

The paradox of technologically advanced societies
in the knowledge era

On one hand

(in comparison to routine, low mass education
world of Fordism)

Highly educated society

Major improvements in job quality

High levels individual autonomy for both genders

Exceptional levels of innovation

But on the other

Significantly higher inequality than under 'Fordism'

Insider-outsider divisions

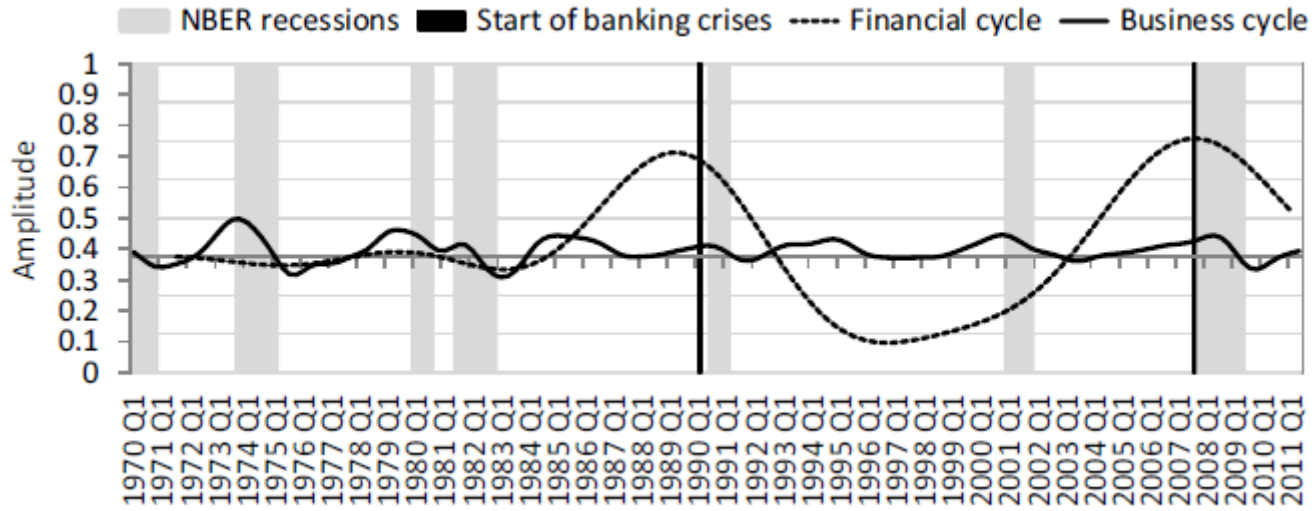
Much higher unemployment even in the 'Great Moderation'

Great Moderation itself based on consumer credit

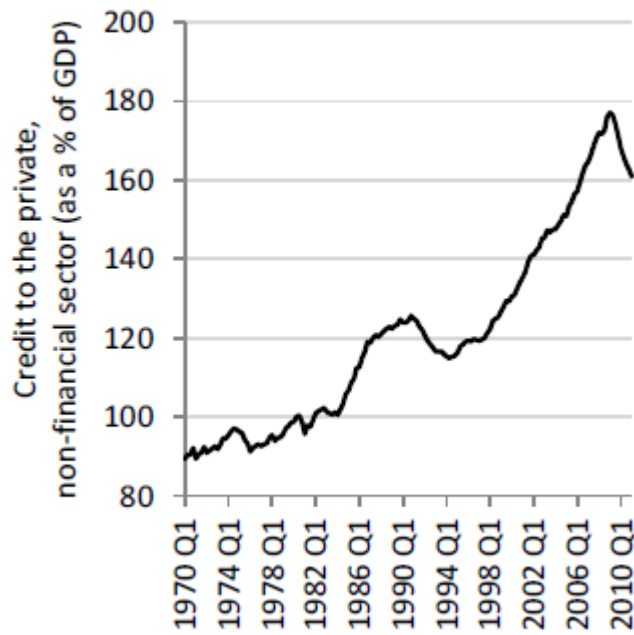
Financial crisis and its aftershocks

Prospect of secular stagnation (Summers)

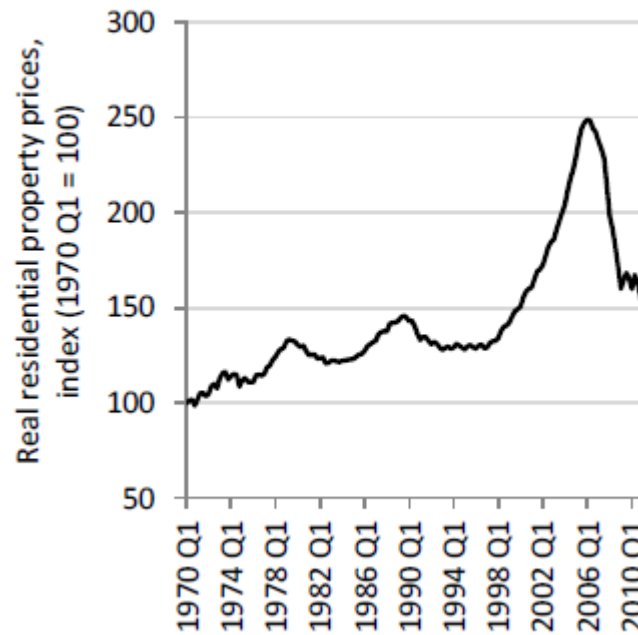
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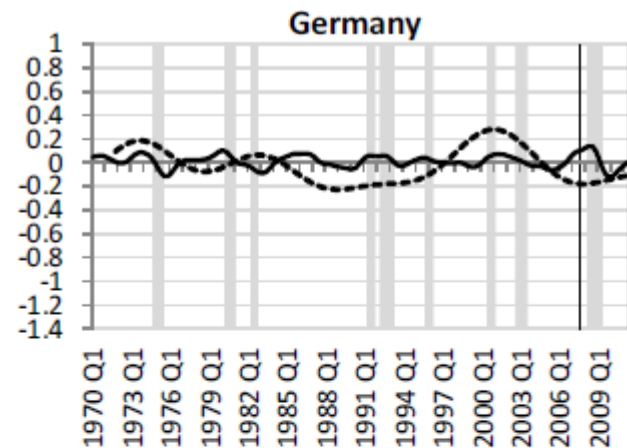
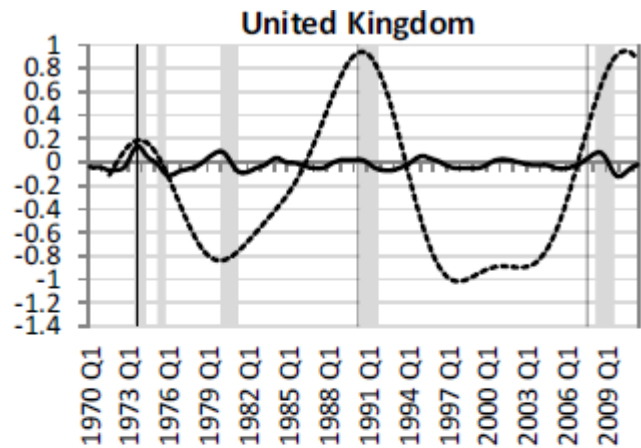


a. Private credit-to-GDP ratio

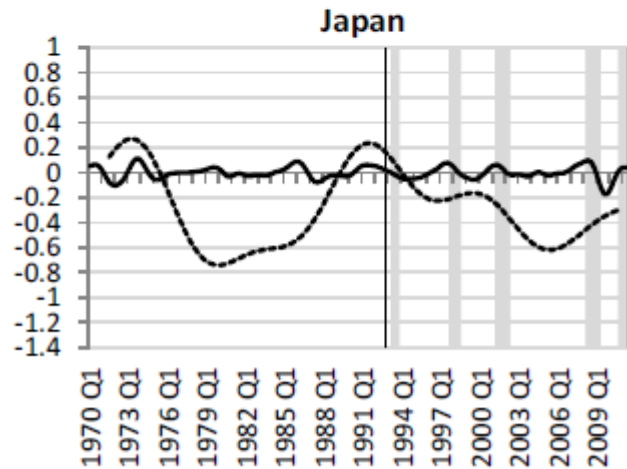
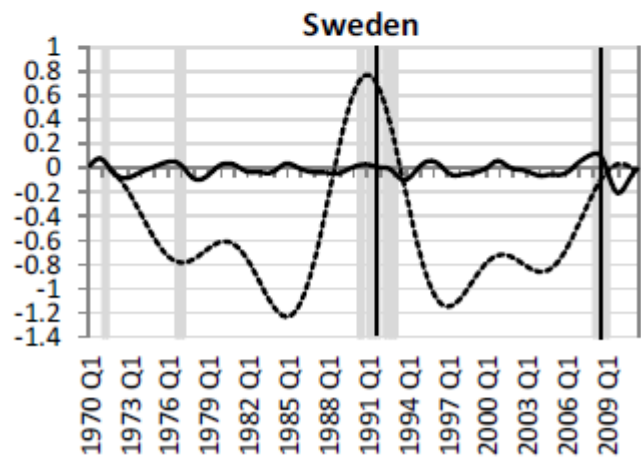


b. Real residential property prices





Start of banking crises
 Recessions
 - - - - - Financial cycle
 — Business cycle



Why?

- The power of advanced capitalism in global economy and the lack of government autonomy?
- Financial market flexibility?
- Failure of economists and economic models?
- Ideational diffusion of the unfettered market?
- Irrational government behaviour (eg Germany)?

Comparative Political Economy of Advanced Nations

In 1990s mainly typological:

Esping-Andersen on three worlds of welfare state (social democratic, liberal, continental/insurance-based)

Hall and Soskice on varieties of capitalism (liberal market economies, coordinated market economies)

Lijphart on two types of political system (competitive and negotiated)

Some agreement that at bottom two broad types of systems of advanced economies

Liberal: Liberal market economies; liberal (ie weak) welfare states; and competitive (majoritarian) political systems

Coordinated: Coordinated market economies; either social democratic or insurance-based welfare state; negotiated political system

Neither France, nor Italy fitted either type

Three problems with typological approach:

- (1) It says little about effect of IT revolution on how these systems have been changed by move from Fordism to the knowledge era
- (2) It says little about the role of government, its autonomy , and how governments have reacted to the IT revolution and its challenges
- (3) It says nothing about how these different systems interact with each other (which we'll argue is behind many problems)

Argument of lectures - about why so many good things and so many bad things in last quarter century

- (1) Governments of technologically advanced nations autonomous and responsive to basic goals of electorate
- (2) Rational to choose trade openness and capital mobility (or globalisation) given range of effects of IT revolution
- (3) Because fundamental valence issue for electorates of these economies – that governments need to be seen to be capable of strong promotion of advanced sectors with comparative advantage

Further argument:

IT revolution changed institutional structures of liberal and coordinated systems as they operated under Fordism

I'll call them now Finance-oriented and Export-oriented systems

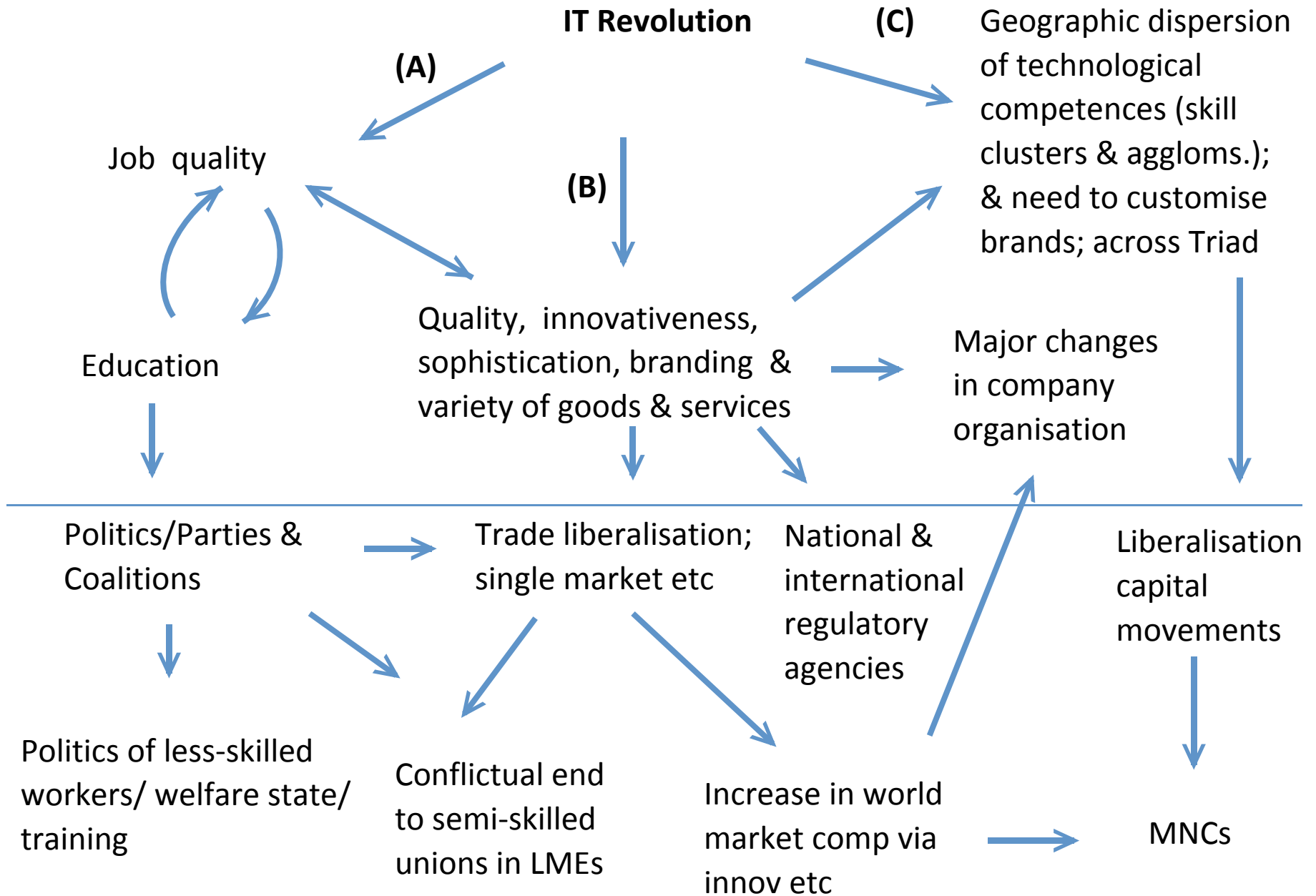
Governments in both systems agree on two framework 'international' regimes: (i) macro management via 'independent' central banks inflation-targeting with liberty to run long-run surpluses or deficits, so long as inflation target met

and (ii) framework regime of free trade and capital mobility within which liberty to set their own rules eg governing banks

It is liberty to operate these policy frameworks as they individually choose which produces

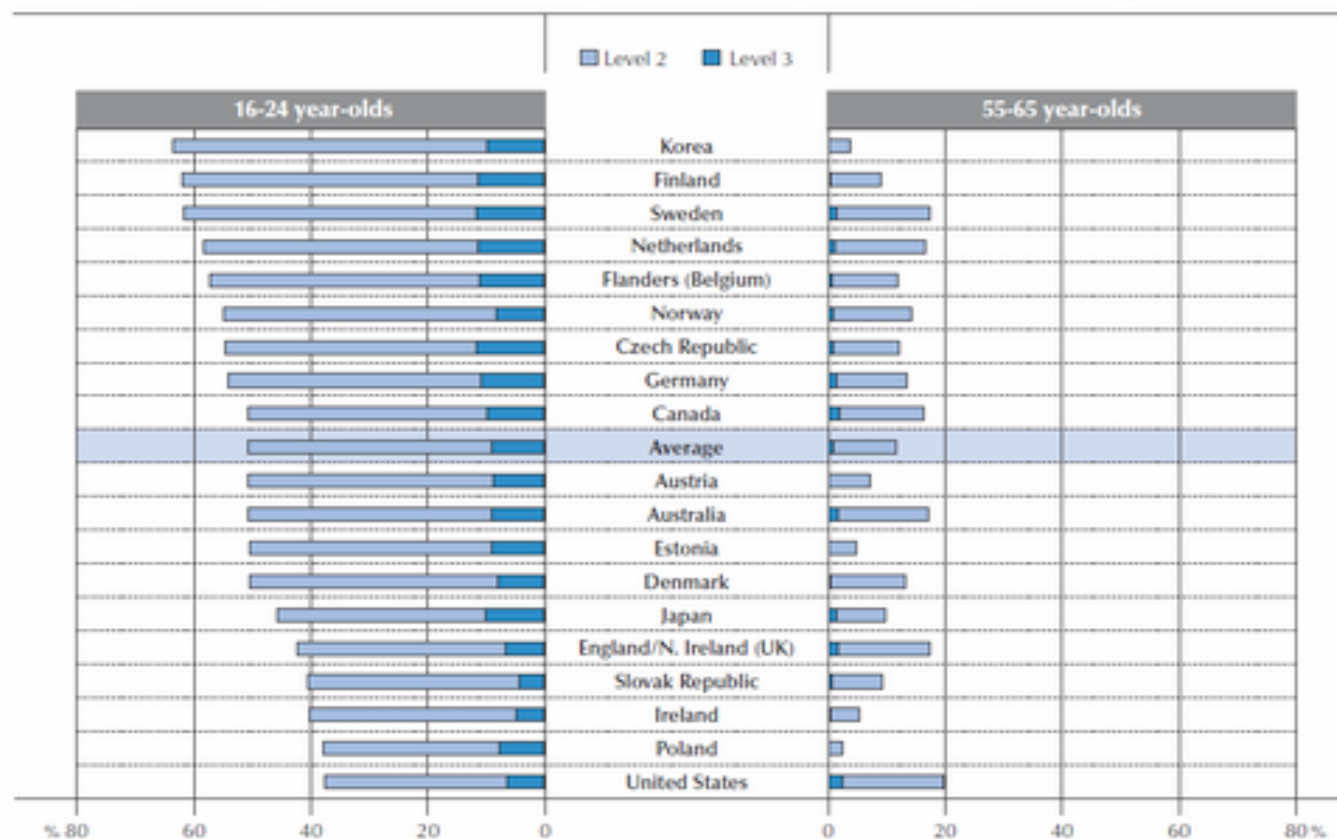
- Benefits in terms of innovations
- And (potentially huge) costs in terms of macroeconomic crisis

But governments unlikely to give up on these liberties



Problem-solving proficiency among younger and older adults

Percentage of adults aged 16-24 and 55-65 scoring at Level 2 or 3 in problem solving in technology-rich environments



Notes: Percentages on the problem solving in technology-rich environments scale are computed so that the sum of proportions for the following mutually exhaustive categories equals 100%: opted out of the computer-based assessment; no computer experience; failed ICT core test; below Level 1, Level 1, Level 2 and Level 3. For more detailed results for each category, see corresponding table mentioned in the source below.

Countries are ranked in descending order of the combined percentage of adults aged 16-24 scoring at Levels 2 and 3.

Source: Survey of Adult Skills (PIAAC) (2012), Table A3.3 (P).

StatLink  <http://dx.doi.org/10.1787/888902900859>

United Kingdom

1950 7% in full-time education at age 17

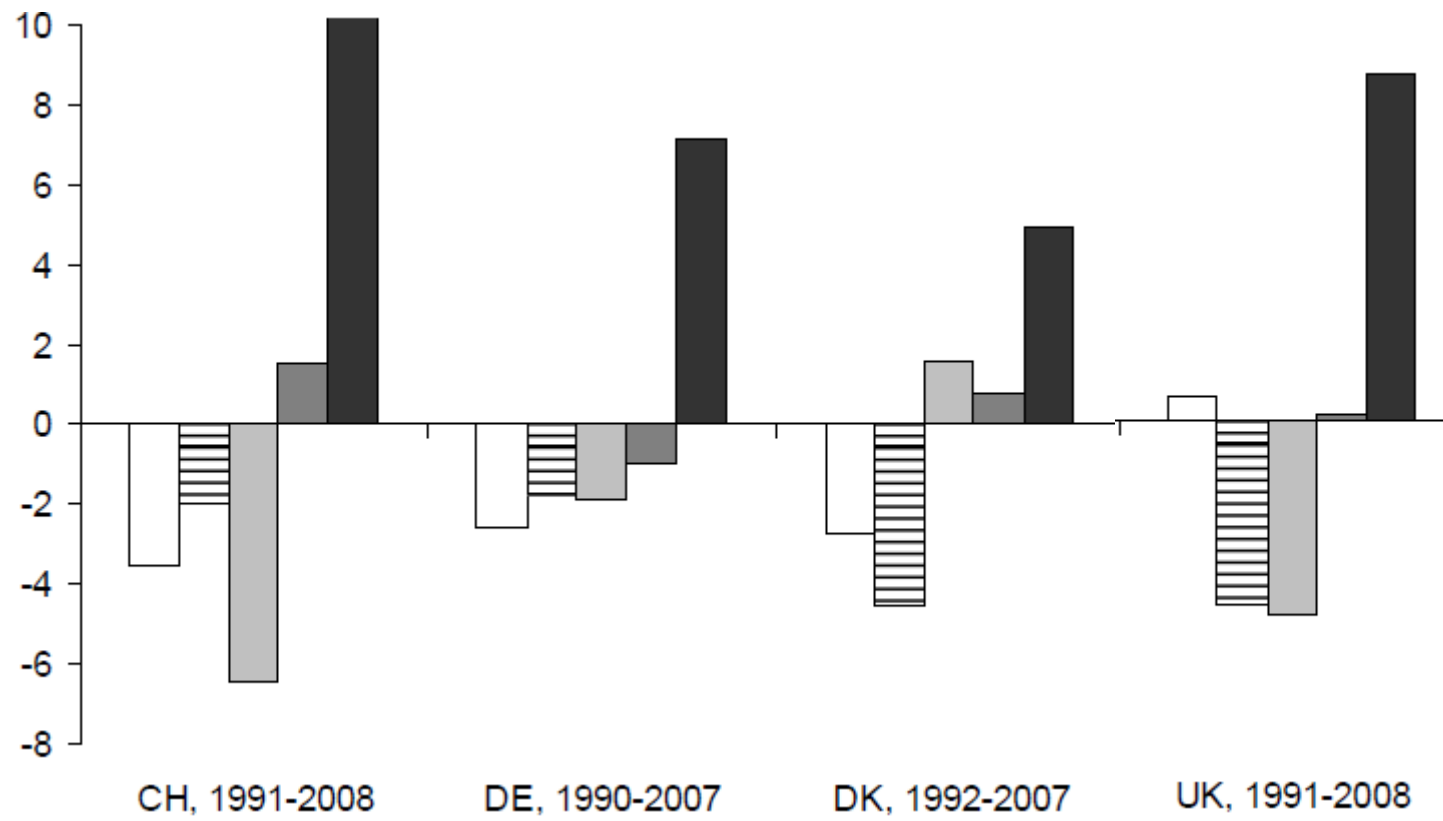
2010 76% in full-time education age 17

1950 17,300 awarded 1st degree

2010 331,000 awarded 1st degree

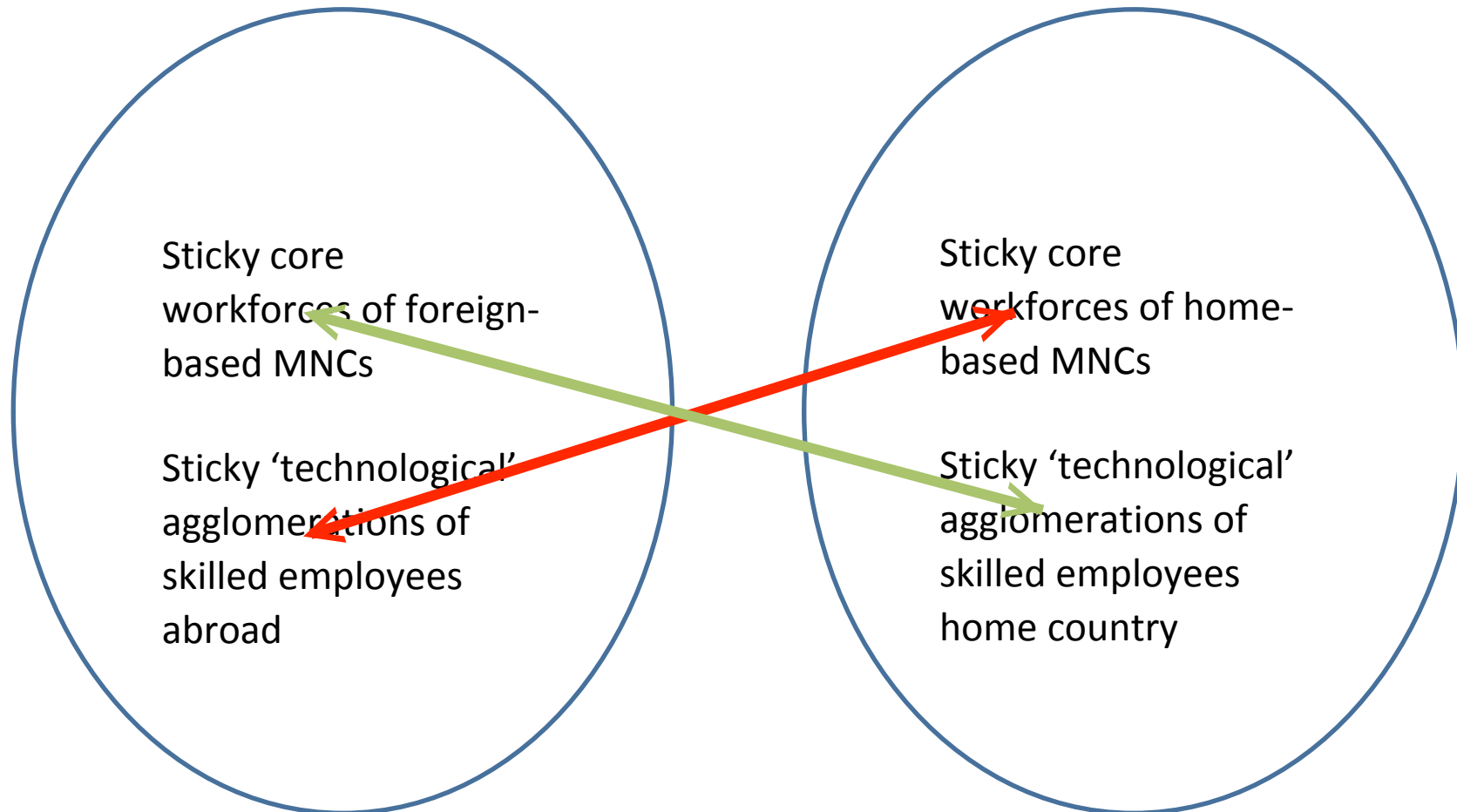
France

1951 3% of 18 year olds succeeded in baccalaureat



Sticky Multinationals: Sticky home MNC and sticky foreign MNC

Literature: Cantwell, Kogut, Markussen, etc



Why advanced capitalism is weak and advanced governments autonomous:

- (1) Tech advanced MNCs can seldom threaten exit because their core skilled workforce embodies tacit coordinated competences of company
- (2) And because their location of subsidiaries (almost all in advanced countries, Rugman) is to exploit localised complementary knowledge
- (3) Can't threaten govts with joint action (eg investment strikes) because they are increasingly competitive against each other

Transitions to Finance- & Export-oriented economies

	Fordism		Knowledge economy	
	<i>Liberal</i>	<i>Coor- dinated</i>	<i>Finance- oriented</i>	<i>Export- oriented</i>
Corporate governance	Large conglomerates, diversified shareholding, internal funding allocations	Close connections between large companies, cross shareholdings	Move to financial market insts, breakup of conglomerates	Competition between large companies, bloc shareholding. Semi exit banks
Labour relations	Strongly unionised, manufacturing & transport, non-cooperative	Strongly unionised, cooperative, incl less-skilled, dominance of national union	Deunionisation Use of external lab markets, strong incentivisation	Close coop with works council, interest-align, strongly skill-based; works council dominant re national unions

Strong shared interests in two key frameworks,
differently applied:

- Macroeconomic regime of inflation-targeting with
independent central banks

No constraint on external disequilibrium as under
Bretton Woods

Germany can employ tough monetary regime to
make large companies v nervous about allowing wage
increases above certain level

Government can put downward pressure on public
expenditure implying real depreciation in equilibrium

G govt deeply concerned that public sector unions are constrained by non-discretionary fiscal policy

(all this in key interest of promoting exports, G solution to high value added employment, apprenticeship system, technical univs etc)

- Free trade and capital mobility

No (de facto) constraint on rules governing financial institutions

US, UK could allow v high leverage, uncontrolled CDSs etc

The financial crisis

Governments of finance-oriented and export-oriented countries did not deliberately cause the crisis

But .. US, UK overfriendly with lax regulation to investment banking community – seen as powerfully successful sector in driving US UK economies; even more important making London and NY into dynamic and prosperous cities. This was highly electorally important

Seen as creating huge volumes of highly paid employment, critical to top end of university system.

Equally with flexibility in the high end legal, insurance, accountancy and managerial consultancy worlds

Rise in leverage also depended on substantial investment in securitised assets as well as lending to investment banks from global imbalances

Again, perfectly rational (if self-interested) tight macro policies played important role. But export success critical to goals of governments in export-oriented countries

Also supply of high value added employment, apprenticeships, research careers and the German and Swedish technical university systems which depended on the large exporting companies which de facto financed it doing well

Again electorates very concerned

Both sets of governments had v strong reasons for behaving as they did.

Role of economists, bankers?

.....

They increasingly think appropriate changes and knowledge now in place to prevent repeat

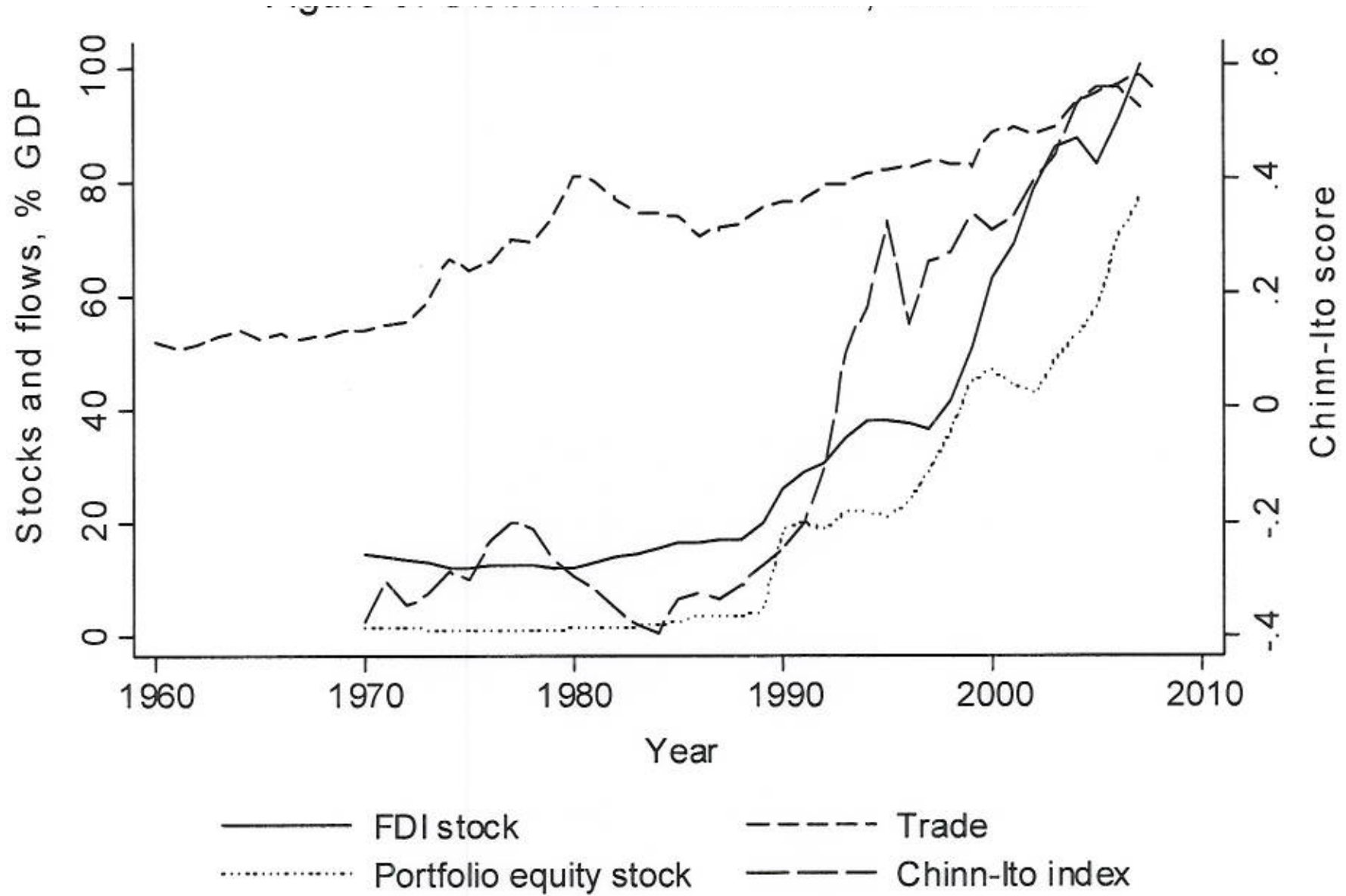
So do the same thing in the future with a bit more caution

Tomorrow: what caused and continues to cause the inequality in the advanced economies?

And what explains why export-oriented economies better than finance-oriented?
And why Nordic countries still (but only just) the best?

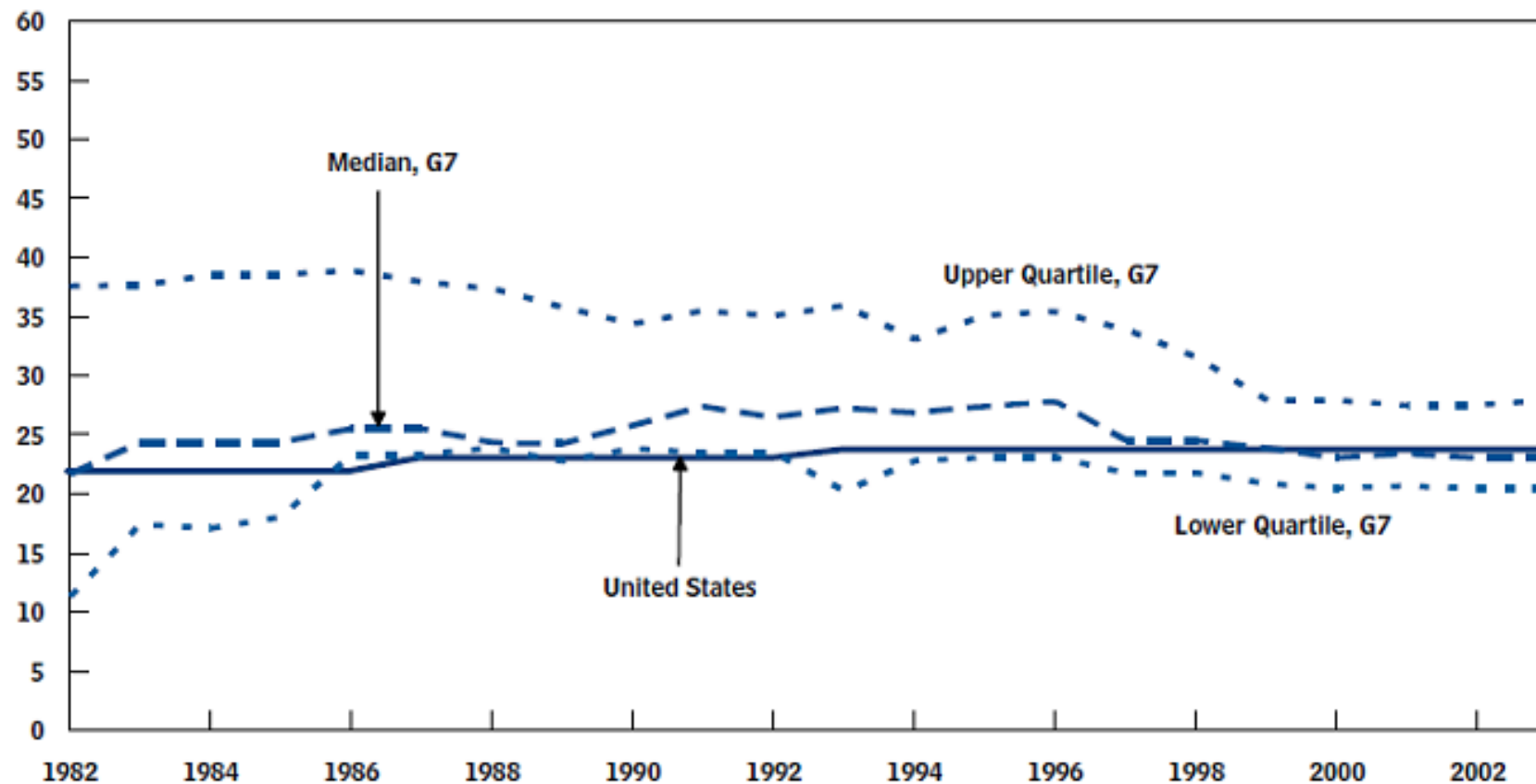
And can innovation rescue these countries from slow growth in the future?

From Trade to Multinationals



Effective Marginal Corporate Tax Rates for Equity-Financed Investments in Machinery in the United States Compared with Summary Measures of Effective Marginal Tax Rates for the Other G7 Industrialized Countries

(Effective marginal corporate tax rate)



Shift to higher quality jobs (Oesch, *Socio Economic Review* 2011)

		Net change in employment share (in percentage points)					
		Q1	Q2	Q3	Q4	Q5	All quintiles
Britain 1991-2008	National men	-1.0	-3.4	-3.2	-2.8	3.2	-7.2
	National women	-0.1	-1.8	-2.1	2.3	4.0	2.9
	Foreign men	1.0	0.4	0.3	0.3	1.0	2.3
	Foreign women	0.8	0.1	0.1	0.4	0.6	1.9
	Entire labour force	0.6	-4.6	-4.9	0.2	8.7	0
Germany 1990-2007	National men	-0.4	-1.9	-1.0	-2.3	2.7	-2.8
	National women	-2.4	0.4	-0.5	1.5	4.2	3.3
	Foreign men	-0.2	-0.3	-0.4	-0.2	0.2	-0.8
	Foreign women	0.3	0.0	-0.1	0.0	0.0	0.3
	Entire labour force	-2.6	-1.7	-1.9	-1.0	7.2	0
Switzerland 1991-2008	National men	-0.9	-2.3	-3.9	-1.0	3.3	-4.8
	National women	-1.7	-0.4	-1.6	1.7	4.2	2.1
	Foreign men	-0.6	0.1	-0.7	0.4	1.9	1.0
	Foreign women	-0.3	0.6	-0.2	0.5	1.0	1.6
	Entire labour force	-3.5	-2.0	-6.4	1.5	10.4	0