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# The great paradox of future capitalism

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*We have had our New Year's wishes and the fanfare of pundits gauging the potential for economic growth in the first year of a post-crisis world. Much attention has been paid to the bricks of economic recovery scattered around the world. Very little attention has been paid to the foundational pillars of sustainable growth: open and competitive markets. In fact, the persistent delays in financial reregulation and the return of the stock market bull are feeding the impression that the world is slowly returning to business as usual. "Is that all?", read the rhetorical headline of Newsweek's special 2010 edition. My answer is: far from it!*

Let's take a small step back in time. When the subprime calamity exposed itself to an unsuspecting world, political leaders and commentators were united in blaming Anglo-Saxon "free-market ideology" and "laissez-faire economics". The Washington Consensus of deregulated markets, which had cast a spell on economic policy-making for decades, was sent down in infamy. Fearing total meltdown, governments around the world scrambled to save favored financial institutions. Keynes was brought back from the dead as governments took over from markets in channeling economic development, nearly nationalizing the car industry along the way.

This passing episode in itself will have an enormous legacy. The very landscape of financial markets has changed profoundly, with less international competition and fewer big players than before. From the epicenter of Detroit, the bailout of the car industry has sent shockwaves around the world, among them Chinese takeovers and European downsizing. The tables have turned on governments' economic credentials. Government is no longer the problem – as Ronald Reagan once quipped – it has now become the solution. More importantly perhaps: it is seen as the solution.

Convictions and mindsets matter a great deal. Without a shared belief in the benefits of market forces and free trade, itself spurred by Western self-belief in the superiority of its economic model, the world after 1989 would not have embarked upon a process of trade liberalization that enabled a veritable golden age of global growth. Capitalism's greatest crisis in 75 years may well have failed to deliver any sensible alternative model. But the scorn and the rhetoric of the darkest crisis days are gradually morphing into politics and policy. The necessity of Keynesian depression economics is quickly turning into a political addiction.

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In the slipstream of stimulus action, governments around the world are actively pursuing grand strategies to spur future growth. Industrial policies dominate economic agendas across the political divide: they were a shared ambition in both the recent Japanese and German elections. In France, a president who was elected on a program of market liberalization now plans a national loan to subsidize massive public investment projects. The slippery slope from Keynesian crisis policy to post-crisis economic planning has thus been opened.
The Green Economy is its greatest ally. Green is a politician's wet dream: a magnet for subsidies and state support in pursuit of both lofty environmental goals and global commercial triumph. Prior to the crisis, the Green Dream meant mostly emission targets, clean-tech subsidies, or price incentives such as "cap and trade" emissions trading. In the wake of the crisis, clean energy has become a global arms race of state-driven investment; an affirmative and deliberate agenda for new economic development, pushing and overtaking the market rather than enabling it.

The international backdrop to this evolution is the decline of the free trade agenda. In the heat of the crisis, all politics became national, with the inevitable nationalist fallout. The politics of globalization are therefore in disarray. Trade liberalization requires an intellectual understanding that it will serve the mutual interest, the possibility to convince national public opinion of its benefits, and an international leader to push countries into concessions. None of these conditions has survived the crisis without serious damage. The science of economics has failed, the electorate and the politicians alike eschew foreign competition while the national economy bleeds, and America has lost its aura.

The geopolitics of globalization has shifted. America and its traditional economic model are in relative decline; an evolution which the Obama administration is not only recognizing but actually accelerating through humility abroad and healthcare reform at home. China and its communist tradition of state-driven development are ascendant. Crisis reality has forced the West into its direction. American capitalism has taken a step towards Chinese-style socialism, instead of the other way around. This precedent will have long-lasting consequences.

The United States and Europe will increasingly have to tolerate and accommodate emerging countries' penchant towards state capitalism, while being unable or unwilling to inspire other regimes with an alternate model. State intervention, mixed with creeping neo-protectionism and state coordination, are the new tide. In developed Western economies, the state and state industrial policies are back. For emerging economies, the Beijing model may well become the new normal.

A general rise of state-directed capitalism is thus becoming the hallmark of our era. In all countries this implies a heavy dose of state patronage, political interference and neo-protectionist entrenchment. In most countries it involves an increasing degree of state planning or coordination. In some countries it heralds a new model for post-crisis capitalism. The fabric of capitalism is changing in every instance. Economic growth overall becomes more dependent on government steering and public investment; less on consumerism or revolutionary entrepreneurial innovation – the two emblems of economic growth after the collapse of communism.

These changes are likely to impact the real economy more than the financial economy in the long run. Financial sector bailouts will gradually be returned or absorbed. Financial reregulation will have the inevitable light touch of inadequate international coordination. On the other hand, that very same lack of international governance lets individual states loose in the race of state capitalism and national growth strategies, with profound ramifications for the real economy.

The Subprime Crises and the Great Recession were rooted in the financial market economy. The real market economy was not their cause, but their victim. As it turns out, however, the Age of the Twin Crises is likely to recalibrate the real economy much more than the financial economy. This is truly the great paradox of future capitalism.

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