Impact of Social Policy on Stability in Capitalism

Yazid Suleiman
Istanbul Commerce University, Turkey
Email: yazid.suleiman@istanbulitc.com

Abstract

In this paper, we seek to show the critical importance of strong, stable and sustainable social policy in building a durable model of capitalism. We show that lack of ‘genuine’ social policy is the key reason for the repeated failure of, and lack of resilience in, modern financial capitalism. The fragility of modern capitalist economies, like the US and UK, is a direct consequence of the ‘invented’ welfare model applied in these countries. On the other hand, market economies consisting mainly of developing countries show remarkable resilience and robustness in the face of the many crises that sent the ‘more’ liberal economies spiraling down into the abyss. We present alternative solutions and frameworks that will build strong pillars that can sustain and support both the economy and society.

Keywords: Capitalism; Social Policy; Democracy; Economic Theories

JEL Classification Codes: I38; P10; P16
1. Introduction

Most schools of economic thought accept the contradictions and instabilities inherent in capitalism as divine. Several of these contradictions have been analyzed in detail by David Harvey and Karl Marx. Capitalism is a self-propelling and vicious system that does not seek stability or equilibrium but instead looks to continuously extract more growth, efficiency, and productivity at all costs - mainly social and political costs. It gives little room for social justice or political stability. As an economic system, it is not one that seeks to arrive at equilibrium or a stable position. Every phase of growth and expansion in capitalism fuels the next crisis and the severity of the crisis is in direct proportion to the speed and intensity of the growth and development. As Streeck (2011) indicates that crisis is a manifestation of a basic underlying tension in the political-economic configuration of advanced-capitalist societies; a tension which makes disequilibrium and instability the rule rather than the exception, and which has found expression in a historical succession of disturbances within the socio-economic order.

Stagnation, a decrease in growth or the erection or presence of any form of barrier to the expansion of capital at any point in time, for any reasonable amount of time, create a crisis that ripples throughout the entire economic, social and political spheres of society. Stagnation, a period of little or no growth in the economy but relative stability and absence of violent fluctuations, could be thought of as a quasi-equilibrium state - the final evolution of capitalism where the economy and society have reached their final evolutionary state of universal uniformity. But such stagnation causes violent fluctuations in the capitalist economy and society at large because of the constant imperative of capital to expand temporally and spatially. According to Kotz (2009), effectively an institutional form of capitalism, or social structure of accumulation (SSA), may for a time promote high profits and economic expansion, eventually the contradictions of that form of capitalism undermine its continuing operation, leading to a systemic crisis, meaning that the crisis can be resolved only through a significant restructuring of the system. The 1970s in the United States (U.S.) is one such example. According to Streeck (2011), “this period of uninterrupted economic growth still dominates our ideas and expectations of what modern capitalism is or could and should be. In the light of the turbulence that followed, the quarter century immediately after the war should be recognized as truly exceptional.” The stability caused by discipline instilled into corporations by strong unions, antitrust legislation and tight financial regulation after World War II reigned in the economy by balancing power amongst the critical pillars of society - government, business, civil society(unions). This power balance resulted in social harmony and cohesion, which is a direct consequence of an even redistribution of prosperity in society – redistribution was used because this model is unsustainable given the market itself is restrained.

Japan is a case in point of social cohesion combined with economic development. In Japan, industrialization is built into the fabric of society and molded around its history and culture. The longevity of Japanese culture marks a fundamental truth about industrialization in Japan - it did not entail, as in some countries in continental Europe, a break from its social order. In other words, Japan adapted capitalism to its history and culture rather than vice versa. The Japanese economy
has been stagnant for over two decades since the bursting of the bubble in 1989. There is a quasi-balance of power amongst the forces in Japan although this balance has been maintained through social and cultural norms, not legal authority. The concept of *wa* - harmony - as a value in Japanese life militates against the top-down hierarchy created to adapt to capitalist imperative. In Japan, the state does not sever itself from society. Instead, it is the agent via which all the pillars of society relate and negotiate *wa* (Gray, 2000). For instance, labor and union power in Japan exert considerable influence in corporate matters, even having representation on boards. This power is accepted as a cultural norm. Arbitrary firing and downsizing are widely frowned upon in Japan even though no legislation prohibits explicitly that. Permanent employment is also another characteristic of Japanese capitalism, which also no law or legislation prohibit but is the accepted norm. Japan can rightfully be said to be more technologically advanced, socially more cohesive, culturally and economically more prosperous and stable than most western countries. It acquired all these hallmarks of modernity without westernizing or destroying its cultural and social structures. The fluctuations in the Japanese economy occur mainly because of its tight connectedness to other less stable economies chiefly the U.S. and the United Kingdom (UK). What would happen in the US or UK if the stock market lost 70% of its value like Japan in the 90s?

Britain and the US have remarkably more capitalistic laws and policies that are meant to spur growth and engender an infinitely growing economy. Post-1970s, both countries, under Thatcher and Reagan, have dismantled the instruments put in place to ensure a balance of power amongst economic factors to spur growth. The reason, understandably valid though, was the squeeze put on profits by excessive union wage demands. But the response from the government and corporations unleashed a wrecking ball on the unions and bludgeoned them out of existence. The result was a total transfer of bargaining power and rights to corporate hands. The reason ostensibly was unreasonable unions, now that they are out of the way the corporations have driven wage as low as humanly possible to squeeze out more profit. This profit creates a massive surplus and drives productivity upwards, but then the problem of surplus realization surfaces since consumers don’t earn enough to purchase the entire surplus. As Kotz (2009) indicates, the neoliberal institutions rendered workers’ bargaining power so weak that there was no risk that wages would rise to squeeze profits, making possible long expansions without either a profit squeeze or rising inflation. However, while profits were growing faster than wages may be useful for the creation of surplus value, it gives rise to a problem in the realization of surplus value. (Kotz, 2009). This led to the creation of the debt market and the need for financial innovation in the capital markets, which is the primary cause of the 2008 financial crisis.

These regimes also dismantled the ‘genuine’ social security system that kept the fabric of society together. ‘Genuine’ social security here refers to a bona fide social security that ensures proper and affordable education, healthcare, pension and other necessities needed for social reproduction. Superior social services are designed to keep wages down via welfare, empower corporate interests via dubious healthcare, insurance, and pension policies. This was achieved through massive privatization of social services and cuts to public services. Privatization caused unparalleled damage by changing the imperative of public services from helping people to profit-seeking, which upends the entire process (Jones, 2015). In the UK, an example is the wholesale
disposal of NHS facilities, the sale of original NHS buildings and the construction of new hospitals on city outskirts to generate more money and to cut personnel numbers in those hospitals to lower costs (Peedell, 2011; Pollock, 2004).

The dismantling of these structures in the US and UK had a ripple effect across the world by forcing other countries to lower their social standard to compete with the US and UK - it initiated a race to the bottom in social services. Countries that do not keep up lose investments and employment as companies threaten to move to countries that give more room to squeeze profit out of society.

This paper contributes to existing literature and the active and lively discussion on the trend of the current system. This paper provides by dispelling the notion that the current system is ‘liberal’ or neoliberal, how the crisis is to be blamed on the principles of free markets, and how treasonous government intervention and meddling in the economy is the leading cause of crisis by disabling natural market principles of freedom and liberty.

This paper is divided into the following sections. Section 2 examines Democracy and Capitalism, studies the relationship between democracy and capitalism and the effects and balance of power. Section 3 explains the Social Policy in Capitalism, studies conventional policy instruments and methods of social policy and the results. Section 4 introduces the Stability and Social Policy, explores the relationship between stability and social policy, and also analyzes their findings in the context of the current system. Section 5 provides the Analysis of Neoliberal Economics, studies the current economic system in depth and analyzes its results. Section 6 is the analysis of Bottom-Up Economics, explores the reverse case of the Neoliberal system and discusses the strengths such a system will derive via sustainable social policy. Section 6 concludes the paper.

2. Democracy and Capitalism

Capitalism needs democracy, or at least an illusion of freedom, to exist and perpetuate. The relationship between capitalism and democracy is one that can be termed ‘mining.’ The elites always have expressed fears that majority rule, inevitably implying the rule of the poor over the rich, would ultimately do away with private property and free markets (Streeck, 2011). Meanwhile the poor warned that capitalists might ally themselves with the forces of reaction to abolish democracy, to protect them from being governed by a permanent majority dedicated to economic and social redistribution. History suggests that, at least in the industrialized world, the Left had more reason to fear the Right overthrowing democracy, to save capitalism, than the Right had to fear the Left abolishing capitalism for the sake of democracy (Streeck, 2011).

Capitalism mines the most precious resource of democracy, people, for profit. In an ideal democracy, the government will put the interest of society first and foremost even if that means restraining business to some extent. The main problem in democracy has always been the fact that economic and political elites expressed fears on the destruction of free markets and private property in a majority rule, inevitably by the poor, to redistribute prosperity. On the other hand,
the underclass and working-class fear that the elites will destroy democracy to protect their wealth and privileges. Capitalism cannot exist without a healthy state that guarantees the protection of markets and property rights constitution; regulatory authorities and institutions’ (Streeck, 2011). A quick look around the world today can confirm that: the most capitalist societies are also the most intrusive and repressive – Edward Snowden, NSA, GCHQ. Capitalists need a flexible system of government. The government should be one in which societal interests can be overridden by capitalist resources and the government brought onside. Corporations pushed for the legitimization of lobbying as the standard tool for them to expresses their wishes given that corporations cannot vote.

![Figure 1. Number of Lobbyists and Dollar Amount Spent on Lobbying](https://www.opensecrets.org/lobby)

**Figure 1. Number of Lobbyists and Dollar Amount Spent on Lobbying**

Source: The Center for Responsive Politics based on data from the Senate Office of Public Records. Data for the most recent year was downloaded on February 28, 2018. https://www.opensecrets.org/lobby

Note: * represents the number of unique, registered lobbyists who have actively lobbied.
3. Social Policy in Capitalism

Policies, in general, have become a tool to advance the economic and profit-seeking interests of corporations and shield the elite and their wealth. It is taken as gospel nowadays, that what is suitable for corporations is good for society in general. This is based on the logic of Trickle Down Economics (Aghion and Bolton, 1997). But this is a sorely mistaken if charitable, assumption. First, the corporations do not consider employees, or society, as stakeholders in any prosperity they achieve - financial or otherwise. The only stakeholders in the success are the executives and shareholders - executive salaries skyrocket, rising from 42 times the pay of an average worker in 1982 to 347 times in 2016 (AFL-CIO, 2018; Kotz, 2009). The dynamics of Neoliberal capitalism works to ensure that corporations earn more profit by 1) Removing wage restrictions, 2) Removing capital controls, 3) Removing financial regulation, and 4) Increasing government spending on ‘invented’ welfare.

The first point enables corporations to keep costs down by allowing them to drive down wages indiscriminately and forcing employees to take whatever is on offer because their negotiating power, in the form of unions, has been taken away. Essentially the wage negotiating power has been handed by the government to the corporations.

The second and third points enable corporations to engineer profit out of thin air by manipulating numbers and moving back and forth amongst jurisdictions and accounting standards (Healy, 2003; McLean and Elkind, 2003; Sidak, 2003). It also allows banks and financial corporations to make a profit by drowning the populace in debt to make up for the lost consumption from lower wages. Kotz (2009) explains that “the neoliberal model had fully matured, producing a massive gap between the growth rates of profits and wages. A continued expansion would be possible only if an asset bubble arose of such vast proportions that it would enable a large part of the population to borrow and consume beyond its means.

The last point coupled with the second and third gives a healthy look to the economy by making up for the lost consumption by consumers due to lower wages, through government spending. Privatization and removal of all market and financial regulations is the backbone of social policy in capitalism. Any social system that gets in the way of profit-seeking is deemed expendable. Characteristics of social policy in mature capitalist societies like US and UK include but are not limited to 1) Privatization of essential services like health, 2) High consumer debt, 3) Socialization of corporate losses and privatization of gains, 4) Use of imprisonment as an instrument of social control, 5) Expansion of ‘invented’ welfare and decline of ‘genuine’ welfare.

Government spending on these ‘invented’ welfare schemes is a way of channeling tax and government funds into corporations to make up for lost consumption. This creates the need for governments to tax the middle class more heavily and ties the government in a complicated relationship with the corporations where the government cannot regulate the corporations, cannot rein in their excesses, and cannot let them fail.
4. Stability vs. Social Policy

For there to be sustainable stability and prosperity in capitalism, there must be stable and reliable social policies. This is because people are the engine of any economic system. For capitalism: an educated, productive, growing and consuming population - although presently the consumption is being generated mainly via government welfare spending and consumer indebtedness. For socialism and communism, any population will do, and the result will be the same: dismal failure. To stabilize capitalism requires a stable population maintained via a sustainable social reproduction system which can only come via a permanent social policy. Long-term, lasting stability can only be achieved by building and empowering the society from the ground up instead of top to bottom, as it is currently. The prices for this stability are the active involvement of the masses in politics and the slower but sustainable and stable growth. Figure 2 provides a rudimentary view of society: the lowest level represents individuals, middle level represents civil institutions like government, unions and civil society organizations, and the top level represents corporations.

![Figure 2. Illustration of Top-Down Vs. Bottom-Up Transmission in Society](image)

Source: The authors’ presentation

Presently, policies - social, economic and political - are made under the assumption that success and prosperity at the top level - corporations - will inevitably trickle down to the bottom level. That is, if all necessary policies support corporations, then their success will eventually be shared by all. This assumption is turned on its head when one considers the version of capitalism we have: Neoliberal, where corporations serve only the shareholders. There is no mechanism for the sharing of such prosperity, not in any real sense anyway. Any flow - trickle - of wealth from the corporate level to the levels below is voluntary. Flow from corporations to government is mainly in the form of lobbying fees, campaign contributions, and taxes. Most corporations park their cash in tax havens, and many can be said to spend more on lobbying than they do in paying actual taxes. Various institutions like charities and civil society organizations are supported with nefarious intentions to support whatever version of the truth the corporations want them to expound. The few civil society organizations that support the empowerment of the masses below are gradually squeezed out of existence while the labor unions have been bludgeoned by government policy. The celebrations have been subdued by enabling the use of cash, lobbying and financial support by corporations to influence elections. These machinations only serve to deepen the dislocations inherent in this version of capitalism.
However, if we flip that logic, we come up with the same but more sustainable and more stable system where all parties can be reasonably satisfied. If policies are implemented that supports the base, then the success and prosperity will flow up to the middle and top levels because it is only by sharing their well-being in terms of increased efficiency, productivity, and consumption that the masses can sustain it. Well educated and prosperous people are first and foremost effective and productive employees for corporations and government. Corporations will be the first to benefit from the prosperity of the masses in the form of efficient and productive employees and high spending consumers. Up to a point, Say’s Law holds that supply and production create their demand in the form of wages paid out to employees and expenses to other entities. Corporations and government may have to shell out more in terms of wage, but the benefit earned is a stable, long stream of consumption. The reduction in profit because of the higher wage cost will be offset by an increase in volume and consistency of purchase by consumers. The government will earn its fair share through consistent tax.

However, the caveat to this is moderation in union power and wage increases so that those increases keep up with fluctuations in inflation and production. The problem if wage growth surpasses productivity growth is the introduction of employment losses and potential damages to the balance sheet structure of the corporations, which can put the entire economy at risk. In a genuinely free and liberal market, wages, productivity, and profits will grow in tandem as both corporations and masses reinforce each other’s prosperity and support each other through difficult. This is not by altruism but by needing one another to stay afloat. Corporations go bankrupt if masses do not earn enough to spend. Masses lose jobs and income if corporations go out of business due to high wage demands.

**Social Policy and Stability:** Active enactment of social policies that benefit and protect the working majority from the violent tremors of capitalism is considered an anti-free market. Governments that pursue left-leaning social policies are attacked politically, economically and sometimes even militarily, claiming these policies stifle profit making and therefore, suppresses growth in the economy, and the advancement of society in general (Aghion and Bolton, 1997). Even taking neutral ground on pro-business policies is now vilified as anti-free-market. Proactive support must be provided in any manner that unleashes the full force of the market and ensures corporations can squeeze profit out of the populace. ‘Full force of the market’ above takes the neoliberal definition, where profits are privatized, and losses socialized via bailouts instead of letting both corporations and masses pursue their ambitions freely without artificial restraints or supports. The events of 2008 have dispelled the world of the invincibility and veneration of the free market (Chodorow-Reich, 2014; Crotty, 2009; Erkens et al., 2012; French et al., 2009; Garcia-Appendini and Montoriol-Garriga, 2013; Ivashina and Scharfstein, 2010; Kotz, 2009; Reinhart and Rogoff, 2008). Indeed, even the US, under Trump, is going anti-free-market although not for social but for geopolitical reasons.

Below we shall compare the performance and resilience of the free market stalwarts - US, EU, Euro Area, OECD - and the economy of all the other regions considered not as free enough. Here, I would like to make a distinction between a ‘market’ economy and a ‘capitalist’ economy. In a
‘market’ economy, the economy is embedded in society even though it dominates social life, and
capital does not trump social harmony. Such countries are capitalist to a point, and they enact
‘genuine’ social policies that ensure sustainable social reproduction. They do not enact ‘invented’
social policies in the name of free markets to funnel funds to the corporations and prop up the
economy. In a ‘capitalist’ economy, the imperatives of capital are revered above else including
social harmony. In capitalist economies, society is embedded in the market. Such countries
perpetuate neoliberal ideals via enactment of social policies that destroy the community but
supports and empowers capital. Social democracies and market economies are being forced into
a race to the bottom in degrading their social policies to compete on the same level with the
neoliberal economies without the need to protect their industries. Whenever these economies dare
to defend their industries, they are sued for anti-profit seeking legislation in the WTO and other
international forums.

Table 1 and Figure 3 show the divergence in resilience between more liberal economies and less
liberal economies. Less liberal economies are not necessarily Socialist or Communist. They are
market economies that lack power, liberal ideas over social harmony. These economies show
remarkably more social cohesion and cultural enrichment than their fellow liberal economies
where they are plagued by social dysfunction and the loss of a sense of community, culture, and
history. In the graph above, economies considered liberal and free, like South Asia, East Asia, and
Pacific and Sub-Saharan Africa show remarkable resilience in weathering crisis and recovering
almost instantaneously. The graph above covers 25 years, within which numerous crises, of
different forms and shapes, have occurred. The Asian and Latin American crisis of ’97 and ’98 can
be said to be caused mainly by actions from the liberal economies, and in sending in their free-
market evangelists to ‘fix’ the crisis exacerbated it. The IMF and World Bank consultants
prescribed the Washington Consensus therapies of floating currencies, free mobility of capital,
austerity and balanced budgets. Incidentally, these have never been prescribed to the liberal
economies in times of crisis, ever heard anyone say the US or UK or Australia must balance their
budgets? It sounds preposterous. The only country to weather the crisis in one piece is
coincidentally the one that ‘didn’t’ apply these prescriptions, Malaysia.

Table 1. Annual GDP Growth Comparison

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>2.7</td>
<td>4.0</td>
<td>2.7</td>
<td>3.8</td>
<td>4.5</td>
<td>4.4</td>
<td>4.7</td>
<td>4.1</td>
<td>1.0</td>
<td>1.8</td>
<td>2.8</td>
<td>3.8</td>
<td>3.3</td>
<td>2.7</td>
<td>1.8</td>
<td>0.3</td>
<td>0.2</td>
<td>0.8</td>
<td>2.5</td>
<td>1.6</td>
<td>2.2</td>
<td>1.7</td>
<td>2.6</td>
<td>2.9</td>
</tr>
<tr>
<td>Euro area</td>
<td>-0.7</td>
<td>2.5</td>
<td>2.5</td>
<td>1.7</td>
<td>2.7</td>
<td>3.0</td>
<td>3.0</td>
<td>3.9</td>
<td>2.2</td>
<td>1.0</td>
<td>1.7</td>
<td>3.2</td>
<td>3.1</td>
<td>0.4</td>
<td>0.4</td>
<td>0.1</td>
<td>0.1</td>
<td>0.4</td>
<td>0.1</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>0.1</td>
</tr>
<tr>
<td>European Union</td>
<td>-0.1</td>
<td>2.8</td>
<td>2.7</td>
<td>2.0</td>
<td>2.9</td>
<td>3.0</td>
<td>3.9</td>
<td>2.2</td>
<td>1.4</td>
<td>1.3</td>
<td>2.6</td>
<td>2.1</td>
<td>3.3</td>
<td>3.1</td>
<td>0.5</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>OECD members</td>
<td>1.3</td>
<td>3.0</td>
<td>2.7</td>
<td>3.0</td>
<td>3.5</td>
<td>2.8</td>
<td>3.2</td>
<td>4.0</td>
<td>1.4</td>
<td>1.6</td>
<td>2.0</td>
<td>3.2</td>
<td>2.7</td>
<td>2.9</td>
<td>2.5</td>
<td>0.2</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>East Asia &amp; Pacific</td>
<td>3.6</td>
<td>4.3</td>
<td>5.1</td>
<td>5.1</td>
<td>3.5</td>
<td>4.1</td>
<td>3.0</td>
<td>4.9</td>
<td>2.7</td>
<td>3.6</td>
<td>4.3</td>
<td>5.2</td>
<td>5.0</td>
<td>5.5</td>
<td>6.5</td>
<td>3.5</td>
<td>1.3</td>
<td>2.1</td>
<td>4.6</td>
<td>4.7</td>
<td>4.8</td>
<td>4.1</td>
<td>4.1</td>
<td>4.1</td>
</tr>
<tr>
<td>Latin America &amp; Caribbean</td>
<td>3.9</td>
<td>4.6</td>
<td>4.7</td>
<td>3.3</td>
<td>5.1</td>
<td>2.1</td>
<td>0.1</td>
<td>3.8</td>
<td>0.8</td>
<td>0.3</td>
<td>1.6</td>
<td>6.4</td>
<td>4.4</td>
<td>5.4</td>
<td>5.8</td>
<td>4.0</td>
<td>0.1</td>
<td>5.8</td>
<td>4.4</td>
<td>2.9</td>
<td>2.8</td>
<td>0.9</td>
<td>0.2</td>
<td>0.7</td>
</tr>
<tr>
<td>South Asia</td>
<td>4.4</td>
<td>6.1</td>
<td>6.9</td>
<td>6.8</td>
<td>3.8</td>
<td>5.6</td>
<td>7.8</td>
<td>4.1</td>
<td>4.3</td>
<td>3.7</td>
<td>7.3</td>
<td>7.5</td>
<td>8.7</td>
<td>8.7</td>
<td>9.0</td>
<td>3.9</td>
<td>7.6</td>
<td>9.1</td>
<td>6.3</td>
<td>5.5</td>
<td>6.1</td>
<td>7.1</td>
<td>7.5</td>
<td>6.8</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>0.0</td>
<td>1.9</td>
<td>3.2</td>
<td>5.3</td>
<td>3.7</td>
<td>2.5</td>
<td>2.2</td>
<td>3.8</td>
<td>3.9</td>
<td>3.0</td>
<td>4.9</td>
<td>11.8</td>
<td>7.1</td>
<td>2.7</td>
<td>5.4</td>
<td>2.9</td>
<td>5.4</td>
<td>4.4</td>
<td>3.7</td>
<td>4.8</td>
<td>4.6</td>
<td>3.0</td>
<td>1.2</td>
<td>1.2</td>
</tr>
</tbody>
</table>

Source: World Bank national accounts data, and OECD National Accounts data files.
Notes: Indicator: Annual GDP Growth (%). Definition: Annual percentage growth rate of GDP at market
prices based on constant local currency. Aggregates are based on constant 2010 U.S. dollars.
These ‘less’ liberal economies are structured in a way that is more liberal and free than the ‘liberal’ economies. There are no ‘invented’ welfare schemes, no government guarantees, business is allowed to operate without government cushion or even a hint of a bailout. These freedoms and lack of security blankets allow businesses and individuals to be self-sustaining and entrepreneurial. It forces the business to be rational and avoid Henry Paulson’s ‘moral hazard’ pitfall. Families and entire communities operate virtually independently instead of looking at the government for handouts and insurance. In 2009, the big banks in the US, UK, and Europe are being bailed out, the US Treasury wrote a $700 Billion check to Wall Street, but the economies of Sub Saharan Africa and South Asia grew at an astonishing 2.9% and 7.6% respectively. The social structure of these economies is robust and resilience in that they are founded first and foremost on strong social cohesion. Governments maybe corrupt and wobbly, coup d’états maybe in the works, a prime minister may have just been sacked or what not, but the society remains stable. The key difference here is discussed.

In the ‘less’ liberal economies, government and market are built on top of society. In cases of economic or political crisis, the community is not affected much, and even if whole governments and markets are destroyed, the foundation of society is still there to enable the development of a new market or a new government. This may lead some to say that governments are loose and lax, and that is precisely the point: the detached form of government is what makes these economies resilient because they are allowed to organize themselves freely and work effectively without any expectation or patronage to or from the government in both good and bad times. These societies maintain themselves by themselves. Most of the policies being forced unto them by the IMF and World Bank like the Structural Adjustment Programs and the Washington Consensus are meant to bring the government to bear on these social structures and give preferential market access to western corporations. You do not need the SAP, Washington Consensus or free markets to make a profit, and there are companies there making a profit already, they didn’t need those policy changes to profit, why do you?
In the ‘more’ liberal economies, society is built on top of government, and both are built on top of the market. In cases where the government and market are wobbly and shaky, the first victim is the society on top. And in cases where the market and government are severely battered, the society first goes, followed by the government and markets. When all the dust of destruction has settled down, there will be no foundation for rebuilding any of them. A simple litmus test is this: at the slightest shake of the government or the economy, protests erupt in these liberal economies. In the UK, a simple blackout led to violent lootings and destruction of property. In Sub-Saharan Africa and South and East Asia, outages are a way of life, but no lootings or such was reported, ever. The liberal and pro-free market policies being expounded by these economies are not exactly free or liberal. They are free and liberal only by following a specific definition. In the UK for example, corner shops have been driven out of business by the same policies that allow Tesco and Sainsbury to consolidate and grow. In other words, the procedures are free and liberal and encourage profiteering, consolidation, and growth for the big businesses that finance the political parties. The excessive, militarized policing in these societies are meant to keep the populace following a very narrow path.

5. Analysis of Neoliberal Economics

Corporations have no incentive to share the fruits of their success downwards. In Neoliberal economic theory, the distribution is a natural outcome of the prosperity of enterprise, although, to date, no one has been kind enough to explain the natural mechanism of this distribution. Corporations are expected to do that out of generosity and altruistic intentions since that there is no law or social norm that requires or incentivizes this distribution to maintain social cohesion. Besides, spreading prosperity does not serve them well because a good employee is an indebted and poor employee, not a prosperous one. Corporations remember all too well the bottlenecks set up by strong labor unions in the Post World War II order before its collapse in the 70s. Characteristics of the liberal economies include:

**Social Disharmony:** The first visible and noticeable sign of a liberal economy is a dysfunctional social fabric. The signature of such a society in disharmony is the decimation of the family institution. Putting aside the moral importance of the family institution, its economic consequence and the loss of such is what eventually brings down the neoliberal economy. Current neoliberal dogma justifies more economic benefit out of a broken home in that a husband and wife separated, run two separate families who double consumption, while the consumption if they were together, will be considerably less because of scale and sharing.

The value of the family is in the long term, in the proper upbringing of fully functional workers and consumers. This upbringing is least about education; it is in cultural and social indoctrination which is the essential element in sustainable social reproduction. No social service or government agency can fulfill that role even discounting psychological scars and other effects of family separation. The lasting breeding of the current social order enables the perpetuation of the current social and economic system while also serving as a foundation for the advancement of the society in sociological and economic terms. It is taking the neoliberal route of decimating genuine social
policies in pursuit of short-term profit results in the destruction of the very pillar that holds the current system together.

**Violent Fluctuations, Unstable Markets, and Economy**: Artificial propping up of the economy by governments and central banks engenders near-constant instability and extreme fluctuations in the marketplace. This is because these interventions move the economy from a natural trajectory to an artificial one. On the natural path, the arms of the economy drive in sync, adjusting to one another automatically to maintain universal equilibrium - economically, socially and politically. On an artificial trajectory, it is impossible for governments and central banks to synchronize this adjustment with the required precision, failure of which keeps the economy continually wobbling.

**No Shock Absorbers**: The decimation of the middle and working classes creates a bipolar, highly unequal society with a few, super-rich individuals and hundreds of millions of very poor (Kotz, 2009) masses. The essential purpose of middle and working classes in an economy, owing to their large population and cumulative spending power, is twofold: Ready consumers and shock absorbers - only in societies with ‘genuine’ social policies

Middle and working classes produce nothing of their own, unlike the feudal period when families provide some household items like clothes and shoes by themselves. Now, households must buy ‘everything.’ This ensures their consumption into perpetuity, and as such they shall remain lifelong consumers. The decimation of middle and working classes via neoliberal economic policies removes that from the dynamic. The bludgeoning of the middle and working classes into poor and underclass does not stop their consumption but transfers it into the hands of the government via ‘invented’ welfare handouts and banks via debt issuance. The outcome is the replacement of a good economy in which positive earnings are circulating, into a phantom economy in which newly created, highly inflationary money flows. This starts the stop clock on the implosion of the current system because even though the poor continue to consume, and the corporations continue to profit, the clock must stop at some point before which the momentum of contempt amongst the masses is brewing hard and fast. This occurs because governments cannot print new money or borrow indefinitely; the music must stop at some point. Idle people have no job but to find an enemy to punish for their predicament and no matter how dumb they are, the government is first on their list - and not unjustifiably. Nature abhors isolation.

**Forced Propping up via Welfare, Privatization and Military Spending**: The government has used welfare, privatization, and military expenditure to prop up demand in the economy. The other side of this sword is the propping up of the economy via artificial demand and new credit. Neoliberals ought to find this unusual given that it enormously distorts the real economy via government overreach. This actual scenario is the very antithesis of Neoliberal economic theory.

**Sovereign Bankruptcy**: As discussed above, the government uses welfare, privatization and military spending to prop up the economy artificially. The result of that is sovereign bankruptcy. This is proving to be the inevitable end gave the size and how long the Fed, BOE, and ECB needed
to intervene in the markets via QE to keep their economies on life support. No matter how mild or short-lived the sovereign bankruptcies will end up being, they will push the bandaged up international financial and economic system off a cliff in the blink of an eye.

6. Analysis of Bottom-Up Economics

The working class has every incentive and do not even have a choice, but to share their prosperity with their employers and society at large. High salaries must be consumed or saved which provides either revenue or credit for corporations; high education must be put at the service of corporations, and social harmony professes via increased productivity and output.

**Sound Social Policy:** The first stride in durable economics is sound social policy. Social policy here is defined as policies that ensure sustainable, stable social reproduction. This entails standard primary education, healthcare, pension and retirement, property laws and protected rights. Here, the social policy does not refer to the ‘invented’ welfare as advanced by the neoliberals that are used to prop the economy as explained above.

**Shock Absorber:** The middle and working serve as an adequate shock absorber. This only occurs in economies with ‘genuine’ social policy, not ‘invented’ welfare. This is because, in a strong economy, the middle and working classes have sufficient savings, manageable debt, and the flexibility to comfortably adjust their lifestyles downward to accommodate extreme economic, political and social shocks. In neoliberal economies, middle and working classes have been stripped to the bare subsistence minimum, loaded with trillions in unnecessary debts from student loans to excessive credit cards and government taxes. As such, these masses have no room to accommodate extreme situations by adjusting in any direction without the society completely breaking down.

**A Steady Supply of Labor and Consumers:** This issue provides the fuel that keeps the engine of a capitalist economy running by providing labor to produce and consumers to consume in sufficient numbers. A shortage in one or the other will grind the economy to a halt. A deficiency of consumers or financially able consumers causes a demand shortage which kills the economy as producers have to cut down production and deal with excess inventory. A lack of labor can also destroy the economy by pushing labor prices upward to unsustainable levels, at which point producers may have to go out of business or transfer the cost to consumers who may stop purchases altogether if the prices rise beyond affordable thresholds.

**More Liberal and Capitalistic—Less Burden on, and Intervention by Government:** Government intervention has become a regularity to patch up the economy via Quantitative Easing amongst other policies. This goes against every theory in the Neoliberal school of thought, which advocates free markets and non-intervention of government, but then relies entirely on government and central bank intervention for the survival of the entire market. Constructing the pillars of a healthy economy via social policy will eliminate the need, or at least strip to the very bare minimum, the need for any form of government intervention. They empower the markets with the necessary
flexibility and resources to naturally adjust to dislocations in the economy. This also engenders a return to a more naturally capitalistic economy with automatic and natural levers that kick in to correct fissures in the marketplace. The firm social policy also gives a full room for maneuver to central banks and governments to step in extreme cases where the automatic and natural correcting levers fail.

7. Conclusion

In this paper, we have shown the pivotal role of strong social policies in building a robust, stable and sustainable version of capitalism. We discussed the roles strong social cohesion played in helping developing and ‘less’ economies weather financial crises of the recent past. Capitalism is a miracle that greedy and short-sightedness is destroying. The time has come for much-needed change to be implemented via a gradual overhaul of the current system. There is much to go on steering the international economy from the destructive path it is on. The first step is the gradual reinsertion of life back into the lowest levels of society. Then there is a need to segment and stratify the society into levels that with identical stratification of the economy. The segments are then minimally policed unless the cohesion of society is threatened. The lynchpin in the resurrection of truly free markets is the liberation of freedom and liberty from the confines of the current system. That alone is enough to realign the system entire, from the bottom all the way to the top by eliminating ‘invented’ welfare, bailouts, too big to fail mentality, entitlement mentality and encouraging and incentivizing: 1) Entrepreneurship and innovation, 2) Skills acquisition and professional development by employees, 3) Financial and fiscal responsibility by governments and corporations, 4) Market based decisions, rewards and punishments.

References


