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Post-Covid Economy Beyond Capitalism

Article by Irene van Staveren
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The corona crisis has made it extra clear that capitalism is only one way the market can take form. It can also be quite different. What follows is a plea for a post-corona economy in which the market is once again embedded in the community and can be better regulated by the state.

Adam Smith was optimistic about the possibility of curbing capitalism via the state and embedding it in the values and goals of communities. Karl Marx, on the other hand, simply did not believe that this was possible. Over the last decade, both economists have been proven right. The financial crisis of 2008 and the major recession that followed proved Marx right: unbridled capitalism allowed the financial sector to spiral out of control and drove bubbles into the housing market. The Covid-19 crisis proved Smith right: first, when markets implode, the state takes over and, second, a sense of community can lead to all sorts of initiatives, from help with grocery shopping to switching factory production to make masks to be sold at cost price. What exactly is capitalism anyhow, and how can it be distinguished from the market? According to both Smith and Marx, capitalism is a certain expression of the market and cannot be equated with the concept of the market itself. The market can therefore also be envisioned differently – for example in a post-capitalist economy, an economy that no longer displays the specific characteristics of capitalism.

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Remarkably, most contemporary economists and politicians have forgotten the difference between the market and capitalism. The two concepts are often used interchangeably in parlance. What's more, thinking in terms of capitalism is often confused with economics as a science – as if the whole of economics is dominated by market thinking or, worse, at the service of capitalism. This narrow view does not do justice to the economists who look beyond the mainstream and have a comprehensive knowledge of the classics. The rich history of economic thought can help elucidate the difference between the market and a specifically capitalist interpretation of the market. This analysis allows us to draw out some characteristics of a perfectly feasible post-capitalist market economy: a post-corona economy in which the market is once again embedded in the community and better kept in check by the state.

The market and the economy

The market is an efficient exchange mechanism for supply and demand. Market transactions are a win-win situation for both buyer and seller; they are both better off than without the swap. But there is a condition for that, as Nobel Prize winners Kenneth Arrow and Gérard Debreu mathematically proved over half a century ago: every participant in the market must have sufficient resources that are in demand. That condition is by no means always met.

For example, John Maynard Keynes recognised that if more labour is offered than demanded during a recession, unemployed people may be willing to work for less than the market wage. Nonetheless, they will simply not be hired because companies will be unable to sell extra products due to a lack of consumer confidence or purchasing power. The labour surplus can therefore not be exchanged. This is why Keynes argued that, in a crisis, the government should create jobs and deploy its purchasing power in the market so that companies can produce more and employ more staff. The Covid-19 crisis has seen governments across the world take on this role on a large scale.

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In developing countries, governments generally lack the necessary capacity for this strategy. Currently, Venezuela is desperately trying to cash in on its gold reserves and a record number of developing countries have knocked on the International Monetary Fund's door for emergency loans. The development economist and Nobel Prize winner Amartya Sen has explained the famine that he experienced as a child – not from a lack of food, but from a lack of purchasing power on the part of the poor landless population. Meanwhile, food was being exported to other states in India and even abroad, where there was a strong demand for it. A win-win situation for the exporting rice farmers in Bengal and the importers elsewhere, but starvation for landless farmers and unemployed workers.

In short, the market is nothing more and nothing less than an exchange mechanism where mutually beneficial transactions can take place. However, those without purchasing power cannot participate in the market. And without their own resources, such as land to grow their food on or to let out, they cannot earn a living. As a reaction to this, the state has partly begun to take on basic social services in modern times.

Lessons from Adam Smith

The market thus appears to be an efficient win-win mechanism only under certain conditions and thanks to state support. Even then, the market is often not optimal due to all kinds of market failures: negative externalities, rent-seeking (opportunism), moral hazard (misuse of incomplete information), and the inability to deliver certain public goods (such as healthcare and education for all) to name a few. These shortcomings imply that the economy must consist of more than just the market. And that is exactly what Adam Smith argued in 1776, in his famous book *The Wealth of Nations*. Smith's lesson is that every economy is made up of three value domains: the market with exchange based on freedom of choice (provided that everyone has sufficient resources), the state with regulation and redistribution based on certain principles of justice (whether democratic or patriarchal or otherwise), and the domain of the community economy of the commons and mutual care based on what he called the value of benevolence. According to Smith, every economy consists of these three domains, each with its own values. That explains why certain goods or interactions fit into one domain but not into another. In the Netherlands, for example, payment for donated blood feels distasteful, and in the US it has been shown that such market transactions often lead to contaminated blood, unstable supply and higher costs. In the healthcare economy, voluntary blood donations are thus more efficient.

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collectively provide a significant proportion of basic services

Two hundred years after Smith, economic anthropologist Karl Polanyi discovered and described this threefold division outside Europe as well. He too noted that the economy is much more than the market, and that the market is only an effective transaction mechanism – that is to say, an efficient way to achieve mutual benefit – if it is embedded in a local community in which people collectively provide a significant proportion of the basic services, such as food, knowledge transfer, and basic healthcare. Polanyi also argued that the market is framed by all kinds of rules to prevent a few rich people or outsiders from appropriating community resources through the market mechanism. Hence, for example, the principle of common farmland for the cultivation of food for domestic consumption that is still used today in many African countries. Maintaining common land for food production is a smart way to build resilience in the food supply in case food prices rise or exports of cash crops such as coffee and cocoa collapse and foreign currency cannot be earned to import food. In short, the market can only contribute effectively to prosperity if each of the other two domains have room to function on the basis of their own values. It was not for nothing that Smith said that the function of the market for the state is to provide the government with sufficient tax resources. In doing so, he underlined the importance of good interactions between the three domains.

Historically, markets were the third domain of economic interaction – only important if there was something favourable to trade. For millennia, the bulk of prosperity was achieved in the first value domain, the care economy, comprised of the commons and mutual care. This includes jointly managed resources such as water for fishing and land for grazing, and mutual care and cooperation such as the cultivation of food and housing. Even today, this first domain still makes up a large part of our economy: think of domestic work, informal care, home production of food and clothing and volunteer work, as well as civic initiatives such as wind cooperatives. The second economic domain is that of the state, or formerly of authorities such as kings or chieftains. Those authorities determined what tenants or serfs had to produce, and they levied taxes, paid wages and issued recognised currency. Because the people had to pay their taxes in cash, they increasingly had to make money on the market in addition to their economic activities in the first domain of the economy.

Until the rise of capitalism, markets and money played a modest role in the economy. It was only when more goods were exchanged, more debts settled, and means of production appeared on the market that capitalism took off. In this way, labour markets, land markets (and with them the privatisation of community land) and financial markets came into being. Only with capitalism, therefore, did markets become increasingly important compared to the care economy and the state.

The market and capitalism: lessons from Marx

Marx wrote *Das Kapital* in 1867, almost 100 years after Smith's publication of *The Wealth of Nations*, in order to understand capitalism as well as to lecture economists like Smith on their market-derived value theory of prices. Marx's labour theory of value states that the value of every good is determined by the labour it contains, and also indirectly by the labour contained in the capital goods with which it is produced. This conception of value is the opposite of that of a capitalist enterprise. In a capitalist enterprise aimed at maximising profits, all other factors are paid first (material, labour, rent) and what remains is the profit, paid to the provider of the capital as a dividend. In other words, the capitalist receives what remains after deducting all of the costs, and in the event of a loss that is nothing. Marx swapped the roles of capitalist and worker in the remuneration of the factors of production. He argued that following the payment of the other factors, including a reasonable risk allowance for the entrepreneurship of the capitalist, the rest belongs to the labour factor. After all, this factor provides the work, meaning, collaboration, and creativity needed to make the product.

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Capitalism, according to Marx, consists of three elements, as can be read between the lines of his book. First, the asymmetry between capital and labour: the first factor always hires the second and not the other way around. Therefore, wage income falls and capital income gradually increases. Second, the reversal of the exchange chain: an ordinary market starts with a good that is exchanged for money that is then used to purchase another good. The win-win situation of exchange is therefore about the exchange of goods and not about the accumulation of money. However, a capitalist market begins and ends with money, whereby the exchange of goods, or securities, or anything else that can be monetised, is only a means. The far-reaching repercussions of this exchange are embodied today in Airbnb and Uber. The third element of the capitalist market is that, the dynamic between the first two results in companies growing progressively larger once they have a small head start or when they are simply lucky. They do so by taking over others and pricing them out of the market through economies of scale. As a result, any capitalist market, which starts with competition, ends in monopoly. In Marx's time, this tendency was already happening on a regional scale. Today, we see it on a global scale with companies such as Unilever, Shell, Apple, and Google.

A post-Covid economy without capitalism

What we can learn from Smith and Marx is that a true post-capitalist economy, i.e. without capitalism, must have three characteristics.

First, more room for the care economy and the state, so that the market is more strongly kept in check and better embedded in society. The social objective, rather than accumulation for shareholders, takes priority. This also means a shift from linear efficiency through far-reaching specialisation, mass production, and a high degree of globalisation to complementary efficiency with synergy, resilience, and local employment. Take, for example, nature-inclusive agriculture and agroforestry, or the strong local economy of the English town of Preston after a severe recession.

Second, a post-capitalist economy requires enterprises without inequality between labour and capital. For example, cooperatives such as the in which the owners are also the workers (as with the Spanish Mondragon, which has over 70 000 members) or the customers (as with wind cooperatives). This would also apply to self-employed people united in bread funds who initiate start-ups that come much closer to meeting social needs, such as in the incubators at the old Philips site in Eindhoven. Or social enterprises rooted in communities, where profit is only a precondition for social impact. No money is thus leaked away to external shareholders.

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Third, a post-capitalist economy needs markets that operate more locally, in which a need-fulfilling product or service is central, and money can just as well be a local community currency. There are numerous examples of successful community currencies that operate in parallel with official money. There are also LETS systems and timebanks in which people at a distance from the labour market provide services whose value is expressed in time, and for which they can buy a service themselves. Or markets where it is no longer about buying and selling goods, but about the rental and leasing of circular services. As a result, private ownership and accumulation are being replaced by a new type of commons, in which the material efficiency of goods is paramount from an environmental point of view, rather than efficient accumulation for a company or shareholder at the expense of equality, the environment and economic resilience.

What about the suggestions from economists for an improved version of capitalism? For example, Thomas Piketty's higher wealth tax, Kate Raworth's doughnut economy, or Joseph Stiglitz and Bas Jacobs' proposals for the stricter regulation of oligopolies and the pricing of negative externalities? For the most part, these ideas can also find their place in a post-capitalist economy. But they will only be effective in the long term if the three Smith-Marx criteria are also met. Otherwise, after the Covid-19 crisis, capitalism will just run off with the market again.

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