The economic crisis: time for a new social deal

More and more people are realizing that the global financial crisis is merely a symptom of a more systemic problem – a crisis of the "real economy" – that those responsible refuse to acknowledge. The capitalist system cannot be reformed or tinkered with through inadequate social security measures that leave the core of its societal logic intact. Only a complete transformation of society organized around a new logic can lead to a world in which meeting human needs, not corporate profits, is the priority.

Edward Oyugi
Social Development Network, Nairobi, Kenya

The dynamism and aggregate wealth that the capitalist system has been able to produce in the last 200 years have come at a steep price. With remarkable resilience, this system has weathered many internal and external challenges, but there have been significant costs both for human stakeholders and increasingly for the natural environment.

As its historic fortunes decline, both capitalism's victims and beneficiaries face the elusive prospect of addressing the decline in productivity, lack of equity, widespread poverty and worsening of its distributive inefficiency. As more and more people recognize, the global financial crisis today is merely a symptom of a more systemic problem. There is a crisis of the "real economy" – a crisis of capitalism that is suffering not just from ephemeral ailments but from a terminal illness.[1]

In the past, capitalism survived by repeatedly purging itself of debt and endemic social democratic deficit by off-loading the costs of the necessary strategic adjustments onto the weak and the poor. The crisis would end only after a massive devaluation or destruction of capital, accompanied by large-scale unemployment and a fall in wages. The rate of profit would then be restored with a renewed if not greater prospect for higher growth rates.

Capitalism thus destroys the social fabric by ratcheting up unemployment, destroying neighbourhoods and provoking social tensions and violence. The result is growing inequality, severe unemployment and unacceptable poverty levels for the majority of humanity. This time around the generic characteristics are nearly the same, but the effects of the damage seem to resist any remedial measures. It can be seen that:

- Social and humanitarian needs keep escalating as the resources needed to deal with them steadily decrease or, in many cases, simply evaporate. The situation of Greece in 2010 is an example.
- Social cohesion is under a level of stress not seen for decades mainly due to the fact that less privileged groups are competing for scarcer services while more and more families are becoming 'newly' vulnerable and therefore in need of external support from non-traditional sources.
- Gains made across regions during the last decade are in jeopardy of being completely lost not only in the least developed economies but also in developed ones.
- Growth is merely artificial if it is fuelled by unemployment.

The systemic framework of the crisis

Neo-liberal policies pursued by corporate sector-driven interests have caused this crisis. However, it is not completely accurate to argue that neo-liberalism means a deregulation of markets; it is rather closet regulation of the market in the interests of the owners of capital, as the issue of patents makes transparent. From time immemorial, "intellectual property" was unregulated; the men and women who invented the wheel and agriculture made no money out of these inventions, despite the fact that all subsequent generations have made use of them. It is only under capitalism that corporations rush to patent not only their own but also other people's inventions and discoveries so that, for example, pharmaceutical companies can make obscene profits by selling life-saving drugs at prices that condemn most patients who need them to death. Thus when regulation or lack of it is being discussed, it is important to be conscious of the fact that either way will work in favour of the hegemonic interests in a given political economy. What may pass as under-regulation will, on closer examination, constitute regulation on the sly and in the interest of the ruling section of society.

Neo-liberalism has usually ensured that regulations protecting the economically disadvantaged in particular and the public in general are "abolished." This is why from the 1980s to date an orgy of deregulation has been orchestrated in most of the advanced capitalist economies, spreading swiftly under all regimes influenced by the IMF and the World Bank. To prepare the way for neo-liberalism to extend its roots in the world economy through the Washington Consensus, the Glass-Steagall Act was repealed in 1999. This had been passed in 1933 amid the collapse of the banking system to segregate commercial banking (taking deposits and lending) from the much more risky business of investment banking (underwriting and selling stocks and bonds) and helped to halt the run on banks. After deregulation the subsequent and vigorous pursuit of a "securitization revolution" helped consolidate the elite warriors of the capitalist global economy – the Wall Street tricksters.

The system rests on the unplanned interaction of thousands of multinational corporations and of major governments of the global North. It is more or less like a traffic system without lane markings, road signs, traffic lights, speed restrictions or even a clear code stating that everyone has to drive on the same side of the road. No doubt this will make it very difficult to prevent the crash in the financial sector from generalizing into something much more serious in the next few months or years. The sooner we acknowledge the fact that only a minority benefits from capitalism, the sooner we can create a democratic solution for the majority. If the cause of this unending misery is systemic, the solution must be systemic as well.

Shock transmitters

The processes of international economic integration are increasingly leaving peripheral states – and poor states in particular – with diminishing authority to regulate conditions defining the relationships between capital and labour, the operational mechanisms and conditions of access to internal markets, and the quantum of budgetary allocation for equitable social development. Given that states still remain the legitimate framework for systems of formal political participation, there is a looming danger of a legitimacy vacuum opening up as these processes extend their sway into all manner of illegitimate jurisdictions.

For many countries and societies in the South, accelerated integration into the global economy has been accompanied by growing inequality and marginalization. Local and national institutional frameworks and instruments of social policy have been undermined and rendered ineffective when dealing with the effects of neo-liberal globalization. Supranational entities such as the IMF, the World Bank and the World Trade Organization (WTO) shape not only global social distribution, regulation and provision but also national and local social policy dispensations, bringing about the disempowerment of large sections of society.[2]

1 For more on this issue see F William Engdahl, "Financial Tsunami: The End of the World as We Knew It," Global Research, 30 September 2008; Henryk Grossmann, *The Law of Accumulation and Breakdown of the Capitalist System*, tr. Jairus Banaji (London: Pluto Press, 1992); Rudolph Hilferding, *Finance Capital – A Study of the Latest Phase of Capitalist Development*, tr. Morris Watnick and Sam Gordon (London: Routledge and Kegan Paul, 1981).

2 Bob Deacon with Michelle Hulse and Paul Stubbs, *Global Social Policy: International Organizations and the Future of Welfare* (London: Sage, 1997).

Unfortunately not many countries of the South have developed the necessary steady hands required for hitting the reset button in order to either reclaim the policy space for protecting the vulnerable in their societies or cut the transmission channels that have brought the effects of the crisis to the homes and workplaces of the vulnerable. At the macroeconomic level, developing countries have mainly been affected by the crisis through the following transmission mechanisms:

- Unregulated financial markets.
- International trade, unevenly tilted in favour of the powerful industrial economies of the North.
- Unregulated capital flows into more attractive lairs of capital accumulation.
- Bad government budgeting.
- Counter-productive aid.
- Corruption.

Mechanisms for social protection that could obviate the malign influence of the above fall into a number of categories and corresponding instruments of intervention. First, at the protection level, measures such as social assistance, through public and private transfers, disability benefits, pension schemes and social services could provide immediate relief to the most vulnerable in each society. For instance, the World Bank estimates that remittances to Kenya reduced the number of people living in absolute poverty by 8.5%.[3] Yet Kenya experienced a drastic fall in international remittances of over 10% in the second half of 2008.

Second, at the prevention level, mechanisms such as social insurance, social transfers and saving clubs could help forestall damage to traditional coping strategies and mechanisms. Third, at the promotion level, a wide variety of economic opportunities could be made accessible through instruments such as easy and sustainable access to credit, school-fees waiver, school feeding programs, public work programs and agricultural starter assistance packages. This would, of course, promote resilience through increased livelihood diversification and general social security.

Finally, at the social transformation level, different types of underlying vulnerabilities could be addressed using social protection mechanisms[4] ranging from the promotion of minority rights to the establishment of appropriate social funds for anti-discrimination policies. Again, this would facilitate the desirable transformation of social relations that would lead to a drastic reduction of social exclusion, which has become a cause of intermittent conflicts.

Social protection challenges

Many sections of society have been affected by the current crisis, albeit in different ways and depending on their geographic location, socio-economic position and primary source of securing a livelihood. Countries with strong social movements and with a notable tradition of processing social demands on behalf of the vulnerable (such as Indonesia, the Philippines and a handful in Latin America) have built on ongoing reform dynamics with remarkable successes.

In Indonesia, for instance, the Government found it prudent to establish a Crisis Monitoring and Response Unit as a first step for a concerted effort to deal with the effects of the financial crisis. It further engaged in a drastic budget revision in order to accommodate additional elements of a fiscal stimulus strategy that pursued three major objectives: increasing and/or maintaining the public's purchasing power; stimulating trade and promoting entrepreneurship; and accelerating job creation and fostering the growth of small-scale businesses. Due to favourable initial conditions and timely policy responses, the Indonesian economy has so far weathered the storm with growth rates remaining at comparatively high levels and continuing positive trends with regards to poverty reduction. The majority of African countries, on the other hand, has weak social movements and can point to few tangible measures aimed at alleviating the plight of the poor.

There is no doubt that one of the most severe problems caused by the economic crisis is the protracted unemployment that seems to be here to stay. The pace of economic recovery usually lags far behind Gross Domestic Product (GDP) growth. However, there is a promising intervention that can combine job creation with enhancing livelihood options. If designed with the needs of the most vulnerable in mind, such a social protection policy should be both pro-development and pro-gender. This will require putting in place a social security policy framework and instruments that will promote equitable social development if there is to be any possibility of achieving the Millennium Development Goals (MDGs).

Social protection can play an integral role in mitigating the debilitating impact of poverty, particularly in a crisis such as the current one. To that extent it is an important counter-cyclical policy. However, the social protection responses to the ongoing neoliberal capitalist crisis have been not only minimal but also chaotic, to say the least. Admittedly different countries have opted for a wide range of social protection measures and some have made good their determination to meet their pre-crisis commitments. Kenya and Uganda fall into this category among developing countries. Others, such as Ghana, have gone out of their way to exceed their pre-crisis coverage range even at the risk of widening an already almost unsustainable fiscal deficit. However, a large number of countries have put social protection measures on hold and chosen instead to focus on addressing macroeconomic stabilization challenges. Nigeria, for instance, has opted for fiscal stimulus regimes while, at the same time, regulating an ever widening-deficit. This could only be possible through a judicious reduction in social sector spending that would otherwise trigger off micro-economic tremors.

In addition to economic pressures, some countries are also being dealt severe blows to their human development and socio-economic stability due to the constricting domestic policy spaces required for decisive action. While advanced and emerging economies have some room to manoeuvre, many developing economies find themselves under the double bind of government and current account deficits. Consequently, their policy and fiscal space has shrunk. At a time when targeted, counter-cyclical policies should be put in place and government spending on the social sector should be expanding, they are forced to take the opposite path.

All countries must have the ability to introduce counter-cyclical policies, with international help, in order to reverse the trends of insufficient demand and growing unemployment. It is imperative that special lending facilities are made available under favourable conditions for this purpose. Recent IMF and World Bank documents seem to recognize and appreciate the lessons learned from previous crises and structural adjustment policies; yet the claim is heard again that "prudent" macroeconomic policies must remain in place. Thus the first question tends to be whether developing countries can "afford" the budgetary allocation needed to promote social security for men and women alike.

A new social deal is required

There is a strong urge for more efficient allocation, rationalization and spending of social protection resources. At present, relevant efforts remain fragmented and ill-targeted in terms both of programming and of strategic objectives and modalities of implementation. Large scale and long-term budgetary expenditure and reliable donor support will be needed for social protection schemes to reach and

3 Kenya –Country Progress Report, World Bank, 2008.

4 For more on this issue, see: Andy Norton, Team Conway and Mick Foster, "Social Protection Concepts and Approaches: Implications for Policy and Practice in International Development," *Working paper 143,* Overseas Development Institute, London, 2001; Stephen Devereux, *Social Protection and the Global Crisis* (Brighton: IDS, 2009); Charles Knox, "Response to 'Social Protection and Global Crisis'," 14 May 2009, available from: <www.wahenga.net/sites/default/files/Response_to_Social_protection_and_the_global_crisis.pdf>; Anna McCord, "Global Financial Crisis: Poverty and Social Protection, Evidence for 10 Country Case Studies," *An ODI Briefing Paper,* London, August 2009.

benefit those impoverished by the crisis. There are several systemic challenges, which may touch on the need to mainstream social security into the clamour for social democratic reforms. This will call for a comprehensive readjustment of economic systems, allowing for:

- Stabilization of employment.
- Stability between private and public sectors.
- Expanded coverage of basic social insurance systems involving both private and public sectors.
- New labour relations that seek to reinstate a proper power balance between capital and labour.
- Equity in access and distribution of resources for social development.

Social protection can no longer remain isolated and disjointed from a society's struggle for democratic renovation. The demand for its realization must be woven into the democratic wirings of a nation's political economy and its democratic potential. Such political economy requires a New Deal that is solidly grounded on a new social-democratic contract that goes beyond Franklin D Roosevelt's dream of saving capitalism from the depression of 1929. It is clear that he was not elected on a New Deal program and he had no intention of implementing policies associated with the New Deal when he first took office. He was persuaded to enact these policies by the looming pressure and threat of mass unrest following the telltale signs of a crisis foretold many times by critics of the system. It was obviously a question of granting reforms and concessions from above or risking a potentially uncontrollable social explosion from below.

Although Roosevelt's New Deal succeeded in letting off some steam by putting people to work in a series of massive public works projects, it was nowhere near enough to guarantee the long-term survival of a system, the driving logic of which is running out of democratic rationale. It was World War II that really pulled the US out of the Great Depression.[5] In other words, it was production for a war that killed millions of people and brought billions in profits to the corporate world economy that "saved" US capitalism as the bellwether of the global market economy.

The role of social security

Social protection in the foreseeable future will remain a patchwork of fragmented, uncoordinated, ill-focused and always reactive palliatives no longer suited for meeting the long-term challenges facing neo-liberal capitalism. The situation calls for a fundamental rethinking of the principles as well as the policies underlying our inherited social contract and the political and economic paradigm inspiring its design and architecture. There is a need to start from scratch and rethink the appropriate functions of all the sectors that make up the economy: the state, civil society, citizenry and environment.

The complex, largely unwritten deal between a democratic state, a social market and a non-hegemonic society should be one that provides the necessary social security for empowered citizens in order for them to navigate a dynamic political economy that serves every member of a given society. However, there is a worsening situation that has defied traditional explanation by apologists of neo-liberal capitalism. Reliable pension plans and employment opportunities are disappearing in the jungle of a deregulated market economy as health conditions of the majority of citizens deteriorate with no signs that impatiently awaited recovery would bring any positive change. Real wages remain stagnant, income and wealth inequality are reaching record levels, and more families are falling out of the middle class. The situation calls for a brand new deal, designed to renovate the moribund neo-liberal market economy.

This new social market economy must rearrange the balance of power between capital and labour, state and society, rural and urban, North and South, centre and periphery. Such a social contract should be designed to promote long-term growth and broadly shared prosperity and to support individuals and families not as employees but as citizens. This should help put forward concrete policy proposals on affordable health care for all, broad-based asset ownership, retirement security and lifelong education.

Human needs on top

Eventually the peoples of the world will come to realize that it is capitalism itself, not this or that rotten or corrupt individual or party that is the cause of so much instability in the economy and misery among the majority of the members of our societies. Nonetheless, illusions about the effectiveness of the various forms of stimulus packages aimed at saving capitalism from its self-destructive logic remain unrealistically high for many. How could it be otherwise, in a sense, given the unfavourable balance of social forces contending for a democratic redefinition of the future of mankind? Whereas the pressure for change from popular forces is mounting, they are not yet strong enough to bring it about.

So while we cannot afford to continue acting recklessly against reforms, even those with minimal social-democratic content and largely offering palliatives, we must remain steadfast against reformism, particularly the type that argues that somehow the neo-liberal capitalist system can be made kinder, gentler and more responsive to the deepening plight of its victims. The system, by its very nature, is based on the exploitation of the many by the few, of ownership and control over the vast majority of the wealth of society by a tiny handful of the population. It cannot be merely reformed or tinkered with through ephemeral social security measures that leave the core of its societal logic intact. Only a complete transformation of society around a new logic can lead to a world in which meeting human needs, not corporate profits, is the priority. ■

5 Chalmers Johnson, "Going Bankrupt: The US's Greatest Threat,' *Asia Times Online*, 24 January 2008. Available from: <www.atimes.com/atimes/Middle_East/JA24Ak04.html>.