwin
General Introduction

(1989, ch.8), not only was very critical of Marx, the prophet, the sociologist, and the economist, but also completely refuted Keynes's General Theory as being much too narrow. Goodwin (1989, ch.6) however views the contributions of these great economists as being not only compatible with each other, but he also demanded their urgent integration. In our view this is indeed a compelling need, since Keynes added effective goods demand in its interaction with financial markets to the conflict-driven production and distribution theory of Marx, while Schumpeter (1939) came up with a much more refined theory of cyclical capital accumulation, of – at his time – three long-waves in the evolution of capitalism, much more than it was possible for Marx to foresee in 1867. It is our view that the MKS system proposed by Goodwin (1989) as a fruitful analytical framework is indeed the best point of departure for the understanding and the theorising of the evolution of capitalism in Marx’s times, in Keynes’s and in Schumpeter’s times as well as in our times now.

We do not deny that the integration of the work of these three great economists is not without contradictions and that it is partly still in its state of infancy, with some parts already being quite developed, like the theory of demand-driven distributive cycles, see here Chapter 4. In contrast, other parts are quite underdeveloped, like the analysis of credit-driven capital accumulation and innovation, or speculation-driven financial markets as in the current financial crisis of commercial banking, on the markets for financial assets and indeed within entire economies.

The working hypothesis of this book is that the MKS system is the best theory we have at our disposal to approach an understanding of such issues or, to put it differently, the more we depart from the essential insights of these great economists the farther away we are from understanding what has happened and is currently happening in the world economy and what we might expect to happen in it in the future. Mainstream economists have done everything they could to discredit the theory of Keynes, even if they used his name in their modelling approaches. But as the recent financial crisis has shown, there are many things that his theory would have been able to predict, in contrast to the currently fashionable general equilibrium theories of the New Classical and the New Keynesian variety.

Schumpeter did not face the same difficulties in getting accepted by mainstream economics (though not right from the start), since his views on the potential failures of capitalism were not so obvious and since his work on a Western type of socialism was largely ignored by
Roads to Social Capitalism

economists. Things concerning Marx were however of quite the opposite type and in his case neither orthodox nor non-orthodox model-oriented theory has taken his theory of exploitation in production and in the distribution of the national product very seriously, the exceptions being contributions from the perspective of Analytical Marxism on the one hand (where there is currently some revival through rigorously trained young economists) and from a Goodwinian perspective on the other hand (where there has been a steady, though small, flow of contributions since 1967).

Marx, Keynes and Schumpeter also considered the capitalist world from the social and the philosophical point of view (ranging from harsh critique to sceptical challenge), views which are normally either neglected in the literature or discredited by (questionable) associations with the actual evolution of socialism in the East. In this respect our point of departure – originally underlying the gestation of this book – was in fact not so much a Marxian theory of Socialism, where nothing too specific has been published by Marx and Engels, based on their approach to the understanding of capitalism using historical materialism. It may be that capitalism was just not yet developed enough to clearly describe an alternative to it as Schumpeter (1942) did it in detail in his book. In Schumpeter’s approach Socialism is not conceived as the product of the (r)evolutions in the Eastern part of Europe, but as the result of the activities of the great dynasties in the Western part of the world through the visible hand they created in the planning of large national and international companies. Such ‘social’ planning of (large-scale) investment, trying to cope with the dark forces of the future, is also part of Keynes’s philosophy of how to regulate the future evolution of capitalism.

Judging from the perspective of the history of economic thought leads us to the question what we can consider as an alternative to the MKS system as described above. The Classical authors Smith, Ricardo and Mill are not really in contradiction with the views of an MKS-system, though there may be aspects, like Smith’s invisible hand that are meanwhile acknowledged as clearly not being part of the world we are living in. As Neoclassical authors we would name in this respect Walras, Hayek and Wicksell (related respectively to RBC theory, New Classical theory and New Keynesian theory). In our view it is however not possible to build a reasonably complete theory of the dynamics of capitalism on such a set of authors from the Neoclassical world, one that can really compete with an MKS analysis of the periodically failing interaction of the goods markets with the labour markets on the
General Introduction

one hand and the financial markets on the other hand. As pronounced above, we will now look at three typical and central forms of capitalism as to be found in the United States, in the People’s Republic of China, and in Europe from the perspective of an MKS-based theory. We here point already to the fact that capitalism per se needs not be associated with democratic political structures, but can also be associated with ‘plutocratic’ ones or be at work under the rule of one party.

The United States of America

From the perspective of the preceding section, the biggest problem for the conduct of the economy and society of the United States of America lies in the fact that its fundamental understanding of its capitalist forces of production is not of the MKS variety, but more of a Walrasian laissez-faire type as far as academic teaching and reasoning is concerned. This reasoning is of course made more suggestive and popularised by the media and the politicians. Its basic credo is that everybody is responsible for his or her own life and basically has to care about her/himself. A European-type welfare state is therefore hard to justify and to realise in the United States and must be redefined and extended by the educational system, which is not a typical welfare state issue, in order to push the US into the role of a leader – instead of a laggard – in comparison to other welfare states, see Garfinkel, Rainwater and Smeeding (2010).

But in a world of MKS type, we have demand-driven distributive cycles with recurrent mass unemployment, we have unregulated Schumpeterian processes of creative destruction and we have financial markets and banking systems which tend to act like casinos with an ever increasing range of speculative objectives. It is therefore an unacceptable conclusion that the ordinary (worker) household is solely responsible for its fate in such a system if the mass unemployment created through insufficient effective demand is caused by speculation-driven financial markets and the implied rationed investment behaviour. Of course, as far as the Marxian reserve army mechanism is concerned, workers are partly involved in and responsible for its historical occurrences. This is also acknowledged by Marx in the discussion of this mechanism, but he also made clear that – at least at his time – workers are much too weak to really change this reserve army mechanism in significant ways.

This may no longer be true in general in the varieties of capitalism that now exist, but it is certainly still true in the case of the US economy
where unions are weak and where corporatist regimes between firms and workers do not show ways out of the profit- and subsequent wage-squeeze processes which characterise the working of such unregulated capitalism. The basic insight of an MKS approach is that capitalism without state intervention is not a viable construction. This was obvious in 19th century British type capitalism which ruined the health of worker families to such an extent that the military began to complain about the state of its soldiers. Chancellor Bismarck in Germany was one of the first who realised that capitalism without a social network for workers would become a failure on socio-political grounds. Beveridge (1945) with his book ‘Full Employment in a Free Society’ designed the foundations of the welfare state in the UK, including the realisation of basically full employment within the capitalist forces of production.

But after the fall of the Iron Curtain in the Eastern part of Europe – and partly already through Reaganomics and Thatcherism as a response to the Marxian profit-squeeze of the 1960s and 1970s (and its welfare state implications) – the ideas of Beveridge have lost most of their relevance. The Marxian theory that unregulated capitalism produces segmented labour markets, with pauperism down at the bottom, and the Keynesian theory that unregulated capitalism produces recurring severe booms and busts, including financial crisis, was simply not a topic that bothered both influential politicians and opinion makers on both sides of the Atlantic.

In the case of the US – and to a certain degree also in the UK – the influence of neoliberal thinking was and still is particularly deep rooted, with general equilibrium ideas of the New Classical and the New Keynesians at the top of the hierarchy of these wrong conceptions of the working of capitalism and thus the world we are living in. Such theories are formulated with great rigour nowadays, but their relevance is often judged in the mainstream literature from a methodological standpoint solely, namely whether they are microfounded (from the perspective of a single agent, not from a more appropriate principal-agent point of view), of course, whether they assume continual market-clearing, and whether they are using ‘rational expectations’, i.e., expectations that make no systematic errors over the whole future of the economy. With such a theoretical core behind the economic and political debate in the USA on all levels of the society, the decisions that flow out of the debate will at best be contradictory, since they are orthodox in nature as long as there is room for the misconduct of the economy and they become by and large ad-hoc Keynesian in nature in times of severe economic
and financial crisis, due to a lack of alternatives in such cases, i.e., in the case of a Hobson’s choice.

In the case of the United States of America there is another political problem that is intervening with and amplifying the incommensurate state of socio-economic theory and practice. According to Schumpeter (1942) majority voting is designed to bring about governments that are capable of acting, since it – at least when Duverger’s law holds\(^5\) – tends to produce two party systems, as in the USA for example. However, the president of the United States is elected separately so that it may happen – as it is currently the case for President Obama – that he lacks a majority in the house of representatives. This means in the present situation of the USA that an expansionary Keynesian fiscal policy can be prevented by the Republican opposition, which has for the Republican party the three-fold advantage that it can stick to its neoliberal ideas (and enforce them via the House of Representatives) as in the current crisis of the US economy, that it can blame President Obama for the outcome of no economic recovery during the coming elections and that it can integrate the right-wing tea-party movement into its own election campaigns. The situation is as the one in Greece where the party that was indeed responsible for the turmoil in the real and the financial markets (in the USA due to its laissez-faire policy during the subprime crisis in particular) is trying as much as possible to tie the hands of the governing party in its handling of the crisis of the state. In a situation of severe economic and social crisis this must be considered as not only completely inefficient, but also as a highly undesirable outcome of democratic decision making (in this particular design).

The British majority voting system is in this respect significantly more coherent in its construction, since the Prime Minister is always elected by and leading a majority of the members of Parliament (at least generally, in the two-party outcomes of majority voting systems).\(^6\) This does of course not mean that the ruling party always adopts the right policy measures in a state of crisis as the current one, but such an elected Prime Minister can of course be subject to a resolution of no confidence and thus be “induced” to resign, like Tony Blair in 2007, if essential elements of his policy decisions turn out to be ineffective or detrimental or simply unacceptable. We consider it an open question here whether a proportional voting system, like the one in Germany, has more disadvantages or advantages over a properly designed majority voting system and also leave aside the questions about what improvements can indeed be designed for the
British system in order to increase its degree of effectiveness, its degree of representation and its social acceptance by the voting population.7

The People’s Republic of China

There is one striking contrast between China and the United States of America that in fact speaks in favour of China from the purely economic perspective. It is given by our conjecture that it is not only much easier for China to adopt an integrated MKS framework for its economic policies, but that China has already done this successfully in the past, quite in contrast to the USA. Overall macroeconomic control is what China is in fact doing in a very strict manner. To relate Marx with Chinese economic and social policy is of course easy from an ideological point of view, since the People’s Republic of China is ideologically seen based on Marx’s (and his successors’) views of the world. This does not mean that China is using Marx’s theoretical insights in the gestation of its economic and social policy which some might claim is now more capitalist (and in Marx’s categories: exploitive) than socialist in nature. This may indeed be a correct claim, but it in fact only implies a rereading of Marx’s theory of Capital, Vol. I – III, and its continuation up to the present time, that implies that the forces of production of capitalism are (still) unrivalled in the world economy. Yet, the relations of production which surround the Chinese forces of production are, we believe, far from being acceptable from a socio-political Marxian point of view. This in particular concerns the creation of absolute and relative surplus value (as investigated in Marx’s Capital Vol. I), where China’s economy is clearly exploitive in nature, concerning labour productivity as well as income distribution. And in the political sphere the lack of human rights, division of power and freedom of opinion is obvious. This judgement however does not question that China’s ‘Socialism’ is best built on the progress achieved by the capitalist conduct of enterprises, the heritage of the Vanderbilts, the Rockefellers and the Carnegies as Schumpeter (1942) stated it in his theory of a competitive type of socialism. The Soviet Union – and with it the German Democratic Republic – failed, because they did not realise this and instead created economic production structures that were not capitalistically planned as in the Western world, but unprofessionally regulated ones with soft budget constraints throughout, because the adoption of Western type planning and financial control was beyond the ideological horizons of the Central Committees of the former Eastern socialist countries.
Gorbachev may have understood the need for such a change on the level of Soviet enterprises, but it may have been already too late for a controlled adoption of such economic reforms, so that he primarily induced political change, not based on any sound economic reasoning, which however is the foundation for political change in the longer run. The Soviet Union therefore collapsed from the top, before it had been built on more solid grounds at the bottom, which then became by and large the subject of an unregulated imposition of a capitalist system. The ideological barriers concerning the capitalist conduct of enterprises of former Eastern socialism were however successfully removed in China under Deng Xiaoping. One may claim here that this was just the result of accepting the superiority of the capitalist forces of production as they were accepted by Marx at his time and praised by Schumpeter with his figure of the dynamic entrepreneur, in the form of the family dynasties and the large companies that in his views have shaped world capitalism thereafter.

Schumpeter (1942) analysed that the capitalism of his time could fail nevertheless – due to growing hostility – and could be replaced by a Western type of socialism for which he investigated in detail the chances of being or becoming a democratic one. We here assert that China has indeed realised the vision of Schumpeter (1942) of a competitive (Western) type of socialism, but in fact one that comes from the Far-East, that is socially and politically still undetermined in its future, in particular in the extent of democratic decision making, not to speak of a constitution with a proper separation of power. Schumpeter (1942) did not exclude the possibility that his type of competitive socialism could also be an authoritarian one in the longer run. We therefore now indeed have a factual example for his approach to socialism, which integrates the ‘bourgeois element’ on the level of business elites, the social and political future of which is however an open question.

Coming back to the Marxian component in Chinese policy we assume that politicians in China are aware of the working of the Marxian reserve army mechanism, the second basic conflict between capital and labour, besides the one in production. We assume (or hope) that Chinese policy is far-sighted enough to not only regulate conflicts in production by law to such an extent that China’s still ‘ruthless’ form of capitalism becomes a viable way of product and process gestation and innovation (including environmental issues), that moreover takes account of the wage–price spiral of the Marxian distributive cycle such that the rapid growth of the Chinese economy is not only serving the new capitalists, but also the working population.
To understand (intuitively) the Marxian approach to the conflict between capital and labour in production and in income distribution does not mean that one must use it in favour of the working class (as the example of Margaret Thatcher shows), but the Chinese government would only be wise if it would attempt to balance the interest of both classes (if it can recognise them as such) to a sufficient degree. To argue in this way does not mean, however, that the lack of a democratic constitution with a sound division of powers – which in our view is much more fundamental than the question of how many parties compete against or within each other under such a constitution – becomes acceptable, if a certain degree of social care about the employment and the income of the working population is realised. Finally, regarding Keynes’s views on fiscal policy and financial market regulation, we interpret the behaviour of Chinese economic policy as being definitely of a Keynesian type. There should be no reservation in China against the Keynesian view of the need for state intervention, be it in the counter-cyclical conduct of fiscal policy, the partial control of the investment behaviour of firms or the exclusion of too much speculation in the financial management of the economy. The limits of laissez-faire thinking and of neoliberalism are certainly not a substantial intellectual barrier for Chinese economic thinking and their visible hand in the conduct of firms and in micro- and macro-economic policy making.

In closing this section, let us briefly compare this with the socio-economic situation in the United States of America. As we have explained, political actors there face great difficulties in understanding and applying the basic insights of an MKS-oriented view of the world. The current government is now almost incapable of acting even if it is assumed that it understands the causes and the cures of the current crisis. It is already facing the next electoral campaign, with its enormous consumption of campaigning efforts, money and repetitive arguments. And it is situated in a political environment where right-wing stupidities rule the roost in the public debate in place of rational arguments (in our view) of democrats about the best way for the future evolution of the United States. Can such a deeply split country with its plutocratic tendencies and their ‘telecratic’ amplifications really compete with a well-determined and from the purely economic perspective relatively insightful one-party rule of the Chinese type in the longer-run? We have doubts about that, though there is definitely also considerable innovative potential within the forces of production of the United States of America, concerning both high-tech capital and high-skilled labour, a situation which in our view could be significantly
fostered if there were understanding of the real forces that shape capitalism in the USA and also more socio-philosophical reflection of the state of the US society.\textsuperscript{12}

The European Union

In their book on \textit{The Future of Europe} Alesina and Giavazzi (2006), themselves Europeans, arrive at the conclusion that Europe will lose its influential role in the world if it is not subject in the near future to an extensive economic-political reform with the aim of giving up its overprotected and overregulated socio-economic structures, i.e. in particular, its political influence on the economics of the European countries and the support of their welfare state regulations. In contrast to this reasoning of Alesina and Giavazzi (2006) this chapter, by and large, takes its point of departure – in comparison to the situation in the United States of America – from the basic insight (which need not be shared, of course) that the future of capitalism will depend very much on its capability to integrate its ‘dynamic forces of production’ with a truly ‘social mode of production’, a theoretical and societal project that proper Neoliberals will regard as not only superfluous, but also detrimental for the progress of free-market capitalism and that most neo-Marxists would probably consider as deeply contradictory, since they consider ‘socialism’ and ‘capitalism’ as being inherently antagonistic conceptualisations of human societies. Wolff (2002) however states:

\begin{quote}
For elements of communism are developing under capitalism, behind our backs. Engels, in particular, points out that a number of elements of advanced capitalism are either already models of communism, or ripe for takeover.
\end{quote}

Compared to the times of Engels we now know much more about the historical evolution of capitalism, and also of socialism and communism. Our objective with this book is to show that the above integration towards what we will call ‘social capitalism’ is however not a reconciliation of conceptualisations of ‘socialism’ with those of ‘capitalism’, but that capitalism itself can indeed be induced to develop the elements which make it a ‘social’ mode of production in a stable democratic environment.

Looking at the current situation in the European Union and the Eurozone from a welfare-state point of view one can – based on Esping-Andersen’s (1990) famous work – nowadays distinguish at least
four types of welfare states, two continental ones in the North and in the South, the Nordic countries and the United Kingdom as an exceptional case. The case of Ireland differs from the UK, despite at least some common Anglo-Saxon heritage, due to Ireland being part of the Eurozone and due to the relatively recent rise and fall of Ireland as a Celtic tiger. A similar classification regarding the OECD countries (in 1990) can be found in Pryor (2010, table 4.1), where we would however move the Netherlands into the set of Nordic countries now and Ireland and Switzerland out of his group of Anglo-Saxon economic systems into the continental north. In this book we will not focus on exceptional profiles, as they may also be observed in the Baltic states which belong to those countries in the European Union which were part of the Soviet bloc before the fall of the Iron Curtain. In this book, we will also not consider the evolution of these latter countries, which came out of this bloc and its environment and joined the European Union.

Instead we look in specific ways at the performance of some welfare states in the ‘continental north’ (primarily Germany, but also Austria) where corporatist regimes between capital and labour, Hartz IV reforms of the labour market of the German Social Market Economy and the establishment of networks of civic work are important characteristics or maybe future developments. In the ‘continental south’ we will focus in later parts of the book on the case of Greece as the most vulnerable country in the current southern danger-zone of possible state defaults. Both types of welfare states may be considered as ‘ugly’ ones, in the first case – in Germany – due to the invasion of its concept of a Social Market Economy by neoliberal ideas, which opened the watergate into temporary employment and low income work without a general minimum wage floor. In the case of Greece this label ‘ugly’ is appropriate due to the rampant debt-financed fiscal policy of its past governments which also had severe negative impact effects on the competitiveness of the Greek economy. In contrast to this, one can distinguish ‘good’ from ‘bad’ welfare states, where the first characterises the situation where it is basically accepted that ‘good’ welfare measures have their price in the form of high taxes and where ‘bad’ signifies the opposite, namely low welfare measures, but also low taxes as far as the provision of welfare programs is concerned.

It goes without saying that all actual examples exhibit much more detail than such a simple classification can show. Yet, the Danish flexicurity system with its high unemployment benefits and strictly activating labour market policy measures (as an example for the ‘good’ case) is clearly quite different from the workfare system in the UK,
where little welfare is combined with only small contributions to the unemployed, in particular the young members of the workforce, though there are in fact general minimum wage regulations in the UK (and the USA) in contrast to Germany. Pryor (2010) concludes in his study of four types of economic and cultural systems that the differences are more in the social economic outcomes than in strictly economic ones. Astonishingly enough, Alesina and Giavazzi (2006) give a positive picture of the Scandinavian countries in spite of their general rejection of welfare states, high taxes and state influence.

The case of the European Union therefore clearly shows varieties of capitalism in operation, and this even more so if the new members of this union – and also Switzerland – are taken into account. Starting from Bismarck’s social reforms and Beveridge’s conceptualisation of the welfare state, we have an astonishing variety of forms attempting to cope with the ‘natural’ forces of production of capitalism within Europe, exhibiting specific changes in this variety in the prosperity phase after World War II, in the stagnant phase that followed (with Thatcherism at the one extreme and Mitterand’s socialist experiments at the other), and with further changes in the decades after the fall of the Iron Curtain and the disappearance of Eastern type socialism. We conclude from all this that there exists a great potential of possibilities within Europe that allows us to learn from its various forms of capitalism, from the regimes of good, bad and ugly welfare states, from welfare systems, flexicurity approaches and from the performance of the democratic institutions and parties in these various European countries.

Flexicurity, the combination of flexibility with security, has become a seriously studied approach in the EU with the aim to improve the economic and social situation in the member states. The European Commission held consultations with relevant stakeholders, the outcomes of which were published as its Communication on Flexicurity in June 2007. In November 2007, The European Council added ‘Draft Council Conclusions Towards Common Principles of Flexicurity’ which shows the relevance the flexicurity model had gained in the EU. This is also related to the so-called Lisbon Strategy (see below). In 2008, a ‘Mission for Flexicurity’ was set up by the Commission which studied the possibility for flexicurity in different EU countries and underlined the positive role of a flexicurity model. The question as to how flexicurity can be introduced in different countries is also a topic of European Flexicurity Pathways, as, for example, discussed by Bekker and Wilthagen (2008). The European Commission
Roads to Social Capitalism

has underlined from the beginning that Member States should be encouraged to develop their own flexicurity strategies, depending on their national situation.

Flexicurity is supposed to create a more flexible workforce, but at the same time employment security for workers. There are also critical statements by organisations such as The Trade Union Confederation ETUC which fears that flexicurity will mainly support workers’ flexibility. On the other hand, the employer organisation BusinessEurope regards flexicurity as an opportunity to modernise labour markets. There are four policy components described by the EU-Commission 2007 which include flexible and reliable contractual arrangements through modern labour laws, collective agreements and work organisation, comprehensive lifelong learning (LLL) strategies, effective active labour market policies designed to especially reduce unemployment spells and to ease transitions into new jobs and also to create modern social security systems (adequate income support, employment encouragement, labour market mobility), including social protection provisions like unemployment benefits, pensions and healthcare.

The Commission also established principles, referred to as ‘flexicurity components’. A main topic here is one of balancing, for example establishing a balance between rights and responsibilities within the labour market and also to produce balanced policy packages to promote climates of trust. This is not astonishing, since flexicurity can only develop if both sides – employees and employer – find a balance between their various claims.

In the autumn of 2006, the majority of EU citizens accepted the idea of a knowledge-based economy, that is, the importance of education, which also includes lifelong learning (Eurobarometer 66). Nevertheless, the topic of education is still a fairly neglected issue in major countries of the EU like Germany and the United Kingdom. We view the direction of the political debate on labour market institutions (and indirectly on full employment) in the European Union as a very fruitful one, though there is always the danger that the proper balance between flexibility and security is not adequately established in the actual adoption of such labour market strategies. But the construction of an ideal flexicurity system as in Flaschel and Greiner (2011, 2012) may be one thing and the struggle for its most important ingredient, safe life-course perspectives for the employees within an actual flexicurity economy can be quite another issue and may demand very cumbersome social processes of the learning-by-doing type. In our view the European Union is however heading into the right direction in this matter, and
thus also indirectly addressing the Marxian issue of the distributive cycle, though this topic is at present set aside to a certain degree due to the current preoccupation of European politicians with the financial and the fiscal crisis within the Eurozone.

Concerning such issues, the renaissance of Keynes’s (1936) *General Theory of Employment, Interest and Money* has long been overdue and its relevance cannot be underestimated, even though many would also point to Minsky’s (1982, 1986) work as far as the prediction of recurrent deep financial crisis on a worldwide scale is concerned. But Keynes (1936) was the founder of feedback-guided macroeconomics with financial markets at the top of the interacting feedback channels between the major markets of the macroeconomy. He already wrote in his *General Theory*:

> The introduction of a substantial Government transfer tax on all transactions might prove the most serviceable reform available, with a view to mitigating the predominance of speculation over enterprise in the United States. (Keynes 1936, 159-60)

Major contributions to his theoretical approach also came from Tobin, see for example Tobin (1980) on asset accumulation and economic activity. However, despite the renaissance of such Keynesian thinking about the role of the financial markets in the evolution of the real markets of the economy, international policy is still largely divided on how to react to the turmoil on financial markets, not to speak of their regulation, and also regulation of the banking sector. The topic of a financial transaction tax is still controversial, but the European Union intends to push for a decision on a financial transaction tax at the Cannes G20-Summit in 2011. European Commission president Jose Manuel Barroso wants to introduce a tax on financial transactions to curb excessive speculation in the markets and to create more revenue for debt-ridden governments. There is however significant resistance to such plans from within the EU (from the British, Dutch and Swedish government) as well as from within the G20 countries. It seems that the financial crisis needs first to become much worse, before the dysfunctional role of the financial sector for a proper evolution of the real economy becomes widely accepted as a central insight of Keynes’s *General Theory*.

Concerning Schumpeter’s insights the situation is quite a different one. There are important initiatives within the European Union which attempt to push them forward in particular from the viewpoint of European innovation-driven international competitiveness, but also
from the viewpoint of labour market reforms and the input they need from the educational system. Most prominently among these initiatives is the so-called Lisbon Strategy. This Lisbon Strategy (or Agenda) was adopted by the European Council for a ten-year period in the year 2000 as the result of a special meeting in Lisbon, Portugal. The aims were to strengthen employment, economic reform and social cohesion as part of a knowledge-based economy, due to the effects of globalisation and the appearance of knowledge-driven economies, both of which were viewed as demanding transformations of the European economy. The ambitious aim was summarised in the goal to become the ‘most dynamic competitive knowledge-based economy in the world’, so that the ‘knowledge triangle’ – research, education and innovation – can be called a core factor in European efforts to meet the ambitious Lisbon goals (Lisbon European Council 23 and 24 March 2000).\footnote{Hartmann (2007a) points out that the Lisbon strategy – especially the renewed one from 2005 – is strongly influenced by Neo-Schumpeterian and Evolutionary Economics and by economists, such as Chris Freeman or Bengt-Ake-Lundvall who are working in these areas. This corresponds to the statement of Hanusch and Pyka (2007a) that the Lisbon Agenda is mainly based on innovation strategies in line with Neo-Schumpeterian Economics. In order to not only focus on industry dynamics, they suggest the approach of Comprehensive Neo-Schumpeterian Economics (CNSE) which is characterised by three pillars, that is, the industry sector, the financial sector and the public sector. An empirical study of 14 developed EU countries shows in their view that ‘CNSE can be operationalised without major difficulties’ and can combine the Lisbon Agenda with their three-pillar approach. Their study shows that country heterogeneity in Europe demands a ‘sound, balanced and differentiated policy’, but allows ‘grouping countries with similar pillar compositions’. Such an analysis should contribute to the discussion of policy measures within the Lisbon Agenda.}

The Lisbon Agenda certainly contains important aims and suggestions but in June 2009, shortly before Sweden took over the presidency of the Council of the European Union, Fredrik Reinfeldt, the then Swedish prime minister admitted its failure, which may be due to several reasons, one of which might have been its non-binding character, but probably also the financial crisis in 2008.\footnote{Yet, the imminent danger of a failure of the Lisbon strategy was already a topic in the Kok Report 2004 which accused the EU member states lacking commitment (Civitas 2007).} Yet, the imminent danger of a failure of the Lisbon strategy was already a topic in the Kok Report 2004 which accused the EU member states lacking commitment (Civitas 2007).\footnote{This led to the decision to relaunch the Lisbon strategy, so that in March 2005 a renewed strategy was published which also focused}
Hartmann (2007a, p.26) describes three aspects of renewal, intended to combine growth and jobs creation:

*Making Europe a more attractive place to invest and work, foster knowledge and innovation for growth, and creating more and better jobs.*

According to Hartmann (2007a, p.26ff.), the original aspects of competition and socially oriented markets are underlying these points, but knowledge and innovation have clearly become the dominant issues. Nevertheless, innovation dynamics and the fostering of social cohesion are viewed as combined strategies. This corresponds to Hartmann’s (2007a, p.36) conclusion that

*Entrepreneurship and innovation are seen as key factors for growth and competitiveness, but while it is necessary to implement Schumpeter to achieve the forefront of technological and economic development in a fast changing, globalised world, the internal (European) system needs also certain socioeconomic stability and (re)compensation mechanisms to be socially viable and desirable. Thus, the question is how to achieve fertile creative destruction mechanisms but maintain social stability and justice, corresponding to the intrinsic values of the European Union, for example democracy, social cohesion and freedom of the actors.*

As we have already discussed above, the European Union focused on the flexicurity concept as a possible solution.

In March 2010 a new 10-year strategy was proposed by the European Commission with the aim of reviving the economies of the European Union. The targets of the Europe 2020 strategy concern: Employment, R&D innovation, Climate and Energy, Education and Poverty reduction. Meanwhile, all member states have adopted national targets in these fields according to the Commission though there is also the criticism that the 2020 strategy ‘treats all EU countries’ economies as the same regardless of how they now operate’ (Civitas 2007). At least, the member states are asked for reports each year to show their activities for the Europe 2020 national targets. Furthermore, it is suggested that the ‘civil society’ – including businesses, trade unions, non-governmental organisations and individual citizens – has to integrate itself into the aims of Europe 2020. Again – as in the Lisbon Agenda, the five targets of Europe 2020 are ambitious, but they now differ between the member states. For instance, there is the general aim of employment for 75% of 20–64 year old citizens, but while
Germany is supposed to reach 77%, Denmark and the Netherlands intend to get 80%, but some member states also less than 75% as Greece 70%, Spain 74%, Ireland 69–71%, Italy 67–69%. There are also significant differences with regard to education which include two aspects: a reduced percentage of early school-leavers, and access to tertiary education. While the EU expects 10% of early school-leaving, Greece should get 8.7%, Spain 15%, Ireland 8%, and Italy 15–16%. Not unrelatedly, with regard to tertiary education, Italy exhibits with 26–27% a very low rate, similar to Greece with only 32%, while Spain is with 44% above the EU target of 40% and Ireland has with 60% the highest rate. These rates are not set by the EU, but are set by the member states.

Both educational targets can be understood to contribute to several aims which are the decisive factors of Europe 2020: the reduction of school drop-out rates will not only most likely raise the EU employment rate, but should also contribute significantly to a reduction of poverty in Europe and thus also to social cohesion. A higher number of students who leave schools with a certificate also adds to an improvement of production as does a higher amount of tertiary education.

The aim of the Lisbon Agenda to create a dynamic competitive knowledge-based economy can also be found in Europe 2020, where, for example an investment of 3% of GDP in Research and Development (R&D) is set as an objective. Since investment in R&D was only in some parts of the European Union a relevant issue, the necessity to include this task in Europe 2020 was high, especially in view of the higher R&D expenditures in China and the developing Asian economies. The economic growth in these latter countries indeed allows for such increases in their R&D expenditures. Until 2010, there were four member states (Germany, France, the United Kingdom and Italy) who exhibited two thirds of R&D expenditures in EU-27, which made a R&D target in Europe 2020 a necessity, since R&D is closely related to economic growth.

Among the five targets for Europe 2020, ‘climate and energy’ has to be understood as a target for sustainable growth with the aim of a competitive, but low-carbon economy, the development of new green technologies and production methods, and the improvement of the business environment. Thus, ‘climate and energy’ targets are part of an economic competitiveness strategy (also with regard to small manufacturing firms), aiming at a reduction of dependence on fossil fuels, but also supporting the environment and thus the lifestyle of the European citizens. Europe 2020 is still in its starting phase so that
possible results or failures are not yet stated in the media. The aim of a ‘smart, sustainable and inclusive economy’ can be found among its targets, though there is certainly also a competitive goal to be found.\textsuperscript{32}

The three growth objectives – smart, sustainable and inclusive growth – provide a résumé of seven, so-called flagship initiatives. Thus smart growth includes ‘a digital agenda for Europe – fast/ultrafast internet and interoperable applications – innovation Union – for example, refocusing R&D – and youth on the move – different measures to improve students’ skills, better studying possibilities etc’, while the ‘resource efficient Europe and an industrial policy for the globalisation era’ section calls for sustainable growth with flagship initiatives like reducing $CO^2$ emissions, or the development of industrial policy for the globalisation era. Inclusive growth contains ‘an agenda for new skills and jobs as well as a European platform against poverty’, where ensuring economic, social and territorial cohesion are viewed as a help against poverty as well as improving employment. All flagship initiatives deal with competitive economic developments and a focus on skilled employees.\textsuperscript{33}

In view of the economic and financial crisis in the world economy with their iterant, erratically behaving stock markets we do not view the European Union to be in a more comfortable position than the United States of America, though the profile of European problems has become quite different from that of the USA as was shown above. In contrast to Alesina and Giavazzi (2006), (see the characterisation of their book at the beginning of this section), we would however – with the crisis in hindsight – conclude that capitalism demands more, not less, regulation in order to counteract its sometimes very severe social segmentation processes,\textsuperscript{34} its creation of private media with a poor value-based orientation, its creation of financial market structures that are driven by short-sighted gamblers instead of serving long-run investment strategies and – in the political area – by forcing presidential candidates to depend more and more on huge amounts of money and in particular on the TV media in the curtailment of the contents of their presidential campaigns.

Plan of the Book

We have discussed in this chapter in stylised form three varieties of capitalism which are normally not viewed in this way. We considered first the US economy and its ‘free to lose’ type of capitalism, then the Chinese economy with which we have associated the realisation of a
Schumpeterian type of competitive socialism and finally the European Union with its multi-layered social structures and its attempts to reform labour market institutions, implement regulative policy measures and induce competitiveness and innovation, three areas of economic and social policy with which we associated the theoretical system discussed at the beginning of this chapter.

In the remainder of this book we will continue to elaborate and to build on such a theoretical framework. In Part I we study Marx’s distributive cycle with homogeneous labour as well as with segmented labour markets. We discuss policy measures intended to mitigate the consequences of Marx’s reserve army mechanism and the overshooting income claims of capital and labour it implies. We supplement this factual approach to capital accumulation and the policy measures it may call for with a normative one where full employment is constructed within an ideal circular flow of income and transfers and a work-wage management system which guarantees the stability of the economy on the macro-level. The resulting flexicurity model is to be contrasted of course with the actual debate on flexicurity in the EU and its realisation in Denmark in particular.

Part II provides partial models of what we consider as MKS theory. We investigate in its three chapters the Marxian distributive cycle in its interaction with Keynesian goods market dynamics and also the latter dynamics in its interaction with financial markets and commercial banking. Here we again introduce a normative model for commercial banking as defined by a narrow banking system with a Fisherian 100% reserve ratio. In a third chapter we finally study Schumpeterian innovation waves and the dynamic patterns they can give rise to.

In Part III we turn to the investigation of further major current problems which question short-run economic stability or long-run social viability on a worldwide scale. In Chapter 7 we study environmental decay as a further problem of unrestricted capitalism in association with the working of Marx’s reserve army mechanism which further questions the long-run viability of this mechanism. We then again introduce a normative framework (based on a flexicurity system), where environmental rehabilitation takes place and leads to a sustainable type of capital accumulation. Chapter 8 considers the case of rampant fiscal policies of the government of single countries, a situation which is currently endangering the Euro and which has raised the question of whether the Eurozone will survive the current financial crisis. We consider the policy of the IMF in practice and in theory in the case of Greece and then again an ideal policy with a longer-run strategy for
the evolution of such countries that have been subject to rampant fiscal policy, like in Greece.

In Chapter 9 we finally discuss against the background of an unleashed capitalist economy the variety of welfare, workfare and flexicurity systems discussed and implemented in various countries in the EU. In contrast to this, we then introduce a new social structure of capital accumulation which we call ‘social capitalism’. We intend with this composite concept to be more precise than what is called a ‘Social Market Economy’ in Germany, by stressing that the forces of production of the economy are capitalist in nature while the mode of production is a social one. We stress that this concept is also directed against all tendencies to define the socialism of the 21st century without an integration of the progress (in the conduct of firms) which has been achieved through the capitalist forces of production. Schumpeter’s concept of competitive socialism may however constitute a (less pleasant) alternative to our conceptualisation of social capitalism as the discussion of China’s current evolution intended to indicate.

We do not think that our concept of ‘social capitalism’ is already fully articulated and sufficiently implemented in the academic or public discussion. Instead it is intended to serve as a precise point of departure for further scientific discussion and investigation. It is our conviction however that the future of ruthless capitalism is a finite or even gloomy one and that capitalism will either become social in nature (through theory-guided policy actions) or fail – at least in its democratic design. We can learn from Marx in this respect that capitalism must be subject to well-designed factory laws (now of twenty-first century type of course) and solid labour market institutions (see part I of the book). Keynes laid the theoretical foundations for macroeconomic overall control (including financial markets) and Schumpeter the foundations for technological progress and product innovation theory where the observed long waves in economic activity however need to be regulated from the social point of view.

The figure summarises to a certain extent the skeleton of the reasoning in this book. Its left hand side is more associated with the contents of Chapters 1, 2, 4, 5 and 6 while its right hand side finds more expression in Chapters 3, 5, 7, 8 and 9. Positive approaches deal with issues such as mass unemployment, segmented labour markets, effective demand problems and excessive banking. Normative approaches concern full employment, narrow banking, environmental protection and sound fiscal policies. All this finally leads us to the construction of ‘social capitalism’ which is stable from the viewpoint of
roads to social capitalism

figure 1.1 methodology of the book

a Marxian work-wage management system, from the viewpoint of the conduct of Keynesian fiscal and monetary policy and competitive from a Schumpeterian perspective of creative destruction and innovation policies.

Summing up, and in view of what we have just discussed, we would define ‘Social Capitalism’ as being founded on the MKS approach to an understanding of the nature of capitalism, as far as the forces of production are concerned. Yet it must then be embedded in social relations of production which – on the level that EU type capitalism has now partly reached – should be progressively extended to establish safe life-course perspectives of households, an up-to-date comprehensive all-day schooling system and finally the coordination of activities on all levels of business administration as well as in public administration by democratically elected and controlled elites, at least in all areas where such coordination decisions concern a significant number of workers or citizens. Instead of a society perceived as being led by an invisible hand on apparently independently acting markets or being subject to neoliberal laissez-faire policies, we observe a visible hand in business as well as public administration activities, where – as under the existing...
advanced capitalism – coordination and incentive problems have to be solved and further developed in professional ways. This is not a third way between the neoliberal and the socialist views of the world (which are both misleading), but the application of a social philosophy which can be derived from a proper understanding of MKS-based theory of the evolution of capitalism in place of hypothetical Walrasian theories of market capitalism or market socialism. The only real alternative may be Chinese type competitive socialism, the social philosophy of which still remains undecided and one that is currently definitely questionable from a Marxian perspective, concerning the exploitation of labour power in factories as well as on the labour market and also the short-sighted cost-oriented exploitation of nature. Factory laws and labour market regulations as we discuss them in Chapter 1 may be – among other measures of social legislation – essential steps in the further evolution of the Chinese society.

Notes

2 See Cockshott, Cottrell and Dieterich (2010) for a recent attempt in this direction.
3 This in fact also holds for Schumpeter’s (1942) theory of socialism, where his description of the execution of ‘socialist blueprints’ (even when enriched – as is proposed by him – with the directive of ‘ex-bourgeois elements’) is too close to static Walrasian-type Market Socialism to be convincing, and this also from today’s potential of computability capacities.
5 See Grofman, Blais and Bowler (2009).
6 This was however not the case in the UK general elections of 2010 where a so-called hung parliament resulted due to the lack of an absolute majority for the Conservative party which then formed a coalition government with the Liberal Democrats. Such a coalition is however still much more able to act than is the case for the hostile interactions of Republicans and Democrats in the USA.
7 See Alonso, Keane and Merkel (2011) for a variety of contributions on the future of representative democracy.
One may argue that societies like China win when it comes to copying the initial successes of societies like the American one, but will always lack the innovative capacity of the US economy. An example is the iPad, where a society such as China could never have come up with such an idea, but the iPads of the future will surely be produced in China and also improved on. The closed nature of the Chinese society however will prevent the rise of a truly innovative class of Schumpeterian type. Here the Americans, for all their other problems, will continue to dominate.

See here however Z. Yongnian’s article: ‘China and democracy: Not a contradiction in terms’ in Wong and Bo (2010).

Schumpeter’s (1942) leadership model of democracy and theories that can be built on this approach, not however his model of a competitive type of socialism, are discussed in detail in Brooker (2010).

For the evolution of the relationships between corporate governance and democracy from the historical and the theoretical point of view see Gomez and Korine (2010).

Pryor’s (2010) book provides a detailed study of his classification scheme, in particular regarding comparisons with the cultural systems he identifies.

See Chapter 2 for a detailed discussion.

See http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52007DC0359:EN:NOT


See European Commission (2008)


See http://ec.europa.eu/europe2020/index_en.htm
General Introduction

28 See Europe 2020 targets (http://ec.europa.eu/europe2020/pdf/targets_en.pdf)
31 See http://ec.europa.eu/europe2020/index_en.htm
33 See http://ec.europa.eu/europe2020/tools/flagship-initiatives/index_en.htm
34 Like the ones one can observe in large US cities like Baltimore for example.
36 We have to thank Aloys Prinz for allowing us to use this figure from one of his comments on our work.