Do Globalization, Deregulation and Financialization Imply a Convergence of Contemporary Capitalisms?

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INCAS
Understanding institutional change in Asia: a comparative perspective with Europe
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ABOUT THE INCAS PROJECT

INCAS is a Marie Skłodowska-Curie Actions R.I.S.E funded project under the European Commission's H2020 Programme.

The project INCAS aims at creating a top-level research and advanced training network on institutional change in Asia, in comparative perspective with Europe.
The coordinator, Ecole des Hautes Etudes en Sciences Sociales (France), promotes this network together with Oxford University (UK), Freie Universität Berlin (Germany), and in collaboration with Waseda University (Japan). The aim of the proposed mobility scheme is to give birth to a European consortium and network of faculties and advanced graduate students specialized in the comparative analysis of institutional change in Asia and Europe. The partners have chosen Japan as a reference point because of its comparability with Europe as shown by previous studies, its historical influence on development and further institutional changes in Asia, and the expertise accumulated within our research team.

Analyzing current economic dynamics in Japan and later expanding this analysis to other Asian countries promises to generate insights that might be help to better understand challenges for Europe and to prepare relevant policy proposals. Our purpose is to compare the results obtained in the case of Japan and few other Asian countries (South Korea, Taiwan, China, and possibly Thailand, after having checked the data availability), not only to previous results on Europe but also to original results we will get on European countries (primarily France – which will be our reference country in Europe – and then the UK, Germany, and Italy) in mobilizing new historical data and applying our theoretical framework.

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Abstract

Distinctive political compromises prevailed and explained various brands of capitalism observed from WWII to the early 1990s. Is this key finding by *régulation* research been still valid given the wide diffusion of common structural changes since the 2000s: slow productivity in the industrialized world, overwhelming impact of finance, rise of inequalities within many Nation-States in response to deregulation, social and political polarization, open conflict between capitalism and democracy, the trading place between mature and emerging economies? These stylized facts challenge most economic theories but they can be explained by an institutionalist and historical approach that also helps in redesigning a relevant macroeconomic approach. Each capitalism brand displays specific complementarities among institutional forms and their growing interactions imply more their complementarity than their frontal competition. Consequently, all capitalisms have been transformed but they do not converge towards a canonical configuration. The rise of nationalist movements may challenge the present international relations but they should not underestimate the economic and social costs of their protectionist strategy.

Keywords

Capitalism variety, Institutional complementarity, Global finance, Internationalization, Deregulation, National and international inequality, Capitalism and democracy, International relations.

JEL Classification

B52 - E02 - F62 - G28 - P51

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1. Introduction

The second phase of regulation theory research had stressed the need to take into account the significant diversity of institutional architectures of contemporary capitalisms. Distinctive political compromises prevailed and explained various brands of capitalism. This could explain their divergent trajectories since the end of the post WWII socio-economic regimes (I). Nevertheless the 2008 world crisis seems to bring many novelties exhibiting some common trends: slow productivity in the industrialized world, the overwhelming impact of finance, the rise of inequalities within many Nation-States, the social and political polarization, the open conflict between capitalism and democracy, the trading place between mature and developing nation-States (II). Can they be analyzed by existing economic paradigms, let them be new classical, Keynesian, evolutionary or Marxist and last but not least old and new institutionalisms (III)? None of these paradigms seems able to capture all the post 2008 stylized facts: this calls for a more syncretic approach to macroeconomics (IV). But conversely it is difficult to diagnose the emergence of a new canonical brand of capitalism featuring a new régulation mode (V). The more so, the more has internationalization implied the complementarity between finance led, external competition led and natural resources rentier regimes (VI).

The flow of the argument is the following. Whereas most conventional theories states that the same basic model applies to any economy with only minor adjustments, the 1980 and 1990 decades have falsified the hypothesis of a single pattern: the post WWII capitalisms have followed different evolutions that reveal major structural and institutional differences. Nevertheless, governments have implemented reforms inspired by a common vision: State intervention is the problem, market mechanisms are the solution. Opening to world competition, deregulation of product, labor and capital markets and global financial innovations have permeated quite any contemporary economy. This vision and these policies enter crisis with the spectacular collapse of the US financial system that diffuses to all other economies. National evolutions appear more synchronized than previously and governments now face unprecedented and largely common challenges: the adverse consequences of neoliberal reforms hurt a large part of population prone to defend national sovereignty over transnational economic logic. Nevertheless common pressures do not necessarily imply the convergence towards the same socio-economic regime. This hint borrowed from institutional economics has to be checked against some empirical evidence (Figure 1).

2. The previous world crises had revealed the variety of capitalisms

Until the 1970s, both macroeconomists and political scientists who analyzed the institutions of capitalism were convinced about the existence of a core modelling relevant for a common mixed economy configuration. But since the 1980s, the evolutions of the US, German and Japanese economies have revealed clear differences. This is the origin of Peter Hall and David Soskice (2001)'s Variety of capitalism analyses. Liberal capitalism is not the only, nor the most efficient configuration. For simplicity's sake, they propose to dichotomize the distribution of the various forms of capitalism. From a régulationist perspective, it is difficult to accept that the dichotomy of two polarized models can account for an entire distribution of modern economies. All studies (Boyer, 1991; 1995; Amable & al., 1997; Théret, 1997; Amable, 2003) have converged to reveal at least four configurations (table 1).

- *A market-oriented capitalism* in which a typical market logic, adopted by the entities in charge of competition supervision, constitutes the main organizing principle for almost all coordination procedures. In this group we find all of the English-speaking countries

- *The meso-corporatist capitalism's* driving principle is the exchange of solidarity against labor mobility within conglomerates large and diversified enough to survive temporary booms and busts. Japan and Korea are two examples of this configuration.

- *A state-driven capitalism* is characterised by an economic circuit where most of the components (innovation, production, demand, industrial relations, credit, etc.) are moulded by a myriad of public interventions occurring at a national, regional, or local level. This configuration is typical of the continental countries taking part in the European integration process.

- *Social democratic capitalism* is based on frequent negotiations between social partners and public authorities concerning the rules governing most of the components of social life and economic activity. The Scandinavian countries are flag-bearers for this model.

Figure 1 – The synopsis of the present article

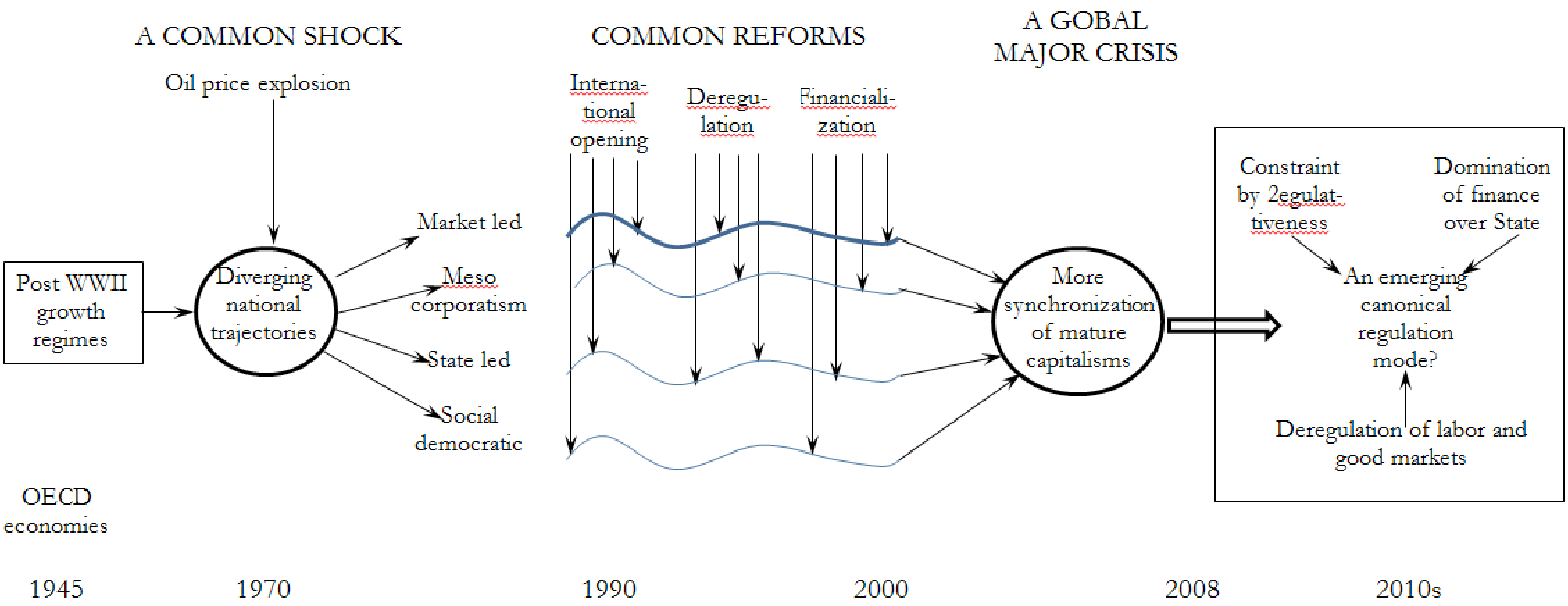


Table 1 – A taxonomy for OECD national economies

	REGULATION			
	MARKET-ORIENTED	MESO-CORPORATIST	STATIST	SOCIAL-DEMOCRATIC
1. OVERALL LOGIC AND HIERARCHICAL PRINCIPLE				
	Commercial logic is the organising principle for almost all of the institutional forms	Principle of solidarity and mobility in an economic unit that is large in size and diverse in output terms	Economic circuit shaped by public interventions in areas like production, demand and institutional codifications	Social partners negotiate rules governing most aspects of society and the economy
2. IMPLICATIONS FOR INSTITUTIONAL FORMS				
Wage labour nexus	Significant decentralisation of wage bargaining, individualisation of pay and segmentation of labour market.	Wage compromise within large companies but pay hikes are synchronised	Trend towards a strong institutionalisation of rules on employment, working hours, wages and social benefits	Traditionally with a centralisation of collective negotiations, under a constraint of short and medium-term competitiveness
Competition	Concentration restricted by legislation, reshuffling from one oligopolistic type of competition to another	Relatively intense in the product markets, involving big companies with activities in many different markets	Moderate seeing as it is channelled by by public regulations or by professional associations, with high degree of capital concentration	Small number of big firms (that are also highly internationalised and thus have to compete)
Money and finance	Central bank is independent, financial market logic prevails, financial innovations proliferate, companies are tightly run by a financial logic	Role of main bank and keiretsu in funding and capital allocation. State authorities (financial supervisors/Central Bank) have tight control	State has tight control over credit and monetary policies. Traditionally the Central Bank has had little autonomy to speak of, the financial sphere having played a crucial role	Most funding is by the banking sector. Monetary policy aims to enhance employment and at a later date competitiveness
The State	Fragmented into series of agencies and control entities, growth possibilities are highly restricted because of competition in the political marketplace	Ensures provision of collective services plus coordinations that the big firms are incapable of running. Small size but significant role	Strong quantitative and qualitative development of State interventions: nationalised companies, regulations, public spending, social benefits, etc.	Multitude of public interventions lead to financial transfers and extensive and restrictive regulations
Insertion into international system	Adhesion to free trade principles, degree of autonomy varies depending on status and size (differences Us vs. UK)	Trade and finance-related choices are conditioned by imperative of technological and economic development.	Traditionally with a a tight State control over external relations (tariffs, norms, quotas, restrictions on financial flows).	Acceptance of competitiveness principle based on technological and organisational innovation

Source: Amable, Barré, Boyer (1997: 194-195).

In a sense, this includes and generalises the dichotomy between LME and CME, since the two other forms are more than simple intermediaries between market-oriented and institutional coordination. Both are built on original principles the purpose of which is to smooth out economic imbalances and to overcome social conflicts. For example, we find an equivalent complementarity between the innovation system and type of capitalism to that we observe in the United States (Hall & Soskice, 2001: 42–43), but now the hypothesis that competitive advantage stems from one's institutional endowment is extended to statist and social democratic capitalisms, each deploying an economic specialization that differs from its two predecessors. VoC seems to prefer parsimony to the detriment of precision or more relevance, whereas RT prefers the other way around.

This taxonomy is two decades old and since then many structural changes have taken place. What are they and have they brought a form or another of convergence of the various brands of capitalism?

3. The novelties of the post 2008 decade: many common features

Most of expectations by leading economists have been disappointed: a new productive paradigm should emerge from ICT, financial innovations were assumed to deliver more efficiency in the allocation of capital and bring macroeconomic stability. Within such a context, higher growth would push employment and reduce income inequalities, and the alliance between renewed capitalist impulses and the diffusion of democracy would open an un-precedent era under the aegis of Western world. Last but not least, free trade was promised to unleash an unlimited prosperity. Quite unexpected transformations have wrecked this grand scenario.

3.1 The slow down of productivity and the threat of a zero sum game society

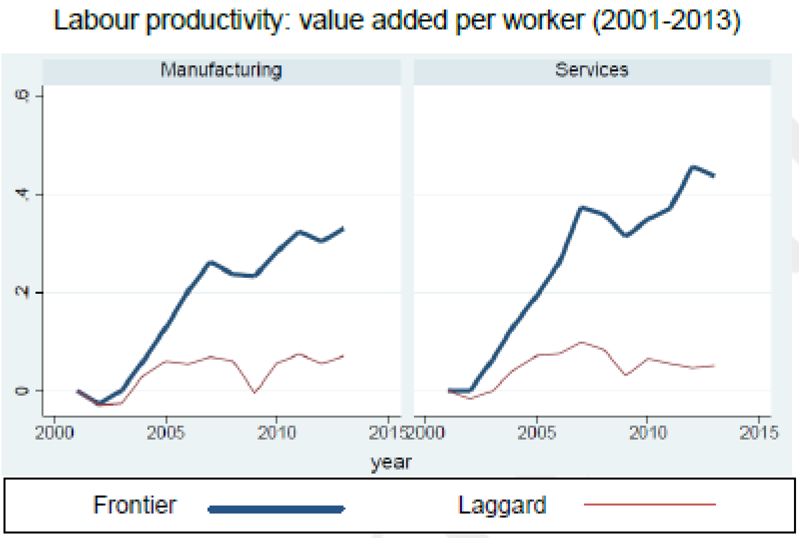
The productivity puzzle of the 1990s – Computers are everywhere except in the productivity indexes- surfaces again after the 2008 crisis: the media praise the dynamism of new entrepreneurs building empires out of radical innovations, but National Accounts point out the quasi stagnation of hourly labor productivity, especially in the US and UK (Graph 1). It is more and more difficult to invoke the long lag between a promising innovation and the building of an entire industry: Amazon, Google, Apple and Facebook exist and prosper on the stock market valuation as sun rise firms?

Graph 1 – A quasi stagnation of hourly Value added in finance led countries and Italy

Source: OECD Compendium of Productivity Indicators 2017, May 18 2017.

A more convincing analyse shows that the productivity paradox may originate from the poor diffusion of technical advances from the minority of frontier technology firms to the rest of the economy (Graph 2). Thus a growing productive heterogeneity could be the hidden source of productivity stagnation: after all the ICT are not the equivalent of the generic technologies that launched the post WWII mass production and consumption era (Gordon, 2016). This is a challenge adressed to most economic theorizing of the link between innovation and productivity.

Graph 2 – The widening labour productivity gap between frontier firms and laging firms



Notes: the global frontier is measured by the average of log labour productivity for the top 5% of companies with the highest productivity levels within each 2-digit industry. Laggards capture the average log productivity of all the other firms. Unweighted averages across 2-digit industries are shown for manufacturing and services, normalized to 0 in the starting year. Services refer to non-financial business services. See details in Section 3.3.

Source: Authors' calculations based on the recent update of the OECD-Orbis productivity database (Gal, 2013)

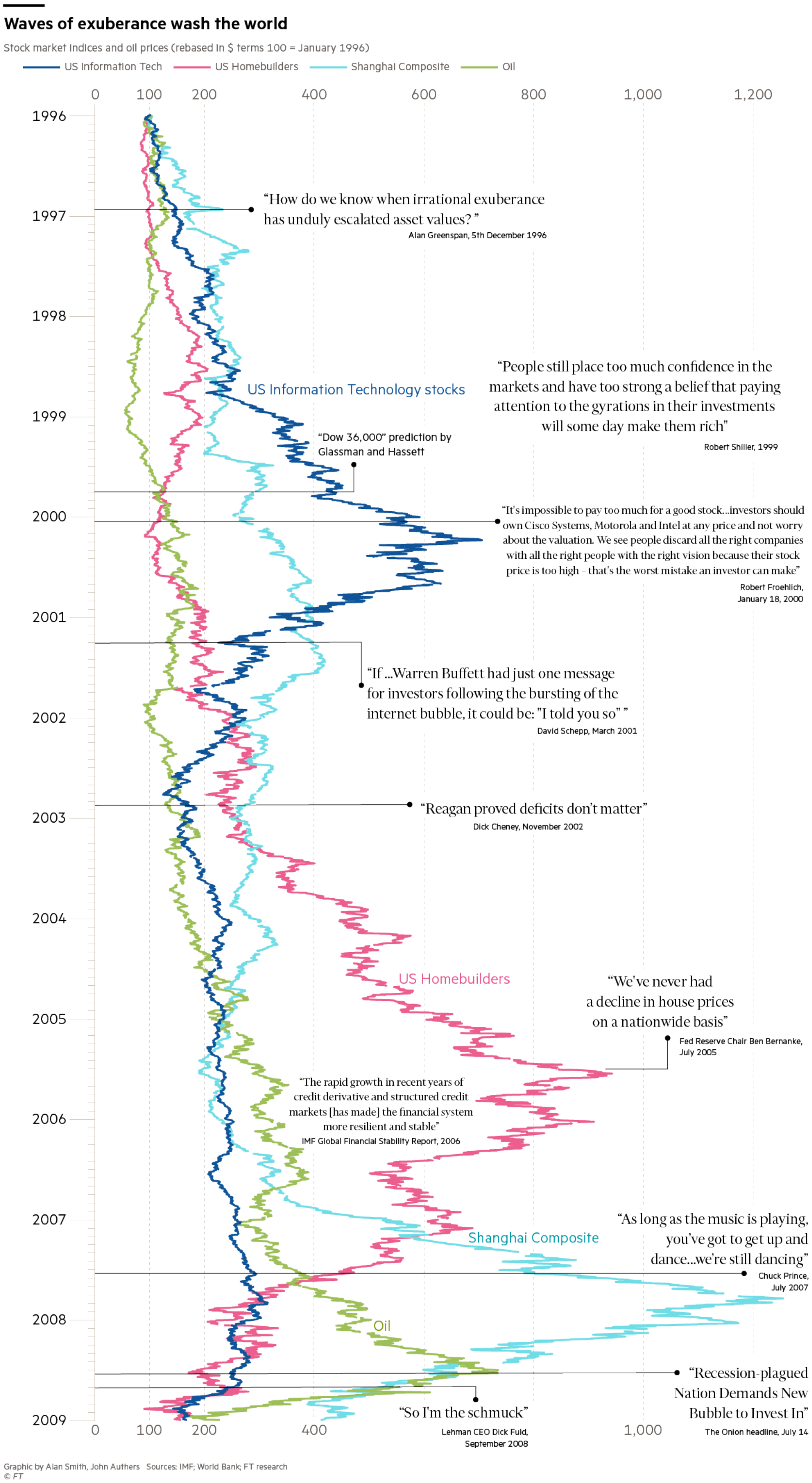
Source: Andrews Dan, Chiara Crisuolo and Peter Gal (2016), The global productivity slow down, Tecnology divergence and public policy: a firm level perspective,www.oecd.org/global-forum-productivity/Lisbon2016

3.2 The domination of finance over macroeconomic evolutions

Thus contrary to a widely accepted vision, the US growth is not led by large and effective productivity increases but by the expectations of high returns of various innovations, technical or financial, and the opening of new territories to speculation. Stock market traders are prone to bet on the ICT in the late 1990s. The surge of real estate is the response to credit derivatives explosion in the early 2000s. The partial opening of Shanghai stock market to foreign capital ends up into a frantic speculative bubble that is a follow up to the bursting out of the subprime fever. The time has come for oil contracts to become speculative instruments and the hype is stopped by the plummeting of oil prices after 2015 (Graph 3).

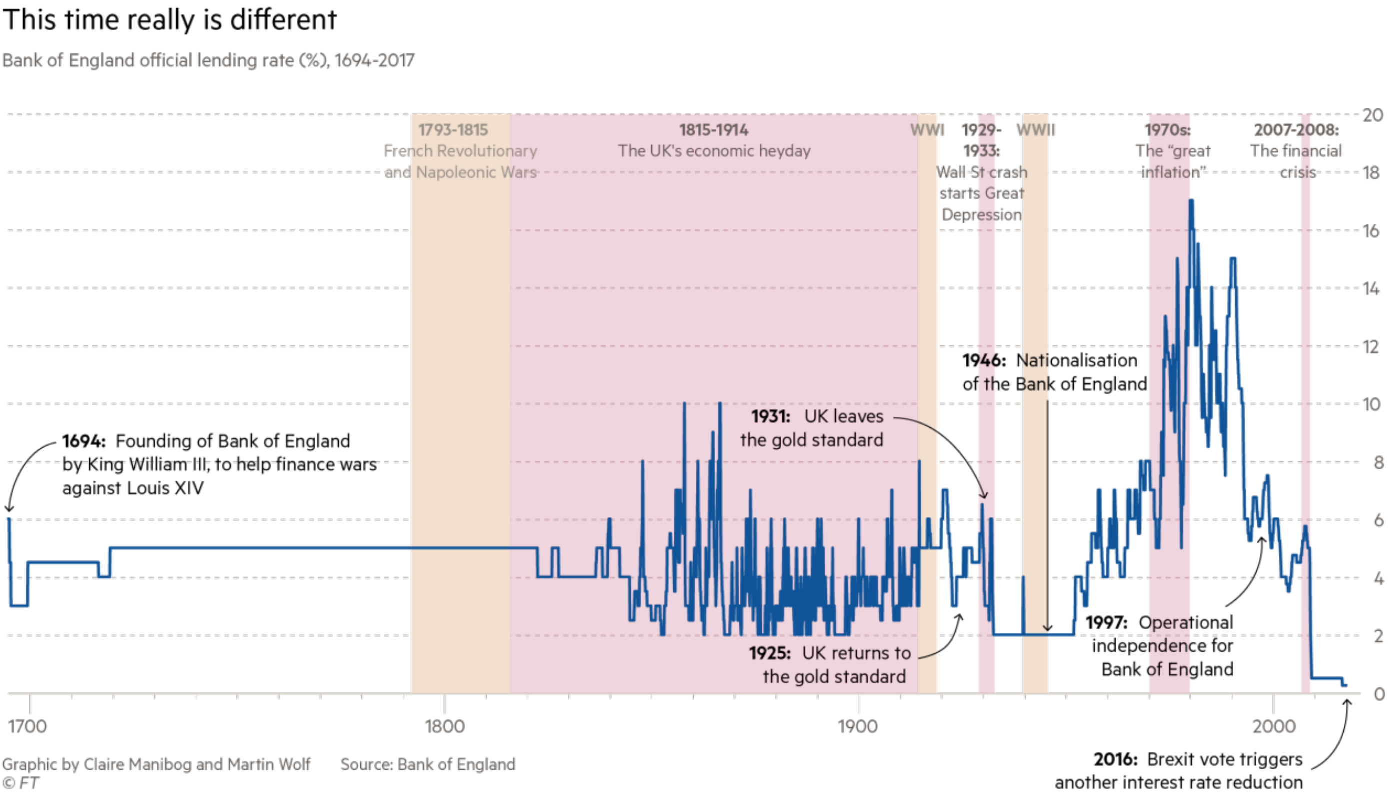
The financial unbalances have thus been recurring without a rapid catching up of growth that would validate the past audacious bets over future returns. In order to prevent the repetition of the dramatic depression and deflation of the 1930s, Central bankers had to accept the massive bailing out of banks by fully opening of the open market and they bought bad credit and toxic products. In some extreme cases lending rate became slightly negative but the hyperinflation that monetary and many German Scholars expected did not materialized. The practice of pragmatic practice of Central Bankers is far ahead the required theorizing by economists (Graph 4).

Graph 3 – Contemporary economies are exuberant



Source: Financial times (2017), The warning from history that Wall Street ignored, 7 august https://www.ft.com/content/f762413e-76df-11e7-a3e8-60495fe6ca71

Graph 4 – Monetary policies explore unchartered territories: a lending rate near zero (UK 1800-2016)



Source: Wolf Martin (2017), Nothing like this has happened in 323 years *Financial Times*, 16 august.

3.3 Financial liberalization, inequality within and among nations

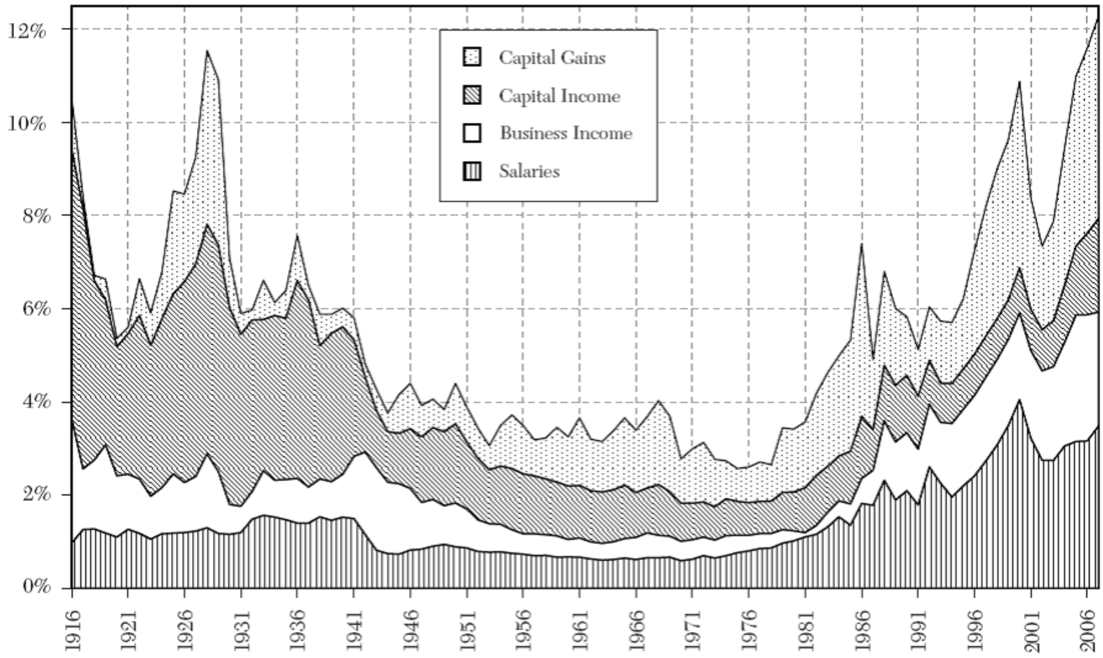
The codification and institutionalization of competition, labor and credit allocation had allowed a synchronization of technological advances with a general rise in standards of living. Income inequality had reached very low levels in historical perspective. The long run process of product, labor and finance deregulation brings a differentiation of remuneration by sectors, skills, firm size: the logical outcome is an impressive surge of income inequality in mature economies. The explosion of remunerations linked to finance is emblematic of the long lasting impact of such deregulation strategies (Graph 5).

Graph 5 – Deregulation and income disparities: The US banking sector

(1910-2010)

A systematic analysis of the source of the income for the upper decile of american tax payers confirms this overwhelming impact of financial deregulation (Graph 6). Of course labor market deregulation adds to the widening of income inequality but this not the major driver of the transformation of the US society. This concentration of income and wealth was assumed to restore a fast and stable growth via trickle down effects: incentives to work effort, more investment and promotion of innovation. Unfortunately growth rates never reached again the level of the Golden Age and economic instability has triggered a succession of financial and economic crises. A fresh approach concerning the links between macrodynamics and inequality is required.

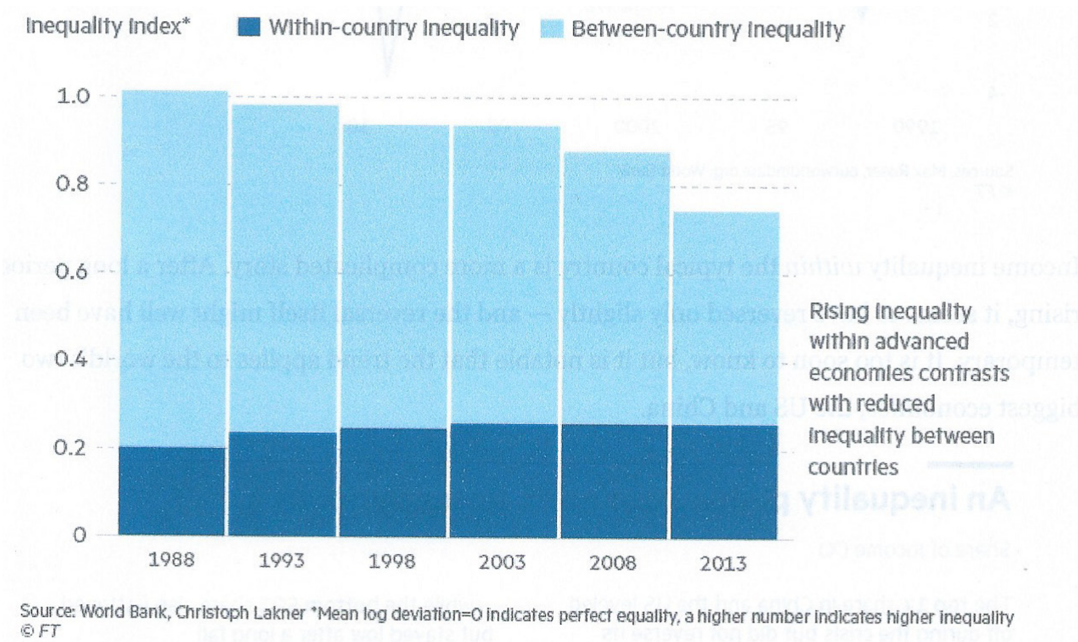
Graph 6 – Capital Gain and Income are the Main Sources of the Rise of Inequalities from the Top of the Distribution (Higher percentile)



Source: Atkinson Anthony B., Piketty Thomas, Emmanuel Saez (2011), "Top Incomes in the Long Run of History", *Journal of Economic Literature*, Vol. 49 (1): 8.

The issue of income inequality is also a discriminating test against the fallacy: "The same theory and model for all". A converging set of researches shows that the opening to world trade has reduced the income gap between developed and developing countries (Graph 7). This is an invitation to take seriously the variety of national growth regimes.

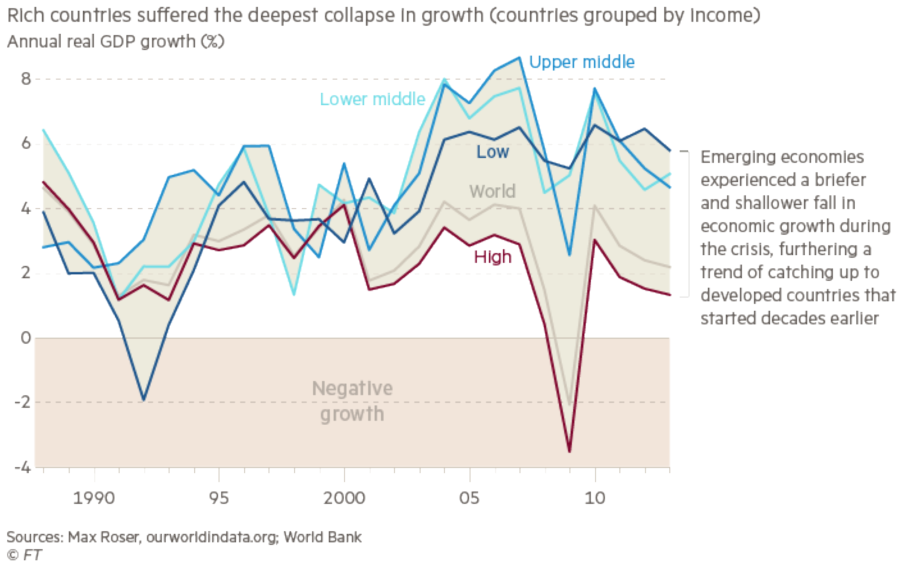
Graph 7 – The opposing forces influencing global income inequality



3.4 Economic dynamism and financial disequilibria migrate to developing countries

The coexistence of opposite mechanisms at the domestic and international levels makes the world economy a complex dynamic system. Since the industrialisation of the western world the gap between standards of development and livings had been widening, supporting the intuition that the club of industrialized countries had been closed. In the 1970s the rise Japan, Asian dragons, China and ultimately India has challenged this vision but the US economy remained the engine of growth and stabilisation for the rest of the world. The 2008 world crisis still originates from the US and diffuses to quite all national economies but for the first time the BRICS and especially China have a stabilizing role by softening the risk of world depression by continuing to grow in response to vigorous reflation programs. Furthermore the ongoing catching up in terms of productivity means that emerging countries GDP overcome that of mature economies. Consequently whereas previously world recessions were more acute in low income countries, in the 2010s they are milder (Graph 8). Conceptually this might mean that the hierarchical domination of old industrialized countries has evolved towards a mutual interdependency: for instance Chinese authorities do contribute to the evolution of international relations and thus the North American Government cannot act as a pure Stackelberg leader, because it has to cope with partially autonomous policies implemented by China.

Graph 8 – Macro stabilization at the world level: trading places between low and high income countries



Source: Cardiff Garcia (2017), "How global income inequality has shifted since the crisis", *Financial Times* 24/08/2017.

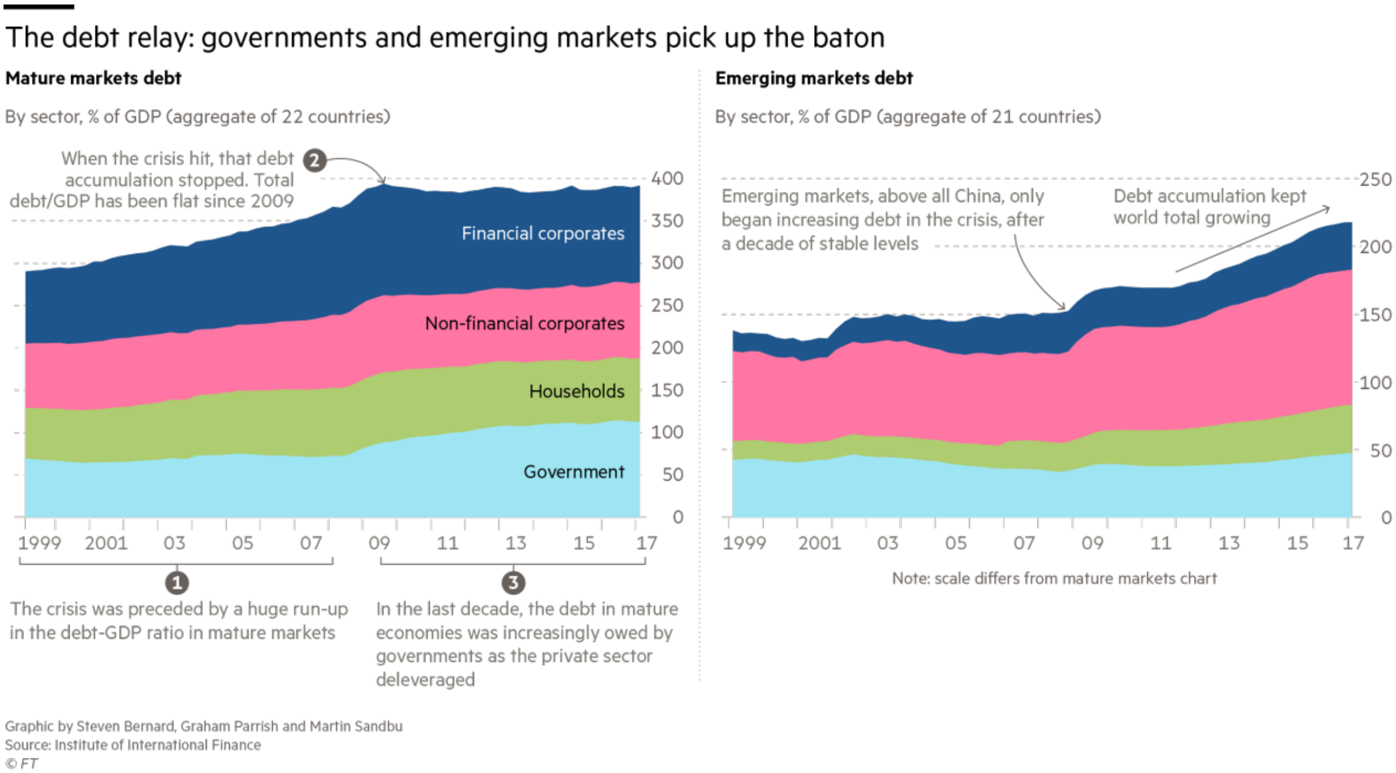
Is this rapid catching up of emerging economies sustainable in the long run? Not necessarily because they are reiterating the dangerous process that led to the collapse of the North American financial system and the 2008 Great Recession. The Chinese government is recurrently relaxing the credit to large nationalized firm in order to limit the normal deceleration of growth in response to the progressive exhaustion of the previous engine of growth: productive investment and net export. The effectiveness of this policy is continuously declining because credit tends to prolong a development strategy that belongs to the past (Boyer, 2016). Consequently the world financial stability faces a dual challenge (Graph 9):

- On one side since 2008 in mature economies, a significant deleveraging is taking place for private actors but the counterpart is a swelling public debt that limits the autonomy of governments and pushes a misallocation of capital against the productive investments that would prepare growth recovery and the return to financial sustainability.

- On the other side in emerging economies, especially in China, leveraging is extended in order to favor investment in spite of massive overcapacities in major sectors and the absence of surge in private consumption: the economy is approaching the zone of financial fragility. This is a form of Minsky process when a buoyant credit is preparing the brutal reversal of capital accumulation.

The precise institutional architectures differ largely but seemingly, the future of growth and the financial crisis risks have been delocalized from North America and Europe to Asia. This is still another challenge addressed to all theories

Graph 9: Credit exuberance migrates from mature to emerging economies.



Source: Martin Sandbu (2017), "The credit crisis did not lead to deleveraging", *Financial Times*, 24/08/2017

3.5 Polarisation of societies under liberalisation and globalisation

Let us now turn to mature economies social transformations. Three major electoral events have pointed a surprising convergence between the Brexit vote in the UK, the election of Donald Trump in the US and the rising electorate for Marine Lepen in France. These surprises brutally reveal the growing divergence between political, financial and economic elites and the perception by citizens at the grass root level. This polarization materializes the general feeling by middle class and working class that social mobility has been significantly reduced during the last two decades. It is important because the belief that the majority of the population now belonged to middle class was quite important in pacifying social conflict and the design of rather consensual political program, only moderately affected by the succession of right and left parties, labor and conservative party. The survey conducted for the UK is quite illustrative (table 2).

Table 2 – A growing perceived difficulty of moving between classes, 2005- 2015, UK

Class identity (prompted)		Very difficult	Fairly difficult	Not very difficult	*Unweighted base*
2005					
Middle class	%	13	47	40	*700*
Working class	%	23	46	32	*1121*
All	%	19	46	35	*1857*
2015					
Middle class	%	17	54	30	*443*
Working class	%	25	51	24	*615*
All	%	21	52	26	*1058*

Source: NatCen Social Research (2015), British Social Attitudes, Social class, p.5.

A second dimension has to be added: all the social groups have not the same perception about the impact of internationalization of economies and financial globalization. In the UK, the blue collar workers and self-employed declare themselves very preoccupied by immigration, whereas upper classes do not express the same fear. Similarly, the less privileged tend to favor authoritarian parties, at odds with the rest of society. The social surveys about Britain were pointing out this divergence, largely unnoticed and neglected by policy makers (table 3).

Table 3 – Political orientations and attitudes towards immigration by occupation and class identity, UK, 2015

		Liber-tarian	Author-itarian		Left	Right		Anti-immigrant	Pro-immigrant
Occupational class									
Managerial and professional	%	59	41	%	44	56	%	46	54
Intermediate, self-employed and lower supervisory	%	39	61	%	51	49	%	65	35
Semi-routine and routine	%	40	60	%	58	42	%	69	31
Class identity									
Middle class	%	55	45	%	40	60	%	48	52
Working class	%	40	60	%	49	51	%	65	35

Source: NatCen Social Research (2015), British Social Attitudes, Social class, p.13.

Such a transformation is not specific to the UK. First of all this polarization of public opinion between pro- and anti-Europe movements is not specific to UK. It is present in Central and Eastern Europe (Hungary, Poland, Czech Republic…) but also in the core of the founding nations of the European Union (France, Netherlands…) as shown by the Eurobarometer of July 2016. During the process leading to the Euro, surveys had shown a clear opposition between, on one side the likely winners (large firms, professionals, young people with academic degrees) who thought that they would gain, on the other side probable losers (small firms, low skilled workers, welfare dependent, retirees) who declared to be pessimist about the evolution of their personal position after the Euro (Boyer, 2000). By the way, in 2005, the Dutch and the French citizens have rejected by referendum the project instituting the Euro but a slightly modified European Treaty was finally adopted by the Parliament. The Brexit vote is simply updating this polarization of European societies: for the Remain group, multiculturalism and acceptation of immigration were assumed to be good for society, but detrimental for Brexiters (Ashcroft, 2016).

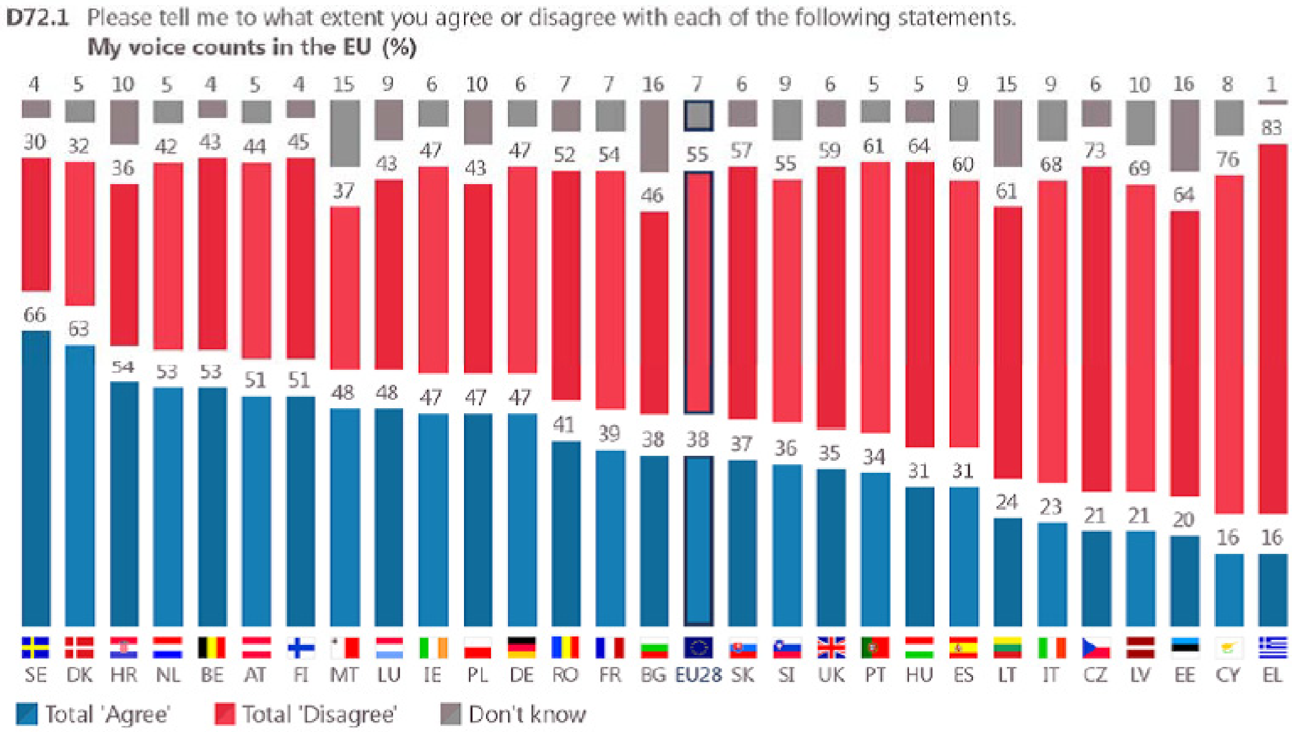
This novelty calls for an aggiornamento of socio-economic research: the representative citizen is a dangerous misrepresentation of contemporary societies that do not oscillate around a median voter who perceive herself as belonging to a large and homogenous middle class. This has definite consequences over economic policy conduct and the future of international relations.

3.6 The end of the synergy between democracy and capitalism

The structural changes already pointed out, set into motion a dangerous process whereby the smooth functioning of democratic institutions enter into conflict with the autonomy of economic transnational forces. The quasi stagnation of total factor productivity converts income distribution into a zero sum game. Had been still binding the institutionalization of income distribution by collective agreements and public transfers, the outcome would be an equal austerity for all social groups. But with deregulation and decentralization market mechanisms take back control of remuneration and this allows divergence across skills, sectors, geographical areas for wage earners (See Graph 6 supra). Nevertheless the larger heterogeneity of individual real incomes does not take place among wage- earners themselves but with the small fraction of the population that holds capital: the first group income is at best indexed on productivity, the second one on a multiplier of stock market indexes. Thus the divergence between individuals income is largely the projection of the functional distribution of income between wage and profit, a form of repetition of the interwar period, quite a break with respect to the post WWII Golden Age (Piketty, 2015).

This strong dividing line in the economic sphere is converted into the power to influence State policies in the direction of less progressivity of personal income tax, a "rationalization" of the supply of public goods (education, health, family allowances, unemployment benefits) (Stiglitz, 2014). Whereas capital-owners benefit from internationalization that opens new territories for their investment and that relaxes the previous complementarity between domestic mass consumption and mass production, the less skilled workers are hurt by the competition from industrializing countries. Consequently the governments are frequently perceived to be captured by the limited but powerful group of internationalists. This contradicts the democratic principle of equal participation of each citizen to key political decisions. The same criticism is addressed to the building of supranational institutions: in the European Union many national public opinions blame the lack of accountability of many Brussels decisions and directives. Member States are more and more economically interdependent but the organization of democracy has not become transnational enough (Graph 10).

Graph 10: European integration but no democratic advances

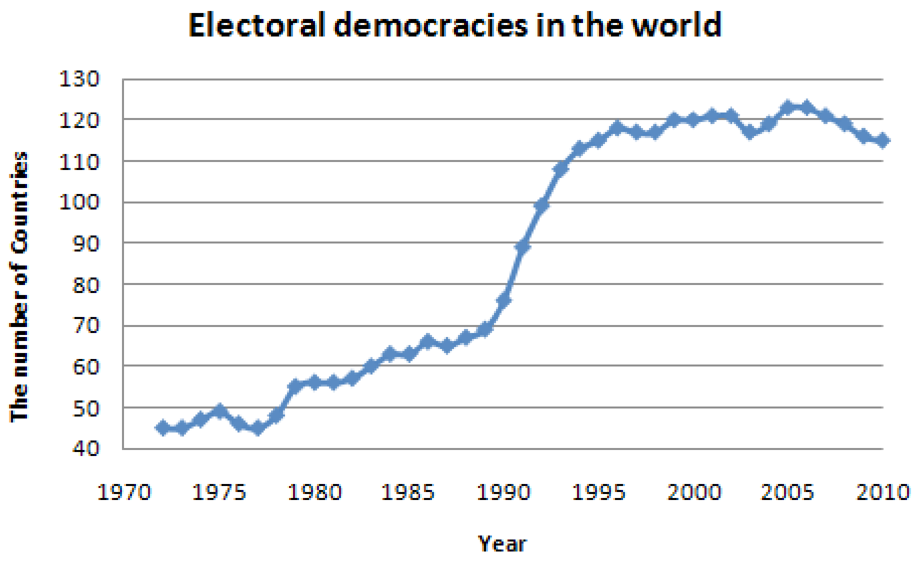


Source: European Community, Eurobarometer July 2016

But the conflict between economic efficiency and social justice, between capitalism and democracy is not specific to a dysfunctional European integration. It has a still more structural important origin, the domination of finance over democratic principles (Streeck, 2016). In the past powerful national states used to control domestic financial systems and they could thus respond to citizens demands. Today they are so highly indebted that international finance has become the key referee in economic policies decisions to which citizens have to comply with in the name of economic rationality.

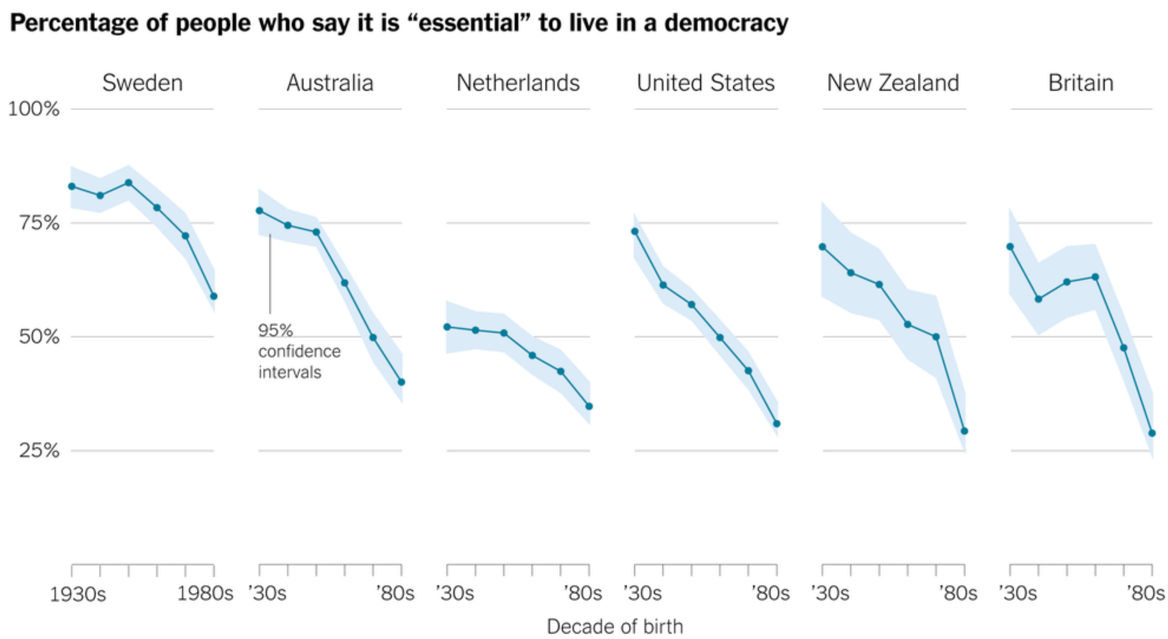
The collapse of Soviet Union back in 1989 was generally interpreted as the victory of the alliance between democracy and capitalism as defining the universal socioeconomic regimes of the future? De facto this opened a surprisingly rapid diffusion of electoral democracy (Graph 11).

Graph 11: A peak for the number of electoral democracies in the 2000s.



Nevertheless some countries have abandonned electoral democracy in favour of more autocratic and populist regimes in the recent years but there is a more preoccupying feature: through the succession of generations democracy is perceived as less and less essential (Graph 12). The issue of governability of modern societies is at stake sinceany major decision opposes two camps with antagonic representations and ideologies: cosmopolitism versus nationalism, state versus markets, emotions versus rationality.. This brings unprecedented levels of political uncertainty into the economy.

Graph 12: New generations are less and less concerned by democratic values

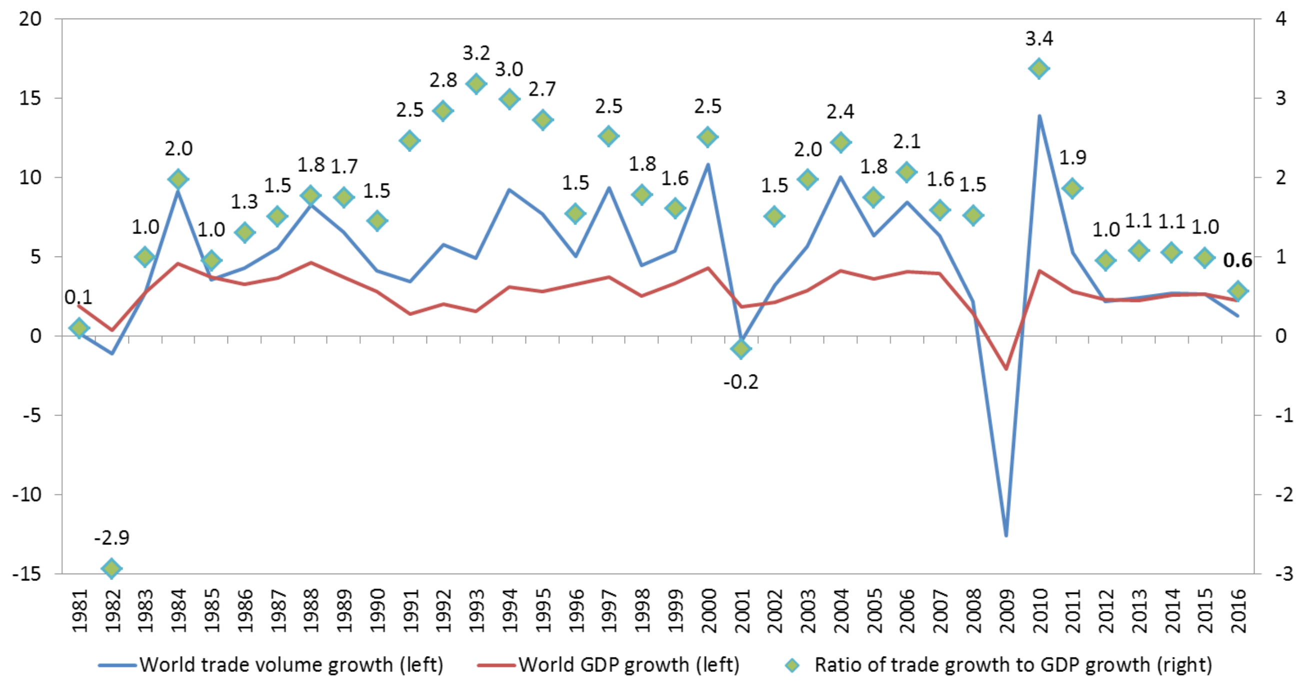


Source: https://static01.nyt.com/images/2016/11/29/world/americas/democracy-interpreter-1480452951332/democracy-interpreter-1480452951332-facebookJumbo.png

3.7 The peak of globalisation and the search for national sovereignty

The polarisation of contemporay debates around the oppsition between an internationalist elite and the defenders of an absolute national sovereignty might suggests that is the main source of the reversal of globalisation trends is political. Many statistical investigations suggests that the intensification of global value chains has peaked before the Brexit vote and Donald Trump presidency. Since 1981 world trade used to grow faster than world GDP but it is no more the case and the brutality of this reversal is impressive (Graph 13). The reduction of tarifs, the delocalisation of production facilitated by ICT, the reduction of transportation costs due to acute competition and the mobilisation of very low labor costs, all these factors seem to have delivered most of their potential benefits.

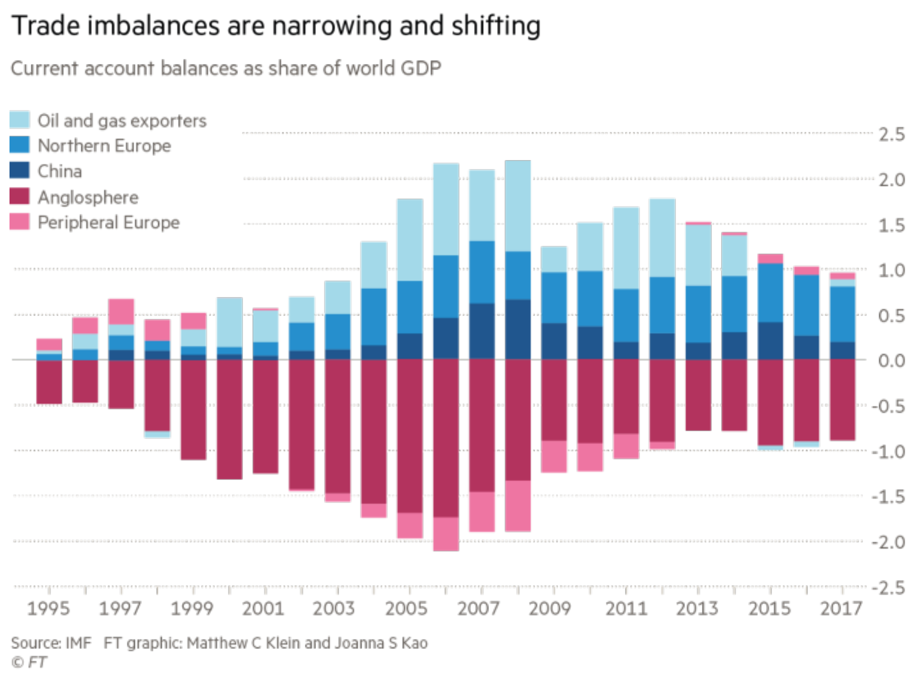
Graph 13: Since 2011, international trade is not any more the engine of world growth



Source: https://www.wto.org/english/news_e/pres17_e/pr791_e.htm

The rise of trade imbalances observed since the mid 1990s has stopped after 2008 and the polarisation between the US and UK deficits and the German and Northern Europe surpluses is significantly reduced. (Graph 14).

Graph 14 : Trade imbalances are narrowing and shifting after 2011

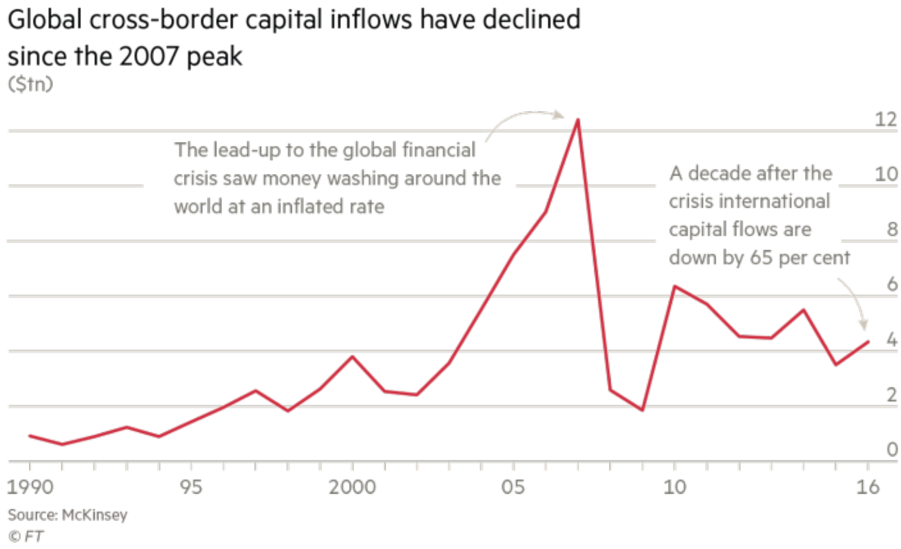


Source: Financial Times (2017), Globalization in retreat: capital flows decline since crisis, 23 August.

Symmetrically this means that the net international financial transfers have been decreasing and the domestic financial systems are more inward looking, may be in response to the inability to elaborate and implement common international regulatory principles (Graph 15).

Graph 15: Global cross-border capital inflows have declined since 2007 peak

(Trillions Dollars)



Source: Financial Times (2017), Globalization in retreat: capital flows decline since crisis, 23 August

These reversals of past trends support the hypothesis that globalization might well have reached its apex with the bursting out of the 2008 crisis. If so, theorizing should not extrapolate the past regularities and it should be open to a careful assessment of the novelties of the 2010s.

4. Can existing theories capture the novelty of the 2010s?

Basically after WWII the American economic analysis originated from an impressive clarifying effort of the concepts inherited from British political economy. Theorems could be deduced from quite few axioms and propositions from pure theory could be tested by adequate econometric techniques. The Keynesian approach had proposed to revise some core hypotheses concerning labor and finance in the light of the observation of new characteristics of the interwar British economy. In turn the maturing of the post WWII growth regime monitored according to Keynesian ideas feeds the return of a more fundamentalist approach of a pure market economy. This culminates with the domination of the new classical macroeconomic theory: the walrasian model becomes the benchmark and it reassesses the primacy of axioms over observation, simulation and calibration over refutation by econometric tests. The structural transformations of contemporary capitalisms are simply ignored as negligible compared with the intrinsic and universal properties of a market economy (Table 4).

- No surprise if *the new classical macro theory* is the less equipped to explain the seven stylized facts under review: productivity stagnation is tautological explained by a negative technology shock, finance does not exist and thus it cannot cause any economic crisis, the representative agent totally hides the polarization of most societies, polity and economy are conceptually autonomous spheres and for simplicity sake the economy is closed and this prevents any contagion of disequilibria from one country to another. Furthermore why do emerging economies have been catching up since the 1990s and not before if according to the neoclassical growth theory frontier technology is a public good available to any firm or country? The search for axiomatic purity clashes with the criteria of relevance).

- The *Keynesian and post-Keynesian theories* are more respectful of some features of the 2000s. The Minsky model proposes some of the mechanisms that generated the internet and then subprime bubbles. It can be extended to explain how the high return of financial instruments has diverted capital allocation away from the productive investment that would have engineered a recovery of productivity and growth. The contrasted dynamics of wage and capital remuneration have definite consequences for personal income distribution. For Post Keynesians, erroneous austerity policies have exacerbated the social divide between rich people and the majority of the population. The hot issue of globalization is not easily dealt within this paradigm that continues to consider mainly isolated national economies. Nevertheless Keynesians do have a point of view on some key issues of contemporary world.

- The *Neo-Schumpeterians* are part of a larger evolutionary paradigm that points out the endogeneity of innovation in terms of products, processes and organizations and its leading role in economic dynamics. The stagnation of

Table 4 – The last decade stylized facts: testing alternative theorizing

Stylized facts / Theory	Productivity slow down	Finance led economies	Inequality	Catching-up of developing countries	Social polarization	The peak of globalization	Capitalism / Democracy Conflict
New classical	Only negative exogenous productivity shock	Black spot	The myth of representative agent hides the issue	Implicit (neoclassical) growth model)	Only individuals no society	Mainly closed economies	Separation economy / polity
Keynesian : Post-Keynesian	Negative impact of financial volatility and high returns on productive investment	Minsky cyclical accumulation model and Financial instability	Sources of slow growth	No clear concern	Indirectly via consumption and saving	No concern	Caused by erroneous policies
Neo-Schumpeterian	- Misdirection of innovations from production to finance - Large lag between innovation and production	Diversion of innovation from production to finance	Consequence of a new wave of entrepreneurs	International diffusion of techniques	Can be mitigated by training and redistribution	Maturing of international division of labor	Social democracy versus liberal capitalism: the distribution of innovation benefits matters
Marx	Exhaustion of past source of exploitation (capital deepening, labor intensity, delocalization)	A typical feature of mature capitalism (Capital, book 3)	Direct consequence of unleashed competition	Pervasiveness of capitalism that removes past barriers	Return to pre-WWII societies: labor versus (financial) capital	The endogenous limits of capital accumulation at the world level	Domination of State by capitalist interests
Institutionalist Political Economy	- Impact of labor flexibility upon incentives to technical innovation - The uncertainty about the next development mode inhibits investment	Consequence of a new hegemonic bloc dominated by financiers	Consequence of de-institutionalization of wage formation	Role of developmental States in Asia	Consequence of deregulation	Endogenous creation of protectionist/nationalist social movement	Loss of autonomy of State intervention

productivity in mature economies is interpreted by a long period of adjustment of all organizations and institutions to the technological opportunities. The emergence of new industrializing countries is up to their diffusion outside North America and Europe in response the delocalization of value chains under the aegis of multinationals. Nevertheless no development can be exponential indefinitely since the typical pattern of any social system of innovation looks like a logistic curve. Growth can only recover with an innovation powerful enough to trigger another wave of growth. One line of research points that any wave of radical innovations initially fosters mechanically a widening of income and wealth inequality but their wide diffusion reduces progressively the innovation rents and leads to a more balanced distribution of income. Another approach inspired by socioeconomic investigations stresses that some institutionalized compromises distribute rather smoothly the dividends of innovation whereas in typical market led capitalisms, innovators are part of a competitive game where the winner gets all. Thus any paradigm only captures a fraction of the processes operating in really existing economies and it is not always incompatible with some hints at the heart of another one (see section IV infra).

- *Contemporary Marxist* analysts take seriously the transformation in basic social relations that define a capitalist economy. In response to the deregulation of so many markets the typical patterns of competition led accumulation resurface in modern economies. Finance is leading the ups and downs of the economies where productive capital is submitted to the logic high returns and the contradictions of capital show up during severe financial crises. Under its own laws of motion the capital/labor conflict leads to recurring crises and it unleashes widening income inequality among two groups: wage earners living out of the sale of their labor force on one side, capital owners let them be entrepreneurs, financiers or rentiers on the other. The new industrialized countries show that capital accumulation naturally tends to cross political borders and thus the domestic political processes are overwhelmed by the opportunism of transnational corporations. Nevertheless no source of exploitation can continue forever unchanged and the so called productivity puzzle – more innovations than ever but no hike in productivity indexes- can be partially explained: capital deepening encounters limits, work intensity and wage concessions find clear social resistance, the delocalization ends up against the rise of skilled workers wages. *Karl Marx is back* but not with the victory of proletariat since the winners of class struggle are, for the time being, the capitalists themselves. From a purely analytical point of view the Marxist paradigm is too enlightening to be discarded as nonsense and ideology. This is the surprising outcome of a bizarre u-chronie, i.e. a partial return to competition and finance led capitalisms.

- *Institutional political economists* build upon the heritage of all the previous approaches and they aim at taking seriously the variability in time and space of the complex interactions between polity and economy that allow a multiplicity of socio-economic regimes. The productivity slow-down might be the long run consequence of flexibility of wage formation that finally inhibits the search for productive breakthroughs by radical innovations but also an evidence for the radical uncertainty about the next productive paradigm. The hierarchical domination of finance over all other institutional forms is not the unintended outcome of deregulation and innovation but the very expression of a new hegemonic bloc that allies financiers, managers and a new class of rentiers. The economic risk that was largely assumed by firms is now born by wage earners in order to deliver stable and high returns to investors. This widens income inequality and erodes the support of neoliberal strategies by low skilled and poorly paid workers. They are excluded from the governmental alliances and tend to form part of the nationalist movements that challenge the capital led globalization. The existing party system cannot cope with the superposition of two orthogonal dividing lines: along the right/left axis concerning the mix between State and markets, along the opposition between internationalism and defense of national sovereignty. Hence the crisis of electoral democracy that is here to last given the structural factors that have eroded the legitimacy of domestic political institutions.

This approach is indeed quite marginal among economic profession since it promotes *an observation based socio-economic discipline,* i.e. a precious antidote to the axiomatic and normative approach of most contemporary research. If capitalisms experience large structural and political transformations, why should economists look for a canonical, universal and a-temporal theory?

5. A challenge addressed to macro-economic modelling

This permanent evolution of techniques, products, organizations and institutional forms challenges one of the founding hypotheses of standard macroeconomics: a general theory can be elaborated, relevant whatever the territory and the epoch. Régulation theory has built an alternative with an historical and institutional macroeconomic approach (Billaudot, 2001). The fordist growth model is structurally different from the competitive regime of the interwar period (Boyer, 1988) but the opening of the economy is favoring profit led demand regimes (Bowles & Boyer, 1990) and this calls for a complete reorientation of wage formation and economic policy (Lordon, 1997). The formalization of finance led regimes is still different and supposes precise conditions that are fulfilled for a limited number of countries (Boyer, 2000a). Pure rentier regimes require genuine formalizations because they are not imperfections with respect of a canonical capitalist economy (Hausmann & Marquez, 1986).

The analysis can be pushed a step forwards by the following generalization: to any socioeconomic regime can be associated a specific mix of basic economic processes in function of the precise institutional architecture. Here is a list of some of these elementary mechanisms or processes (figure 2):

- In a *regime of organized labor* able to impose nominal wage and stable income hierarchy, with permanent overcapacity and nearly closed economy, the Keynesian principle of effective demand is relevant. Involuntary unemployment is the rule and State policy may influence the level of activity until these permissive conditions are no more fulfilled near full employment or if the economy becomes uncompetitive.

- When large and deep *financial markets govern* the formation of productive capital and the access to credit for consumers the typical pattern is a *Minsky's cycle* of speculative bubbles and their bursting out. The Schumpeter's innovation and diffusion cycle allowed by the credit given to entrepreneurs displays a longer time span but it follows the same logic. The first variant fits with a period of declining technological innovation, contrary to the second that is more likely when firms explore possible emerging new productive paradigms.

- When *competitive wage formation* expresses the absence of collective institutions governing the wage labor nexus, the capital labor conflict drives a Goodwin's cycle and it encapsulate the hints of *classical and Marxian vision* of capital accumulation. This leaves open the long run dynamics of the rate of profit, linked to the endogeneity of technical change in response to labor conflicts upon control of work organization.

- A resource constrained process is relevant when the limitation of food, water, primary commodities influence demography or the supply of industrial activities. One recognizes the *Malthusian analysis* of the limits to growth that used to be useful to understand pre-capitalist regimes. With the contemporary perception that economic activity is part of the ecosystem this process has again to be taken into account, but at a level that transcends the national boundaries.

- One could add other configurations- for instance a small open economy with or without the power to set the price of its product on the international market (Aglietta, Orléan & Oudiz, 1982) and this is an invitation to test empirically what are the key features to be captured by any modelling.

This brief overview delivers two major teachings and a hint. First of all any grand theory is only capturing a fraction of the relevant processes typical of a capitalist economy. Second their mix is largely idiosyncratic and may differ from one economy to another, from one epoch to the next. The intuition is rather simple: the convergence towards a unique model defined by the same articulation of mechanisms is a priori quite unlikely.

Figure 2 – The interaction of processes belonging to different logics: why leading theories fail to capture contemporary macro-economic evolutions

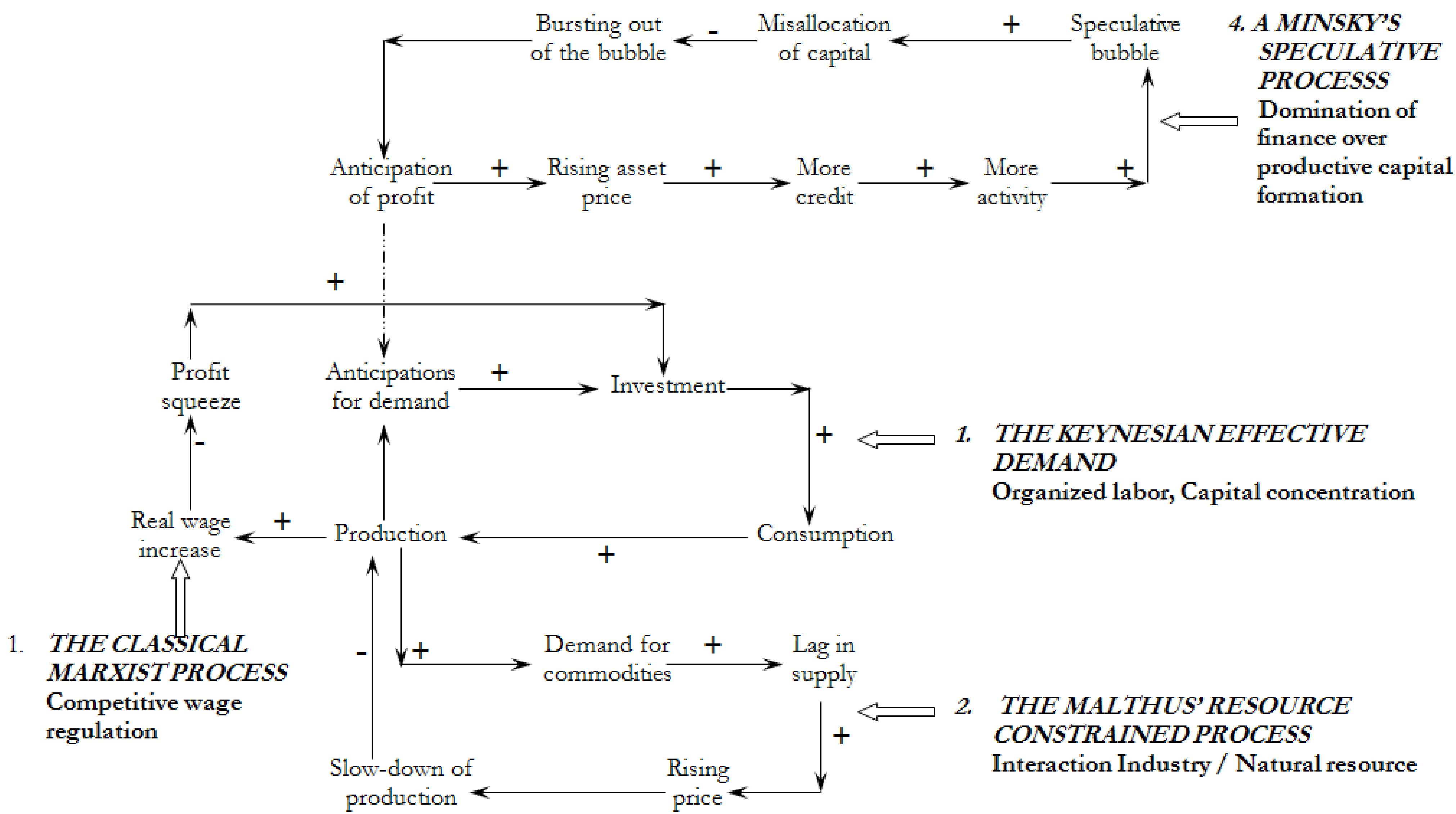


Table 5 – Commonalities and differences among OECD economies in the 2010s

Similarities / Differences Institutional forms	Common evolution / Configuration	Distributive features	Emblematic examples
Wage labor nexus	Potentially competitive wage formation	Opposition typical flexibility / institutionalized organization of flex-security	US, English speaking countries Social democracies
Competition	More and more transnational	Opposition price-makers / Price-takers	Northern Europe Southern Europe
Monetary finance	The leading institutional form	Opposition world financial intermediation / External finance dependence	US, UK Southern Europe
State	Under the scrutiny of international finance	Opposition moderately constrained / Severely constrained	Germany, social democracies Greece, Portugal, Italy
Integration into the world economy	Consequence of large international division of labor	Distribution between three integration styles by - Manufacturing production - Financial intermediation - Natural resources rents	Germany, Korea, China US and UK Saudi-Arabia, Venezuela, Russia

6. Is a common régulation mode emerging?

Let us check this proposition by looking back at figure 1: do the seven transformations (section III supra) end up defining a genuine brand of capitalism with its own régulation mode, thus blurring the taxonomy observed during the 1990s (table 1 supra)? Many institutional forms have been evolving under the pressure of the same forces, but distinctive features continue to characterize mature economies (table 5).

- The search for flexibility is quite general indeed but the different *wage labor nexus* exhibit various mix of market mechanisms and institutional arrangements. The countries at the forefront of product and labor market deregulation are approaching a typical competitive wage formation. By contrast, social democratic configurations rely to market mechanisms but under the constraint of a collective organization of labor mobility and training. Consequently the evolution of real wage with respect to productivity differs significantly.

- The *competition regime* is more and more governed by transnational forces, contrary to the post-WWII oligopolistic competition at the national level. Nevertheless, the manufacturing sectors of some national economies still enjoy oligopolistic rents at the world level, since they are price makers. By contrast, other economies specialized in standardized goods and commodities are facing the equivalent of pure competition, since they have to adjust their price to the international level. The contemporary European Union is a good example of such a polarization: largely price-makers in the North, typically price-takers in the South.

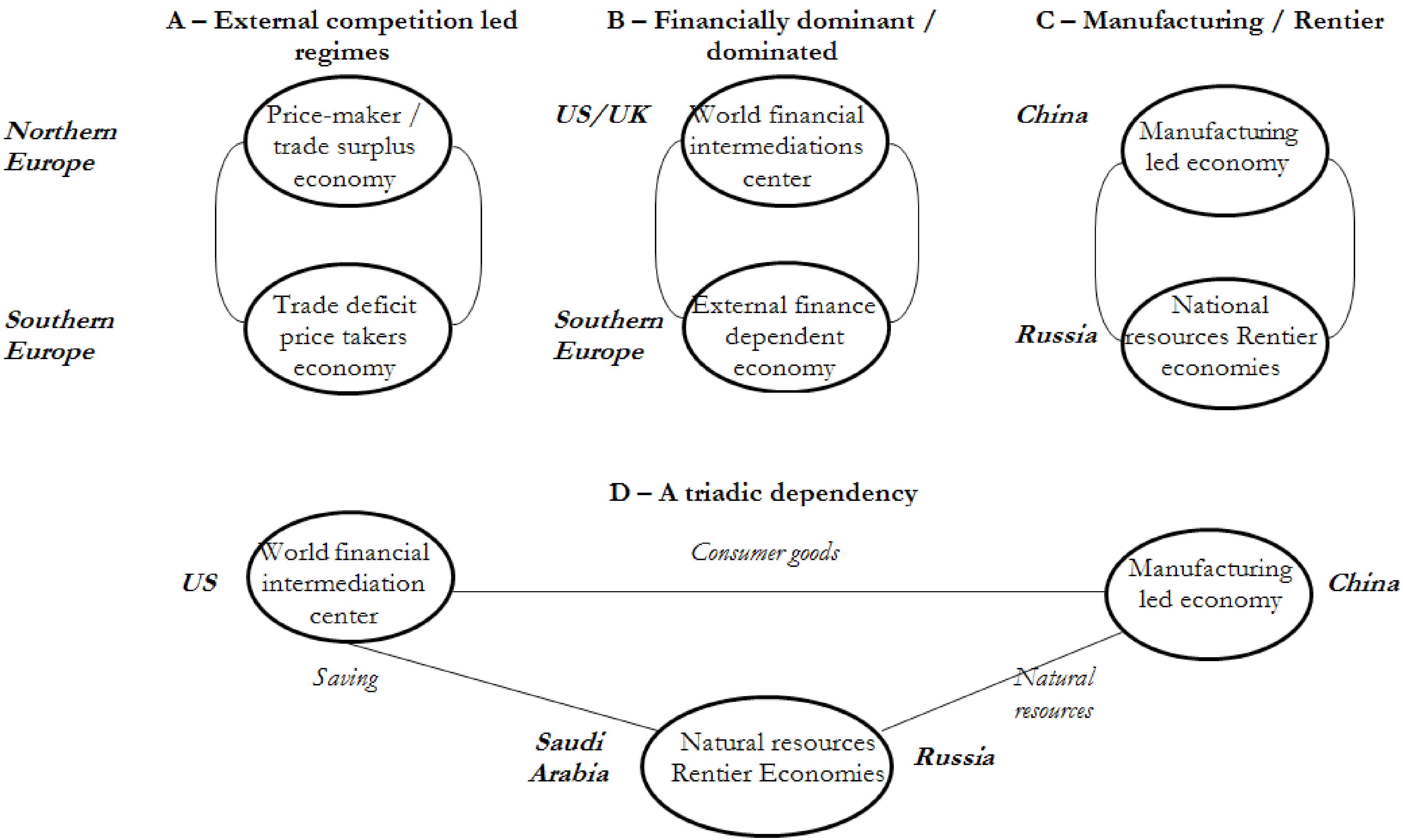
- The *financial and monetary regime* has potentially become the hierarchically dominant institutional form. Nevertheless, a major difference relates to the localization of the relevant financial actors: are they belonging to the domestic territory or are they the expression of a distant world financial system? For instance the US and the UK continue to have an influence on the evolution of their financial system, whereas financially dependent countries have to comply with rule of the game they do not master. The crisis of the euro has made clear this polarization: the weaker economies had to comply with the requirement of ECB and IMF.

- The *State / economy nexus* has significantly changed. During the Golden Age, the autonomy of public interventions was warranted by a fix exchange rate regime and the control of capital flows. With financial liberalization and the multiplicity of financial innovations, all governments are now under the scrutiny of financiers. But again some economies that harbor an international financial center enjoy more autonomy than others that have to finance twin public and trade deficits by borrowing abroad. Their regulation mode is largely shaped by one imperative: maintaining the attractiveness of the territory for international investors. Therefore, two different régulation modes are operating: far from converging, they are largely complementary, since none of them can exist in isolation.

- The *integration into the world economy* exhibits an unprecedented intensity in the international division of labor. Vertically integrated sectors have been replaced by international value chains and thus, the coherence of the productive system is to be observed at the world and no more at the domestic level. Nevertheless, the integration into the world economy largely differs for countries specialized in manufacturing production, those in charge of financial intermediation and finally the rentier economies living out of the export of natural resources. These three international specializations are so contrasted that they do not belong to minor variants of the same growth model and régulation mode.

A major conclusion comes out: strong and *common pressures have not led to the emergence of a common brand of capitalism* based on the same development model. Furthermore, the previous findings suggest that no model is thriving in isolation from the others, since each logically or empirically requires links with a counterpart. Given the fact that interdependence is here to last in spite of the apex of globalization, no theory based on a closed economy can be deemed as relevant. *Dyadic or even triadic configurations* are the rule not the exception (figure 3).

Figure 3 – Farewell to the closed economy: configurations are dyadic or triadic.



7. More than convergence the interdependence of contrasted socioeconomic regimes

The present framework faces one major question: if there is no single pattern in socio-economic regimes how to explain their persistence? Basically their respective external and internal disequilibria are compensating one another and make them *compatible* and in some cases *complementary* (figure 4).

- The *finance-led capitalism in the United States* is associated with external trade deficit, growing public debt and the rise of inequality due to the explosion of top income. It is the mirror image of the *Chinese competition led capitalism*: the permanent over supply finds an outlet in a structural trade surplus that is partially used to finance the American economy. This complementarity allows in China the surge of inequality generated by the rapid productive modernization. Consequently these *two capitalism brands co-evolve* and thrive out their differences.

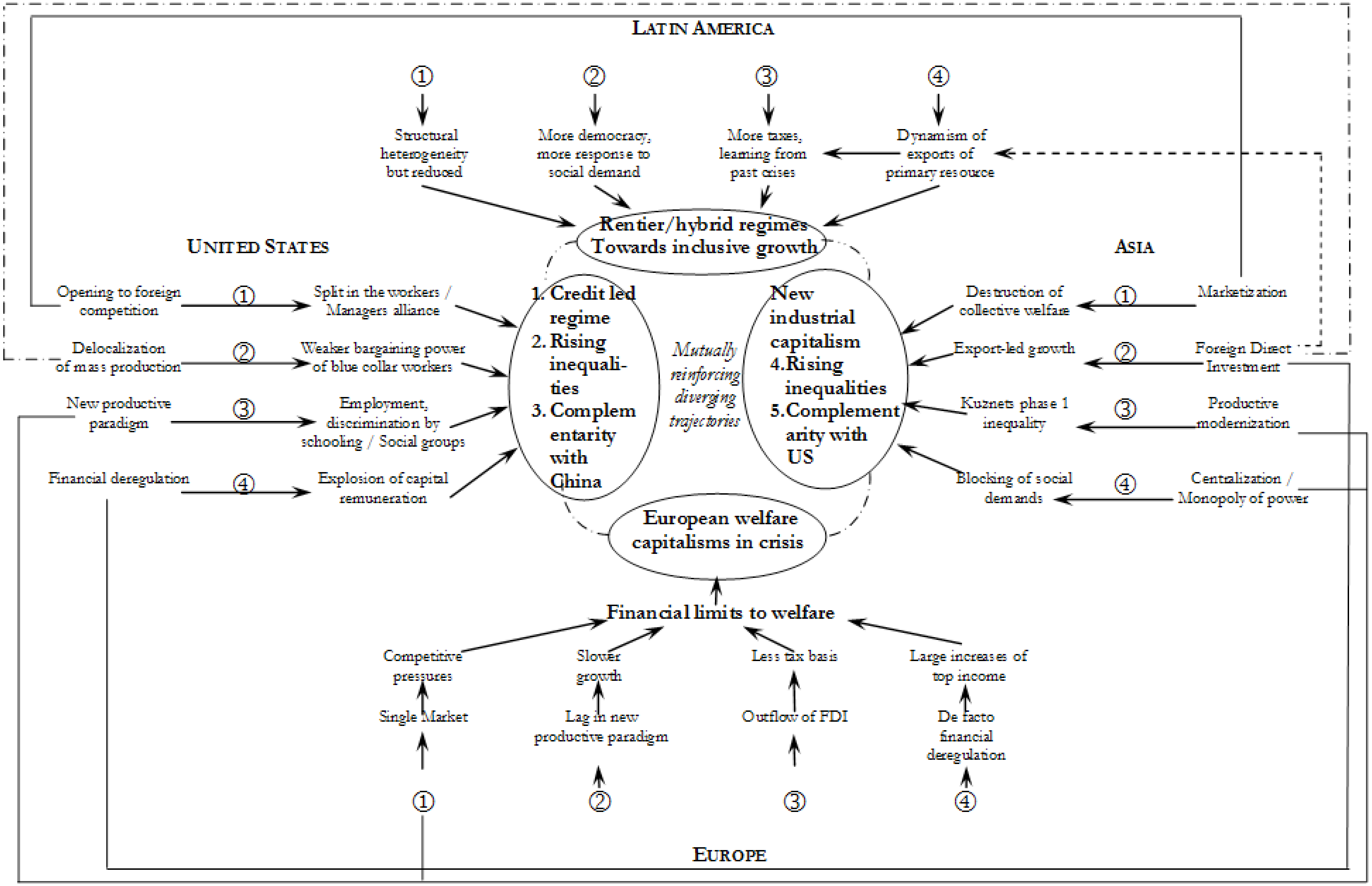
- The Euro crisis of the 2010s strikes another regime that could be labelled as *welfare capitalism*, with state led or social-democrat variants. Public opinion defends the ideal of solidarity and the income inequalities remain rather moderate. But a redistributive tax system and a generous public spending are under the joint pressures of Chinese rapidly catching up in most industries and of the recurring global financial crises generated by the American victory in promoting liberalization and globalization of trade, capital, and finance. The future of these welfare capitalisms is thus partially shaped by the *evolution of Chinese and North American capitalisms.*

- *The resource based rentier regimes*, very relevant in Latin America, either typical (Venezuela) or hybrid (Brazil), are structurally dependent from the demand from industrial and financial capitalisms. When both are booming in the early 2010s, governments celebrate the success of an inclusive and new socioeconomic regime and the (modest) reduction in economic inequality starting from an extreme social polarization. Nevertheless when the world demand and prices of primary resource collapse, the viability of these regimes is at stake. Again this reversal of fortune is explained by Latin American specialization that is complementary to that of China and the US. When economic crises burst out the past political alliances, allowed by the transition to democracy, are challenged. A political economy approach is required to understand these episodes (Palombarini, 2000).

- The macro-economic imbalances, generated by the widening of inequality within each domestic economy, are symmetric in the US and in China and consequently only the compensating movements in international trade and finance restore the viability of socio-economic regimes that could not be sustained within closed borders: abundant credit to sustain the American way of living with stagnant average real income in the US, massive industrial overcapacity due to the squeeze of labour share in China and low American household saving rate versus Chinese high savings, partially channelled back to the US financial system.

Thus the internationalization of production, capital and finance makes *compatible and viable contrasted inequality regimes*, themselves embedded into complementary development models. Furthermore this explains the puzzling observation of opposite evolutions concerning inequality: less inequality between nations since globalization allows a variety of capitalisms and growth regimes- credit led, export led, innovation led- but each of these regimes nurtures widening inequalities for individuals within the nation-state (see graph 7 supra).

Figure 4 – An interdependent world, complementarity development modes and growth regimes



8. Conclusion

Can contemporary theories explain the seven major stylized facts pointed out by the last decades evolution? Why the quasi exhaustion of productivity in mature economies, recurring financial crises, wider income inequalities, social polarization and the open conflicts between capitalism and democracy in most national economies, the impressive catching up of new industrializing countries and the recent stop in the process of globalization? This very brief survey of the literature and the recent advances by régulation theory suggest some provisional conclusions.

1. Standard economic theory, represented by new classical macroeconomics, postulates universal and a-temporal mechanisms governing market economies. This dominant paradigm is more *confusing* than enlightening the contemporary transformations of capitalist economies.

2. This article was built upon two core hypotheses. First, the task of the economist is not to test his favorite model but to try to detect *the diversity of configurations* inherited from a three centuries long history of capitalism. Second, as soon as a genuine socioeconomic regime has been detected, it generally goes into crisis. Therefore detecting *regime change* should be one of the tasks of professional economist.

3. The new classical explanation stresses the role of large exogenous shocks upon a basically invariant macroeconomic mechanisms, typical of a pure market economy devoid of any institutions. This article shows that *common transformations* (internationalization, new waves of innovation, domination of finance) are largely endogenous but that they are not sufficient to finally deliver the *convergence* towards the same mode of régulation.

4. Keynesian and post-Keynesian theories and the neo-Schumpeterian evolutionary approach capture many but not all the stylized facts under review. Paradoxically indeed, *Marx and institutional political economy* deliver a better intelligibility about the new interactions between the polity and the economy, the national and the global. They are well equipped to recognize capitalism diversity and to analyze the structural nature of economic crises.

5. Modern economies dynamics is the outcome of the interactions of *an ever varying mix of processes* that are pointed out by diverse theories in the macroeconomic literature. The relevance of these processes (neoclassical, Keynesian, Schumpeterian, Marxist) is up to the precise *institutional configuration analyzed*. This is an invitation to an institutional and historical macroeconomics, in accordance with the various epochs and brands of capitalism.

6. The *four brands of capitalism* (market-led, meso-corporatist, state-led, and social democrat) have undergone similar structural transformations but with an unequal intensity. Nevertheless, they have not converged towards the Anglo-Saxon configuration that is the implicit benchmark of most analyzes and economic policies recommendations. The processes and mechanisms previously presented are *recombined* according to distinctive configurations.

7. These early findings falsify the widely held vision that all economies are bound to converge and merge into a single model under the impulse of the same structural forces. Not only do the political strategic decisions interact with the redeployment of institutional forms, but the era of *large and long distance interdependencies* develop new and growing *complementarity* for instance between finance-led, competition-led, and rentier regimes. Nationalist movements prosper and challenge the present international division of labor but the illusion of a zero sum game might lead to a reduction of standard of living for all the participants to the protectionist game.

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