

**The challenge of the economic crisis. Is the capitalist model
the right way?
(Provocarea crizei economice. Modelul capitalist este calea
cea bună?)**

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Abstract. *The current crisis is not seen as a temporary event but an extended period characterized by deep structural adjustments and changes in the economic system.*

This circumstance demonstrates the relative inability of the Anglo-American model to provide tools, rules and ethical values able to act as a corrective of the “pro-crisis” evolution.

Among the EU countries, Germany has both continued to adopt the Anglo-American approach and empowered alternative forms of protection by converting its strengths into a more domestic flexibility in the State intervention. These adjustments were possible thanks to a typical consultation mode experienced by the German evolutionary approach, based on a strong collaboration between firms, trade unions and policy makers as actors, and supported by a body of rules, educational system and flexible State organization. Conversely, the BRICS capitalist system, although characterized by wide differences and followers in the early stage of the capitalism experienced in America and Europe, are the most performing countries during the current crisis. The ancient countries governed by Anglo-American or Euro-German capitalist models need to be connected with the “new” capitalistic economies like BRICS; conversely, these countries need to refer to the first group in order to get a wider market for their products as well as source of innovation.

Keywords: *Capitalism, crisis, EU, Anglo-American model, BRICS.*

Introduction

Many economists look at the Great Depression to catch experiences useful to get out of the

current crisis. In the '30s, J.M. Keynes found the solution through the governance of the economic system by transferring market functions to the State in order to

mitigate the free market failures. At the same time, the agreements between big capitalist economies which constituted the "globality" (Bretton Woods, etc.) ensured the preservation of the capitalism model.

The current crisis hit many continental economies in a very delicate phase of their building, in which many factors are making more prolonged the connected effects: European Union is blocked into its institutional construction, Cina and Russia engaged in their transition towards the market as well as India and South Africa in their strong effort direct to find better balanced social assets.

What distinguish the crisis of 1929 from the current one? First of all the depth and then the involvement of systems that seem apparently strong, although they suddenly reveal themselves unarmed.

However, some characteristics that permit us to differentiate the 1929 and the current experiences exist: first of all, economic systems are no longer national but continental; secondly, no economic system is strong enough to feel protected from contamination; third, the financialization of the economy has never been so ungovernable as nowadays: finally, the government form of the economy.

Despite of all the models may refer to the market capitalism structure, they show different characteristics and effects on social structure of single countries.

In light of these considerations, we can say that the economy has not boundaries, as well as enterprises. This fact could lead us to a new world economic order, such as the Bretton Woods.

It would provide models of governance that, although according to the rules of market capitalism, they distinguish with each other especially as regards the establishment of the market, the role of the State, the kind of policies and instruments to be adopted and the degree of economic opening.

The Anglo-American, Euro-German and some Asian models represent the most significant cases of management capitalism models that have proven to be highly diversified, although characterized by common rules and procedures.

The aim of this paper is to discuss on the distinctive features of these models trying to understand how the past dynamics and policy choices have affected them in the light of the imminent great efforts that EU and other Governments will be called to account.

The Anglo-American capitalist model: decline or "pit stop"?

The Anglo-American model was born in England in the 18th century and patterned after the classical liberal ideas of A. Smith. Historically it operates with broader principles and based on the supremacy of the market as economy regulator that for years has

been recognized the “prototype” of the capitalism.

After the Great Depression and till the last 60s, the emphasis shifted from preserving full employment and a high level of demand to a new model focused on economic growth¹; in ‘70s, this strategy effectively raised the capital controls, that had been introduced in 1944 under the Bretton Woods Agreement in response to its deficit since before World War One.

The return to economic liberalism in Anglo-American countries was strongly influenced by the political and economic debate of the 70s and early 80s, following the fall of Bretton Woods; so, several restrictions with regard to international capital movements and exchange rates were abolished.

In the UK and USA, the 80s introduced the liberal political in the economic agenda. More specifically, in the UK industries were privatized² while in US economic system some industrial activities renovated³, because American and English public opinion believed that protectionism would only create inefficiency and economic disadvantages⁴.

The apparent return to economic wealth during the 80s stimulated trust for free market theory and policy: both the US and UK displayed high levels debt and the consequent effect was that in both countries a significant shift in relative power occurred; in fact, the private sector – first of all finance-

empowered its control on the economy.

Anyway, the most of practitioners agreed that the growing financialization is one of the main source that triggered the current crisis; in fact, if the global financial crisis was due to the market capitalism, countries like Australia and Canada and others as well should have been vulnerable to the same extent. Moreover, the disequilibria were present everywhere at different levels.

However, during the past three decades Anglo-American governments rejected the State intervention on specific economic sectors. Under this paradigm, the free market was the main tool to support investment, industrial development and economic growth able to reach full employment and a state regulation.

So, although the US had the huge advantage to being able to embody the main characteristics of a capitalist model, its system demonstrated to be exposed to different shocks.

The Euro-German capitalist model: is it the best yet?

The European capitalism model is patterned after the economic principles from the 19th century in France and Germany and based on a wide state intervention in economic activity. Among the main countries, the best interpreters of the Keynes theory were first of all France and Germany.

During the first stage of the present recession, the most of EU countries continued to adopt the market capitalist model as they considered the crisis as a temporary event. Among these countries, Germany showed a different approach confirming its historical and strong socio-economic organization.

The pillars of the German model are those managing the economy and the welfare state to moderate the market running impact at social level and based on ethic and cultural approaches: since 50s Germany has introduced an articulated package of industrial policies operating both at the national and regional levels as well as severe labour regulations even if they were partially counterbalanced by a set of measures aimed at providing companies with highly skilled labour force and to the functional flexibility of workers and their adaptability to technological change. Within this framework, the German government charged itself of costs of public R&D infrastructure aimed at reducing the gap between basic science and base industrial research, in order to balance capitalists needs and social expectations as well.

This mix was also complemented by a network of sectoral and local associations, focused on technology transfer and training. Following the reunification, industrial policy measures in East Germany focused on the creation and development of SMEs, infrastructural investments, and the privatization and rationali-

zation of state owned enterprises. At the same time, the West Germany industrial policy remained focused on large medium-size companies and their innovative process⁵.

Still now the Germany industrial policy and welfare state are one of the most rationale in Europe⁶. Anyway, the first is coherently included within the welfare state policies, so that, despite the preservation of the basic policy framework⁷, nowadays almost half the public procurement spending is devoted to innovation⁸, environmental sustainability, energy efficiency and energy that represent the main social expectations⁹.

Then, despite the current crisis, Germany has both continued to adopt the Anglo-American approach and, at the same time, empowered alternative forms of protection, by converting its strenghts into a more domestic flexibility in the State intervention¹⁰: this mix defines the special nature of German capitalist model.

These adjustments were possible thanks to a typical consultation mode experienced by the German evolutionary approach, based on a strong collaboration between firms, trade unions and policy makers as actors, and supported by a body of rules and very flexible State organization¹¹. In this sense, the mix among pre-competitive research, technological priorities, hard science and welfare needs are coherently harmonized in terms of rules and detailed control procedures

of high skilled human resources coming from a well organized educational system and “*on the job training*”¹².

In this framework, trade unions and entrepreneurs accepted the guideline of the government and the government provided more jobs protection and allocated resources towards more performing sectors. These actions were facilitated by the widespread perception of the superiority of the national interest, public institutions and community and thanks to the deep need of coherent policy choices.

This model, although partially *market oriented*, allowed to preserve and enforce the production system and labour market and reducing unemployment even in a situation of crisis by an elaborate arrangement of working time flexibility and flexible wages remuneration within collective and common agreements. This fact contributed to save jobs that are crucial for high productive and innovation firms. So, it should not be surprising that at the base of “flexibility” there’s an industrial policy able to convert the uncertainty of the flexibility into a strenght point. In fact, Germany has not dismantled its production base because it has understood that the most developed countries and the most performing economic activities could generate added job opportunities by preserving the welfare system and a manufacturing production strongly oriented to innovation.

In addition, capitalism in Germany is found on its institutions such as educational system. German industries have increased because the country has led its workforce to succeed in several industries, allowing local and regional entrepreneurs to develop new industries and consumers to satisfy their needs within the technology industries also at global level.

Although with this strong asset, Germany cannot be sure of its economic performance and social stability and welfare, because of the increasing connection among national/continental economic systems and the capacity of contamination by globalization.

The BRICS capitalism: may be the future system?

The BRICS capitalist system cannot be considered as a new model because these countries are either characterized by wide differences and followers of the early stage capitalism experienced in America as well as in Europe.

Anyway, they are the most performing countries during the current crisis, likely because of their relative poor financialization, unsatisfied needs, low cost of production factors and almost free technological transfer¹³.

These are just the elements that characterized American and European countries at their early stage of development. Conversely, the BRICS are generally continental

economies in terms of population and territory and are governed by oligarchies.

However, the recent success reached by BRICS has quickly aroused scientific interest, because within a short time they grew their wealth up to eight times the original value.

Is this really a success model? We think that cannot be that so: shortly or later the deep differences created by BRICS' performance in terms of wideness and wealth shall reverse against the richest classes of population because of the unequal distribution of added value.

In addition, the poorest classes of population are not assisted by a welfare state system and cannot access to basic human needs, like health, nutrition, education, housing, etc.; then, they have very low capabilities.

The above listed elements define this capitalism model as a "proto-capitalism", suitable for the hot-spot economic growth and absolutely incomparable to the modern capitalism model.

Consequently, the BRICS cannot play a key role within the globalized economy without introducing deep adjustments as well as structural transformations inside their capitalism asset.

Conclusions

Economic development is a process based on continuous technological innovation, industrial

upgrading and structural changes. Nowadays, many countries are able to produce low cost and high quality goods; at the same time, there's need a strong demand for new technologies to be converted into new goods by the improvement of the efficiency of industry.

The economic crisis contributed to mitigate the ideological diatribe between the supporters of free market and the followers of the state intervention as governors of economy.

Nowadays this debate focuses on the working of the market in order to ensure that all people can satisfy their basic human needs (health, nutrition, education, housing, etc.) and how the State can mitigate the impact of the crisis that does not look like a temporary event.

In fact, the current crisis is producing structural adjustments within the socio-economic system and cultural changes as regards the economy governance.

First of all, the ancient countries governed by Anglo-American or Euro-German capitalist models need to be connected with the "new" capitalistic economies like BRICS; conversely, these countries need to refer to the first group in order to get a wider market for their products as well as source of innovation.

The main issue is that the ethic is getting more and more important within a possible regulatory framework. At the same time, we must recognize that we are going towards a global governance of the

economy; so it is needful to adopt common rules, widespread values and the market must be supported by a top level regulator, like the State.

Concluding, the crisis is suggesting us that the capitalist

model is the right way for governing the global economy both at national and continental level provided that capitalism is supported by shared values and common rules.

Notes

- ¹ Ross Levine, David Renelt, “A Sensitivity Analysis of Cross-Country Growth Regressions”, *American Economic Review*, vol. 82, No. 4, 1992, pp. 942-963.
- ² Robert Skidelsky, *Thatcherism*, Blackwell Publisher, Oxford, 2009, pp. 200-212.
- ³ Michael Boskin, *Reagan and the Economy: the Success, Failures and Unfinished Agenda*, International Center for Economic Growth, San Francisco, pp. 180-190, 1987.
- ⁴ Michael Kitson, Jeremy Howells, Richard Braham, Stian Westlake, *The Connected University Driving Recovery and Growth in the UK Economy*, Research report, NESTA, London, pp. 20-32, 2009.
- ⁵ Bernd Venohr, Klaus E.Meyer, *The German Miracle Keeps Running: How Germany’s Hidden Champions Stay Ahead in the Global Economy*, Working Paper No. 30, FHW Berlin, pp. 1-25, 2007.
- ⁶ Helmuth Karl, Antje Möller, Rüdiger Wink, *Regional Industrial Policy in Germany*, Working Paper 9, Ceris-Cnr, Roma, p. 6, 2003.
- ⁷ Ådne Cappelen, Arvid Raknerud, Marina Rybalka, “The Effects of R&D Tax Credits on Patenting and Innovations”, *Research Policy*, vol. 41, No. 2, pp. 334-345, 2012.
- ⁸ Philippe Aghion, Mathias Dewatripont, Liqun Du, Ann Harrison, Patrick Legros, *Industrial Policy and Competition*, NBER Working Paper 18048, p. 4, 2012.
- ⁹ OECD, *Perspectives on Global Development 2013: Industrial Policies in a Changing World: Shifting up a Gear*, OECD, Paris, p. 28, 2013.
- ¹⁰ Lothar Funk, “Social Market Economy at Sixty: Path Dependence and Path Changes”, in *Sixty Years of Social Market Economy: Formation, Development and Perspectives of a Peacemaking Formula*, Christian L. Glossner, David Gregosz, Konrad-Adenauer-Stiftung (eds.), Sankt Augustin, Berlin, 2010, pp. 85-103.
- ¹¹ Michael C. Burda, Jennifer Hunt, *What Explains the German Labor Market Miracle in the Great Recession?* IZA Discussion Paper, No. 5800, Institut Zukunft der Arbeit, Bonn, 2011, pp. 4-5.
- ¹² Patrizio Bianchi, Sandrine Labory, “Economic Crisis and Industrial Policy in the Union: the Need for a Long-Term Vision of Industrial Development”, in *Europe and the Financial Crisis*, Pompeo Della Posta, Leila Simona Talani, (eds.), Palgrave Macmillan, Basingstoke, Chapter 6, 2011, pp. 107-124.

¹³ Byasdeb Dasgupta, *Financialization, Labour Market Flexibility, Global Crisis and New Imperialism- A*

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