

# INDUSTRIAL POLICY AND ECONOMIC DEMOCRACY

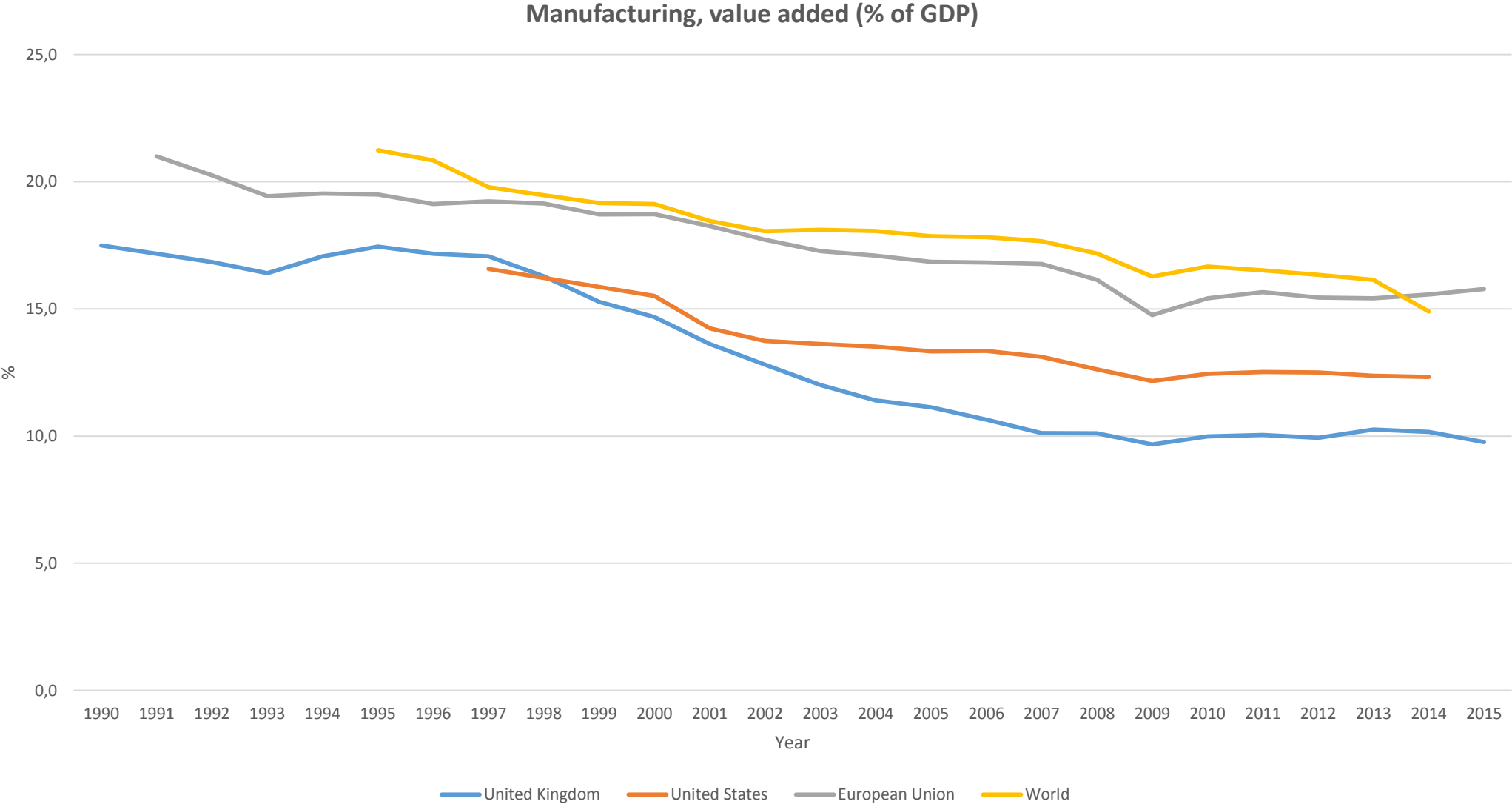
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# Deindustrialization

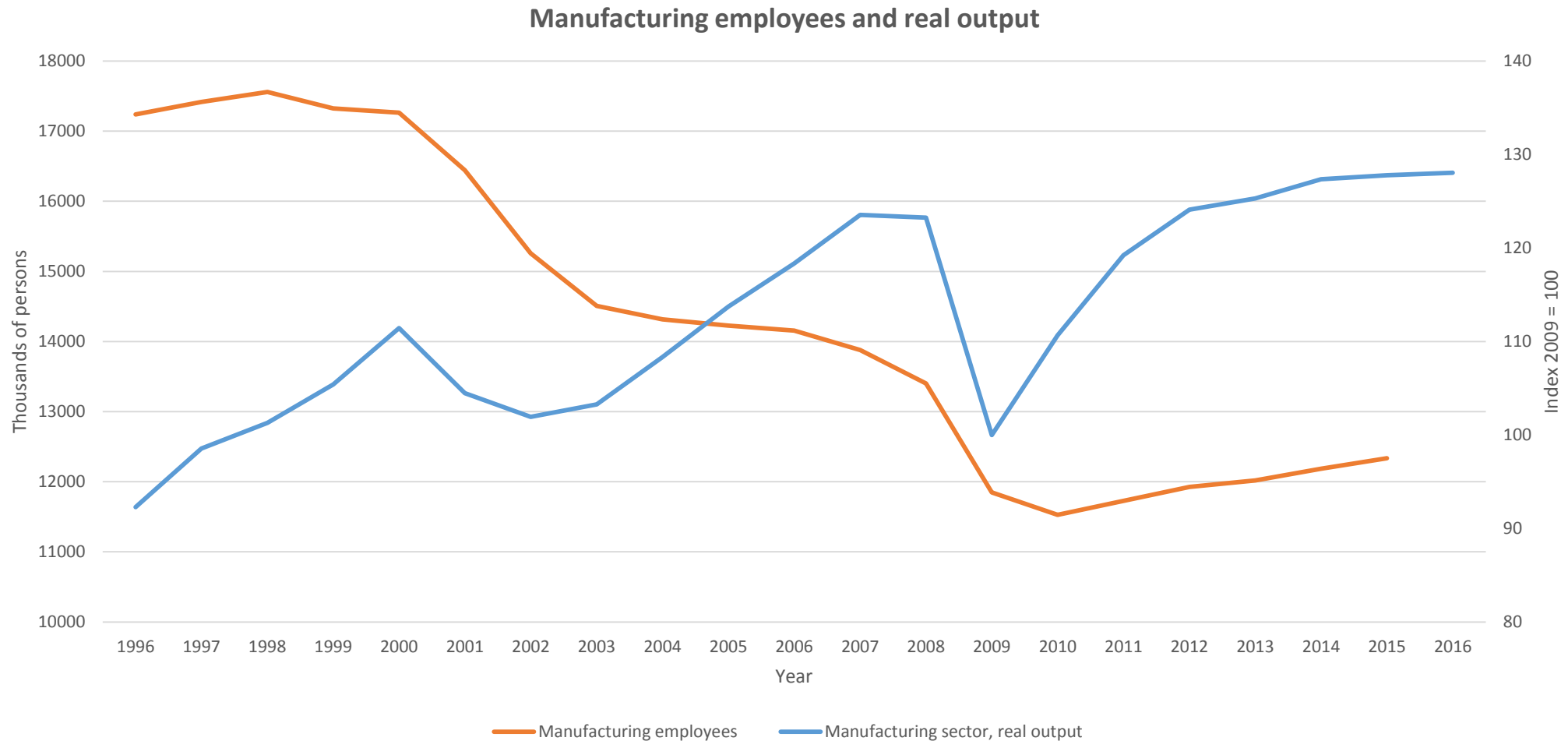
- The rise of China and other BRICS and Asian countries, and the relocation of industry also to nearby countries, has hastened deindustrialization in many parts of Europe and North America.
- Globalization has changed power-relations in terms of Kalecki's (1943) classic analysis.
- Thus, to retain industrial and other activities as much as possible, the core countries and the EU have resorted to intensified hierarchies in the work place, cost reduction (= "labour market flexibility") and deflationary free market economic policies, creating a tendency toward a downward spiral
- The periphery, on the other hand, is relying on expansive strategies of export orientation
  - Kaldor-Verdoorn effect: productivity grows proportionally to the output
- Interlocked vicious and virtuous circles have started to transform what is core and what is periphery.
  - the euro crisis – third world debt crisis in Europe, intensified by "structural adjustment" policies
  - in China the Kaldor-Verdoorn effect may dominate but not forever, however
- Combined with other characteristic effects of prevailing policies and globalization, especially rising inequalities, deindustrialization has fuelled political turmoil.

# The share of manufacturing is declining



# The main cause is robotisation, but relocation is also important, especially for power-relations

US figures: absolute numbers of employment and the real output (index) in manufacturing



# What is to be done?

- A rational, holoreflexive response to the to the prevailing situation is to extend the spatial scale of the Kaleckian-Keynesian and related alternatives, and re-articulate them in global-democratic terms
  - holoreflexivity means that one can see oneself as an active part of a dynamic whole.
  - holoreflexivity involves a holistic analysis of mechanisms, structures and processes of the whole which is not only global but also planetary
- This rational direction involves for example global taxes (on finance, capital, corporations, wealth, greenhouse gases etc); a debt arbitration mechanism; and the Keynes-Davidson plan (a system of management of trade and currencies)
  - **needed**: mechanisms whereby economic developments can be shaped and planned on a global scale
- In the absence of a better system of global governance and government, limited-scale alternatives become easily contradictory.
- There is no reason, however, to refrain from pursuing alternatives within the EU, provided that they are developed in critical-holoreflexive manner.

# A rational direction: consistent demand-inducing policies involving major public investments

- Selective reindustrialization: public investments needed (Keynes – Mazzucato).
- The point is to create full fiscal capacities for the EU, while in practice increases in public investments will come largely from member states in the short-term future
  - Eurozone investment: was 26% of GDP in 1991 and 19% in 2016
  - in the EU as a whole, since the beginning of the financial crisis and the recession, investment levels remain some 15% below their peak in 2008
  - to increase investments by 5% of GDP: 3-4% from member states, 1-2% from the EU
  - the EU budget must be increased also in order to create redistributive systems via European minimum wage, unemployment benefit schemes, regional policies etc
- Economies of scale and world markets are important, but we must avoid trying to increase demand for EU goods and services at the expense of other countries
  - to the extent possible, the game must be positive sum (yes, China's underconsumption is a problem)
- Increasing domestic European demand & improving the quality and attractiveness of commercial goods and services
  - this combination is compatible with holoreflexive concern over generalizability and global aggregate efficient demand

# The EU is difficult to change

- Immediately implementable reform proposals must be consistent with the Treaty of the European Union.
- There are various plans to use the resources of the European Central Bank and the instruments of the European Investment Bank to **create a public investment programme on a European scale**; and to relieve national budget constraints for instance by implementing a Golden Rule approach, **exempting national public investment from the relevant deficit targets**.
- Essential transformations of the EU require changing the EU Treaty.
- A cosmopolitan and democratic way would be to convene an Assembly of directly elected citizens' representatives
  - the outcome would be a constitution legitimized through an EU-wide referendum
  - this constitution can be made implementable by setting up adequate democratic procedures, where also national parliaments (or a new second chamber of the European Parliament) play(s) an important role

# Trust, existential security and hope, part 1

- In capitalist market societies, unemployment and precariarisation of work are an issue of existential security and thus create room for resentment, emotional distancing, and securitization of political issues.
- The tendential rational direction to world history must be grounded in **existential security and trust**, enabled and facilitated by policies and collective institutions
  - full employment & sufficiently high-level basic income for all European citizens (European + national)
  - moreover, involvement and participation in processes of collective will-formation generate trust and existential security
- **Concrete utopias** based on: (1) unrealised or emancipatory possibilities of the past; (2) the latent tendencies and potentials of the present and (3)realisable hopes about better futures.



# Trust, existential security and hope, part 2

- Hope is, in part, based on the promise of creating space for people's higher needs, such as creativity and autonomy
  - Keynes: "But it will be those peoples, who can keep alive, and cultivate into a fuller perfection, the art of life itself and do not sell themselves for the means of life, who will be able to enjoy the abundance when it comes." (Economic Possibilities for our Grandchildren, 1930)
  - in a good society, work is organized so that everyone has the opportunity to realize themselves in their work and that everyone can participate in the public definition of activities and goals.
- Learning from the democratic experiments of world history
  - efficiency: **hierarchy vs. democracy**; democracy is often and in many ways more efficient, but it requires practical organizational skills and virtues of participation
  - universities: democratically elected councils used to make all the important decisions ; tasks were rotated on a collegial basis; hierarchies of learning qualified the basic republican principles ("three tiers"); but new ideas are needed for augmenting self-transformative capacity
  - these kinds of principles, experiments and lessons can be generalized and modified to apply to many other (public and other) organizations

# Reversing the current strategy

- Assuming that EU-domestic demand is increased sufficiently, the main aim becomes to develop future industries and improve the quality and attractiveness of goods
  - productivity-growth in areas where it is possible, also by means of transforming power structures (current structures discourage substantial risk-taking etc)
- **Holoreflexive planning:** (1) increasing trust and existential security & (2) creating the conditions for long-term sustainability.
- Qualitative improvements must be sought by arrangements that maximise the possibilities stemming from the existing know-how and diversity
  - cultivating know-how and diversity become key aims of policies (education; public investments; measures to induce and direct private investments etc)
- **Sustainable future world markets: new technologies must be made as green as possible, for example, by developing fourth generation sustainable energy technologies.**
- All this amounts to reversing the current strategy, involving (i) democratization of power-relations, (ii) more secure personal employment paths, and (iii) active economic and industrial policies – – the aim is to create an upward spiral.

# Seizing the concept of "structural reform"

- The true aim of structural reforms: breaking the gap between routine production and new emerging sectors of the economy
  - this calls for institutional experimentation (property rights, funding etc)
  - the collective history of humankind has enabled more efficient production; this suggests a major degree of socialization of the profits from the established large-scale production
    - ....bearing also in mind that a decreasing share of the workforce will be working in manufacturing
- Large corporations and their owners, and the leading business class, are conservative in trying to secure their own privileges
  - e.g. investment protection in free trade agreements = securing profits against changes
  - more generally: size is in itself a major factor in competition against other firms → tendency toward the entrenchment of a privileged position (value chains, tax planning etc)
- Structural reforms: making space for experiments also in organizational forms, i.e. achieving a maximally open space for cooperatives and democratic experiments, also by means of start-up money and other systems of support.

# The consequences of “Baumol’s disease”

- Deindustrialization → a growing share of services in the economy.
- In many service sectors, labour productivity does not rise at all; while in others only a little
  - orchestra music training takes as long as a hundred years ago and almost as many barbers are needed today as before to keep 100 people’s hair neat
- Economist William J. Baumol’s own solution in his well-known 1960s study was to increase the relative funding of sectors where labour productivity does not increase.
- As many of the services are best produced publicly, this means the expansion of the relative share of the public “sector” – and, at the same time, more limits to the potential for GDP growth
  - neoliberalism is, in a way, an attempt to go against the organically changing composition of the economy by means of privatization, outsourcing, new public management etc.
- There is nothing wrong with this “organic” development, however – – according to qualitative indicators, it is likely to mean an increase in sustainable welfare, though such connections depend on many factors and must be empirically demonstrated.
- Public organizations can and must be free and democratic, rather than based on steep managerial hierarchies and arbitrary power of the top leadership.

# The shape of things to come 1: the changing composition of political economy

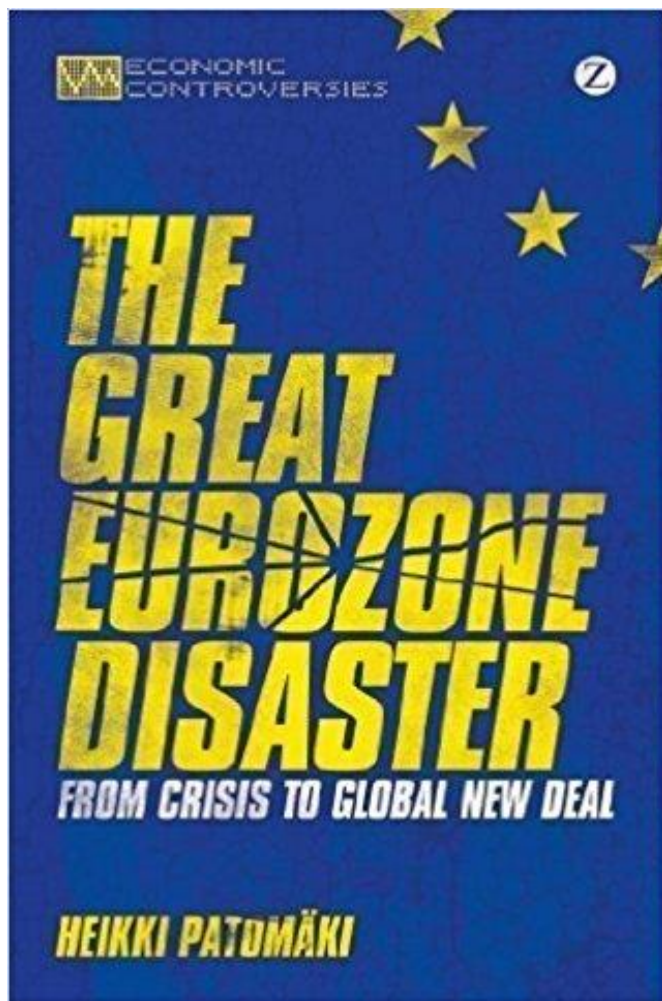
- In the future, agriculture and manufacturing will employ only a (very) small proportion of the workforce, yet it is in these areas that the benefits of new industries, product differentiation and economies of scale can be reaped
  - for example in Germany: the share of employment has declined from 40% in 1970 to 20% in 2016
  - significant growth comes from diversity and complexity that enable the development of new industries → while a progressively ever smaller proportion of people will work in manufacturing, it is essential to keep the required know-how as wide and deep as possible (diversity & complexity)
- H.G.Wells in 1920: "Perhaps 10% of the adult population will, at some point or another in their lives, be workers in the world's educational organization."
  - today we could set a new target: 10% of the adult population will, at some point or another in their lives, be working at universities or research institutes
- Apart from (1) social and health services and (2) education & research, (3) "services" consist of a wide variety of things, some of these are sustainable, some not
- Emancipation via trust and existential security can generate trust and hope also in the sustainable areas → self-reinforcing process of strengthening the aspirations of democratic left.

## The shape of things to come 2: global context matters, determining the conditions of success for alternatives

- Changing power-relations: for instance, a Common Consolidated Corporate Tax Base (CCCTB) would largely abolish corporate tax planning in Europe by creating a single set of rules for how EU corporations calculate their EU taxes
  - as a part of more general attempts to tackle global corporate power and value chains
- A left-cosmopolitan European Union would take part in building new worldwide institutions, its immediate goal being the establishment of global Keynesian-Kaleckian institutional arrangements, such as the Keynes-Davidson plan.
- Moreover, the process must involve support for workers' rights and trade unionization on a planetary scale, both out of solidarity and to increase global aggregate demand.
- A key aim: an adequate basic level of education for all, implemented in such a way that funding for realization of the universal right to education would also be seen as part of the global redistribution.
- As local and global struggles are closely interwoven, a possibility is to increase and intensify political collaboration across the world
  - toward a global political party



# More ideas and details



## Future of Economic Policy: From Theory to Practice

-Into 2015; English edition in progress



## Exits and Conflicts: Disintegrative Tendencies in Global Political Economy

(Routledge: New York &  
London, forthcoming in Sept  
2017)

**Thank you!**