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Book Review

Book review: Peter Flaschel and Sigrid Luchtenberg, Roads to Social Capitalism: Theory, Evidence, and Policy (Edward Elgar, Cheltenham, UK and Northampton, MA, USA 2012) 384 pages

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Book review

Flaschel, Peter and Sigrid Luchtenberg (2012): *Roads to Social Capitalism: Theory, Evidence, and Policy*, Cheltenham, UK and Northampton, MA, USA (384 pages, hardcover, Edward Elgar, ISBN 978-1-78100-287-2)

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More than 75 years ago, John Maynard Keynes wrote in his *magnum opus*: ‘The outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes’ (Keynes 1936 [1978]: 372). This statement still applies today and has gained even more significance in recent times. In contrast to all the grandiose promises which accompanied the march back to Manchester liberalism during the past decades, present-day capitalism performs rather poorly. Most people did not benefit from the *laissez-faire* programme propagated by orthodox economists and conservative politicians but many are worse off. Such sad circumstances have escalated in a number of countries as a consequence of the latest financial crisis. In order to overcome the apparent deficiencies in living conditions for the great majority of the population, a conclusive alternative to the ruling doctrine is urgently needed. The contribution to this demanding task by Peter Flaschel and Sigrid Luchtenberg offers remarkable insights into the workings of capitalism and advances innovative ideas to shape the system’s outcome.

The authors depart from their basic insight that ‘the future of capitalism will depend very much on its capability to integrate its “dynamic forces of production” with a truly “social mode of production”’ (p. 11). In their view, ‘social capitalism’ is neither a contradiction in itself nor does this ideal coincide with a ‘social market economy’. The latter concept of a ‘third way’ between the extremes exerted a considerable influence on the economic order in (Western) Germany after World War II. Flaschel and Luchtenberg separate themselves from this approach (p. 21) as well as from other notions of ‘social capitalism’ (p. 307 et seq.).

The framework of the enquiry is provided by the theories of Marx, Keynes and Schumpeter ‘on ruthless capitalism, regulated capitalism and in the case of Schumpeter also competitive socialism’ (p. xi). This so-called MKS system had been proposed by Richard M. Goodwin (1986). The relevant paper was reprinted in a publication by Flaschel (2009: 376–382) which dealt with issues similar to those addressed in the book under review. Anyway, the authors are in a position to commence several chapters with reference to previous research work by one or both of them.

Though Flaschel and Luchtenberg on occasion invoke Marx, Keynes and Schumpeter, Goodwin’s class struggle model (1967) serves as the main analytical foundation of their reasoning. Doubts about whether the approach leaves any room at all for the strategic behaviour of capitalists (see Wörgötter 1986) are not discussed. Furthermore, it seems that the contemporary reality is not very well depicted by Goodwin’s equations, at least in the more recent past. In Germany, for example, the volume of work (not the number of employed persons) has been fairly stable since 1991. Yet labour’s share of national income has fallen over the years without any indication of an approaching significant rise. In the long

run, however, we may be taught otherwise. Entrepreneurs, it's worth noting, appear not always to be unanimously interested in lowering wages (Helmedag 2012).

The volume's 'General introduction' characterizes the most important varieties of modern capitalism: the United States of America, the European Union and the People's Republic of China. The following three parts are entitled 'Failing capitalism: baseline scenarios and social reforms', 'The forces to cope with: effective demand, finance and innovation' and 'Systemic crises, policy responses and the road to social capitalism'.

Part I rests upon Marx's reserve army mechanism. The ensuing distribution cycle is studied under the assumption of homogenous labour as well as in case of segmented labour markets. In the concluding chapter, an 'employer of first resort' ensures that full employment prevails. The resulting 'flexicurity model' is compared with the debate in the European Union and particularly its realization in Denmark.

In part II, the MKS system is elaborated in more detail. The first chapter covers the interaction between the distribution conflict and a Keynesian demand analysis. The authors then introduce a narrow commercial banking system with a Fisherian 100% reserve ratio. The third chapter, which is written by Reiner Franke, investigates Schumpeterian innovation waves.

Part III starts with the dynamics of capital accumulation and the decay of the infrastructure and the environment. Based on a flexicurity system, Flaschel and Luchtenberg present a normative system designed for a sustainable type of growth. The next chapter focuses on some governments' 'rampant' fiscal policies and the ensuing danger for the survival of the eurozone. In this context, the policy of the IMF is also considered. In conclusion, the authors present the basic principles constituting their approach to 'socialize' capitalism.

The vision of Flaschel and Luchtenberg encompasses three pillars. First, flexible and socially oriented labour market institutions guarantee full employment. In addition, extensive health services and care for the elderly have to be provided by ministries with their own budget. The second pillar consists of an educational system granting equal opportunities for all people, skill formation during lifelong learning and a political education for the citizens. The last pillar, constituting social capitalism, concerns the election of executive persons and the creation of elites. Since the authors, following Schumpeter, do not recognize the basic aim of democracy as representing the will of the constituency but as a means of changing the government, they prefer a qualified type of majority voting (p. 321).

Interestingly enough, Flaschel and Luchtenberg even venture as far as applying their programme to a country in serious trouble: they 'formulate a strategy for the evolution of the Greek society in the longer run where the three pillars ... are the compass for the intended radical socio-economic evolution' (p. 324). The hope remains that the rich there, who will have to carry the main burden on the road to a better future, do indeed understand their contribution as an act of solidarity.

At any rate, Flaschel and Luchtenberg present profound and thorough considerations about how to improve the capitalism under which we currently live. They do not restrict themselves to a mere adumbration of the societal system we should be striving for. What is more, the authors propose concrete ways and means to get there. Their monograph abounds with useful information, thought-provoking suggestions and substantial instructions, written in a spirit of humanity and democracy. These characteristic features alone were already reason enough to praise the book as an outstanding example of economic literature.

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