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Building a Better Capitalism

By Harold Meyerson
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So what kind of capitalism shall we craft? Now that the market fundamentalism to which we've adhered for the past 30 years has -- by its own criterion of increasing shareholder value -- totally failed? Now that Alan Greenspan has proclaimed himself "shocked" that "the self-interest of lending institutions to protect shareholders' equity" proved to be an illusion?

Larry Summers, President Obama's senior economic adviser, cautioned in an interview in Monday's Financial Times against heeding "those who, just as in the 1930s, tried to learn the lesson that market capitalism didn't work and needed to be replaced with an entirely different model." But no one is suggesting an entirely new system. What we need -- and what we can build -- is a capitalism more attuned to our national concerns.

The Reagan-Thatcher model, which favored finance over domestic manufacturing, has collapsed. The decline of American manufacturing has saddled us not only with a seemingly permanent negative balance of trade but with a business community less and less concerned with America's productive capacities. When manufacturing companies dominated what was still a national economy in the 1950s and '60s, they favored and profited from improvements in America's infrastructure and education. The interstate highway system and the G.I. Bill were good for General Motors and for the U.S.A. From 1875 to 1975, the level of schooling for the average American increased by seven years, creating a more educated workforce than any of our competitors' had. Since 1975, however, it hasn't increased at all. The mutually reinforcing rise of financialization and globalization broke the bond between American capitalism and America's interests.

Manufacturing has become too global to permit the United States to revert to the level of manufacturing it had in the good old days of Keynes and Ike, but it would be a positive development if we had a capitalism that once again focused on making things rather than deals. In Germany, manufacturing still dominates finance, which is why Germany has been the world's leader in exports. German capitalism didn't succumb to the financialization that swept the United States and Britain in the 1980s, in part because its companies raise their capital, as ours used to, from retained earnings and banks rather than the markets. Company managers set long-term policies while market pressures for short-term profits are held in check. The focus on long-term performance over short-term gain is reinforced by Germany's stakeholder, rather than shareholder, model of capitalism: Worker representatives sit on boards of directors, unionization remains high, income distribution is more equitable, social benefits are generous. Nonetheless, German companies are among the world's most competitive in their financial viability and the quality of their products. Yes, Germany's export-fueled economy is imperiled by the global collapse in consumption, but its form of capitalism has proved more sustainable than Wall Street's.

So does Germany offer a model for the United States? Yes -- up to a point. Certainly, U.S. ratios of production to consumption and wealth creation to debt creation have gotten dangerously out of whack. Certainly, the one driver and beneficiary of this epochal change -- our financial sector -- has to be scaled back and regulated (if not taken out and shot). Similarly, to create a business culture attuned more to investment than speculation, and with a preferential option for the United States, corporations should be made legally answerable not just to shareholders but also to stakeholders -- their employees and community. That would require, among other things, changing the laws governing the composition of corporate boards.

In addition to bolstering industry, we should take a cue from Scandinavia's social capitalism, which is less manufacturing-centered than the German model. The Scandinavians have upgraded the skills and wages of their workers in the retail and service sectors -- the sectors that employ the majority of our own workforce. In consequence, fully employed impoverished workers, of which there are millions in the United States, do not exist in Scandinavia.

Making such changes here would require laws easing unionization (such as the Employee Free Choice Act, which was introduced this week in Congress) and policies that professionalize jobs in child care, elder care and private security. To be sure, this form of capitalism requires a larger public sector than we have had in recent years. But investing in more highly trained and paid teachers, nurses and child-care workers is more likely to produce sustained prosperity than investing in the asset bubbles to which Wall Street was so fatally attracted.

Would such changes reduce the dynamism of the American economy? Not necessarily, particularly since Wall Street often mistook dealmaking for dynamism. Indeed, since finance eclipsed manufacturing as our dominant sector, our rates of intergenerational mobility have fallen behind those in presumably less dynamic Europe.

Wall Street's capitalism is dying in disgrace. It's time for a better model.

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