26

Improving Capitalism

Room to improve

There are many obvious ways in which the economic and social performance of capitalism can and must be improved. Widespread poverty; environmental degradation; the underutilization of the talents and energies of billions of people; the misuse of so many resources. The current world economy fails the true test of efficiency (namely, does it do as much as possible to improve the living standard of humanity?) in so many glaring ways, it's hard to know where to start fixing it up.

It is evident to me that many important improvements can be made to capitalism while staying within the fundamental constraints and principles (private investment, employment, profit) that drive the whole system. While capitalism's profit motive may be the root cause of many of its failures, there is no doubt that the system can be reformed – to some degree, anyway – without changing its inherent character. There may be limits to our ability to reform capitalism (that we will start to consider in the next chapter). But those limits are not binding, in most countries and on most issues, today.

In other words, there is plenty of room to improve. Just compare the differing characteristics of existing capitalist economies. Table 26.1 summarizes key economic and social indicators for the leading country from each of the four broad "varieties" of capitalism that we defined back in Chapter 3: Anglo-Saxon (US), Continental (France), Asian (Japan), and Nordic (Sweden). All these countries are capitalist. All depend on the continuing willingness of private businesses to invest in economic activity in search of profit. But clearly, some economies do much better than others in moderating the worst effects of capitalism, and achieving more desirable human and social outcomes. The US demonstrates the highest level of GDP per capita – although this is mostly due to longer hours of work, not higher productivity (productivity per hour in the US, France, and Sweden is about the same). But the US reports much higher levels of poverty, inequality, pollution, and incarceration than the others.

Table 26.1 **Take Your Pick: Performance of Selected Capitalist Countries**

Indicator	*US*	*France*	*Japan*	*Sweden*
GDP per capita (US$, 2006)	$41,890	$30,386	$31,267	$32,525
Productivity per hour of work (US$, 2006)	$50.4	$49.9	$35.6	$44.7
Productivity growth (avg. % per year, 1996–2005)	2.1%	1.0%	1.4%	2.2%
Standardized unemployment rate (2006)	4.6%	9.2%	4.1%	7.0%
Poverty rate (% of population under half of median income, 2000–04)	17.0%	7.3%	11.8%	6.5%
Inequality (ratio of incomes of top 10% to bottom 10%)	15.9	9.1	4.5	6.2
Carbon dioxide emissions per capita (tons, 2004)	20.6	6.0	9.9	5.9
Government program spending as share of GDP (2005)	34.6%	51.4%	35.7%	56.7%
Health system	Mostly private	Mostly public	Private and public	Mostly public
Life expectancy at birth (years, 2005)	77.9	80.2	82.3	80.5
Infant mortality per 1,000 births (2005)	6	4	3	3
Incarceration rate per 1,000 people (2005)	750	85	61	79
Development aid (% gross national income, 2005)	0.22%	0.47%	0.28%	0.94%
Rank, UN Human Development Index	12	10	8	6

Sources: United Nations Development Program; Organization for Economic Cooperation and Development; International Centre for Prison Studies.

Fighting to make our respective countries more like the Nordic variant of capitalism and less like the Anglo-Saxon version (which demonstrates the worst social and environmental performance of any of these broad varieties) is a deserving and fitting challenge that rightfully deserves our first attention. Whether those improvements to capitalism end up being sufficient, in the long run, to justify its continued existence is another question (one we should think about as we go along). But in the interim, there is much to be done to alleviate suffering and injustice – right here, right now.

The reformer's shopping list

By now, every reader of this book should be able to develop their own "shopping list" of key improvements that would make the economy more humane, stable, and environmentally sustainable:

1. Improving wages, benefits, and working conditions – especially for the lowest-paid workers. Unions are crucial here.
2. Expanding overall economic activity to take up the slack currently represented by large numbers of unemployed and underemployed workers.
3. Taking targeted measures to improve the sectoral make-up of the economy, and enhancing the presence of higher-technology, higher-productivity industries. In developing countries, this is wrapped up with the broader challenge of successfully fostering all-round economic development.
4. Regulating and stabilizing financial flows, and reducing the extent to which the economy is vulnerable to financial crises.
5. Providing transfer payments to moderate inequality between rich and poor, and between gender and racial groups; and providing better economic security for people at various stages of their lives (including childhood, retirement, and periods of unemployment, ill health, or disability).
6. Providing high-quality, accessible public services to supply health care, education, and other key human services, supplementing the standard of living that can be purchased through private consumption.
7. Pushing businesses to reduce the environmental costs of their operations, and investing in environmental protection and conservation.
8. Reforming governance of the global economy, to reduce large trade imbalances, stabilize financial flows, reinforce the ability of national governments to regulate their economies in the public interest, and enhance development opportunities for poor countries.

These are eight very big changes that would, if successfully attained, dramatically enhance the human and environmental performance of capitalism.

Determined, worldwide campaigns by trade unions and social justice movements are pressing hard for change on each one of these items. And to varying degrees, reformist SOCIAL-DEMOCRATIC political parties have used this shopping list (or portions of it) as a political platform. (Unfortunately, simply electing these parties never guarantees that promised changes will occur, thanks to the continuing power of business to influence government actions; unions and movements need to force governments, even social-democratic ones, to meet their demands for progressive change.)

As we discussed in Chapter 19, governments possess a whole toolbox of policies (laws and regulations; spending and taxing power; control over interest rates and financial policies; and, when needed, the ability to step right in and do the job directly through government production). The attainment of any one of the major goals listed above would require the application of several policy measures. But as we also discussed in Chapter 19, the *political* challenge of forcing governments to use these tools in the interests of working and poor people (rather than listening only to investors and businesses) is more daunting than the more technical *policy* challenge of how to actually get the job done.

Footing the bill

The world's wealthy have made tremendous economic and political gains in the quarter-century since neoliberalism took hold. They have notably increased their share of the economic pie. They have changed the rules of the economic game – enhancing their own freedom and security, and turning back most challenges from governments, unions, and communities. They have consolidated their influence over politics and culture. Perhaps most importantly, they have succeeded in lowering mass expectations, convincing most working and poor people that their insecurity, inequality, and exploitation are inevitable facts of life (rather than injustices to be opposed and redressed).

On one hand, this constitutes a rather pessimistic scenario: efforts to reform capitalism confront the power of a well-entrenched, successful elite. But there's another way of viewing this situation. As a result of their own success, businesses have more ability to pay for the reforms we are demanding of them, than at any time in recent decades. Their pockets, in other words, are very deep.

Every trade unionist knows that an employer's ability to pay is a critical determinant of success in collective bargaining. Any company rolling in profits is far more likely grudgingly to offer a wage increase than one racking up major losses. The same logic applies at the social level, too. It is easier to demand and win broader economic and social gains when the overall system is profitable, growing, and relatively stable (although, as we have seen, capitalism is never truly stable).

Profit rates have rebounded in most developed countries to postwar highs.[*] As a share of GDP, business profits are at or near record levels in the US, Canada, Australia, and many other developed economies. Employers clearly have the capacity to improve wages, benefits, time off, and working conditions, without unduly harming their profitability or dominance. They can equally afford to invest in environmental protection – indeed, under certain conditions, those investments could reinforce growth and productivity.

And it's not just businesses which have the resources to meet demands for progressive reforms. In most countries, governments, too, enjoy vastly improved fiscal situations. Across the OECD, average government deficits in 2006 equalled just 2 percent of GDP – less than half as large as in the early 1990s, and low enough to reduce the debt burden and government interest costs (measured as a share of GDP). Many countries (including Canada, Australia, and the Nordic region) enjoy significant government surpluses. Invoking simple-minded fear of deficits or taxes to turn back demands for social programs and public investment is less convincing, and hence less politically effective, than in past years when deficits were large. The one developed capitalist country facing a more serious fiscal constraint is the US – the deliberate result of lopsided reductions in business and investment taxes by a right-wing government. There, more immediately than in other countries, demands for enhanced public services will need to be accompanied by proposals to raise tax revenues.

In sum, businesses and governments constitute the two major seats of power to which our shopping list of economic and social reforms must be presented. And both enjoy a stronger financial situation than they have experienced for decades. This is a silver lining in what is otherwise a dark neoliberal cloud: precisely because it has taken so much from working and poor people, neoliberalism is now in a very

* See the Economics for Everyone website for statistics, www.economicsfor everyone.com.

healthy position to give something back. This can only whet the appetite of workers and citizens for concrete, incremental gains.

One vision: a high-investment, sustainable economy

The economy needs to be reformed. The government has the tools to do it. And both government and business at present have ample resources to pay for key improvements. So far, it looks like a "no-brainer." All we need to do is motivate and organize enough people to demand the change we need, and then go out and win it.

There is a drawback, however, to pursuing a shopping list of needed reforms, one item at a time, backed by compelling moral claims and economic evidence on each issue. As we have learned, capitalism is based on a certain logic: profit-seeking private investment sets economic resources into motion, creates jobs, and generates incomes. If our goal is to improve human and environmental conditions within the framework of capitalism, then we need to keep one eye on the vitality of that underlying economic engine: investment. And even if our goal is to ultimately move beyond capitalism, understanding how business investment works will help us to better identify the limits to reform, and the specific ways in which the logic of a profit-driven economic system needs to be changed.

It may therefore be more convincing to assemble our "shopping list" into a more holistic package – one which directly addresses the challenge of the underlying dynamism of investment that is so essential to overall economic activity. In addition to demanding policies which enhance social and environmental well-being (the traditional staples of the reformist vision), we must also therefore propose measures to strengthen and stimulate investment spending (including public and non-profit investment). This will help to offset any negative effects of our reforms (such as our labour market reforms, which would clearly increase unit labour costs for employers and hence undermine profits and potentially investment) on traditional, profit-led channels of investment. And measures to boost investment will generate additional incomes (including tax revenues) that will help to fund our progressive social and environmental reforms. Pairing demands for progressive labour, social, and environmental measures with a strategy to tackle the core challenge of the capitalist economy – namely, investment – produces a more well-rounded and convincing strategy for reform.

Ironically, as we saw in earlier chapters, neoliberalism itself has not done well at stimulating investment spending, despite the painful, business-friendly measures implemented since the early 1980s. In reality, the neoliberal strategy was more concerned with redistributing the pie (in favour of business) than growing it. So there is a tremendous opportunity now to challenge the neoliberal vision of gritty, hard-nosed, highly unequal capitalism with a complete but internally consistent alternative – one that aims both to grow the pie (by investing more than neoliberalism) and to distribute it more fairly. The economic credibility of the current regime can thus be challenged on its own turf, with an agenda that reaches into the core of capitalism – the investment process – rather than limiting itself to smoothing some of the system's rougher edges. This alternative vision still depends on private investment, and takes seriously the need to keep that investment coming. It combines progressive redistributive reforms with stimulative, pro-investment policies to boost investment spending despite other changes in the package which capitalists will undoubtedly find unappealing.

Table 26.2 summarizes the major elements of this alternative vision, which I call a *high-investment, sustainable economy*. The term "high investment" highlights the importance of maintaining strong investment levels to overall economic performance. (This term was also used by Ken Livingstone, the left-wing Mayor of London, to describe some of his government's proposals to revitalize that city with large injections of private and public investment.) Our goal will be to achieve higher investment rates (with total non-residential capital spending reaching 20 percent or more of GDP) than are commonly attained under neoliberalism – but with more oversight and care in directing that investment to the most appropriate, beneficial uses. Meanwhile, the term "sustainable" highlights the necessity of managing and directing strong investment in ways which respect environmental constraints, and focus on enhancing the quality of output more than the quantity.

Private business investment spending remains at the core of the economic strategy. Aggressive measures are taken to support real business capital spending, including highly favourable tax treatment of profits which are reinvested in new capital (rather than paid out to shareholders). Other supports for business investment could include targeted fiscal policies (like an investment tax credit, tied to new capital spending), and proactive, sector-specific industrial and trade

Table 26.2 A High-Investment Sustainable Economy

Investment Measures:	
Business	• Spur private business spending on real capital equipment with tax measures, subsidies, and other policies. • Use targeted measures to support investment spending in high-value industries.
Innovation	• Encourage more business R&D spending. • Use public institutions (universities, research centres) to supplement and partner with private R&D spending. • Develop business–government programs for prototypes and commercialization of new technology.
Public	• Substantially increase public investment in infrastructure and public service facilities.
Human	• Expand public spending on education at all levels (including pre-school). • Require employers to meet targeted spending levels for on-the-job training. • Expand measures to improve lifelong learning and retraining opportunities for workers of all ages.
Environmental	• Spur private investment in environmentally advanced capital equipment. • Establish very high environmental standards for new construction (private and public). • Expand public investment in environmental protection and amelioration.
Overall Goal	• Increase non-residential capital investment spending to at least 20% of GDP, supplemented by improved education and training.
Other Supportive Measures:	
Monetary Policy	• Guide overall economy to very low unemployment, to maintain pressure on employers to upgrade work and incomes.
Labour and Social Policy	• Expand unionization and collective bargaining. • Improve labour standards and protections (minimum wages, health and safety laws, limits on working time, protections for precarious workers). • Work to improve pay, conditions, and productivity in low-income non-tradeable sectors (such as private services). • Expand active labour supports to assist job-seekers with training, mobility, and job retention. • Expand social and family programs to maximize labour force participation by women (child care, elder care, time off for family reasons). • Centrally or sectorally negotiate wages to seek stable growth of real wages in line with productivity.
Fiscal Policy	• Run moderate annual deficits (including paying for public capital projects). • Keep public debt within 50–75 percent of GDP.
Tax Policy	• Reform business taxes to reward real investment spending, and discourage dividend payouts. • Eliminate favourable tax treatment for financial investments. • Rely on progressive personal income taxes, and other broad taxes, to fund public programs.
Trade Policy	• Manage international trade flows to ensure a healthy share of domestic production in high-value sectors. • Oversee incoming foreign direct investment to maximize domestic technology and job spin-offs.
Financial Markets	• Regulate finance to prevent irresponsible practices, stabilize credit creation. • Eliminate tax measures and transfer programs which favour or subsidize the financial industry. • Establish public or non-profit financial institutions with capacity to expand or curtail lending power as needed.

policies to boost key sectors. But public investment plays an increasing role in setting economic resources in motion, too. An emphasis on innovation and new technology, in both private and public investment, is important; public institutions can spur pure and applied research and commercialization (sometimes in partnership with business). More spending on education, skills, and training is also needed to allow the economy to make the most of its growing stock of physical capital and its evolving technology. Throughout this ambitious pro-investment program, special emphasis is placed on environmental investments: including energy-saving capital equipment, super-efficient construction and building improvements, and public investment in environmental clean-up and conservation.

A network of supporting policies then aims to make the most of those strong injections of investment in the interests of better distributional, environmental, and trade outcomes. These include measures to improve conditions in labour markets (through collective bargaining and labour standards), manage global flows of both products and investment, and limit the risks resulting from financial instability.

This proposed high-investment, sustainable economy includes several elements reminiscent of the Nordic version of capitalism – such as intensive public spending on education, health, and labour force mobility; generous redistributive programs, financed through personal taxes; generally low business taxes; and an overarching focus on R&D and innovation. Aspects of the model also reflect the successful experience of Asian industrialization – including important roles for proactive industrial policies supporting targeted industries, and active efforts to manage foreign trade and investment flows.

This proposal, then, is not utopian or untried: all its major elements are readily visible in the real-world experience of countries which have been relatively successful at meeting social and environmental needs – while still respecting the imperative of private businesses to make a profit on their investments. For readers in the Anglo-Saxon world, this approach should be especially useful as a well-rounded, internally consistent alternative to the more extreme, unequal incarnation of capitalism which is experienced in the US, Canada, the UK, and Australia.