

Sebastian Dullien, Hansjörg Herr and Christian Kellermann

## Good Capitalism

... and what would need to change for that

■ »Can capitalism be good? Yes – as long as it is effectively reined in!« This is the core proposition of the book »Good Capitalism ... and what would need to change for that« (with a preface by Gesine Schwan), which has just been published by transcript Verlag.

■ The Friedrich Ebert Foundation (FES) here presents a number of excerpts from the book – the result of a discussion process at the FES that was set in motion by a seminar with experts from the financial and business sectors held in January of this year.

■ The book's authors call for a fundamental reorientation of capitalism. They see the present crisis as the result of an excessive, unbridled financial capitalism that has destroyed not only financial systems but, along with them, the consensus on which the social market economy has rested until now.

■ The authors' »Good Capitalism« rests on four pillars: bridled financial markets, decent work and working conditions, European cooperation and enhanced regulation worldwide.

OCTOBER 2009



---

## Content

<b>1</b>	<b>From financial market deregulation to the »comeback of the state«</b> . . . . .	<b>2</b>
<b>2</b>	<b>Correcting a multiplicity of capital aberrations</b> . . . . .	<b>2</b>
<b>3</b>	<b>Two steps forward, without having to take one step back</b> . . . . .	<b>4</b>
<b>4</b>	<b>»Good capitalism«: A four-pillar model</b> . . . . .	<b>4</b>
<b>5</b>	<b>Good capitalism is possible!</b> . . . . .	<b>7</b>

## 1 From financial market deregulation to the »comeback of the state«

The ongoing financial crisis points unmistakably to the glaring weaknesses of the present economic system. An event that seemed relatively manageable in economic terms – the real estate bubble in the United States – has brought the globalised economy to the brink of a new depression, reawakening memories of the world economic crisis of 1929.

The German economy has contracted appreciably, by over 5 per cent – a situation as dramatic as any experienced since the Second World War. Even though there are some first signs of economic stabilisation and new growth in Germany, the fact of the matter is that further setbacks are entirely likely and there are very good reasons to question how sustainable this stabilisation really is.

The crisis-management phase is by no means over. And what has brought the world economy to the brink is precisely what, in recent years, has been touted as its main driving force: the increasingly close linkage between international capital markets and world trade, facilitated and supported by increasingly complex financial instruments that have led to soaring profits. It has now turned out, in the course of the crisis, that the global financial system was in no way able to contain the negative effects that resulted when the US real estate market bubble finally burst. Indeed, the international financial system itself has served to amplify, globally, the slump in the world economy.

When the crisis broke out, experts were relatively quick to agree that it would make no sense to seek simply to »muddle on«, at least as far as financial market regulation is concerned. A consensus soon emerged that the main cause of the turmoil besetting the global economy must be sought in the international financial markets. These, it was agreed, had, in connection with a protracted phase of underregulation, evolved into a kind of parallel world to the »normal« economic system, in which even hard-boiled insiders were hard pressed to find their bearings. It was this failure of the world's free and self-regulating financial markets that led to the initiative of the »systemically relevant countries« (the G20) with regard to the regulation of the international financial markets. The G20 is now resolved to join forces in taking steps to bridle unregulated financial transactions and actors. The G20 agenda includes measures designed to ensure more transparency and accountability on the part of the financial sphere, at the global, regional and national levels.

When, in the winter of 2008/2009, it became clear that the financial crisis would have dramatic repercussions for the rest of the economy, a rethink took place at a number of levels, with the major industrialised countries and the most important emerging countries adopting massive stimulus and recovery packages and seeking to stabilise the real economy and the financial markets. In particular, the actions undertaken to rescue banks and major corporations reached proportions that had previously seemed inconceivable. All of a sudden, there was much talk of the »comeback of the state«, a return to a managed economic policy à la John Maynard Keynes – a return to state demand management in economic space, an economist closely associated with the economic model that emerged in the post-War decades. Institutions such as the European Commission and the International Monetary Fund, which for decades had championed budget consolidation and improvements of supply-side conditions, were suddenly trying to outdo one another in their calls for bigger and bigger demand-side economic stimulus programmes. The discussions now centred not on whether state intervention was needed to support the economy, but on how such intervention might be effected as quickly, efficiently and cost-effectively as possible.

But the public debate has, since then, proceeded far beyond these technical issues. In political terms, we have experienced the impeachment of the market-radical vision of a »night watchman state« in a system dominated (nationally and globally) by market structures. The population is showing a marked and growing aversion, not only to financial capitalism but also to the market as the one and only mechanism of economic governance. There is a growing impression that this model has failed to deliver on its promise of better living conditions for the broad mass of the population while, at the same time, generating huge incomes for individual managers and speculators. All of a sudden, calls for efforts to overcome this financial capitalism seem to be regaining political currency. But what would a new economic model look like? What shape would a »good capitalism« have in a globalised world?

## 2 Correcting a multiplicity of capital aberrations

In the present publication, we develop a proposal for a »good capitalism«, one geared in fundamental ways to guaranteeing social justice and ecological sustainability at a high level of prosperity. This new model, however, should in no way be seen as a fundamental

**Prof. Dr. Sebastian Dullien** teaches at the Hochschule für Technik und Wirtschaft/University of Applied Sciences in Berlin;

**Prof. Dr. Hansjörg Herr** teaches at the Hochschule für Wirtschaft und Recht in Berlin/Berlin School of Economics and Law;

**Dr. Christian Kellermann** is Director of the Nordic Office of the Friedrich Ebert Foundation in Stockholm.

counterproject to the existing economic and social model of the kind embodied in the historical communist experiment of a socialist planned economy. While counterprojects may be intellectually stimulating, we are convinced that they have little to offer in the present situation. In the currently dominant economic model, which has evolved and taken hold just about everywhere, including Germany, since the 1970s, we see two major complexes of problems that need to be resolved – and can be resolved!

First, the reforms of the past 40 years have been based on a problematic faith in the market. The market was here understood as a self-regulating mechanism that leads, more or less on its own, to stability, including high rates of employment and a halfway acceptable distribution of income. When unleashed markets proved, as they generally did, unable to deliver the desired results, the invariable response of the political sphere was to administer to the economy another stiff dose of deregulation.

Second, starting in the 1970s, a growing imbalance emerged between the global market on the one side and the national level of regulation on the other. It is difficult to imagine any stable development of the world economy unless and until this asymmetry has been broken down.

When it comes to a new economic model, one central question that needs to be answered is what role the financial markets are to play in it. It is important here not to vilify the financial sector and its dynamism when it comes to creating and supplying credit. True, excessive lending is generally seen as the main factor behind the bubble in the US real estate market, and thus as responsible for the present crisis. But we must not forget that there is nothing wrong with credit and credit growth as such. Indeed, credit is the stuff that fuels innovation and growth. In our view, the financial sector has an important role to play in a social-ecological economy. In contrast to past years, in which financial sector transactions often ended up as the be-all and end-all, the financial sector needs once again to be the service provider for the rest of the economy. The financial markets need to supply the economy with the financial resources it needs to guarantee an optimal level of production and distribution of goods and services. They need to make available the risk capital required for innovations, above all in the »green economy«. But they also need to provide the »patient« capital on which businesses rely to devise long-term strategies and to plan for the longer term. It is essential that the framework conditions for investment banks, fund management companies, commercial banks and other actors be formulated in such a way as to ensure

that the financial sector as a whole is able to meet these challenges.

The financial sector will, of course, be able to play this role only as long as it does not see itself faced with excessive debt or debt crises in individual countries or sectors. Crises of this kind tend, regularly, to destroy the equity capital the financial sector needs to supply businesses with the credit they require for their productive investments. What this implies for a new, stable growth model is that constantly rising debt levels, on the part of the state or private households, will not be able to serve in it as a driver of growth.

The present crisis was preceded by gross global imbalances that found expression, in particular, in the huge US current account deficit. This clearly indicated that the United States was living far beyond its means – a state of affairs, however, from which the major exporting economies, above all China and Germany, were not at all disinclined to benefit. Inter-country imbalances of this kind may prove viable for a certain period, but once debt burdens have reached excessive levels, shaking confidence in the markets concerned, the result is inevitably capital flight, accompanied by economic stagnation.

*One fundamental result of our new economic model is derived from just this insight: beyond financial market regulation, it is essential to set the economic framework conditions in such a way as to ensure that it is possible to create demand without unduly increasing debt levels.*

Looked at in global terms, what this means is creation of demand via wages and salaries, a demand, however, that should rise, in the ideal case in all countries, in line with productivity and population growth. The central instrument needed to manage this demand is an active wage policy that provides for just wages and salaries for all. Any and every labour market policy, therefore, needs to give due consideration to the macroeconomic factors that go into the creation of demand. Or, to put it differently, labour market reforms must not be allowed to endanger global economic stability – as they have until now.

The task of financial policy, in turn, is to prevent growing imbalances and to correct them whenever they occur. There is a simple economic reason for this: big earners consume, in relative terms, less than small earners. And this means that raising low incomes generates a larger demand effect than granting more and more tax breaks to millionaires (to say nothing of questions of equity).

Furthermore, major inter-country imbalances are an unmistakable sign of unhealthy debt trends, and they need to be prevented for this reason – this

applies, it should be said, to deficits no less than to surpluses. Or, as Helmut Schmidt once put it: »No one should long be allowed to accumulate surpluses at the expense of all others, no one should be allowed to consume, in their own economy, the surpluses and the capital accumulated by others«. This is why the monetary policy run by a country or – in the case of Europe – a region needs to deploy new instruments, beyond the key interest rate, to prevent and redress imbalances in both financial markets and in trade.

### 3 Two steps forward, without having to take one step back

The core issue underlying the question of a »good capitalism« is finding the right balance between market, state and society. There are many places in which more state influence is needed to keep financial capitalism in check. This is not at all to say, however, that we need to return to the old »Model Germany« of the 1970s. Nor does »more state« imply any need to revoke measures undertaken to further liberalise society.

While the 1970s Model Germany achieved one of its aims, namely broader scope for long-term thinking, on the basis of a close integration of the industrial and banking sectors (commonly referred to as »*Deutschland AG*«), European integration and the globalisation of production have deprived the model of the base on which it rested. Furthermore, the model served to entrench certain questionable power structures which, in fact, needed to be overcome. Some groups in society were excluded, de facto, from the labour market, or at least from certain positions. For women, for instance, finding reasonable employment in the 1970s was more difficult than it is today. A return to the 1970s model appears, for these reasons, neither desirable nor, indeed, even possible. Roughly the same can be said of attempts to copy the – foundering – Anglo-Saxon model, with its emphasis on short-term increases in shareholder value and its inclination to grant the financial sector exaggerated weight in the overall economy.

Coming up with a new economic model is quite an ambitious project. Many of its elements would necessarily elude implementation by one country going it alone – to say nothing of Germany, which, as an EU member state, is closely integrated with its neighbours in both economic and legal terms. What is more, for a considerable number of new ideas the supranational level is, for fundamental economic reasons, the appropriate level of governance and regulation. This applies, in particular, to financial markets

and their actors. Capital is highly mobile and it invariably seeks an optimal location (optimal, that is, in terms of capital interests), one that will not seldom be found in an unregulated »offshore centre« with no more than the most rudimentary of oversight structures. Quite apart from issues of equity, »regulatory arbitrage« of this kind serves to undercut the very possibility of effective regulation. What is called for is, therefore, a globally coordinated regulation of financial markets. International coordination is essential when it comes to other points as well, including, for example, the need to redress global imbalances.

Be that as it may, in many areas the best place to embark on the path of conversion to a new economic model is at home. To take Germany as an example, efforts to reduce the country's huge current account surplus could start out with a change of course in German wage policy and a tax policy geared to achieving greater redistribution effects at home. Neither of these elements would call for coordination with other countries or create conflicts with EU partners. And fewer imbalances in the world's third- or fourth-largest economy would mean appreciably fewer imbalances worldwide.

### 4 »Good capitalism«: A four-pillar model

The idea of capitalism as a self-regulating system which leads to stability and welfare for all has always been wrongheaded and will remain so. Markets need to be embedded in institutions and regulatory systems; otherwise, they tend to unleash destructive forces. The question is, therefore, not whether but how the state should intervene in markets. In order to enable capitalism to develop its productive (»good«) dynamics, while unleashing as little as possible of its destructive tendencies, it needs to be reined in: by both state and society. The rein should not be too long, but not too short, either. In an ideal world, global capitalism is in need of global regulation – a global rein, so to speak. But many reasonable and promising measures can be taken at the national or regional level as well. A country such as Germany has sufficient room to manoeuvre to shape its own domestic economic affairs and to decide on the degree of globalisation right for it. One feasible alternative – which in our model would rest on four pillars – would have the following shape.

### Pillar 1: Banks and the financial system

Financial systems are, in a manner of speaking, the »brains« of the economic system. And while they are of key significance for dynamic economic development, they can also wreak havoc on an economy. In fact, a smoothly functioning financial system has, in a modern economy, at least four tasks essential for any sustainable growth process. First, by supplying businesses – and innovative businesses in particular – with newly created credit, the financial system sets the stage for investment and successful production processes. Second, by better distributing risk in general, it helps to enable business enterprises to assume more entrepreneurial risks and this tends to lead to higher levels of investment and greater economic growth. Third, a properly functioning financial system should distribute credit to those sectors and businesses that are most likely to generate sustainable growth. And fourth, one of the functions of a smoothly functioning financial system is to collect the smaller sums saved by a large number of savers and to make these resources available for major investment projects. In other words, the function of the financial system should be to make sufficient credit available for the business sector and to support innovative businesses with higher risks. This, though, can be done without either the countless – and, in the end, virtually indistinguishable – financial products currently available or huge derivative markets that tend to proliferate at dizzying rates. Furthermore, real estate and stock markets driven by speculation and short-term orientations and business strategies geared to earning quick profits offer little or no support for the long-term development of economies. Relatively down-to-earth financial systems are perfectly sufficient to expand credit and to finance investments and innovations.

#### What needs to be done<sup>1</sup>

- Retention of a multi-tiered banking system with a strong public-sector component (savings and cooperative banks)
- Adoption of stricter rules governing the equity that banks are required to hold to cover all possible balance sheet risks; high risks need to be transparent and secured by sufficient equity
- Countercyclical formulation of financial market regulation (reduction of the role played by bank-specific quantitative risk models, reform of Basel II)

- Creation of a European banking oversight agency
- A strict ban on transactions with offshore centres
- Regulation of all financial institutions, keyed to their specific functions in the market
- Adoption of new rules on securitisation, including a licensing or testing agency for financial products and retention of the highest-risk shares when debt instruments are resold
- Setup of a clearing centre for derivatives and a strict ban on OTC transactions
- Expansion of the powers of banking and financial market oversight agencies, enabling them, in the future, to collect and aggregate financial market data and to adopt a macroeconomic perspective
- Abandonment of the principle of »fair-value accounting« and adoption, in its place, of the lowest-value principle
- Reform of existing rating agencies and establishment of government rating agencies
- Adoption of strict rules for manager bonus systems
- Measures designed to correct the short-term orientation of financial markets and their impacts on the overall economy: abandonment of the shareholder-value principle in corporate management and measures designed to strengthen the role of all of a company's stakeholders
- Expansion of the set of tools available to central banks to include, in addition to interest rate policy, variable equity rules for real estate credit (differentiated by sector and region) and the use of controls on the movement of capital and interventions in foreign exchange markets

### Pillar 2: Wages and the labour market

Purchasing power, the central source of demand in developed economies, should be based on a relatively balanced distribution of income, and not on an expansion of consumer credit. Several measures are needed to achieve a balanced distribution of income: first, a reversal of the long-term trend toward a falling labour share of income, which is due chiefly to the financial system's growing power, virtually uncontrolled proliferation and increasing hunger for risk and profit. Second, the wage structure would need to be modified in such a way as to raise lower-bracket wages. Third, the state would need to use tax and spending policies, including provision of public goods, to intervene in the market-driven distribution of income. Statutory social security systems would have an important – but not the only – role to play here.

<sup>1</sup> The individual measures envisioned are explained in detail in Chapter 4 of »Good Capitalism«.

### What needs to be done

- Wage development needs to be linked to overall productivity development, as well as to the target inflation rate set by the central bank
- Adoption of unified and statutory minimum wages as a means of restricting inequalities in income distribution and preventing deflationary risks
- Measures to strengthen the instrument of the industry-wide wage agreement: compulsory membership in employers' associations or decisions establishing the industry-wide applicability of collective wage agreements
- Measures to strengthen workers' rights of codetermination at the company level
- Measures to condition the award of public contracts on fulfilment of minimum standards for wages and working conditions
- Creation of a common unemployment insurance system at the level of European Monetary Union (EMU), aimed, among other things, at strengthening regional coherence
- Adoption of a European minimum wage anchor (with the minimum wage set at 60 per cent of the national average wage) and establishment of a European Minimum Wage Commission
- Coordination of wage policy on the basis of a set of European wage guidelines
- Support for the development of Europe-wide trade unions, employers' associations and collective bargaining

### Pillar 3: Public budgets

A stronger role for the state in a »good capitalism«, with a fundamentally new regulatory framework, calls for measures to ensure that the state has the equitable and sound revenue base it needs to prevent any rise of public debt as a share of gross domestic product. Tax policy here serves, on the one hand, to correct imbalances in income distribution and, on the other, to enable investments, in particular in education, research and development, infrastructure and social security. A sound state revenue base is the sine qua non for both countercyclical stabilisation of the economy, based on automatic stabilisers, and the provision of public services of the highest quality possible.

### What needs to be done

- Compulsory membership of all income earners in statutory old-age, health and unemployment insurance systems
- Adoption of Europe-wide minimum corporate tax rates
- Measures to further centralise financial policy in the Eurozone based on Europe-wide taxes and borrowing capacities at the EU level
- Deployment of a countercyclical fiscal policy at the European level, including coordination of fiscal policy in the European Monetary Union or the EU
- Expansion of the EU-wide system of revenue sharing, designed to assist individual countries experiencing difficult phases of development
- Adoption of a new Euro Stability and Growth Pact designed to correct current account imbalances

### Pillar 4: The world

We make the case here for an economic constellation that fosters increases in productivity and innovation. This would be one marked by a stable and, at the same time, dynamic financial system and based, fundamentally, on growth in domestic or regional demand among the world's nations, driven by increases in income and thus able to prevent major current account imbalances. The world economy should be keyed to a system of relatively stable exchange rates which could be adjusted to redress any emerging major imbalances. The principal instrument used to combat current account imbalances should be a set of monetary and fiscal policies – as well as appropriate wage policies within monetary unions, such as EMU. Exchange rates should be adjusted as soon as any excessive current account imbalances appear to be emerging. The fact that exchange rate adjustments are ruled out in monetary unions implies a need for stronger integration of, and cooperation among, the countries which are members of such a union.

### What needs to be done

- A return to more stable exchange rates with clear-cut rules governing adjustments which need to be effected in the face of current account imbalances. This would be achieved on the basis of improved intergovernmental coordination of monetary and fiscal policies, as well as through control of capital movements and intervention in foreign exchange markets

- Assignment of a stronger role to the International Monetary Fund (IMF) in coordinating economic policy
- Development of a strong international financial market oversight committee with the Bank for International Settlements in Basel, which would be entrusted with the task of monitoring the international financial markets
- Assignment of a stronger role to the IMF's Special Drawing Rights, enabling them to function, in certain ways, as a »world currency«
- Establishment of an international insolvency court for states, which would provide for an equitable allocation of debt burdens between (private) creditors and debtors in case a given country should find itself in an unsustainable debt situation
- Global support for the provision of international public goods, including, for example, solutions for pressing environmental problems
- At the European level, promotion of the institutionalised Macroeconomic Dialogue between the social partners established to improve coordination of wage negotiations in national labour markets

»Good capitalism« stands for relatively secure economic living conditions. It is simply not acceptable that workers or business enterprises should be left at the mercy of fully destabilised markets – a situation that we recently experienced in the wake of the US subprime crisis. Precarious jobs and mass unemployment serve only to weaken trade unions and workers. What this implies is a need to pursue policies designed to keep unemployment at low levels and to eliminate the legal loopholes responsible for the creation of precarious jobs. Expanded worker rights and rights of codetermination in the workplace constitute important elements of a balance of forces between labour and capital.

Even if the reforms we propose here were realised, there would still be plenty of room for markets, which must be seen, in their various dimensions, as a key element of individual liberty. That is to say, the concern is not to eliminate or replace markets but to embed them – and this applies, in particular, to financial and labour markets – in institutions and regulatory frameworks.

## 5 Good capitalism is possible!

While reading one passage or another of this publication, many a reader may think: Yes, this would be a good idea, but it's completely unrealistic. Fixed exchange rates worldwide? The Americans would never go along with it. Higher taxes for improved redistribu-

tion of wealth in Germany? The business lobbies are too strong anyway, so what's the point of trying? Further strengthen industry-wide wage agreements in Germany? Hundreds of German economists are bound to sign protest declarations and stuff politicians' mailboxes with them. The list could go on and on.

We are convinced that such scepticism is unfounded. Economic history is full of examples of fundamental change. To give one example, for a long time it was simply inconceivable to have money not backed by precious metals, but today, not one of the world's major currencies is officially convertible into gold or silver. During the onset of the Great Depression in the 1930s, it was widely believed that the state was – and should rightly be – powerless when it came to countering the effects of cyclical ups and downs. Just five or six years down the road, however, John Maynard Keynes published his »General Theory« and turned this mindset upside down. Until the onset of the most recent crisis, in 2007, it was likewise all but inconceivable that the governments of the United Kingdom and the United States would acquire major stakes in the largest private domestic banks: today, large chunks of the financial systems of these two countries are either fully dependent on the state or have been nationalised outright. If developments of this kind were accompanied by sustainable changes in the relationship between market and state, then there is no reason to believe that changes in the mode of economic activity familiar to us today should be impossible, either.

Another example is the European Union. When, in 1970, the so-called Werner Plan proposed the introduction of a European currency, the idea was widely spurned as utterly utopian. Even when the Maastricht Treaty was finalised in the early 1990s, people who regarded the idea of adopting a single European currency as realistic were few and far between. The Germans in particular, it was often said, would never relinquish their beloved D-mark without a fight. Today, however, we are all paying our bills in euros and cents, as if that were the most natural thing in the world. That, to be sure, is not to say that the architecture of the euro functions perfectly in every dimension of our notion of a »good capitalism«. However, the single European currency could, in the face of the current crisis, serve to advance political integration in Europe, and this, in turn, could constitute the foundation for a further step towards our new economic model.

Crises offer opportunities. Unanticipated crises often show that there was something wrong with the economic model prevalent until they broke out.

They offer an opportunity to question all of the orthodox opinions and interests that have been handed down more or less uncritically and accepted as valid, plainly and simply because they are so widespread. In this sense, the current economic and financial crisis offers a good opportunity to step back and take a hard look at what has gone wrong with the economy in recent decades and why it is that our economic system has not always contributed to improving the wellbeing of broad masses of the population. For many people, including many Germans, the neoliberal globalisation project has meant less, or indeed no, participation in the process of social value creation. Quite the contrary, it has led to precarious living conditions, bound up with the risk of social marginalisation or, indeed, exclusion. Social security systems have, at least in part, been at the mercy of the financial markets, with professional and thus also private plans for the future being subverted by crises and new methods of management. Large and growing sectors of society increasingly feel themselves to be mere objects, helplessly exposed to the vagaries of an increasingly uncontrolled market, prone to violent swings. Resignation, or indeed social unrest, may jeopardise social cohesion. In view of these dangers, there can be no doubt that we need an enhanced regulatory framework for globalisation.

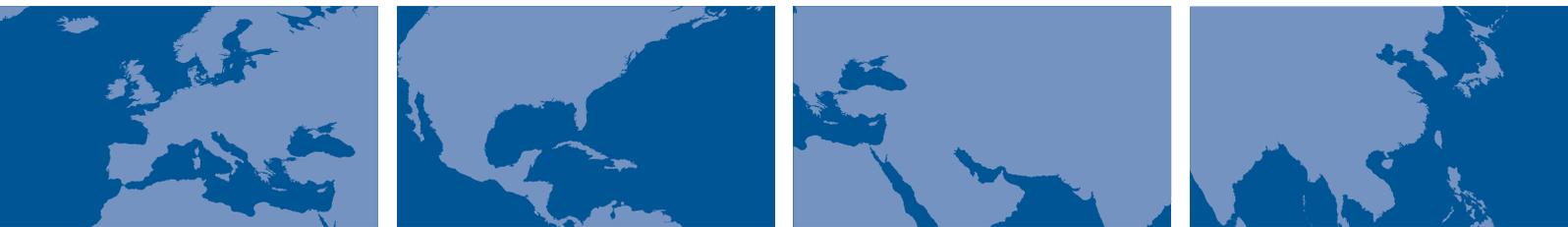
In addition, we are convinced that financial capitalism of the kind that has emerged in recent decades, as well as deregulation of labour markets and other elements of the neoliberal project, have contributed in key ways to making the world economy far more vulnerable to economic and social disasters of the kind experienced during the Great Depression of the 1930s. The subprime crisis may be read as a reflection of this. It has unleashed the destructive aspect of this form of capitalism in the rich countries of the North, while devastating economic collapses have always been only too familiar to those living in the developing and emerging countries of the South. »Mishaps«

of this kind have the potential to thrust millions into poverty and to lay waste social and economic advances which took decades, and this is why capitalism needs to be regulated in ways that will deprive it of its dangerous crisis-proneness.

Although the long-term goal of creating a capitalism restrained by institutions and rules – a »good capitalism« – may, at first glance, appear unrealistic, we can still envision a good number of first steps in that direction. Indeed, today they are already under political discussion. And since any long march must inevitably begin with a small step, we can follow up first changes of this kind by advancing – and transposing into practice – a multiplicity of further-reaching proposals. This is a matter of political will – and, of course, also of the political options available: a question of the play of forces within and between societies, of dynamics that lead to the creation of scope for political action. This is why it is important to seize the present opportunity to initiate, and implement, a series of first reforms which have the potential for long-term change.

One crucial consideration here is that we clearly understand where we are headed. In recent years, many politicians have neglected the need to develop a concrete notion of what shape our society and our economic order may have at the end of the course of reforms embarked on. Many reforms have been justified on more or less defensive grounds: for example, by informing the public that these reforms were necessary to rescue what is left of the welfare state. In the end, far from enhancing the economy's powers of resistance, the changes implemented have tended more to fuel the emergence of global economic imbalances – and one important reason for this has been a lack of understanding of the wider context. However, if the model outlined here shows one thing, it is this: »Good capitalism« – and, with it, an alternative to the prevailing market-liberal economic logic – is conceivable and, above all, possible!





#### Imprint

Friedrich-Ebert-Stiftung  
International Policy Analysis  
Division for International Dialogue  
D-10785 Berlin

[www.fes.de/ipa](http://www.fes.de/ipa)  
E-Mail: [info.ipa@fes.de](mailto:info.ipa@fes.de)

ISBN 978-3-86872-206-2

#### Orders

Friedrich-Ebert-Stiftung  
International Policy Analysis  
Nora Neye  
D-10785 Berlin

E-Mail: [info.ipa@fes.de](mailto:info.ipa@fes.de)  
Fax: +49 (30) 2 69 35-92 48

#### All texts are available online:

[www.fes.de/ipa](http://www.fes.de/ipa)

The views expressed in this publication are not necessarily those of the Friedrich-Ebert-Stiftung or of the organization for which the author works.