

After the lockdown, will capitalism be over?  
Heterodox economic perspectives  
on policy alternatives

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PKES summer workshop: 28 June 2019

# Map

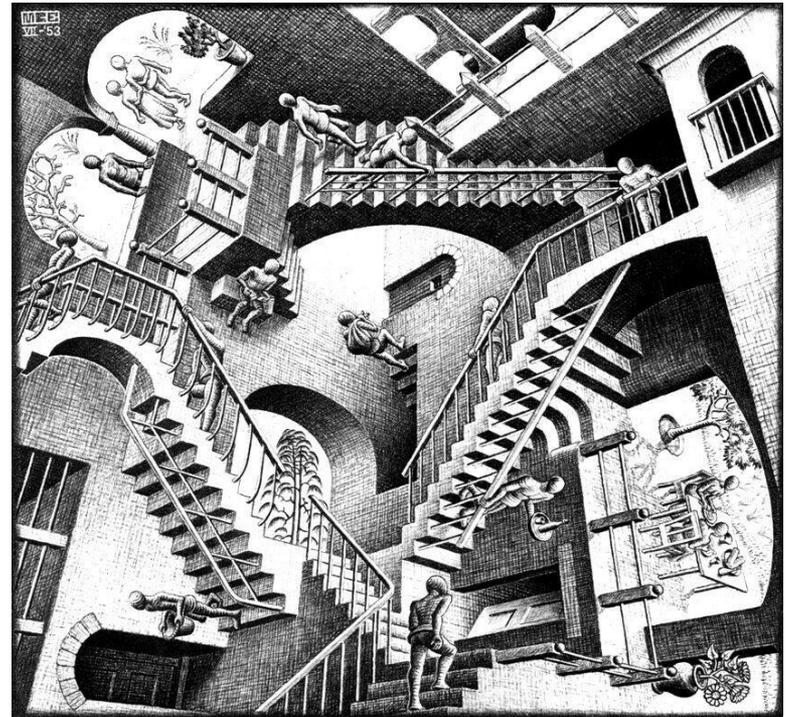
The Karwowski Quiz – a PKES summer tradition

1. Theories of economic policy are theories of capitalism and state power
2. Global capitalism before COVID: stagnation, financialization, inequality, debt crises
3. After the COVID lockdown, will capitalism be over?  
What Paul Mason and Hyman Minsky would say
4. Why heterodox policy perspectives matter:  
Trumpism and the Kaleckian inversion

# The Karwowski Quiz:

Testing the logic of capitalist sustainability since 2016

Sometimes it is hard to spot the contradictions in our own lifestyle choices, much less in global capitalism. Inspired by Dr. Ewa Karwowski's PKES Summer School lecture, a six-question sequence shows how to identify the infinite Escher loop in side your head.



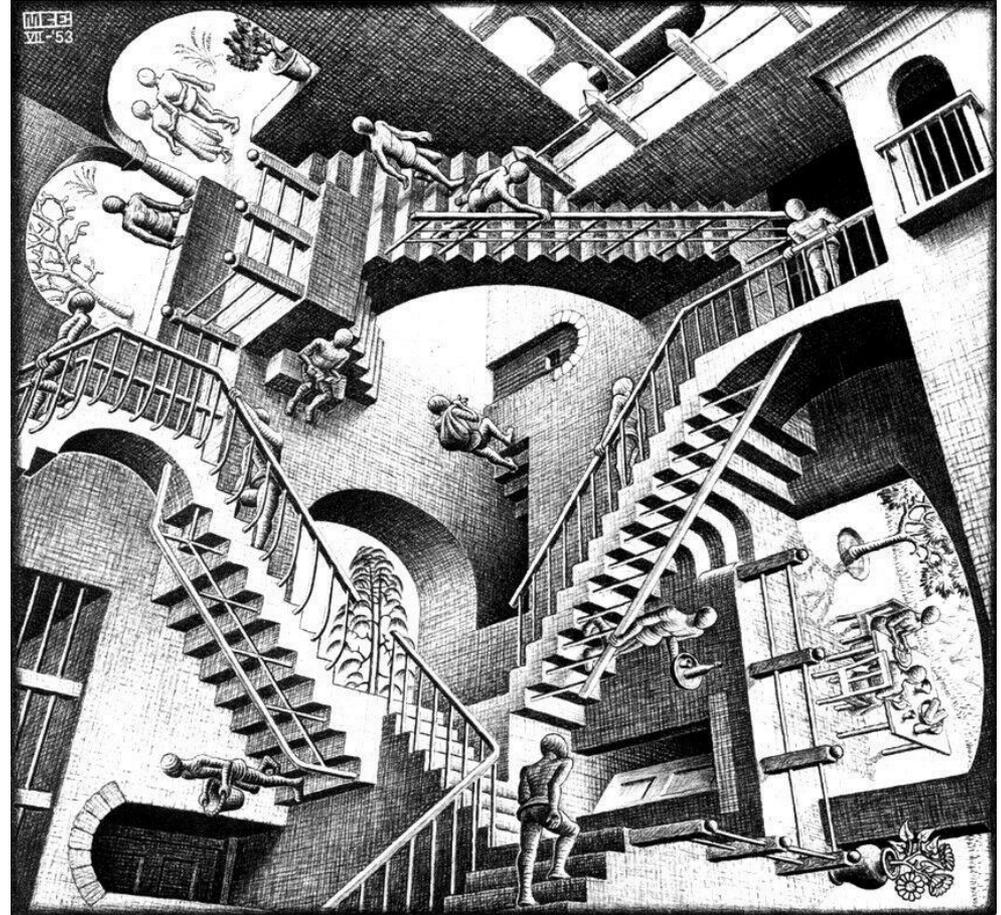
# The Karwowski Quiz

Answers are: yes, no, unsure unless otherwise noted.

1. Climate change, if unchecked by mitigation, will lead sooner or later to the collapse of human civilization.
2. The financialization-fueled rise of inequality, if unchecked, will lead to the breakdown of social order or to authoritarian governance.
3. The capitalist order, while unstable, is adaptive and resilient: privately-owned firms will make needed adjustments toward climate sustainability and reduced inequality before global collapse.
4. To survive climate change, nation-states must impose strong controls over financial and corporate behavior.
5. National controls will be inadequate. Global action - thus global governance, will be necessary to survive climate change.
6. The COVID19 pandemic is the 'wake-up' call needed to begin the transition toward a 'post-capitalist world'.

# 1. Theories of economic policy are theories of capitalism and state power

- At root, the divide between orthodoxy and heterodoxy in economic thought is a nature/nurture debate: Does society create the human or does the human create society?
- Are outcomes the result of *structures* or of *choices*?



# 1. Theories of economic policy are theories of capitalism and state power

This tension exists in the realm of policy debate:

- **Neoclassical view:** economic preferences are individual, and arise outside of society. So market arrangements *should* be organized to express individual preferences
  - Economic policy should attempt to correct distortions caused by uncompensated spillover effects.
- **Heterodox view:** social structures restrict individuals' choices; historical oppressions carry through into economic outcomes.
  - So policy should aim at shaping society – the collective of all individuals – to reduce inequality of outcomes in who owns, who does, and who receives.

# 1. Theories of economic policy are theories of capitalism and state power

Capitalism: a self-expanding logic, wherein owners exploit workers and expropriate surplus. ‘Provisioning’ occurs via unstable, fragile markets operated for profit, not human need.

The counterforce(s): The state, or the community.

The resolution: how to balance these forces?

- *Polanyi*: No stable resolution – the “double movement.”
- *Popper/Friedman*: Force competition through markets.
- *Keynesian*: State capacity can “defang” (tame) markets. Social conflict is distributional; moderate conflict by reducing risk
- *Kaleckian*: Up to a point. Capital may strike, not ‘stay in place’; people may migrate or flee, not stay in place.

# 1. Theories of economic policy are theories of capitalism and state power

- *State power*: How much control does any national state need to create a world of “things as they should be”?

## *‘Macroeconomic policy’*

1. Lender of last resort control over currency
2. Discretionary fiscal policy: borrow now, repay later?
3. Flows of capital and credit across its borders?

## *‘Meso / microeconomic policy realm’*

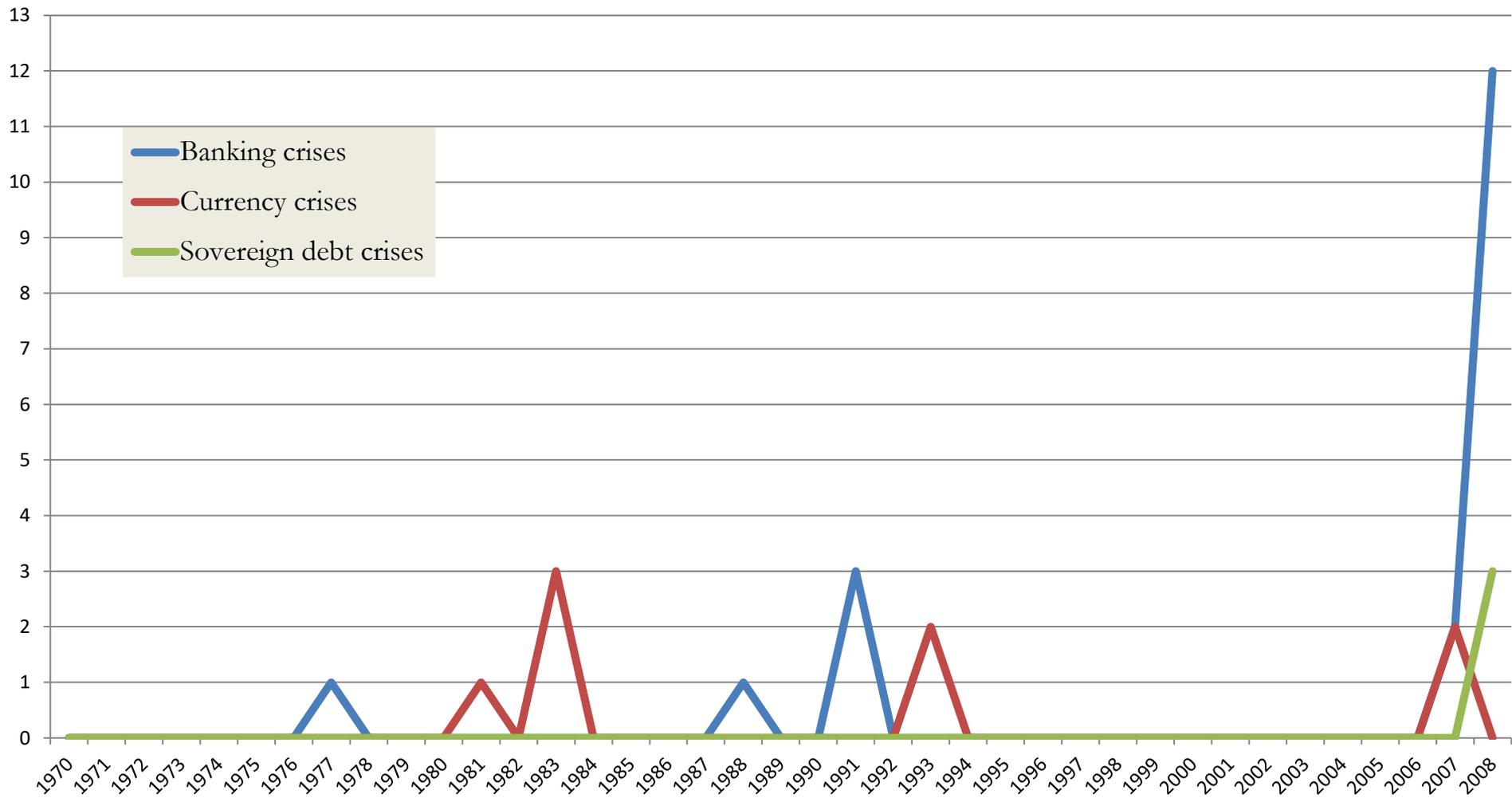
1. Ability to set wages, working conditions at fair levels?
  2. Protection of infant industries?
  3. Environmental quality controls?
- What are the consequence if a state cedes macro control(s) (1-3) to a higher power? If it cedes micro controls (4-6)?

## 2. Global capitalism before COVID: financial crisis, deregulation, debt crises, rising inequality

- *State power*: And there are power asymmetries amongst nation-states, and between nation-states and corporations that have escaped the control of nation-states.
- *The 'Neoliberal Era' is one of post-hegemonic US hegemony*: The US dollar provides the US with 'exorbitant privilege' – it is a 'safe haven' (liquid) asset in a world of crises.
- The dollar's dominance has permitted the US economy to 'live beyond its means' (run a current-account deficit) since 1981.
- All other nations must 'maintain discipline' – trade balance, or even trade surplus once they have debt to pay off.

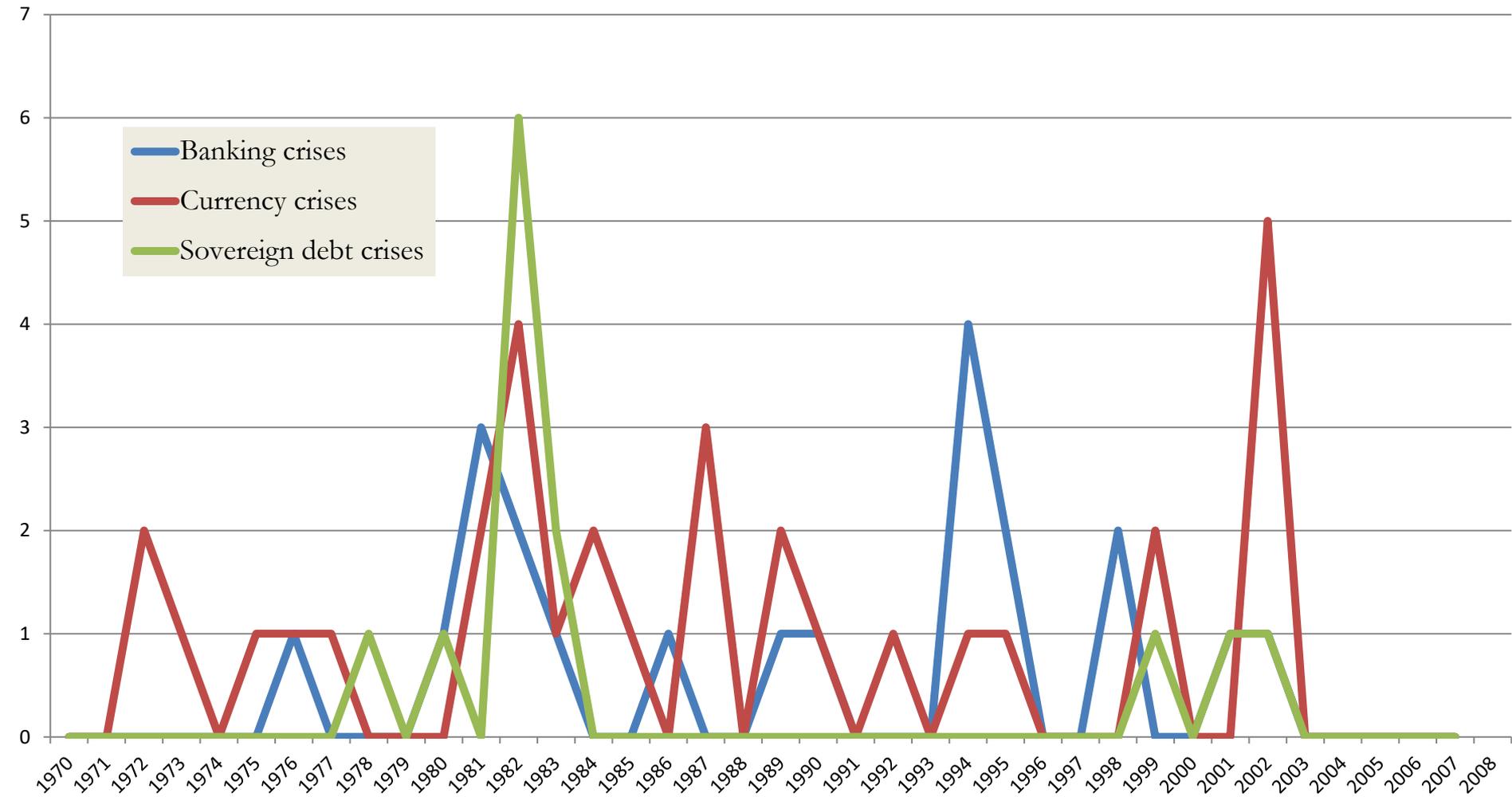
# Systematic Banking Crises: US, Western Europe

Laeven and Valencia, IMF WP/08/224 (2008), WP 12/163 (2012)



# Systematic Banking Crises: South America, Mexico

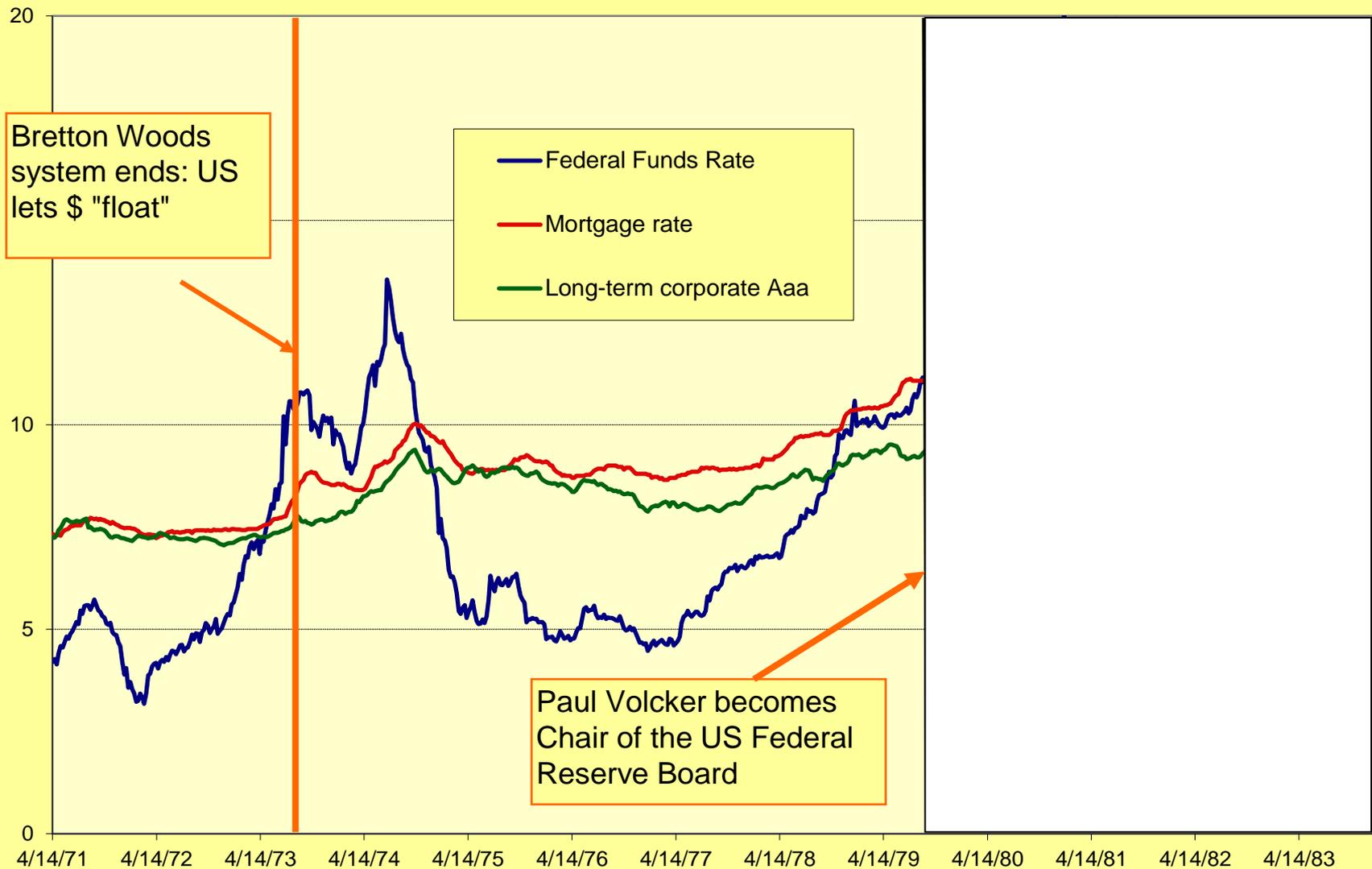
Laeven and Valencia, IMF WP/08/224 (2008), WP/12/163 (2012)



## 2. Global capitalism before COVID: financial crisis, deregulation, debt crises, rising inequality

- *This did not happen by chance. It was a policy design.*
- The fixed exchange rate system ('Bretton Woods') centered on the US dollar being pegged to gold (\$1 = 35 troy ounces of gold) fell apart in 1971.
- The 1970s – a descent into high inflation, crisis in regulated banking systems, the end of the 'trentes glorieuses' ('Golden age of capitalism' in Europe and the US).
- 52 Americans were held captive in the US Embassy in Tehran from November 4, 1979 to January 20, 1981.
- Something had to be done. US President Jimmy Carter appointed Paul Volcker to be Federal Reserve Chair in August 1979. The shift to what Trump terms 'America first' began then.

## Selected US Interest Rates, 1971-1979



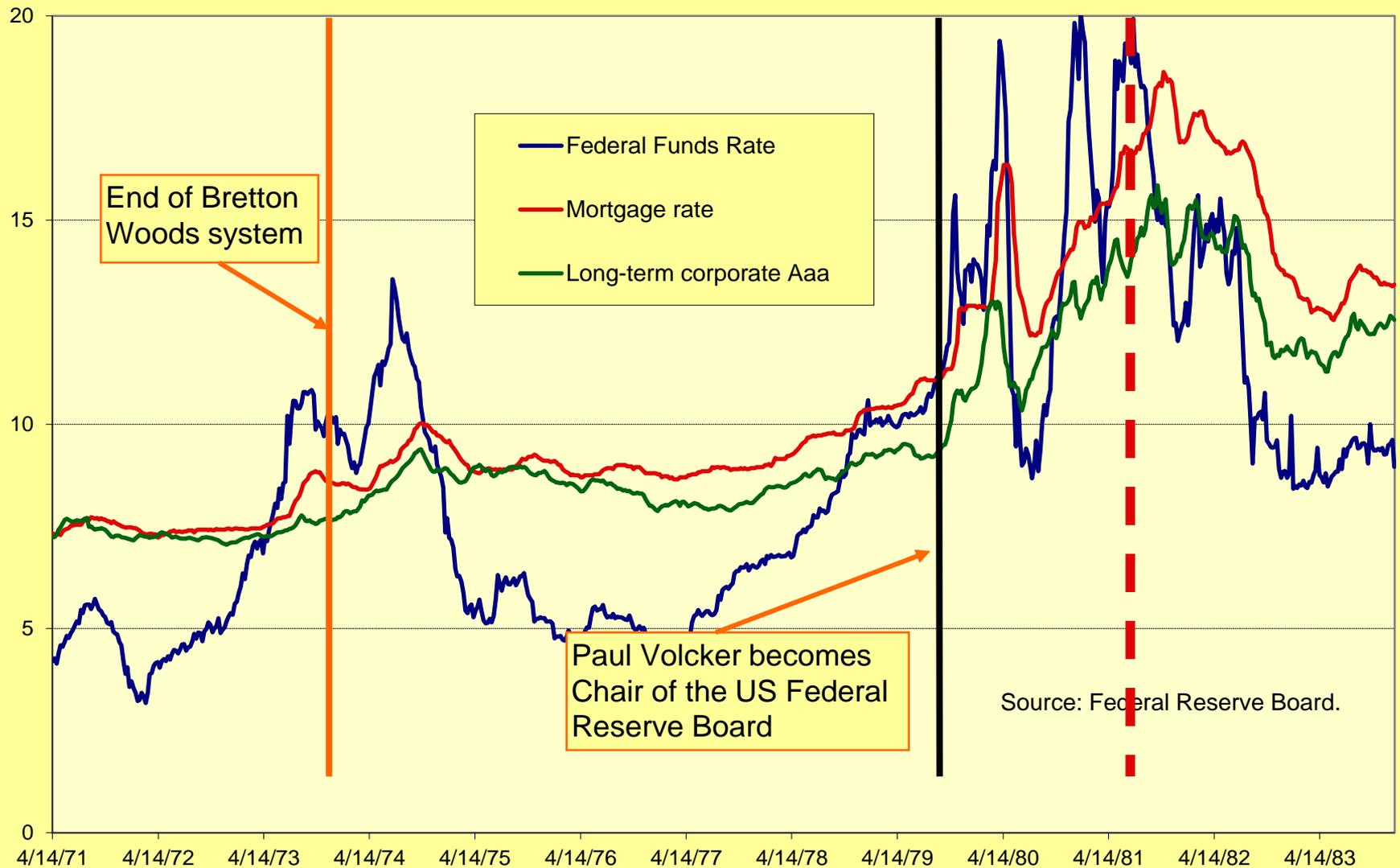
## 2. Global capitalism before COVID: financial crisis, deregulation, debt crises, rising inequality

Volcker's Winter 1979 essay in the NY Federal Reserve *Economic Review*, "The Political Economy of the Dollar," indicated his plans. He wrote:

"It is tempting to look at the market as an impartial arbiter .. But balancing the requirements of a stable international system against the desirability of retaining freedom of action for national policy, a number of countries, including the U.S., opted for the latter."

... "a controlled disintegration in the world economy is a legitimate objective for the 1980s."

# Selected US Interest Rates, 1971-1984

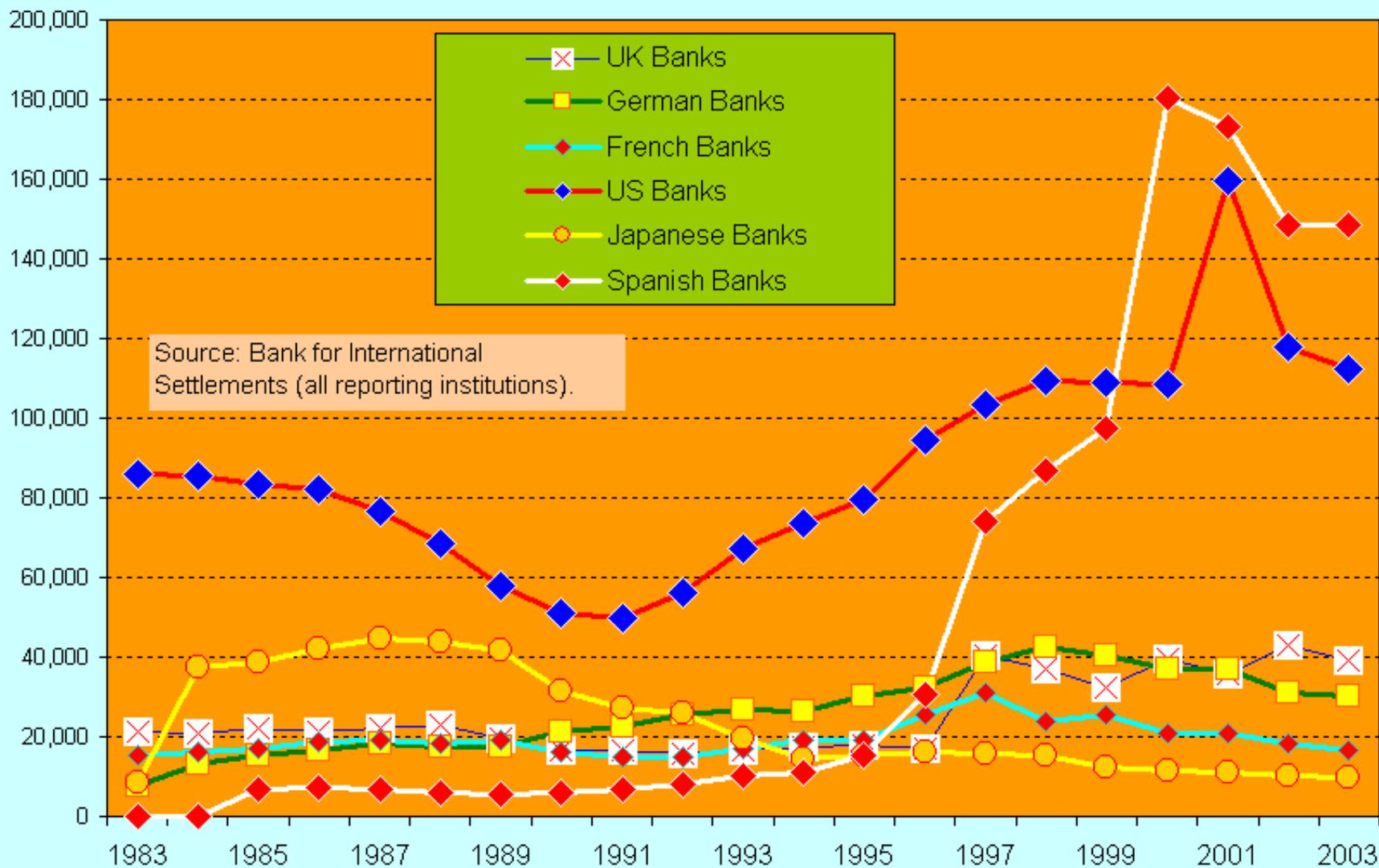


## 2. Global capitalism before COVID: financial crisis, deregulation, debt crises, rising inequality

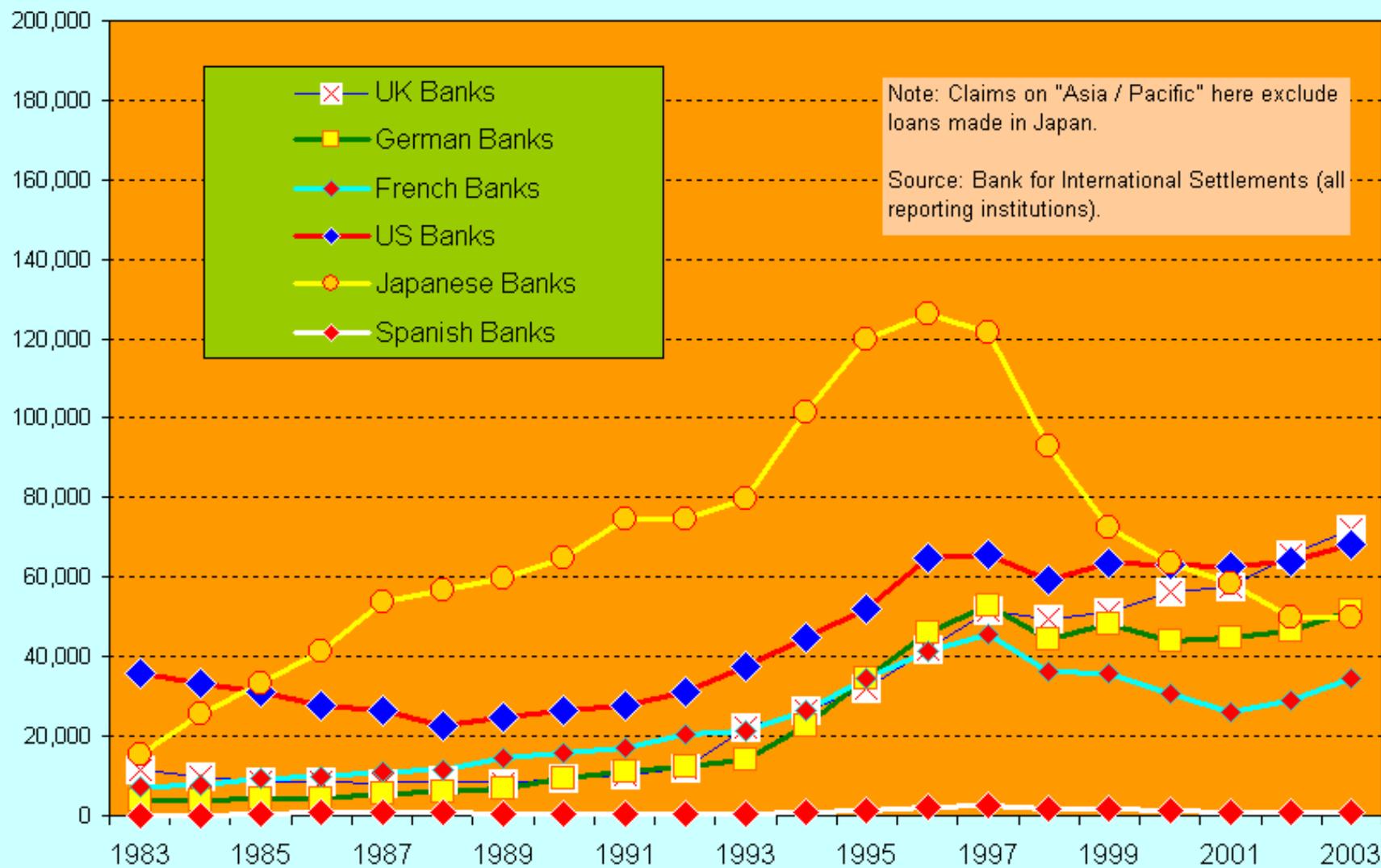
President Ronald Reagan was elected in the US in November 1980, following Margaret Thatcher's victory in the UK in 1979.

- Deregulation and a reduced welfare state followed. UK PM Thatcher: “there is no such thing as society”.
- Domestic highly-regulated, ‘purpose-driven’ banking systems were dismantled or shrunk.
- In consequence, globalized finance and multi-national corporations (‘the global factory’) reshaped the global economy. The patterns were brutal, following lines laid down in the Age of Imperialism.
- The US megabank-centred shadow-banking system became world-dominant, with the chronic US current-account deficit bringing capital inflows into the US seeking financial assets to buy. This is the global economic architecture of the Neoliberal era.

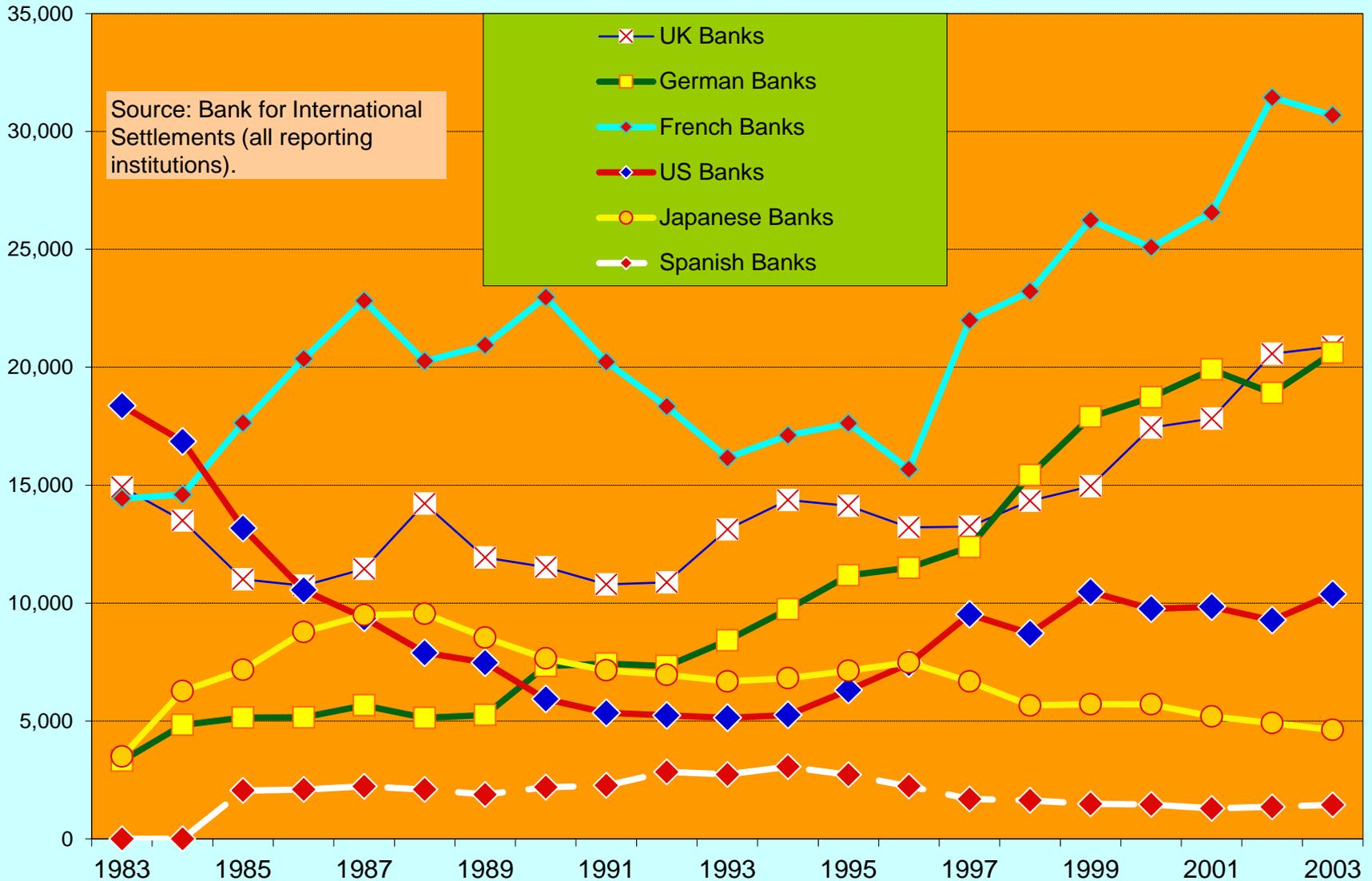
**Figure 1: Banks' International Claims on Latin America by Nation of Lending Banks, 1983-2003 (Millions US\$96)**



**Figure 2: Banks' International Claims on Asia / Pacific  
by Nation of Lending Banks, 1983-2003 (Millions US\$96)**



**Figure 4: BIS-Reporting Banks' International Claims on Africa, 1983-2003 (Millions US\$)**



# International Financial Integration

Global finance in charge

Obedient national compliance

## Direct Channels

- *Augmentation of domestic savings*
- *Lower cost of capital due to better risk allocation*
- *Transfer of technology*
- *Development of financial sector*

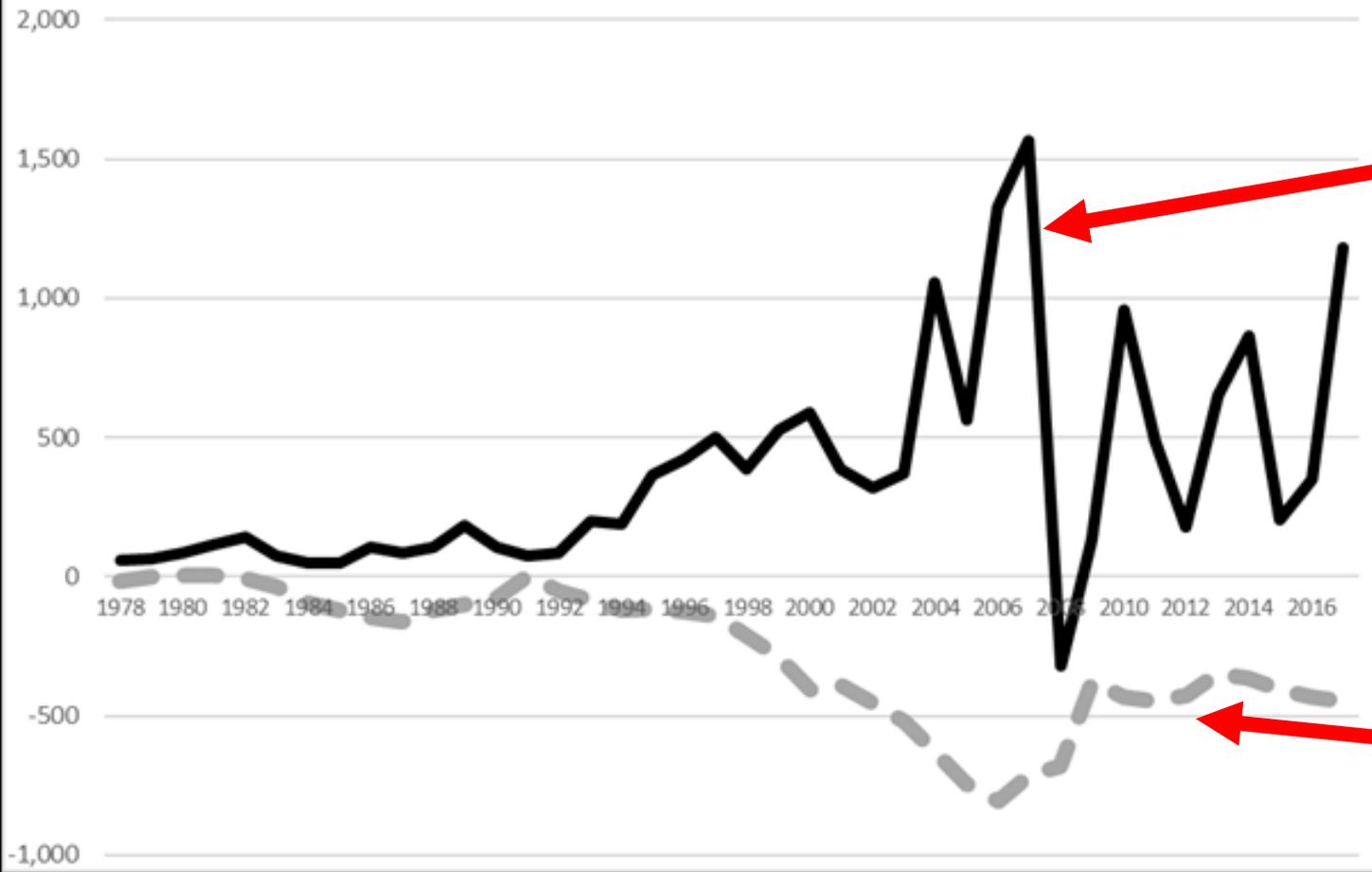
## Indirect Channels

- *Promotion of specialization*
- *Inducement for better policies*
- *Enhancement of capital inflows by signaling better policies*

The ultimate goal – GDP (not wage or well being or capabilities) growth

**Higher Economic Growth**

Figure 3: US Current Account Balance and Net Financial Assets Acquired, US\$, 1978-2017 (US Bureau of Economic Analysis)

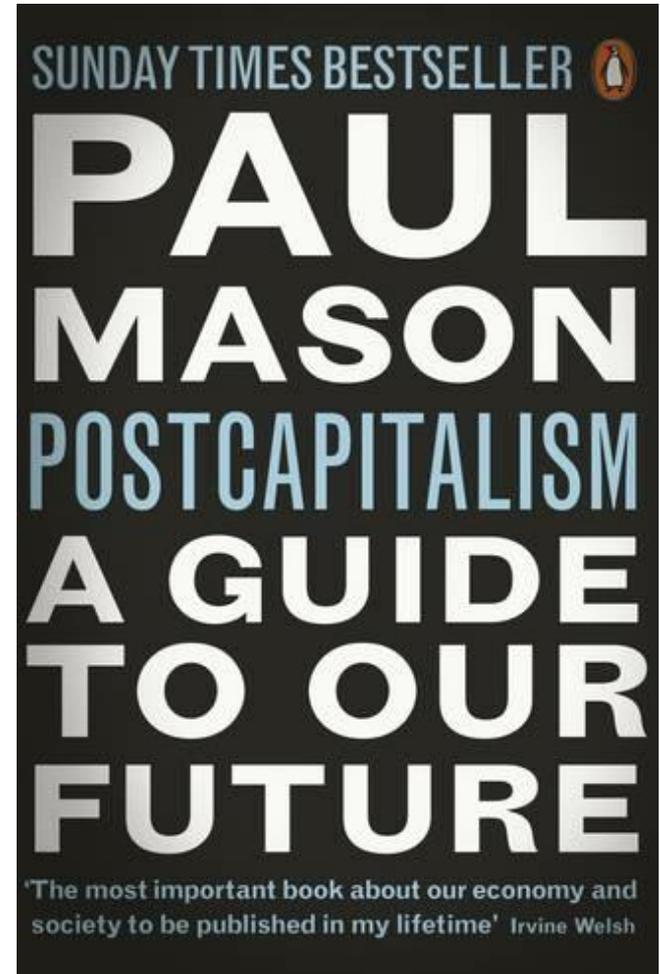


Net capital inflows

Net trade deficit

### 3. After the COVID lockdown, will capitalism be over?

- The covid crisis has shown us ‘what really matters’ – the NHS, collective action and social solidarity, community and family. There are many unexpected gains: cleaner air, a slower pace, exercise, home-cooked meals.
- So there are things we would like to keep, as we move to the post-Covid pandemic world. Indeed, can we jump right into a sustainable, more equitable post-capitalism?
- If the idea is, never let a global crisis go to waste, can't we move on to blue skies and a new tomorrow?



### 3. After the COVID lockdown, will capitalism be over?

The pandemic crisis lets us imagine ‘before and after’ possibilities minimizing the problem of ‘tradeoffs’. So consider this wish list:

More circularity	⇔	Less imported goods and services
More meaningful & clean work	⇔	Less repetitive, dirty work
Less focus on economic value	⇔	More focus on social value
More equity	⇔	Less inequality
More solidarity	⇔	Less exercise of power by privileged insiders, megacorporations and banks

- So let’s move from the LHS to the RHS, right? And let’s do it community by community – as neighbors.
- Well, not so simple. There are, hidden in this list, constraints and limits in the system we have which are not visible until we think holistically, and think spatially.

### 3. After the COVID lockdown, will capitalism be over?

But the smaller-scale communities whose values (circularity, solidarity) are highlighted on the LHS rest on two ‘macrofoundations’:

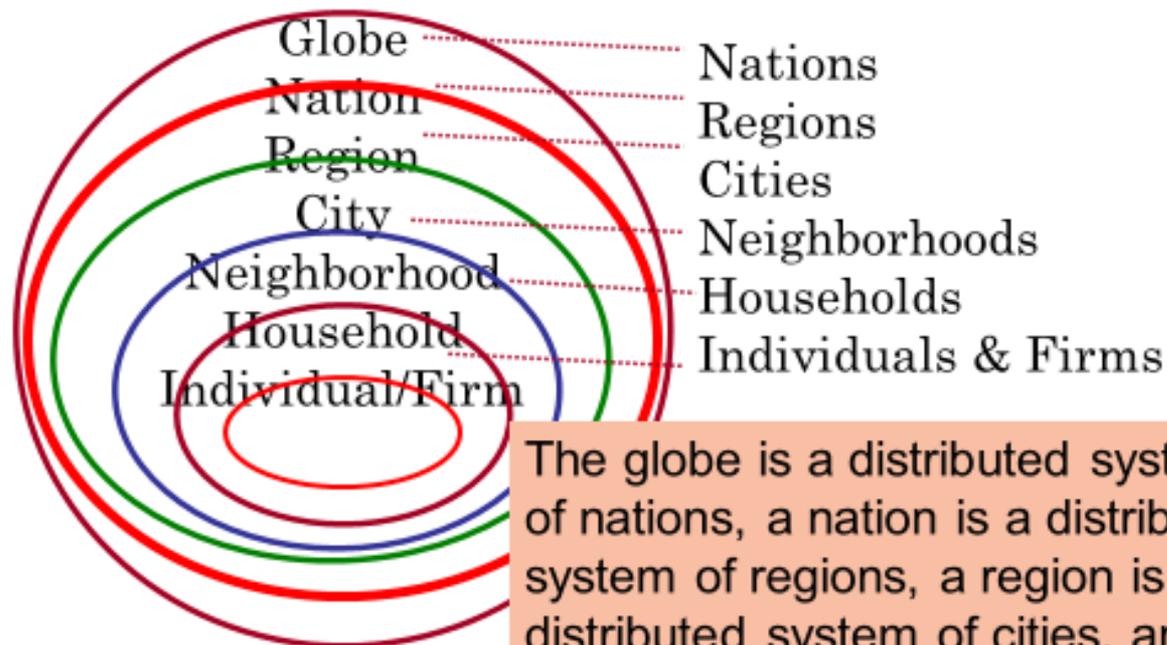
First, reviving any community’s economy means asset-building there, which has to be financed by injections of cash, debt, or investment.

This brings in insights of Hyman Minsky. And at present:

- We are locked into a global capitalism in which most assets (financial, ‘real’, property) are owned privately: they should hold their value and earn a return. The basis of return is the surplus generated in the production of goods and services, and gains from asset trading (mostly financial – ‘buy low, sell high’)
- Tensions arise between investing surplus in new production and protecting accumulated gains (staying ‘liquid’, not investing).
- Keeping things running means maintaining capitalists’ confidence, not challenging their control over the system – their power.

## From macro/micro to spatially-scaled analysis

### *Spatial scaling.*



The globe is a distributed system of nations, a nation is a distributed system of regions, a region is a distributed system of cities, and so on...

### 3. After the COVID lockdown, will capitalism be over?

The second constraint is spatial: Every spatial area, no matter the size, has to pay for what it buys from the rest of the world, either by selling goods and services or drawing down its assets.

- And whether cash injections are available depends on whether private or public entities in the surrounding environment are ready and willing to provide them. Varoufakis's term for this: 'surplus transfer mechanisms'.
- A region depends on the nation it's a part of. Towns depend on the region it's in. And a depressed national economy can rebuild its industries through trade only if its national trading partners are not themselves depressed. Often a nation can be pulled out of a downturn by more prosperous partners.
- But now no partners are prosperous. And this goes all the way down the line, nation to region to city to town.

### 3. After the COVID lockdown, will capitalism be over?

So for the ideal community RHS to LHS move we imagined above, this shift to the LHS has to be *built*.

- The required resourcing – investment, new firms, financing – could retain a capitalist form (with public/community ownership?), or could replace or ‘suspend’ it.
- To go there, moving from ‘first principles’ ideals to ‘real world plans’ requires understanding who is ‘we’? Where can we draw this circle – and is it segmented by race/ethnicity/religion?
- Is the circle drawn at the neighborhood, city, regional, national level? With ‘whom’ are we in solidarity? Neighbors, fellow citizens, all?
- Can we have ‘social’ prices for goods we exchange among ourselves, but ‘monetary’ values for goods traded across borders?
- Do we prioritize short-term recovery or long-term transformation? What do we (‘we’) want?

### 3. After the COVID lockdown, will capitalism be over?

If 'we' are all in this together, shouldn't 'we' decide what happens next – how much more we can live with, what we can let go of?

- Defining the 'we' here encompasses the problematic of democratic voice: how do 'we' create a control point for democratic choice for 'us'?
  - The example of the Black Lives Matter movement is critically important here: political solidarity against arbitrary power and unfairness; and making these forms of domination visible, along with the question of historical redress.
- And how to decide how much to make, who gets it? 'Use value' for living; 'exchange value' for arms-length trades or contracts. Use value has no monetary dimension; but exchange value requires it.

## 4. Why heterodox policy perspectives matter: Trumpism and the Kaleckian inversion

While we debate, the machine grinds on...

Wolfgang Streeck – *Buying Time: the Delayed Crisis of Democratic Capitalism* (Verso, 2015, p. 46)

“To continue along the road followed for the last forty years is to attempt to free the capitalist economy and its markets once and for all – not from governments on which they still depend in many ways, but from the kind of mass democracy that was part of the regime of postwar democratic capitalism.” (46) ... “the money magic of the past two decades, produced with the help of an unfettered finance industry, may have finally become too dangerous for governments to dare to buy more time with it.” (46)

# Disregard Trump's ground noise. Focus on the signal.

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Washington Post, June 3, 2019

By [Joe Scarborough](#)

June 3

My first year in Congress was spent absorbing attacks from a local newspaper unimpressed by the fact I was the first Republican elected in my area of Florida since Reconstruction. They appreciated my lectures on small-government conservatism no more than does the current collection of Big Government Republicans in Washington.

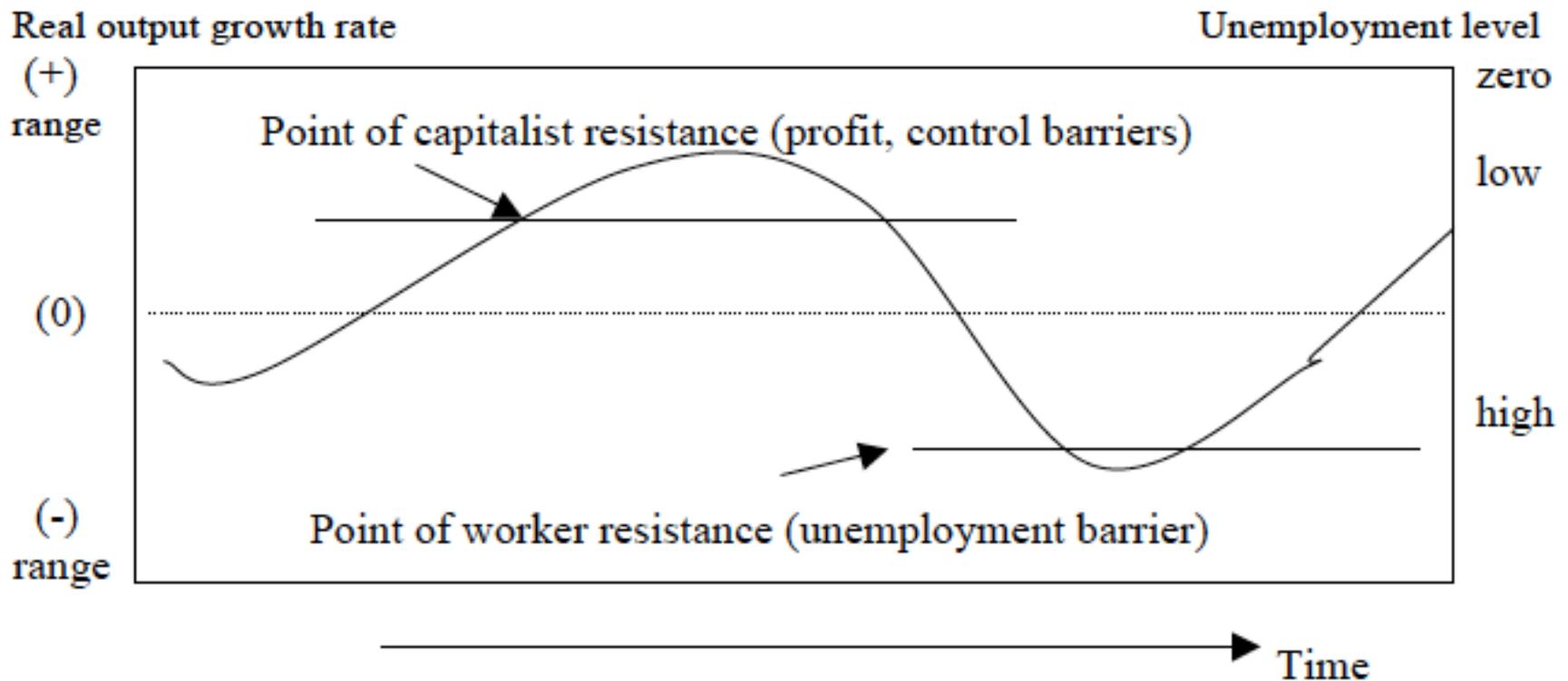
During my freshman year on the Hill, I tried to respond to every charge from every article, political cartoon or editorial page. After one particularly stem-winding speech that I delivered at the downtown Rotary Club in Pensacola, Fla., three-star admiral Jack Fetterman took me aside and gently offered advice that I carry with me a quarter-century later. He put his arm around me and said, “Joe, you have to learn to separate the ground noise from the signal. And here’s the secret, son: It’s almost always ground noise.”

I thought of the admiral’s words this weekend as I glanced at the news feed coming over my phone.

Video from the Sun, a British tabloid, showed that President Trump called a princess “nasty”; then he denied calling her that; [then Trump had his team release a tape](#) that showed he called her that; then Fox News hosts attacked those quoting the Trump manuscript that showed he called her “nasty.”

In 1943, Michal Kalecki summarized the interaction of politics and economic dynamics in a paper entitled 'Political Aspects of Full Employment.'

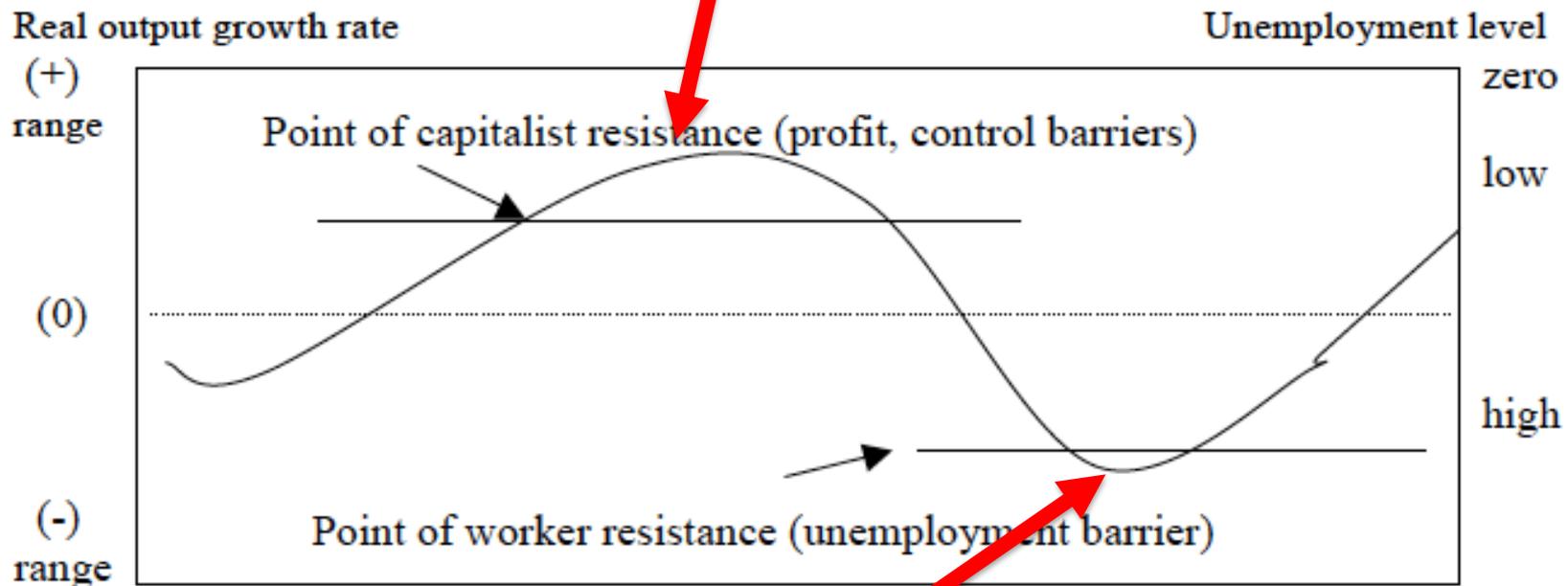
### **Figure 2B: The Kaleckian political business cycle**



This is what Kalecki envisioned: Capitalists vs. workers, each seeking state power to advance its interests.

Profit squeeze: unions too strong, capitalist accumulation threatened – time for monetary tightening ....

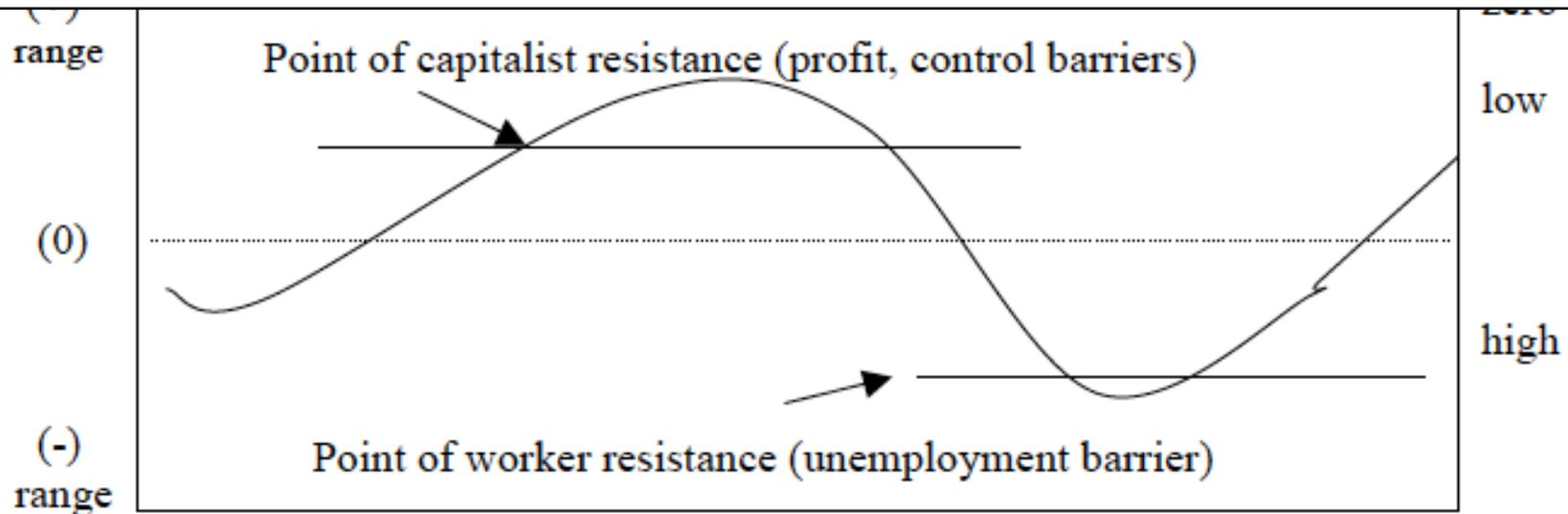
**Figure 2B: The Kaleckian political business cycle**



Stagnation crisis leads to strengthening of radical parties calling for socialist seizure of large firms, banks, developmentalism ..

The Trumpean inversion – elected leaders use popular discontent to gain power, which they use in capitalists' interests while letting divide/conquer inequalities deepen.

End threat of profit-squeeze by breaking unions, signing on people to a higher national-salvation cause



Point of populist revolt in favor of strong, nationalist leaders

# Questions for discussion/debate

- While capitalist countries stagnate or crumble, global warming is reaching crisis peaks. Inequality between and within nations is already at a boiling point. What 3 things should be done to reverse this logic?
- Is Donald Trump's Presidency ('signal, not ground noise') evidence of the irrationality now gripping global capitalism, or does it advance capitalist logic? How, and why, or why not?
- Does Black Lives Matter indicate that the younger generation is ready to move political and economic dynamics in new directions?