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FINANCIAL CAPITALISM AND SOCIAL STANDARDS

(Review of the new book of Pasquale Tridiko)

The new book of Pasquale Tridico “Inequality in Financial Capitalism”, published in the series of “Frontiers of Political Economy” by Routledge Publishing House, should be attracting to widespread attention of the economists’ research community. The author advances and defends the ideas and conceptual hypotheses which contradict to the established norms of the neoclassical theory and the corresponding visions what must be the effective economic policies. However, these original approaches by the author should help government officials in many countries, especially in Ukraine, to reconsider the conceptual principles of the way in which economic programs are formed in order to overcome the crisis and ensure long-term development.

In this book Pasquale Tridico has investigated the characteristics of income inequality, which are measured statistically by the Gini coefficient, as a generalizing criterion for the economic system efficiency. Such status of this indicator is tested throughout the book by using econometric methods of analysis for many countries, comparing the vectors of changes in characteristics of income inequality and standard macroeconomic indicators: GDP, aggregate demand, wages, employment, unemployment, market capitalization, social expenditures, foreign trade, etc.

The classifications of modern market economies, called *welfare states*, were analysed in the book in detail, but the novelty of the author’s methodological approach is the classification analysis of two opposed socio-economic models of the developed countries: *financial capitalism* and *welfare capitalism*. The criterion indicators by which countries are referred to these two models are as follows. The *financial capitalism* countries are characterized by a high level of capitalization of the economy (in GDP), low social expenditure (in GDP), low share of wages as part of GDP, high level of the income inequality (the Gini coefficient). The *welfare capitalism* countries are characterized by the opposite meanings of these criteria: low level of capitalization, high level of social spending and salaries in GDP, inflexible labour market, low level of social inequality.

The central dichotomy of the book is the comparison of the income inequality indicators in the economies belonging to these two types. It is important to note specifically that countries of *financial capitalism* are building their economic policies according to recipes of the neoclassical mainstream economic theory, which are most consistently reflected in the well-known in Ukraine recommendations of the International Monetary Fund and the rules of the Washington Consensus.

The above-mentioned dichotomy is also manifested in the analytical comparison the actual economic performances of two competing principles in the economic policy: the primacy of achieving efficiency, that is, achievement of profitability (the efficiency thesis) and the primacy of social dimension (the compensation thesis). Traditional textbooks in economic theory have established such conceptual vision of the country’s long-term economic growth according to which this growth can only be achieved when economic policy is aimed at profitability. Then the high social standards and levels of social justice (*inclusive growth*) can be achieved only as result of redistribution the income of real sector to the social one.

In Ukraine, such vision of policy-making has influenced the perception that social expenditures have must considered solely as burden for the budget. But in fact such vision and appropriate policy have led to situation where Ukraine received permanent crises as well as the one of last places in the list of the state’s competitiveness in Europe by GDP per capita and by the average level of wages and pensions.

The analysis, presented in the book in such context, led the author to the conclusion that high aggregate demand in the country, which formed by means of high non-equilibrium wages (in particular as a result of the activities of Trade Unions, the minimum wage policy,



the supporting of the highly-skilled innovative work by businesses), by policy of the high social standards and social security for the population, is an independent and important factor of economic growth. In fact, this approach enhances the theory of J. M. Keynes about an effective aggregate demand by adding the social expenditures to this category.

The author's conclusions in the book have been verified in the context of the effectiveness of globalization processes under conditions of the recent economic and financial crisis. Pasquale Tridico views the crisis of 2007-2013 as a test for many developed countries on the adequacy of their socio-economic models of the last decades to overcome the challenges posed by globalization. The analysis of the panel data for 39 countries of the Organization for Economic Cooperation and Development (OECD) and the European Union showed that *the primacy of efficiency achievement* policy, which required limiting social spending in the context of globalization to achieve better competitiveness of firms, did not facilitate economic growth. In contrast to the fiasco of such type policy, the same analysis showed that the primacy of social justice policy (*compensation thesis*), which was represented by the regulatory parameters of globalization processes and increase in social expenditure, proved to be better for ensuring high economic growth.

In the book, the reader will find a thorough statistical and conceptual analysis of these characteristics and their interrelationship in the developed countries chosen for the research, as well as the substantiation of the author's conclusions that confirm the hypothesis that the model of *financial capitalism*, which has dominated over the last 30 years, has caused the financialization of these economies, growth of income inequality, dramatic changes in the ratio of capital and labour. In conditions of increasing flexibility of the labour market the mentioned processes have led to a fall in the share of wages in GDP and a reduction in social expenditure. This research of Pasquale Tridico has shown that these aspects caused the recent crisis, because the labour resource as an important factor of national income was underestimated. The conceptual basis of the *financial capitalism* model gives priority to the *supply economy*, where the low wages are considered to be a competitive advantage, while the importance of providing high aggregate demand is disregarded. However, the book demonstrates that it leads to a slowing down in GDP dynamics and forming of the *stable stagnation*.

The theoretical hypotheses put forward by the author were investigated and grounded in the book not only conceptually and statistically but they were also illustrated in the process of a detailed comparative analysis of post-crisis regulatory policies of many countries, which represent the various models of capitalism, that have been classified by the author. The arguments in favour of the main findings presented in this book, for example that the rise in income inequality and the unregulated labour market were the significant causes of the recent financial crisis, are quite interesting in theoretical and practical attitudes. Pasquale Tridico has finished his work by analysing the perspective problems that economic theory has to face today and which are caused by new challenges stipulated by globalisation of economy.

Recognizing this book as the important research contribution we also have some critical remarks. It can be noted a lack of author's attention to explaining of another reasons of the *welfare capitalism* model successfulness than an aggregate demand growth. In my opinion, the economic potential and effectiveness of policy to raising of the country social standards depends in the main on an active innovation policy, which should stimulate the appearance of new products and services, creating additional aggregate demand which will reduce the income inequality.

At the end of this review, I would particularly like ask to draw the attention to this book of the Ukrainian professional economists and politicians. In fact, Ukraine has become one of the most vulnerable victims of the policy formed by "financial capitalism" model. It was happened because our authorities have not possessed the conceptual arguments against the prescriptions of such policy, which were imposed on the country. This book provides such arguments.