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Capitalism's triple crisis

After the financial crisis in 2008, companies received unconditional state support. This mistake must not be repeated now

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Capitalism is facing at least three major crises. A pandemic-induced health crisis has rapidly ignited an economic crisis with yet unknown consequences for financial stability, and all of this is playing out against the backdrop of a climate crisis that cannot be addressed by 'business as usual.' Until just two months ago, the news media were full of frightening images of overwhelmed firefighters, not overwhelmed health-care providers.

This triple crisis has revealed several problems with how we do capitalism, all of which must be solved at the same time that we address the immediate health emergency. Otherwise, we will simply be solving problems in one place while creating new ones elsewhere. That is what happened with the 2008 financial crisis. Policymakers flooded the world with liquidity without directing it toward good investment opportunities. As a result, the money ended up back in a financial sector that was (and remains) unfit for purpose.

The Covid-19 crisis is exposing still more flaws in our economic structures, not least the increasing precarity of work, owing to the rise of the gig economy and a decades-long deterioration of workers' bargaining power. Telecommuting simply is not an option for most workers, and although governments are extending some assistance to workers with regular contracts, the self-employed may find themselves left high and dry.

Worse, governments are now extending loans to businesses at a time when private debt is already historically high. In the United States, total household debt just before the current crisis was USD 14.15 trillion, which is USD 1.5 trillion higher than it was in 2008 (in nominal terms). And lest we forget, it was high private debt that caused the global financial crisis.

The private debt problem

Unfortunately, over the past decade, many countries have pursued austerity, as if public debt were the problem. The result has been to erode the very public-sector institutions that we need to overcome crises like the coronavirus pandemic. Since 2015, the United Kingdom has cut public-health budgets by £1bn ($1.2 bn), increasing the burden on doctors in training (many of whom have left the National Health Service altogether), and reducing the long-term investments needed to ensure that patients are treated in safe, up-to-date, fully staffed facilities. And in the US – which has never had a properly funded public-health system – the Trump administration has been persistently trying to cut funding and capacity for the Centers for Disease Control and Prevention, among other critical institutions.

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On top of these self-inflicted wounds, an overly 'financialized' business sector has been siphoning value out of the economy by rewarding shareholders through stock-buyback schemes, rather than shoring up long-run growth by investing in research and development, wages and worker training. As a result, households have been depleted of financial cushions, making it harder to afford basic goods like housing and education.

The bad news is that the Covid-19 crisis is exacerbating all these problems. The good news is that we can use the current state of emergency to start building a more inclusive and sustainable economy. The point is not to delay or block government support, but to structure it properly. We must avoid the mistakes of the post-2008 era, when bailouts allowed corporations to reap even higher profits once the crisis was over, but failed to lay the foundation for a robust and inclusive recovery.

Value creation instead of value extraction

This time, rescue measures absolutely must come with conditions attached. Now that the state is back to playing a leading role, it must be cast as the hero rather than as a naive patsy. That means delivering immediate solutions, but designing them in such a way as to serve the public interest over the long term.

For example, conditionalities can be put in place for government support to businesses. Firms receiving bailouts should be asked to retain workers and ensure that once the crisis is over they will invest in worker training and improved working conditions. Better still, as in Denmark, government should be supporting businesses to continue paying wages even when workers are not working – simultaneously helping households to retain their incomes, preventing the virus from spreading and making it easier for businesses to resume production once the crisis is over.

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Moreover, bailouts should be designed to steer larger companies to reward value creation instead of value extraction, preventing share buybacks and encouraging investment in sustainable growth and a reduced carbon footprint. Having declared last year that it will embrace a stakeholder value model, this is the Business Roundtable's chance to back its words with action. If corporate America is still dragging its feet now, we should call its bluff.

We need entrepreneurial states

When it comes to households, governments should look beyond loans to the possibility of debt relief, especially given current high levels of private debt. At a minimum, creditor payments should be frozen until the immediate economic crisis is resolved and direct cash injections used for those households that are in direst need. And the US should offer government guarantees to pay 80-100 per cent of distressed companies' wage bills, as the UK and many European Union and Asian countries have done.

It is also time to rethink public-private partnerships. Too often, these arrangements are less symbiotic than parasitic. The effort to develop a Covid-19 vaccine could become yet another one-way relationship in which corporations reap massive profits by selling back to the public a product that was born of taxpayer-funded research. Indeed, despite US taxpayers' significant public investment in vaccine development, the US Secretary of Health and Human Services, Alex Azar, recently conceded that newly developed COVID-19 treatments or vaccines might not be affordable to all Americans.

We desperately need entrepreneurial states that will invest more in innovation – from artificial intelligence to public health to renewables. But as this crisis reminds us, we also need states that know how to negotiate, so that the benefits of public investment return to the public.

A killer virus has exposed major weaknesses within Western capitalist economies. Now that governments are on a war footing, we have an opportunity to fix the system. If we don't, we will stand no chance against the third major crisis – an increasingly uninhabitable planet – and all the smaller crises that will come with it in the years and decades ahead.

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