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GLOBAL GOVERNANCE IN THE ERA OF CRISES —
IS DECENT CAPITALISM POSSIBLE?

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A group of mainly Geneva based economists discussed “Decent Capitalism”, a book published 2011 by Sebastian Dullien, Hansjörg Herr and Christian Kellermann, along the book’s two major topics:

(1) Why is it that capitalism frequently runs into eras of crises typically initiated by instabilities in the financial sectors?

(2) Is it possible to escape the boom-bust vicious circle and establish an alternative paradigm that may be called Decent Capitalism?

1. The roots of crisis capitalism

In this first part of the round table event, Hansjörg Herr gave an overview of the roots of repeated recessions, including the Great Depression in the aftermath of the stock market crash in 1929 and the Great Recession in the aftermath of the Lehman Brothers bankruptcy in 2008: Financial markets are both gigantic amplifiers of imbalances within and between our economies and a root of imbalances themselves. As John Maynard Keynes (1936) and Karl Polanyi (1944) have shown in their centennial books, commodity and labor markets alone cannot function as guarantees for full employment and a fair distribution of income. Even more important is an active role of the state with regard to money and

finance. Whenever market fundamentalism dominates the realm of the national and international financial system, imbalances increase and capitalism is eventually doomed to fail. Besides such instabilities, the market-liberal globalization of the last decades led to income and wage disparities – within countries but much more between countries – on an unprecedented scale. Another feature was international imbalances in current accounts (big surpluses of China and Germany, gigantic deficits of the USA).

With inequalities rising, a new balance between state, market and society is crucial. Financial transactions fulfill a positive role if, and only if, they fuel innovation and growth of the real economy (i.e., commodities and services). “Decent Capitalism” is a proposal for an economic model whose fundamental aim is to ensure social justice and environmental sustainability at a high level of prosperity. Even without a world government in the foreseeable future, global institutions are needed for coordination and sanctions on a global scale. This does not exclude global economic growth. As it is put in the book: “Decent Capitalism needs growth, however of a very different quality.” In a global Green New Deal, governments will set incentives for “decent growth” which allows for a globally balanced level of prosperity.

In his comment, Raymond Torres did not find himself in disagreement with any of the major points made by the authors. He added some empirical facts to the evident failure of market fundamentalism that has dominated politics over the last thirty years. Less state and more market were supposed to strengthen income and growth worldwide. Instead, the strategy has led to lower wage shares, lower private investment, and lower GDP growth. Detlef Kotte, in his comment, shared the views of Herr and Torres. He remarked that a reader of the annual UNCTAD World Trade Reports could have found proper analysis and prediction there for both the 2008 crisis and the slow-down 2011-2012 that market fundamentalists had failed to predict. Instead of applying microeconomic logic to monetary economic developments straight forward macro-economics can help to find appropriate policies. In fact, developing and emerging economies that did not follow “neo liberal” recommendations did and still do perform much better than the others.

A lively round table discussion followed. To summarize this debate, the world wide application of “neo liberal” economic policies was unanimously judged to have led to increasing income inequalities, market imbalances and monetary instabilities.

2. How to regain policy space for an alternative growth paradigm

Christian Kellermann first explained why the authors’ had used the word “decent” in the book’s title. Since there is no way to reach a full-fledged world democracy with a global government governing capitalism and globalization in the foreseeable future, the authors call reform the name of the game for centre-left majorities throughout the democratic countries. Reform has to go in the direction of decent work and ecologically sustainable economic development, of more participation and just income shares for all population groups. Kellermann then continued to outline the alternative model.

Since the targeted growth process is jeopardized by either asset-market inflation or ensuing deflation, “decent” capitalism means an alternative growth paradigm with a reformist or pragmatic approach towards capitalism. It has to have some core elements: (1) a focus on commodities demand and green growth; (2) a financial system for channelling credits into innovation with respect to production of commodities; (3) a more equitable income distribution; (4) a robust financing of state budgets; (5) a commitment to markets as part and parcel to freedom; and (6) more financial rules and regulations not only on the international level, but also on the national level.

Kellermann furthermore argued that in the public debate a progressive discourse should be able to win over the conservative discourse of “state failure”. It is market failures that hinder a “wealth of nations”. To increase welfare it would be beneficial to aim for (a) decent work and a more equal distribution; (b) innovation in the direction of “better than cheaper”; (c) an increase of the “happiness-index” by adding alternative forms of production and life styles into mainstream society. The regained policy space by pushing back the conservative discourse becomes moreover widened with successful mitigation of the ambivalent discourse on the limits of national policy space due to (i) globalization forces, (ii) pressures to increase income inequality by way of international wage cost competition, and (iii) sovereign debt mismanagement (wrong list of priorities in budget policies).

Comments by Jayati Ghosh (New Delhi) and John Evans (Paris) were again not directed against the main messages of the book, but put a caveat to the geographical range of the suggestions. First, the alternative growth model seems to fit OECD-countries alone. Developing countries lack a number of institutions that Decent Capitalism wants to strengthen. For example, trade unions and labor standards may be a force in OECD-countries, but are practically non-existent in large parts of Asia and Africa.

Second, the “green growth” paradigm cannot work without a huge redistribution from OECD states, that have caused and continue to cause most environmental and climate damage, towards the Global South. The book is not mentioning this.

Third, the very concept of decent growth has not been dissociated enough from equating GDP-growth with development. Improving the quality of life does not necessarily go hand in hand with an increase in gross domestic product. It is the quality of life that we all strive for when discussing sustainable development for all.

The rest of the afternoon was spent discussing the policy space issue for an alternative growth path: a variety of comments and suggestions on how to make the Decent Capitalism paradigm work. In the closing session, the participants welcomed this opportunity to speak to one another in a round-table fashion. There was unanimous appreciation of the idea that the Geneva office of Friedrich Ebert Foundation might organize, in irregular frequency of about three times annually, similar discussions among Geneva based economists over the coming years.

On the author:

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