

# A new economic paradigm

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## **Bringing history back in**

**Much of the commentary on the current economic crisis has been largely ahistorical.** There have, of course, been the now common comparisons between this period and the problems of the 1930s, and there has been debate about when exactly the conditions for the crash were created, with various views pinpointing the policies of Nixon, Reagan, Thatcher, Clinton, Blair, Brown, or Greenspan.

None of this amounts, however, to a particularly sophisticated or detailed account of how the crisis fits into the broader sweep of historical economic developments. This is hardly surprising. History has been out of fashion in the discipline of economics for many years. The focus in the economics profession, with some notable exceptions, has been increasingly on economic modelling and econometrics informed by broadly neo-classical principles. Given, however, that these techniques have proved largely ineffective at predicting this crisis, there must, at the very least, be an obligation on those who are concerned with economics and economic policy to think much harder about what history might teach us.

Fortunately, there is a strand of economic analysis which has long laid a central emphasis on detailed historical analysis. This is the tradition of evolutionary economics as developed by thinkers such as Joseph Schumpeter (1975), Simon Kuznets (1953) and Christopher Freeman (1974). The approach is fundamentally different to the neo-classical style of economics which uses individual rational decision-making within the marketplace as the basis for developing complex and supposedly predictive economic models. Evolutionary economics, by contrast, is concerned with identifying and analysing the patterns that exist in economic history and understanding how fundamental tensions in capitalism, and the society and polity within which capitalism operates, shape those patterns.

One of the leading thinkers working in this tradition, Carlota Perez (2002, 2004a, 2009a), has written a great deal about the crash. Interestingly, and unlike most mainstream economists, she was writing about it before it happened. In essence, she knew the crash was coming and what its implications would be, not because she had developed a supremely complex model of the economy but because she had studied the tensions and patterns that prefigured major crashes and recessions in the past.

Using Perez, we can see that an understanding of economic history shows we are at a key social, cultural, political and economic turning point which could well favour the progressive outlook in the long term. Yet this understanding which also raises challenging questions about the policy framework offered by this outlook.

## **The tensions and patterns of capitalist development**

Perez's understanding of history leads her to identify three fundamental features that drive the volatility of capitalism and its tendency to go through periods of boom, bust, stagnation and radical reinvention.

The first is the tendency of technological change to occur in rapid clusters of innovations which drive sudden surges of modernisation in commercial operations.

The second is the differing interests, preferences and constraints of the distinct agents who work in the spheres of mobile investment finance (what Perez calls 'financial capital') and those who work in the sphere of production (often referred to as the 'real economy' and what Perez describes as 'production capital').

And the third is the fact that the institutions of political, social and cultural life tend to be far more resistant to and slower to adapt to the paradigm shifts which occur in the commercial sector than the economic agents themselves following a cluster of technological innovations.

The upshot of these features is a broad pattern of development and volatility which has repeated itself four times since the birth of technologically driven capitalism in eighteenth century Britain. Perez argues that each of these four historical periods can be split into four phases:

1. *irruption* when a new cluster of technologies and an associated business paradigm emerges and begins to spread;
2. *frenzy* when finance capital invests ever more heavily in the new technology and linked businesses and greatly expands its political influence;
3. *synergy* when the new technology and paradigm spreads more fully across all spheres of society leading to economic benefits;
4. *maturity* when the technology and paradigm reaches the point at which it stops producing major productivity gains and achieves market saturation.

Between phase 2 and 3, there is the often troubled turning point created by a financial crash.

We are now at the crucial mid-way post-crash turning point in the current and fifth historical process which began with the emergence of new information technologies in the late 1960s and early 1970s. However, it is necessary to look in some more detail at each of the four phases identified by Perez before exploring the current crisis.

### *Irruption*

As mentioned, each of the five historical periods has been kicked off by the rapid adoption of a family of related technologies by companies for commercial gain. The implications of those technologies, however, always prove more profound than simply the provision of new mechanical processes. They inspire radical alterations in the way companies think about and organise their activities; what Perez labels a new 'techno-economic paradigm'. Those companies which embrace both the new technology and the new paradigm discover major productivity gains and create new markets unavailable to their less fleet footed competitors who often suffer crises leading to insolvencies and unemployment.

Summarising the concept of paradigm is difficult – it is a certain 'common sense best practice' made up of a variety of more or less explicit principles and behaviours, learned and developed as the best way to apply the new technologies. Maybe the best word to describe them is the rather fuzzy 'ethos'. But for all their fuzziness, these new techno-economic paradigms are truly transformatory for business and, ultimately, wider society.

Although Perez does provide descriptions of all five paradigms since the late eighteenth century, for the sake of brevity and relevance, some clarity on this can be gained by comparing the techno-economic paradigm that shaped the period from the early 1900s to the 1970s and the new paradigm that has been reshaping our world since the early 1970s. The table below does this in a simplified form. The earlier paradigm is associated with the technological breakthrough in the production of automobiles and use of oil while the later

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is linked to the rapid development and use of ICT technologies beginning with Intel's launch of the microchip in 1971.

Previous paradigm	Current paradigm
mass production	flexible production
closed hierarchical structures	open networks
stable production routines	continuous improvement
employees as resources	employees as creative capital
fixed plans	flexible strategies
international trading	globalisation
classic three tier markets	highly diverse markets

One can see from this list that the broad ethos of the two paradigms is very different. While the earlier paradigm emphasises hierarchy, self-contained organisations, control and homogeneity, the later paradigm favours flatter structures, networks of organisations, autonomy and diversity.

With its success, the new paradigm begins to impact on wider thinking outside the commercial sphere, influencing civil society and government in rarely straightforward ways. However, as mentioned above, the implications of the paradigm are always much harder for the wider socio-institutional framework to adopt than the commercial world where resistance can often be great anyway.

### *Frenzy*

The profit-making potential of the new technology and associated paradigm does not escape the attention of investors for long. Indeed, the excitement and returns generated by the new technology draws in increasing investment – an outcome which itself enables the new technology and techno-economic paradigm to spread far more widely than it would have without such significant capital backing. In turn, this changes the nature of the capital markets as a greater and greater emphasis is placed on bold investment with high returns. This also enhances the economic significance and political influence of financial capital, which becomes a dynamic driver of growth and innovation when compared to the far less vibrant pools of mature production capital. Over many years, this emphasis on the high returns from mobile financial capital turns into a competitive frenzy which results in over-investment and a manic search for high returns often found in financial engineering rather than productive investment itself. The inevitable crash follows.

Perez asserts that the five big financial crashes since the Industrial Revolution have been associated with the gradual build-up of a frenzy following the emergence of a new technology and associated paradigm some decades earlier.

Technology	Crash
Mechanisation and canals from 1770s	1797
Steam power and railways from 1830s	1847
Steel, steamships, chemistry and electricity from 1870s	1890-93
Mass production, oil and automobiles from 1910s	1929
ICT from 1970s	2008

### *Synergy*

Maybe Perez's most crucial observation is that the crashes that follow the rise of the new technology do not mark the end of the dominant business paradigm, but its mutation. The paradigm continues its march of transformation but almost entirely as a result of the imperatives facing production rather than financial capital. Production capital does not possess the extraordinary mobility of financial capital and as such has little choice but to explore every possible opportunity to increase productivity within the new techno-economic paradigm and develop every possible market for the products and services to which it is organically linked. It is for this reason that the period after the crash is a time when the benefits of the new technology and paradigm are spread across the whole economy and emphasis switches to the role of productive and committed human capital, workplace innovation and the sustainable growth of consumer demand as the driving forces of the economy.

In Perez's phrase this is often a 'golden age' of economic stability, rising productivity and affluence characterised by progressive reforms and a renewed sense of social solidarity. However, it is important to acknowledge that the transition from the crash to this 'golden age' is rarely straightforward. As mentioned above, the socio-institutional sphere finds it far harder to accept and adapt to the implications and opportunities of the new techno-economic paradigm than the commercial world. This is because the latter is governed predominantly by the profit motive rather than the more complex intersection of ideology, values and interests. As such, there is usually a period of conflict and struggle between the crash and the new economic era.

### *Maturity*

Some years after the crash and when the paradigm has worked its way across many sectors and markets, the productivity gains made by the paradigm begin to slow and the new markets created become saturated. Periods of stagnation and recession follow with the consequent political and social conflict these generate. This period can last for a considerable time itself but during it there emerges yet another technology and paradigm which will start the whole process again.

Perez is very clear that this narrative is a highly idealised account of historical processes which often vary very considerably in the timings and nature of each aspect. Indeed, each seems to have its own unique elements. For example, the most recent crisis is noteworthy for the fact that it has been constituted of two bubbles and crashes: the dot com bust in 2000 and the credit crunch and banking crisis of 2008. This feature Perez has endeavoured to explain in a recent paper as the coincidence of a series of contingent factors which ensured that financial capital was able to continue operating for a specific period but linked to rapidly rising asset prices rather than a frenzy around IT companies (Perez, 2009b). The factors of particular significance that created this 'double bubble' included the decision of policymakers to slash interest rates and increase liquidity (particularly in the wake of the 9/11 atrocity) and the fact that the usual collapse of demand and investment opportunities that follows a crash was more limited than previously, due to the availability of new markets and new money in Eastern Europe and China.

In addition, the contingent will always play a significant role in determining the exact shape of each phase. It may be better to understand the new conditions that characterise each phase as providing *opportunities* for certain practices, agents, policies and values to gain influence, rather than as providing *certainties* for their growth. It is notable, for example, that the period that developed after the 1890-93 financial crashes and which became known as the *Belle Epoque* was rather limited in its progressive characteristics, whereas the long period of turmoil and then stability after the 1929 crash represented a fundamental transformation in Western European and American economies and societies.

## Why the time is right for a progressive turn

Based on this understanding of history, it is possible to start drawing out the broad policy implications which are required at this particularly important transitional phase. The starting point for this is to acknowledge that in the post-crash period progressive economic policies are not just desirable as a means to social justice but become important ways to ensure economic growth and stability.

The shock of major recessions and the loss of power of financial capital that follows a big crash creates historical political opportunities for progressive forces to shape post-crash economies. We have, of course, already seen something of this: with the victory of Obama in the USA; the renewed debate about the negative impacts of consumerism, individualism and inequality; alongside a new found interest in the economics of Keynes even amongst centre-right parties in Europe.

However, there is a more fundamental reason for the rise of progressive outlooks during these periods. This is the fact that the prescriptions and emphases of progressive approaches become much more closely aligned with the making of profit and the generation of economic growth following a crash. In the phase of frenzied speculation, major growth and the high profits are driven by and located in finance sectors and the rising value of assets. Expansions in demand are often closely linked to these developments as can be seen in the way the rising housing market and cheap credit underpinned demand in the UK and the USA (Holtham, 2008; Turner, 2008a, 2008b). Thus the policy and strategic emphasis within government and many companies is on creating the conditions for such factors to continue and expand. Policymakers focus on removing any barriers to the mobility of finance and hurry to create the 'business packages' that will attract investment including low tax, flexible labour markets and weak regulation.

After the crash, production capital takes the lead role and this has certain progressive implications. While financial capital seeks out short-term, high return investments and withdraws when it is not forthcoming, production capital has an entirely different dynamic. It is rooted to the firm and can only increase returns by improving products, building productivity and exploiting new and existing markets. As a result, the longer term benefits provided by an able and committed workforce tend to come to the fore. The pressure for a 'social contract' approach to the workforce inevitably grows, with benefits being provided to employees in return for hard work and commitment. More is said about this below.

In addition, the collapse in the profitability of the finance sector and decline in asset-based wealth creates a crisis of demand as consumer confidence and the availability of cash recedes. We have clearly recently entered a very severe version of this phase with a rapid and deep collapse in demand right across the world.

What we have not yet entered is the period when policymakers and business leaders recognise that the long-term maintenance of profitability and growth can only occur when demand is consciously encouraged through public policy and business strategies. There is still a strong, though mistaken, expectation that while old-style demand stimulus packages will limit the recession and kick start a new period of growth, the longer-term policy framework will still probably be centred on a supply-side approach.

However, the historical pattern identified by Perez shows that demand side policy tends to become the norm as it becomes clear that the conditions of debt-backed consumption and high profits of finance cannot be recreated. It is highly likely that attention will soon turn to the fact that there has been a long-term decline in wages as a share of national income across the world since the 1970s and that median incomes in countries such as the UK are far from high (Holtham, 2008; Lent, 2009; TUC, 2009; Turner, 2008a and 2008b). In turn, it will become clear that if the economy is to continue to grow, if the productivity gains available from the spread of the new technologies and paradigm are to

be funded, and if the UK economy is to remain competitive, then demand will have to be maintained by other means than previous policy frameworks.

Under these conditions, the progressive call for higher wages, more secure employment and lower levels of inequality is not just made as a moral case but becomes fully aligned with the continued profitability of business. This is what happened in the 1940s when Keynesian policies designed to generate a growth in mass demand became necessary to rebuild businesses after the devastation of depression and war around the paradigm of mass production. Admittedly, the shift in priorities will probably be less radical today, simply because the current economic situation is not nearly as extreme as that which faced Europe after the War, but the same pressures, if somewhat less intense, still exist.

### **Maintaining peace and democracy**

It is inevitable that political tensions rise during a period of deep recession. The loss of livelihoods, the discrediting of incumbent politicians, and the often bitter struggle between economies to force recovery at any cost is a combustible mix.

But the historical patterns described here also suggest a different, longer term source of tension. This is the constellation of new political forces and alignments which form in response to the continued impact of the techno-economic paradigm after the crash. The various responses and conflicts are far from straightforward: a diverse and sometimes self-contradictory mix of hostility to the paradigm and claims to be its embodiment, underpinned by conflict of more fundamental economic interests to seize the great material advantages that can present themselves in a post-recessionary environment as growth is re-established.

The starkest example of the risks inherent in this phase is, of course, the period after the 1929 crash. During this time the complex conflict between classical economics, far right politics, Soviet communism and Keynesian social democracy was, in some considerable part, based on their distinct claims to embody and/or ameliorate the characteristics of the 'modern' paradigm. A conflict which contributed significantly, if far from solely, to war before the 'synergy' post-war period in Western Europe and the United States could emerge. But similar periods of political conflict have followed each of the turning points identified by Perez: the growth of political radicalism in England after the banking crisis of 1793; the European liberal revolutions after the 1848 financial collapse; and the period of intense industrial conflict during and after the 1890-93 financial crises.

It is impossible to predict what new political constellations might emerge in this particular turning point, although the way the current political and constitutional crisis has intersected with the post-crash recession in the UK does suggest that those new constellations may begin to emerge sooner rather than later.

If the emergence of new political forces and an intensification of political tensions across the world is probable, then the highest imperative is to ensure that these are included in and shaped by processes based on democratic engagement and dialogue.

At the international level, this must mean an emphasis on discovering multilateral and negotiated solutions to the international tensions that might interweave with the crisis and become exacerbated by differing national economic approaches. For example, it should be a matter of deep concern that two alternative models of capitalism are emerging, authoritarian and democratic; both of which, no doubt, could soon claim to be best placed to take advantage of the productive benefits of the extension of the current paradigm; or, maybe more probably, could come into conflict over the necessity of adopting the paradigm and its wider political and social implications in full. When such conflict is overlaid with the potential for violence in the South China Sea, the Middle East or the

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Indian sub-continent – as well as political tension over the spread of democracy and pluralism – then it is clear that we have indeed been launched on a more fragile and dangerous period than existed before the crash.

Within the UK, it suggests that the job of re-engaging citizens to the world of democratic politics has never been more urgent. If new political alliances and approaches emerge, the risk of conflict between them would be all the greater if it was impossible for those alliances to play out their differences within the democratic framework because of the obstacles created by the electoral and party system. It is heartening therefore that the parliamentary expenses crisis is rapidly turning into a wider debate about how to reform the political system more fundamentally and how to deepen democracy in the UK. It is important, however, that this debate and the changes that follow are genuinely focused on giving democratic voice to new post-crash constellations and not simply a way of shoring up the credibility of vested political interests.

It should also be said that a significantly reformed state in the UK, with a stronger emphasis on decentralised power, pluralism and diversity, and ongoing engagement between citizens and representatives, would seem much closer to the nature of the current techno-economic paradigm than the hierarchical, two-party and centralised system we have at the moment, which owes far more to eras that predate even the mass production paradigm that dominated the twentieth century.

### From financial to production capital

One of the most significant shifts Perez identifies in the period after historical crashes is a shift from financial to production capital as the driving force of the spread of the techno-economic paradigm. In essence this means that the highly mobile capital which seeks out profit and withdraws from loss at a rapid pace plays a far less significant role in the economy, giving way to capital which is often very closely linked or tied to specific economic initiatives or commercial organisations. An extreme example again comes from the post-war period in the USA where stock markets became very quiet places and the most successful companies of that era generated capital for investment largely from within their own organisations.

Unless we face further collapses in the financial and banking sectors in the short-term, it seems unlikely we will enter quite such a radical shift. However, there can be little doubt that the sheer severity of the recent crash will mean that the free-wheeling capital markets of the last decade will now be much more conservative places in the coming years. In addition, it seems extremely unlikely that investors or boards will welcome strategies for business growth which rely on high levels of borrowing and over-reliance on the banking sector. A preference for 'organic growth' will almost certainly be the order of the day for some years to come. However, this is not to say that there should be any easing in the imposition of a tougher regulatory framework on key financial centres. Financial capital still has the power to severely limit the progressive and wider economic potential of this new phase through destructive investment practices and undue influence over policy. A fact which has recently been illustrated by the readiness of financial companies to start paying out high bonuses once again and to continue their high-profile lobbying against any attempt to restrict the behaviours which existed prior to the crash.

As Perez shows, financial capital plays an indispensable role in the earlier stages of a new technology and techno-economic paradigm. But as that financial capital becomes 'decoupled' from those real world investments and relies increasingly on 'making money from money' it becomes neither a source of stability nor a reliable source of growth. As mentioned above, production capital does not possess the mobility or dynamism of financial capital but it is far more likely to generate genuine innovations in the workplace and in the generation of new markets. It is for this reason that the period after the crash is a time

when the benefits of the new technology and paradigm are spread across the whole economy, and emphasis switches to the role of productive and committed human capital and the sustainable growth of consumer demand as the driving forces of the economy. An emphasis which plays well to the progressive concerns of security and personal development at work and the material wellbeing of the majority.

The imperative on a progressive government, then, is to ensure that the whole policy framework is designed to enable the shift to production capital. The freedoms offered to financial capital are now less relevant in driving the growth of the future. Instead, a more complex framework is required to support skills, create a highly motivated workforce willing to engage in productivity enhancements and, most importantly, develop the markets and the demand to allow companies shaped by the new techno-economic paradigm to grow organically.

The current government has, interestingly, begun to develop policy along these lines in the new 'industrial activism' approach developed since the crash (HMG, 2009). The fact that the Conservative Party has also recently endorsed this approach (Osborne, 2009) seems to give significant credibility to Perez's claim about the relevance of a policy framework that favours production capital in a post-crash situation. What is missing, however, is any sense of what role is expected of financial capital in this new era and how policy can encourage it. Current proposals, such as the Walker Review of the banking sector, have tended to produce rather weak measures designed to constrain some of the more extreme practices of the pre-crash era. What policymakers must also now do is understand how investment practice can be reshaped to ensure that the productivity and commercial benefits of the new paradigm are felt as widely as possible across the real economy.

This analysis provides the outline of a short to medium term guide for as speedy a transition as possible back to economic stability and growth after the storm of the crash based on three broad principles:

- develop the institutional frameworks and political will to enable the democratic realignment of political forces, and the peaceful resolution of international tensions;
- acknowledge the reduced relevance of financial capital to growth over the coming period and instead create the framework of policies necessary to make it more profitable for finance to support the 'real economy' than to continue trying to make money from money;
- develop policies to increase demand over the long term through wage growth, job security and the reduction of inequalities in wealth and income, both domestically and globally.

### **Deepening the choice and empowerment agenda**

However there is also a need to understand how the trajectory of the new business paradigm will affect the economy and what it may mean for progressive values in the longer term.

The paradigm has had a wide-ranging and profound impact on business practices, ranging from the establishment of just-in-time production and distribution processes, to the creation of global networks of production and trade.

One important shift has been in the treatment of the consumer. The great achievement of the technologies and business paradigm of the mass production era was the creation of a market within which a very large number of people could purchase consumer goods previously only available to the wealthiest. However, while choice did exist, it was limited. The new technology and paradigm has massively widened the diversity of goods available within specific markets and thus very greatly enhanced the choice available to the

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consumer. Indeed, as Perez herself has pointed out, diversity in product has become a major source of profitability under the new paradigm (Perez, 2005).

The latest wave of ICT has taken this notion one stage further with consumers now becoming active participants, shaping their experience of a product to suit their own needs and desires. Firms such as Sky and Dell have become highly successful, global corporations by placing a premium on the freedom of their customers to customise their purchases around their individual needs.

The companies whose very existence is due to the rise of ICT and the new paradigm itself, such as Google and Apple, now employ the networking capacity of the internet to allow users to shape the product in many hundreds or even thousands of different ways. Companies such as Facebook and Twitter have gone even further by offering products which are simply empty networks to be filled and used by consumers as they see fit. There can be few products which have, as Twitter has, moved from trivial plaything to crucial enabler of political rebellion (in Iran) with quite such speed, but this shows how malleable are these products in the hands of empowered and imaginative consumers.

While these companies' product is, of course, particularly well-suited to the choice and empowerment made available by the new techno-economic paradigm, if Perez is right, then the next twenty to thirty years will be a period when more companies of this sort arise as well as being a period in which all other companies will seek to integrate the new paradigm ever more deeply into their practices. Hence, choice and empowerment may well become a feature of even some of the most static and hierarchical sectors and firms now in operation while those that have already embraced it will continue to deepen the choice and empowerment available to its customers.

These developments certainly have their progressive implications, but the dominance of financial capital in the last decade or more has limited the transformatory capacity of the paradigm to the sphere of consumption. Another aspect of the paradigm, most notably the offer of greater autonomy to employees and the shift from treating a workforce as a resource and more as human and creative capital, has been less far-reaching although it certainly has had some impact most notably in the most innovative parts of the IT sector (Cherny, 2000; Leadbetter, 2008). This is hardly surprising given that financial capital, with its emphasis on short-term returns and relatively simplistic judgements about which companies are 'up' or 'down', has enjoyed the flexibility available to bosses to hire and fire as they see fit, but has been less interested in the longer-term productivity gains which arise from profoundly rethinking the work practices of employees.

The shift which will now occur to production capital can change this and allow the full progressive potential of the new business paradigm to be achieved. As mentioned above, production capital has no choice but to focus far more precisely and rigorously on eking out productivity gains from its business practices. This means not just innovation in marketing, product development and production processes but also in models for staff motivation and commitment. Of course, better pay and secure employment will continue to play a key role here but the new paradigm creates the opportunity for a new workplace settlement akin to that which characterised the post-war period. At that time, higher productivity was secured through flexibility and commitment on the part of the workforce in return for rising wages and living standards and secure work. Today, the opportunity is available to secure flexibility and commitment in return for greater freedoms and autonomy at work.

This is made possible by ICT and the market benefits of more responsive companies. Workers could be given more choice over when and where they work, more decision-making powers, a greater right to consultation and even a say over key business decisions and more freedom to determine key features of their working environment and practices. The progressive goal here is to bring the same spirit of choice and empower-

ment which is now so influential in the sphere of the consumer into the sphere of the worker. For many businesses, which still remain deeply suspicious of moving away from old hierarchical models, the embracing of ideas such as task discretion, homeworking, annualised hours, sabbaticals, and self-determining business units will be deeply challenging but the benefits in terms of productivity, profits and enhanced human freedom and wellbeing could be great.

As economic policy shifts away from its current supply-side approach towards demand led analysis (as outlined above), it should become increasingly clear to policy-makers not just that greater freedom at work is good for productivity but that it also helps create new markets and innovative products. A wider variety of working practices, greater flexibility in working lives, and more choice and empowerment at work will result in a much more diverse range of consumers (both individuals and companies themselves) which will in turn drive greater diversity in the products and services provided by companies to support this variety.

For example, the business opportunities which would arise from a significant shift to homeworking and more diverse work hours amongst the UK population would be great. These could include new internet facilities, increased use of net, video and telephone conferencing, multiple software innovations and many unexpected diversification in areas such as food deliveries, home entertainment, transport, social networking and educational provision.

This recognition is analogous to the realisation in the post-war period that a genuine mass market could only be created if workers earned the necessary wages to purchase those mass market goods. This turned standard economic and business logic on its head which held that low paid workers improved profitability. The same may be true now: policy-makers and business leaders need to recognise that a workforce offered genuine choice and empowerment will create the individual and organisational diversity to take advantage of the full range of options which can be offered by many organisations new and old. In essence, a market will be created within which the most advanced business techniques can flourish. The consequent economic benefits are clear.

This potential for the wider spread and deepening of choice and empowerment is, in many ways, a deeply progressive moment. Anything which enhances the opportunity for individuals to become more self-determining and free to act on their own choices has always been at the heart of outlooks which genuinely hold liberty and human flourishing for all as a core principle. This is particularly the case if choice and empowerment can genuinely be extended beyond the realm of the consumer and into the realm of working life.

### **The risks of choice and empowerment**

However, there are also very great risks which run counter to progressive values and which will need to be guarded against. Three particular risks exist, which can only be touched on very briefly here, but if the potential benefits of greater choice and empowerment are to be truly tapped over coming years, progressive thinkers and policymakers will need to pay much closer attention to these.

The first is the risk of enhanced choice and empowerment within a context of continuing inequality of wealth and income. Unless the significant rise in inequality of the last thirty years in the UK is reversed, it seems likely that greater freedom in consumer markets, at work and in other areas such as use of leisure time and cultural activities, will be limited to those higher up the income scale. This is because the greater power enjoyed by wealthier groups in the labour market, and the greater resources that tend to accrue to them not just in material terms but also in educational and information terms, means they are in a much stronger position to demand choice and freedom and to

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access it when it is available. It is also true that wealthier individuals are more likely to do the sorts of jobs that lend themselves to choice over working practices, given that they are more likely to involve knowledge and expertise rather than more routine and manual activities.

It is vital therefore if we are not to see the emergence of what might be called the 'autonomy gap' (where the benefits of greater choice and empowerment accrue largely to the wealthier) that levels of equality rise rather than fall in coming years. This would not only be a matter of social justice but would also be an economic concern, given that inequality would place a cap on the creation of as broad a market as possible shaped by an ever-deepening diversity of choices. This must mean a re-emphasis on the distribution of wealth in the UK. The 'initiative' approach taken by New Labour – such as Sure Start and New Deal programmes – combined with extra resources for the education system appears on early evidence to have had only a limited impact on equality and social mobility (Independent Commission on Social Mobility, 2009). The truth is – backed up by a considerable evidence base (OECD, 2008) – that levels of social mobility are much higher in economies with a more even distribution of wealth.

The second risk is the invidious role that a strong emphasis on choice and empowerment can play in promoting a culture of ultra-individualism and egoism that contributes to a deterioration in the social fabric and, almost certainly, to a rise in mental illness (Wilkinson and Pickett, 2009). The existence of such a culture in the UK has been covered elsewhere (Lent, 2008). This can only be countered by the popular rediscovery of character and virtue as essential ingredients of a functioning society and economy.

One particularly fruitful avenue to explore is the concept developed by the eminent ethical philosopher, Alasdair MacIntyre, of 'acknowledged dependence' (MacIntyre, 1999). This is the notion that humans can only truly flourish when they recognise that they are entirely dependent on others throughout their lives to reach their full potential as humans. In the context of this essay (although MacIntyre may well balk at this), it means a broad popular recognition that all the enhancements in choice and empowerment that may evolve over coming years are never the result of an individuals' inherent talents but rather the result of countless others working to create the conditions for such choice and empowerment to be available. This may also mean that we all should expect others to employ their choices and use their power with a greater degree of seriousness in order to enhance their own development as a human being rather than simply as a hedonistic consumer.

The final risk relates, of course, to the environment. This essay has relied heavily on the notion that after the crash, a new era characterised by stable growth and a more benign distribution of the proceeds of that growth will follow. For some environmental economists, the assumption that the economy can continue to grow without profound and devastating ecological consequences is fundamentally wrong. For them, Perez's observations offer a profound challenge. Her analysis identifies very deep tensions and characteristics in capitalism which mean, as an economic system, it is inescapably trapped (so to speak) in processes of expansion and contraction which tend over time to favour long-term growth. For this reason, I remain sceptical about the claim that capitalism can be encouraged towards a no-growth model by the imposition of the right policy framework. In essence, this means that no growth economics is, in fact, a (unrealistic) call for economic revolution.

However, this does not mean the pressing environmental imperatives can be ignored. What we urgently need to understand is how this post-crash era offers an opportunity to create a different form of growth and wealth creation which is far, far less resource-intensive. It may be that the sort of vision outlined here offers such an opportunity. If choice and empowerment are really to become the drivers of a new economic era,

then it is not beyond the bounds of possibility that over the next two decades, the assessment of one's own and others' self-worth will gradually shift away from an emphasis on the possession of commodities and more towards an emphasis on the extent to which one's life is characterised by freedom, diversity and creativity. Keeping up with the Joneses will be less about the engine capacity of one's SUV and more about how diverse and interesting one's working life is and about the amount and the forms of enjoyment of leisure time. The extent to which this is likely and the extent to which it will lead to a genuine 'dematerialisation' of economic growth can only be understood through more detailed work.

These challenges suggest that the progressive potential of a broader and deeper choice and empowerment agenda, resulting from the full deployment of the new business paradigm, will only be achieved if policymakers recognise that that agenda needs to be shaped along certain lines rather than embraced without question.

This also poses fundamental challenges to some of the dichotomies we take for granted in progressive and wider debate. Neither of the standard ideological positions – liberal individualism nor solidaristic socialism and communitarianism – seems able to fully capture the challenges and potential of this new era. There is a risk that if we remain too wedded to this ideological dichotomy, rather than seeking the best way of combining them, we may simply miss the point of the new economic era we have entered.

The feature of human nature we should be seeking to emancipate over the next three decades is not individualism nor the social impulse *per se* but the intense human drive towards creativity and adventure. It is this, more than anything, which will embrace and create new choices in a diverse range of areas. It is this spirit that allows the new paradigm and ICT to play to its most admirable strengths. And it is this which may force us to finally accept that humans, like their inherent creativity, flourish neither when acting as individuals nor as collectives but as both in complex, interactive ways. Indeed, the real challenge of an economy built on choice and empowerment may be to allow these different sides of human nature to co-exist and interact with one another in ways determined by the people who embody that complexity rather than determined by authority whether enshrined in the state or in corporations (1).

### **Conclusion: towards the next paradigm**

It should be clear now how the revival of a progressive vision that combines greater equality with a deep diversity based on critical decision-making is well aligned with the economic and commercial imperatives of the post-crash era, just as the progressive vision of greater equality and homogenous lifestyles were well-aligned with the economic and commercial imperatives of the post-war era.

However, we cannot pretend we are creating an unchanging utopia. If Perez is right, even this seemingly radical vision will reach a point at which productivity gains begin to slow and markets become saturated. It is at that time that a new technology and associated paradigm will emerge and start the whole process over again. While the technologies may be imaginable – nano-technology, bio-technology – the connected paradigms and their wider impact are impossible to envision.

Nevertheless, creating the conditions for the new technology and paradigm to emerge and grow is vital. Initially, this may mean making innovative use of government investment but it will also mean encouraging financial capital, even at this early stage, to return to its roots in visionary venture capital. This is a challenge for the UK, where venture capital is not a strong part of investment culture (it is notable, for example, that it was US not UK investors that took the lead in the early development of the current ICT technology and paradigm and are still producing the most innovative companies in this sector). No doubt,

some rather more vigorous encouragement by the state of the large institutional investors to support venture capital funds may be part of the solution.

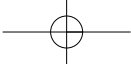
In addition, an open and adaptable commercial and socio-institutional framework will be important. Inertia and resistance to new paradigms and technologies in state, business and other structures is inevitable but there are degrees of hostility to change. It seems likely that those economies and systems which remain open to new approaches and have the capacity to encourage experimentation and change while avoiding high levels of conflict and hardship are those that will reap the economic benefits of the next surge of paradigm-shifting technology. This will require the development of policies and structures now with a bold, visionary quality that sometimes can be in limited supply in a political and commercial system that can be overly focused on the short term.

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**Notes**

1. The work of Michel Bauwens (2005, 2007) and the P2P Foundation (<http://p2pfoundation.net>) is particularly interesting in this regard.

