

WHAT CAPITALISM NEEDS

From unemployment to Brexit to climate change, capitalism is in trouble and ill-prepared to cope with the challenges of the coming decades. How did we get here? While contemporary economists and policymakers tend to ignore the political and social dimensions of capitalism, some of the great economists of the past – Adam Smith, Friedrich List, John Maynard Keynes, Joseph Schumpeter, Karl Polanyi, and Albert Hirschman – did not make the same mistake. Leveraging their insights, sociologists John L. Campbell and John A. Hall trace the historical development of capitalism as a social, political, and economic system throughout the twentieth and early twenty-first centuries. They draw comparisons across eras and around the globe to show that there is no inevitable logic of capitalism; rather, capitalism's performance depends on the strength of nation-states, the social cohesion of capitalist societies, and the stability of the international system – three things that are in short supply today.

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Forgotten Lessons of Great Economists

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P R E F A C E

This book is about the social conditions necessary for capitalism to prosper – and about the weakening of those conditions in recent years. It could not come at a better time because the world is reeling economically from the coronavirus pandemic. Things may not return to normal for a very long time – if ever. If we want capitalism to perform well in ways to be specified, it is imperative that we understand the conditions of its existence.

Capitalism has vastly enhanced human productive powers, initially in northwestern Europe and now in China. Yet it has been subject to periodic crises. At the end of the last century, neoliberal economists dreamed of a utopian world of perfect markets with minimal state interference in which individuals would calculate their best interests in some seamless web of perfection. It is a dream that has not been fulfilled. Indeed, it is a dream that was badly shaken by the 2008 financial crisis that brought the advanced capitalist world to its knees. For the next ten years, capitalism faced growing instabilities. Europe remained mired in high unemployment and sluggish economic growth, and it was manifestly weakened both by Britain's decision to leave the European Union (commonly known as Brexit) and its inability to deal with structural problems with the euro. The structure of the world political economy was also changing: East Asia emerged as a hub of capitalist innovation and production, with China its

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ascendant economic powerhouse, poised to be the world's next superpower. World capital flows became dangerously imbalanced as the advanced capitalist countries borrowed more from the leading emerging market economies. Inequality continued to rise in many capitalist countries. Nationalism of a particularly nasty sort burst out all over, and immigrants were scapegoated for all sorts of problems. Finally, capitalism suffered from expensive trade wars and geopolitical disruption sparked by the erratic and malicious behaviors of Donald Trump, including the arbitrary imposition of tariffs and withdrawal from various multilateral agreements, all aiming to force countries around the world to bow to his wishes. The Golden Age of capitalism that had followed the Second World War was at an end.

And then the coronavirus pandemic hit. First identified in December 2019 in Wuhan, China, the COVID-19 virus spread rapidly around the world. By November 2020, more than 40 million cases had been reported in 185 countries and territories, and more than 1 million people had died worldwide, nearly a quarter of them in the United States, with the numbers looking set to climb yet further. Many countries locked down their economies: governments mandated that all but essential businesses close their doors, and many employers furloughed their workers; others tried to find ways of supporting their employees to work from home – but huge numbers of workers were simply fired. More than 100 countries restricted travel. Schools closed. Social distancing became the “new normal.” Hospitals filled up with infected patients, and health workers struggled to find masks, gowns, ventilators, and other necessary equipment.

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Capitalism faced its worst crisis since the Great Depression. Some economists worried that the pandemic's impact would be even worse. During the first three months of the outbreak, the Dow, Nikkei, and FTSE stock indexes lost about 30 percent of their value. Unemployment skyrocketed in many countries. Nearly 1 million people in the United Kingdom applied for unemployment benefits in just two weeks; some 26.5 million Americans filed for benefits in a little over a month. Major industrial supply chains broke down. And the International Monetary Fund forecast that most of the world's major economies, including Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States, were headed for deep recessions by the end of 2020. China alone looked like it might avoid that fate even though its industrial production had plunged roughly 10 percent during the first quarter of the year.¹ In short, the pandemic led to economic disaster.

We had nearly finished writing a draft of this book when COVID-19 first emerged. When we began, our purpose in writing it was to identify the sociological conditions under which capitalism had performed better or worse during the twentieth and early twenty-first centuries. But when the pandemic overwhelmed the world, we worried that our argument was suddenly out of date. The world seemed to have changed in fundamental ways. However, it soon became clear that the opposite was true: our argument was more relevant than ever – and it is likely to remain so, unfortunately, even now that the particular scourge of the presidency of Donald Trump has come to an end. Like an X-ray of the capitalist system, the crisis has revealed with tremendous clarity that the key variables we originally thought were necessary for

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capitalism to work well are especially important when it comes to managing the potentially devastating economic consequences of a horrendous health crisis.

We had hoped to vet a draft of the manuscript with colleagues at a workshop at Dartmouth College in early spring 2020, sponsored by the Rockefeller Center for Social Science, for which we are appreciative, and then at the Copenhagen Business School. But the conditions of the pandemic made that impossible. Nevertheless, we still benefited from the comments of several people who either discussed the project with us or read earlier versions or pieces of the manuscript at various stages of the project. They include William Cats-Baril, Mike Cummins, Marc Dixon, Francesco Duina, Lev Grinberg, Brooke Harrington, Doug Irwin, Peter Katzenstein, Lane Kenworthy, Sunmin Kim, Krzysztof Pelc, and Kathy Sherrieb. Sara Daskow, our editor at Cambridge University Press, also provided sage advice and very helpful comments, as did an anonymous reviewer for the Press. Vanessa Plaister did a wonderful job copyediting the manuscript. We are grateful to them all.