

# Editorial

## Political economy after the end of history

**Daniel Leighton and Martin McIvor**

Rarely has the world had it so good. If most of the economic forecasts are correct, global growth in 2007 will exceed four per cent for the fifth year running, economic fortunes in advanced countries will become more balanced and emerging market economies will continue to power ahead. Such a sustained run of good news has not been seen since the early 1970s.

*Financial Times*, 24 January 2007 (quoted in Glyn, 2007, 184)

... the most striking similarity [between this new *belle époque* and the Edwardian one] has been the almost complete lack of realisation on behalf of their beneficiaries that the sudden and unprecedented prosperity that they had come to enjoy did not rest on a resolution of the crisis of accumulation that had preceded the beautiful times ... It was only a question of time before the crisis would remerge in more troublesome forms.

*Giovanni Arrighi, The Long Twentieth Century* (1994, 324)

**Hegel famously said that the Owl of Minerva only spreads its wings at dusk: a fancy way of saying hindsight is wonderful thing.** To read much of the mainstream press and the speeches of Gordon Brown or David Cameron, you would think that no one saw the great financial crash of 2008 coming.

It is only with hindsight, so the story goes, that we now know the UK's sixty quarters of positive growth, driven by the City of London, was built on a speculative house of cards. There were one or two highly lauded exceptions to the rule, such as Vince Cable or NYU Professor Nouriel Roubini, blessed with seer-like powers. The rest of the political and economic establishment, not least a certain Tory leader and shadow chancellor let down by their close friends in the City, are now taking flight like Hegel's owl to survey the wreckage.

This version of events is, to put it mildly, galling for the left. It colludes with the decades-long suppression of the some of the most well known historical truths about the crisis-prone nature of capitalist economies. It is precisely the economic and social instability generated by unregulated capitalism that brought social democracy into being as a political force. Yet there is a distinct sense, reinforced by the disappointing results of the recent European elections, that social democrats have missed the moment of opportunity presented by the crisis of the neo-liberal paradigm. This is ultimately because they have no alternative political economy to offer in response.

New Labour's clammy embrace of the Anglo-American model of capitalism was a Faustian pact: one that not only exchanged 'light touch' regulation for high tax yields to invest in public services and tax credits for the working poor, but also required the repression of the left's intellectual legacy and history. This has ultimately meant that the centre-left abandoned the economy as an object of political contestation. While recent decades have seen vast increases in inequality, it was argued that a rising boat lifts all tides. What was good for the City of London was good for the country. As the model of financialised growth crashes and burns, and the acrid smell of burning plastic fills the air, the uneven distribution of its rewards can no longer be ignored. Yet even now it takes the centre-right economist Adair Turner to break the taboo and question the social value of the financial services industry and the rationale for prioritising its success in public policy (Turner, 2009).

The centre-left won't seize the moment offered by the collapse of neo-liberalism until it re-politicises the economy. This means not only returning to Keynes to get us out of the crisis, but returning to the tradition of critical political economy inaugurated by Marx to clarify the interests that have been served, and the conflicts set in motion, by the neo-liberal turn of the past thirty years.

The baroque world of financial 'innovations' – facilitated by deliberate deregulation, loose monetary policy, and historic levels of credit expansion and asset-inflation – may be the proximate cause of the banking collapse and the current global recession. Yet social democrats have yet to ask as boldly as they might: what was the question to which financialisation was the answer? This issue of *Renewal* brings together contributions that place the credit crunch in the wider historical and political context of economic development – in which shifting power relations and mounting imbalances between capital and labour, public and private sectors, productivity and sustainability, speculation and investment, play a pivotal role (1).

### **Barriers to accumulation**

The great class compromise of post-war social democracy appeared to have achieved what Marx thought impossible: the imposition of limits to accumulation that ensured a degree of balanced economic growth and social stability. Yet with hindsight this only remained the case while there were no crises of profitability, which duly emerged in the late 1960s, accompanied by fiscal crises which similarly expressed strains on the limits to accumulation posed by post-war welfare states (O'Connor, 1973; Offe, 1984).

Giovanni Arrighi, the historical sociologist who died prematurely earlier this year and whose work is only now beginning to be appreciated and absorbed, reminded us that for Marx a fall in the rate of profit was less likely to result in a 'stationary state' than 'the destruction of the social framework in which accumulation is embedded and to the creation of a new one' (Arrighi, 2007, 83). Arrighi's own work drew particular attention to the pivotal role played by finance in facilitating capital's withdrawal from established patterns of investment and production, and reorganisation of itself around new centres of accumulation in new industrial, technological and geographical sectors (see also Arrighi, 1994).

The shift towards greater capital mobility and financial liberalisation seemed, for a time, to have resolved the profitability crises and distributional conflicts of the 1960s and 1970s decisively in favour of capital and the profit share. But radical commentators insisted that this new order would generate its own new contradictions. As Arrighi put it, 'financial expansions tend to destabilise the existing order through processes that are as much social and political as they are economic'. A fundamental economic problem, as he put it, is that 'they systematically divert purchasing power from demand-creating invest-

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ment in commodities (including labour-power) to hoarding and speculation, thereby exacerbating realisation problems' (Arrighi, 2007, 162).

The 'Shadow G<sub>n</sub>' of mainstream economists convened this year by Jean-Paul Fitoussi and Joseph Stiglitz arrived at a strikingly similar diagnosis of the roots of the current crisis. 'Since 1980', they note, 'in most advanced countries the median wage has stagnated and inequalities have surged in favour of high incomes', a trend they ascribe to a number of causes 'including asymmetric globalization (with greater liberalisation of capital than of labour markets), deficiencies in corporate governance and a breakdown of the egalitarian social conventions that had emerged after WWII'. While 'this long-term trend in income redistribution by itself would have had the macroeconomic effect of depressing aggregate demand', in the event 'growth was maintained at the price of increasing public and private indebtedness' (Fitoussi and Stiglitz, 2009).

But while an appreciation of this macro-economic back-story, aired in these pages by Graham Turner over a year ago (Turner, 2008), is now beginning to seep into mainstream commentary and debate (2), its political aspects and implications have yet to be fully and clearly articulated.

### Into the 'black hole': power, politics and history

To comprehend and plot a path out of the current crisis we therefore need to enter what JK Galbraith called the great 'black hole' of conventional economics – the question of power. This means attending to the reassertion of capitalist power over the 'limits to accumulation' put in place by post-war social democracy.

George Irvin maps the distributional shift that has reshaped the major economies since the 'profit squeeze' of the early 1970s. The neo-liberal era of flexible labour markets, financial deregulation and the globalisation of manufacturing restored the profit share, at the expense of ordinary incomes. Cheap credit, made possible by the deregulation of the financial services, filled the gap. Thus the economic miracle of the 1990s was financed by what Colin Crouch has dubbed 'privatised Keynesianism': in which households, rather than governments, assume the debt burden needed to sustain economic growth (Crouch, 2008).

Johnna Montgomerie frames the move to privatised Keynesianism as a part of a 'politics of abandonment', in which an abdication of social responsibility by employers combined with the state's restriction of welfare and social protections. The consequences of prolonged political and economic restructuring is that debt has been used a 'plastic safety net'; preserving standards of living established a generation ago, and bolstering debt-driven growth. This raises the further question raised of whether already indebted households should pay for the crisis through cuts in public services and social entitlements.

Philip Arestis and Malcolm Sawyer insist that the relevant arguments are political, not economic: continuing the upward trajectory of previous Labour spending reviews would enhance growth prospects and thereby help to close the deficit. Panic-mongering over credit ratings and the national debt conceal an ideological opposition to the state taking on an active, expansionary role (3), to which must be counterposed moral arguments for minimising the scourge of long-term unemployment and addressing society's needs for improved education, affordable housing, expanded health and social care provision, and the infrastructure required to shift to a low-carbon economy.

Tim Jackson is similarly critical of the failure of conventional economics to account adequately for human, social and environmental goods, but takes this further to question the very desirability of renewed growth as central policy goal. Taking the environmentalist argument for a 'steady-state' economy into new territory, Jackson addresses head-on the standard social democratic objection that rising overall productivity and perpetual GDP

growth is a precondition for full employment and redistributive public spending. Drawing on work for the Sustainable Development Commission, Jackson points the way to a very different economic and social equilibrium, achieved through a managed reduction and redistribution of working time, and a redirection of investment, via an expanded public sector, towards longer-term and more socially beneficial ends.

Adam Lent remains sceptical that capitalism could ever be constrained within a no-growth model. But he affirms the urgency of reorienting its development away from acquisitive consumerism and towards forms of fulfilment that are less resource-intensive and place more value on increased leisure time, greater autonomy at work, and enhanced quality of life. This would be an integral aspect of a new 'ethos' of freedom, diversity and creativity that the spread of information and communication technology is making possible. But unlike some other heralds of an empowering 'new economy' (4), Lent argues that the transformative potential of these new forms of production and consumption can only be realised on the basis of institutional and policy frameworks that support long-term investment, broad-based demand, social inclusion and economic security. The needs of the economy, he optimistically asserts, now favour progressive political innovations.

### **You wouldn't start from here**

In the medium and longer-term there are clearly huge opportunities for a new economic agenda that successfully synthesises social democratic and post-materialist approaches. The immediate dilemma for the UK's Labour government is that, after decades of civic and industrial decline, the political and productive forces needed to advance such a programme could take years to nurture, while the quickest short-term route out of its economic and fiscal hole is to re-start the City's money-machine and re-inflate the housing and credit bubble.

While there are already signs that a return to business-as-usual is now underway in some quarters, the contributors to this issue highlight deep and enduring factors behind the current contraction that are bound to drag downwards the possible path of recovery. They point us toward the more pessimistic end of the current range of forecasts, suggesting that we are in for several years of low growth as private demand and investment is constrained by the slow and painful 'de-leveraging' of households' and businesses' balance-sheets.

Against this background, the task of the left may be to make a virtue of this necessity – by pressing the case for socially useful public investment and job creation, to offset the retrenchment of the private sector; more determined redistribution of income and working time, to mitigate the social costs of weakened demand for labour; and new cultural, environmental, and democratic initiatives that the necessary curtailment of consumerism might now allow more space for.

One thing is certain – such questions will dominate public policy discussion and party political debate over the next few years. After a long period in which a tacit neo-liberal consensus constrained the space of democratic deliberation and choice, now the inner constitution of the economy itself is opened up once more to political scrutiny and contestation.

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### Notes

1. It should be admitted that the critical spatial or geo-political dimension of these imbalances – the shifting relation of East to West, or, to be more precise, surplus-accumulating export economies of global capitalism's new frontiers and increasingly indebted consumer economies of its historic metropolises – receives only passing attention in these pages, a bias we hope to rectify in future issues.
2. See also Holtham, 2008; Funnell, 2009; and Wade, 2009.
3. For a classic critique of the 'doctrine of sound finance' as the pseudo-technical expression of opposition by private capital to any challenge by the state to its control over investment and employment levels, see Kalecki, 1943, 350.
4. See for example Boltanski and Chiapello, 2006 (reviewed by Will Davies in *Renewal* 15.3/4) or Mulgan, 2009.