

Presentation Manuscript

Financialisation, the crisis and the ambivalence of capitalist growth: a requiem for the growth society

I came to growth critique as more or less an outsider, i.e. from the field of critical political economy. But I soon noticed the curious and puzzling difference between how contemporary capitalism is seen by growth critique on the one hand and by critical political economy (both in its Marxist and post-Keynesian varieties) on the other.

- Unstoppable, infinitely dynamic growth juggernaut that involves entire societies
- Stagnation and sluggish growth dominant in mature capitalism

Political economy is right! Growth critique misunderstands fundamental long-term tendencies of mature capitalist economies and societies. Not minor academic squabble about certain details of capitalist economies; important implications for political strategy and for forming political alliances, especially in the face of continuing crisis in Europe.

But: my critique doesn't deny the legitimacy of growth critique! It stands in friendship and solidarity with the degrowth movement (*solidarische Kritik*). The aim is to enhance its capacity for mobilisation and alliance building and thus its capacity for effective political action as part of a progressive social bloc. In particular I fear that the conservative, even neoliberal, wing of the degrowth movement may become dominant if these fundamental socio-economic trends in Europe and other highly developed countries are not correctly understood.

An argument based on periodisation (see figure at the end)

I want to argue that growth critique refers implicitly to what has been called the Fordist phase of capitalism. What it has in mind when it talks of growth societies is the unusually coherent – or tightly coupled – ensemble of the Fordist golden age, in which key socio-economic variables – productivity, profits, wage growth and investment – were aligned in a virtuous circle of growth, producing a pattern of relatively steady and inclusive growth. The paths of social and economic

development all seemed to point in the same direction: upwards! This ensemble can legitimately be called a growth society, and it still seems to be the imaginary point of reference for much of the discourse of growth critique. But that phase is over. In fact, it has been over since the 1980s at the latest, but the growth society was temporarily propped up by financial means, such as debt-financed consumption. The crisis and the austerity measures that crisis management at the European level has firmly put into place have now put an end to that too. As a result, we are seeing the end of the growth society – in the sense of a society that generates and relies on *inclusive* growth – and the beginning of decoupling as the new master tendency of socio-economic development. (Not decoupling as usually understood by authors in the degrowth movement.)

Accumulation as theoretical point of departure

Capital accumulation at the level of individual industrial businesses is the driver of growth and development in the capitalist mode of production, so when accumulation is sluggish stagnation ensues. Accumulation is more than simply making a profit. It means reinvesting the profits from the previous business period into additional productive capacity (also called fixed capital investment); this is what Marx termed ‘expanded reproduction’. (Mere profit can already be had after only one period of being in business.)

Such growth at the level of individual businesses has to be distinguished from growth at the level of an entire economy commonly measured now as GDP. Typically, the aggregate result of the former means that there is also GDP growth, but that is not necessarily the case (Exner et al. 2008: 105-6). Aggregate growth is not an operational goal for capital, merely a by-product.

Therefore: accumulation \neq GDP and accumulation \neq profit-making

From the viewpoint of ecologically motivated growth critique the expansionary dynamic of accumulation also escalates the use of natural resources as well as environmental destruction (Karathanassis 2003).

Accumulation is crucial but there is no guarantee that the process of accumulation will be successful. The capitalist mode of production does *not* have an inherent tendency to be in equilibrium, but in the history of capitalism certain relatively stable patterns of accumulation have existed which the Marxist *regulation school* has called accumulation regimes. They are defined as relatively long-term and coherent patterns of 'dynamic compatibility between production, income distribution and the generation of demand' (Boyer/Saillard). We're talking here about patterns in which output, investment and consumer demand as well as profits, wages and interest incomes are relatively well-balanced over a considerable period of time – until the next crisis comes!

Now we can look at the accumulation regime in Fordism and in financialised capitalism and how they differ.

The most important way in which the Fordist accumulation regime differed from the pre-Fordist one is that it integrated the workers' consumption into the capitalist economy by generating mass purchasing power (demand) and mass consumption. Production was also expanded on the basis of new technologies and production methods, so there was also mass production. Together, mass purchasing power and mass production led to a fairly coherent and comparatively equitable socio-economic constellation. In comparison to pre-Fordist competitive capitalism, it exhibited constant and mutually conditional growth – or, to use a more technical and precise term: tightly coupled growth – of the most important socio-economic variables, especially wage growth, productivity increases, investment and company growth (i.e. accumulation). The growth of each single factor conditioned and was conditioned by growth in all the others. At an aggregate level, this led to a robust pattern of upward development and GDP growth that benefited unusually large sections of the population – the so-called 'golden age' of post-war capitalism. This ensemble of tightly coupled socio-economic variables could have legitimately been called a growth society in which, as President Kennedy said, 'a rising tide lifts all boats'. (You can also call this a virtuous circle.)

Of course, the combination of mass production and mass consumption also radicalised the expansionary dynamic of capitalism which further increased resource and energy consumption. (Second inflection point in resource use graphic.)

I also want to emphasise that the integration of workers' consumption really was a crucial economic change. The problem of mass demand and mass purchasing power became a key issue of economic life and policy, one that is of huge concern once again in the ongoing crisis.

Now the accumulation regime of financialised capitalism:

I cannot talk about the causes of the rise of finance. At the aggregate level it is expressed as growth of the financial sector relative to the total economy, but also as growth of financial assets and financial incomes even among non-financial economic actors. These non-financial economic actors now behave a little more like financial institutions that are constantly reshuffling their portfolios of financial assets. I will look very briefly at the changes in the behaviour of non-financial enterprises and households. This is because fixed capital investment by the former is at the heart of capitalist dynamism - or stagnation - and because it is an important part of aggregate demand. Household consumption is also a huge part of aggregate demand. More sociologically speaking, it is also a crucial mechanism for the social integration of broad sections of the population.

When we look at non-financial enterprises we see:

- 'intrusion of the capital market', for example in the form of shareholder value-oriented management;
- we also see what I like to call 'cash flow financialisation'. This is connected to a reduced propensity to invest
- there is also a tendency to cut funding for innovation because of stricter cost controls and a tendency towards short-term thinking.

Turning towards households we find:

- stagnant or declining real wages. This obviously reduces mass purchasing power and aggregate demand, but this is compensated for in many, but not all, countries by
- rising household indebtedness (consumer credit, student loans etc.).

We may also mention that budget deficits also play a role compensating structurally weak demand.

Given this weakness of aggregate demand and the low propensity to invest we can conclude that financialised capitalism is characterised by slow and fragile accumulation. Aggregate growth is maintained either through debt-financed consumption or, in some countries, like Germany, through strong exports. (The growth of the financial sector itself also helps to achieve higher GDP growth, but it is not to be confused with real accumulation and real growth.)

Consequences of the crisis and crisis management

So much for financialisation *before the crisis*. Now I want to look at what has happened since. I will restrict myself to the EU because for most of us here today this is the immediately important context in which we do politics, but also because the European case is quite unique thanks to the unique kind of crisis management in the EU and the Eurozone in particular. The goal is to answer the question what it means to do growth critique – or simply to do progressive politics – in these conditions.

There is a lot to suggest that financialisation is coming to an end *as an accumulation regime* inasmuch as it was propped up by debt-financed consumption and (to a lesser degree) budget deficits. This is partly the immediate result of the crisis, partly the result of political decisions at the

EU and national levels.

Household consumption is weakened by recession, rising unemployment, lower wages and a slump in mortgage and consumer lending. In some countries, such as Greece, this squeeze on wages is likely to be a more permanent feature thanks anti-trade union and labour market legislation that shift the balance between labour and capital in favour of the latter for some time to come.

Budget deficits are likely to shrink in the long run due to the authoritarian implementation of strict fiscal controls in the form of austerity measures tied to 'rescue loans', national 'debt-brakes' and the European Fiscal Compact that has entered into force in 2013.

Investment – the core process of accumulation and an important component of aggregate demand – is weakened further. This is no surprise: In an environment marked by high uncertainty and weak demand, NFCs are even less willing to invest than before the crisis, even though they are currently sitting on vast amounts of cash (Ernst & Young 2013). Recent Eurostat figures confirm this reticence although they too provide merely a snapshot of recent trends. There may be figures on investment in OECD database (see Lapa, p. 275)

So where does that leave the Eurozone economy? It seems that the EU's macro-economic strategy is to follow the German model of export-oriented growth and expand it to all other Eurozone countries. This would turn the Eurozone into one big net exporter. This is also why the current watchword is '*improving competitiveness*', mostly through so-called labour market reform and through austerity. This is very different from a strategy that aims to boost *domestic* demand and investment.

Moreover, through their austerity policies, European governments and the EU Commission are putting being attractive to financial capital before the stimulation of investment and growth. The financial sector is saved, and industrial profits may well recover as a result of wage depression, so-called supply side reforms – like the tax cuts for businesses that Francois Hollande is trying to push through right now – and the pick-up in exports that may result from these measures. However, it is highly doubtful that this will lead to robust investment, much less inclusive growth.

It is in this situation that organised labour and many others on the left – even some European governments, like the French up until Hollande's business-friendly shift – are calling for a new focus for economic policy: away from austerity and competitiveness, and towards policies that kickstart investment and employment – i.e. growth – through generous injections of government money. A good example is Alexis Tsipras – leader of the left Greek party Syriza – who recently called for a 'society of justice, solidarity and growth' against the currently dominant EU policies.

This strategy is also known as ‘growing out of the crisis’ (rather than saving your way out of it).

This suggests the following conclusion. In this context of continuing crisis and austeritarian and competitiveness-obsessed crisis management, the call for more growth is more than the simple pig-headed repeat of a silly obsession with growth. It is an understandable, albeit short-sighted, defence against austerity and the assault on social and labour rights.

If my analysis of the political and economic conjuncture in Europe is true then there are important consequences for progressive political strategies. I believe that the present crisis exacerbates the strategic dilemma that those on the political left face who share the concerns of ecologically motivated growth critique, but also stand in solidarity with the struggles against austerity and for the preservation of social rights.

At the moment, it is the neoliberal political right whose strategies of crisis management effectively imply a reduction of economic growth, whereas trade unions and left-wing parties understandably favour a strategy of ‘growing out’ of the crisis. This intensifies the conflict between ‘red’ and ‘green’ goals. Thus, a situation arises in which ecologically motivated critics of growth may be pushed to side with the right.

I know this may sound a bit alarmist, but there are people in this movement – in fact at this conference – who have very publicly advocated conservative fiscal policies and who could very well sit down with the German finance minister Wolfgang Schäuble to discuss ways of balancing the budget by cutting expenditure. All this, of course, in the name of inter-generational justice and ‘living within our means’. More generally, there is, I believe, a relevant part of the degrowth movement whose enemy No. 1 is not capital accumulation, but rather the Fordist complex of Keynesian macro-economics, mass consumption and the welfare state – which is precisely the same enemy that the neoliberal ‘counter revolution’ has and continues to attack.

To avoid such splits, it is now even more urgent than before to continue working on strategies and proposals that unite ‘green’ and ‘red’ political priorities. Or, in the words of Schmelzer and Passadakis, to work on outlining a socially fair and democratic transition to a post-growth economy and society.

End of the growth society: decoupling as master tendency

To conclude, I want to briefly spell out why I have called my presentation a ‘requiem for the growth society’, though I guess it has already become quite clear.

Remember that Fordism was an ensemble of tightly coupled socio-economic variables that tended

to move upwards together – a virtuous circle, the ‘golden era’ of inclusive growth. In financialised capitalism, there was already a lot less tight coupling, as some variables like investment and real wages grew little or stagnated, while profits were robust. But this disconnection and its social effects were moderated and kept latent through financial means, such as debt-financed private consumption. Now that these props seem to be on the way out the disconnection is becoming more obvious and is likely to sharpen, condemning some of those variables to stagnation, sluggish or even negative growth while others may still grow dynamically. Where there was once convergence and tight coupling there are now decoupling and divergence – not all paths point upwards any longer, not all the boats are lifted! This will probably lead to a pattern of much less inclusive growth in the countries associated with Atlantic Fordism and Europe and will thus spell the end of the growth society. (This decoupling may be accompanied by a general slowdown of the system as a whole.)

There is a certain irony in the fact that a critique of growth has gained traction at a time when an economic crisis of epic proportions seems hell-bent on severing the already weakened ties between the different dimensions of growth and reducing some of them to stagnation. This is clearly a case of spectacularly bad timing!

So what exactly is coming decoupled from what?

Economically, the disconnect between slow investment and robust profits that was already there before the crisis may sharpen. The same applies to wages and mass purchasing power.

What are the social consequences of these structural shifts? The kind of capitalism that seems to be emerging in Europe at the moment will probably lose more of its already reduced capacity for inclusive growth. It will be even less capable of integrating subaltern sections of the population. We are therefore likely to see the decoupling of economic growth from social welfare (Dörre 2013: 149). Some people will fall behind even further while some of those who, until now, were relatively secure in their social status and consumption habits may experience heightened precarity. This focus on the connection and coevolution of different dimensions of economic development also casts a new light on certain social trends that have been around and discussed for a while: the growing social inequality, rigidified social exclusion(s) and the falling back of sub- or formerly proletarian sections of the population as well as certain cities or regions, like Detroit in the USA or the North of England, can be seen as manifestations of decoupling, the new socio-economic master tendency.

This, I believe, is the socio-economic terrain on which the degrowth movement, like any progressive project, has to operate, at least in Europe. Failure to take this into account may lead to

bad strategic choices and alliances. Telling people who have effectively dropped out of the growth society that they must abandon their growth fetish is not just a tough sell, it may potentially be regressive. Ultimately, the degrowth movement will only achieve its ambitious goals if it is part of a broad social alliance, and if it wants this alliance to be progressive it must be green and red.

Figure: An argument based on periodisation

