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What will follow the demise of privatised Keynesianism?¹

***Abstract:** There have now been two successive policy regimes since World War II that have temporarily succeeded in reconciling the uncertainties and instabilities of a capitalist economy with democracy's need for stability for people's lives and capitalism's own need for confident mass consumers. The first of these was the system of public demand management generally known as Keynesianism. The second was not, as has often been thought, a neo-liberal turn to pure markets, but a system markets alongside extensive housing and other debt among low- and medium-income people linked to unregulated derivatives markets. It was a form of privatised Keynesianism. This combination reconciled capitalism's problem, but in a way that eventually proved unsustainable. After its collapse there is debate over what will succeed it. Most likely is an attempt to re-create it on a basis of corporate social responsibility.*

Keywords: privatised Keynesianism; financial crisis; corporate social responsibility; capitalism and democracy.

Since the end of the Second World War two regimes have successively dominated the political economies of advanced capitalist economies; both lasted around 30 years before ending in some disarray. We now stand at the brink of a third, largely unknown one; what will its shape be? The first was the Keynesian strategy of demand management (assisted in several countries by neo-corporatist industrial relations systems). This more or less collapsed under the weight of the inflationary pressures from commodity price rises in the 1970s. It gave way to something generally called neo-liberalism, but which following the crisis of autumn 2008 we can now see to have been a regime of privatised Keynesianism.

Under original Keynesianism it was governments that took on debt to stimulate the economy. Under the privatised form individuals, particularly poor ones, took on that role by incurring debt on the market. The main motors were the near-constant rise in the value of owner-occupied houses and apartments alongside an extraordinary growth in markets in risk. This regime collapsed, partly during a repetition of energy and other commodity inflation, but largely because of certain internal contradictions.

Both regimes have had to manage an important contradiction, or at least tension: that between the insecurity and uncertainty created by the requirements of the market to adapt to shocks, and the need for democratic politics to respond to citizens' demands for security and predictability in their lives. That there are

¹ I am grateful to Noel Whiteside for comments on an earlier draft of this article.

tensions in the relationship between capitalism and democracy may surprise those who, particularly in the USA, use those terms as virtual synonyms, but over the issue of security in working life it is fundamental. There is a further, related, tension within advanced capitalism itself, which needs on the one hand consumers on whose confidence firms can depend when planning their production, and on the other a capacity to respond to periods of declining demand by reducing the quantity and wages of labour, which in turn undermines consumer confidence. The tension can never be 'resolved' as it is endemic to the only successful form of political economy that we know; it has to be managed, by a series of regimes that will always in the end wear out and need to be replaced by something else.

The basic conundrum was the ambiguous gift that democracy gradually presented to capitalism during the 20th century. Before that time the great mass of populations had been sustained on low incomes that rose only very slowly. Ideas of consumer confidence, if understood at all, applied to small, wealthier parts of the public. Demands by the mass of the population for a better life seemed impossible to accommodate, and although early social policy in Germany, France, Britain and elsewhere tried to put a basic floor under the insecurity of working-class life, its ambitions were limited. Fears about the revolutionary implications of democracy still led many elites to rely on repression, initially of a reactionary, later of a fascist and Nazi kind.

As is well known, the first answer to the problem came in the early 20th century from the mass production system of manufacture associated initially with the Ford Motor Company in the USA. Technology and work organisation could enhance the productivity of low-skilled workers, enabling goods to be produced more cheaply and workers' wages to rise, so that they could afford more of the goods. The mass consumer became a reality. It is significant that the breakthrough occurred in the large country that came closest to a basic idea of democracy (albeit on a racial basis) during that period. Democracy as well as technology contributed to construction of the model. However, as the Wall Street crash of 1929, coming just a few years after the launch of the Fordist model, showed, the problem of reconciling the instability of the market with consumer-voters' need for stability remained unresolved. This is where what became known as the Keynesian model came in, as will be briefly described below. How its successor squared the circle is more complex; analysing it will take us to the heart of the current crisis. Finally, we shall try to peer into the future.

The ingredients, achievements and vulnerability of the Keynesian model

How the Keynesian demand management model was supposed to operate is widely understood. In times of recession, when confidence was low,

governments would go into debt in order to stimulate the economy with their own spending. In times of inflation, when demand was excessive, they would reduce their spending, pay off their debts, and reduce aggregate demand. The model implied large state budgets, to ensure that changes within them would have an adequate macro-economic effect. For the British and some other economies this possibility occurred only with the vast rise in military expenditure required by the Second World War. Previous wars had seen large rises in state spending, always followed by a major reduction afterwards. World War II was different, in that military spending was replaced by that on the new, growing welfare state.

The Keynesian model protected ordinary people from the rapid fluctuations of the market that had brought instability to their lives, smoothing the trade cycle and enabling them gradually to become confident mass consumers of the products of a therefore equally confident mass production industry. Unemployment was reduced to very low levels. The welfare state not only provided instruments of demand management for governments, but also brought real services in areas of major importance to people outside the framework of the market: more stability.

Arms-length demand management plus the welfare state protected the rest of the capitalist economy from both major shocks to confidence and attacks from hostile forces, while the lives of working people were protected from the vagaries of the market. It was a true social compromise. As conservative critics pointed out from the start, there was always likely to be a ratchet effect in the mechanism: it was easy for governments to increase spending in a recession, bringing lower unemployment, more public services, and more money in people's pockets. It would be far more difficult at times of boom in a democracy to reverse these trends. This was the seed of destruction at the heart of the model. We shall come to it shortly. First we must take a look at the political circumstances that ushered the model into practical reality, for the ideas that were incorporated in it had been around for 15 to 20 years.

Karl Marx famously wrote that at particular moments of historical crisis particular social classes were in a position where their particular interests coincided with the general interest of society. Such classes triumphed in the revolutions in which the crises ended. Marx's error was to believe that when the class concerned became the international proletariat there would be an end to the process, because the proletariat was the generality of society and not just a particular interest within it. This was an error if only because it is impossible to imagine anything as vast as the global proletariat producing organisational forms that could express a shared interest. Be that as it may, the Keynesian model did represent a temporary coincidence between the interests of the

industrial working class in the global north-west and a general interest of the politico-economic system. This was the class likely to threaten political and social order. It was also potentially the class whose mass consumption, if facilitated and made secure, could fuel economic growth of a kind unprecedented in human history. It was also a class that had produced political parties, trade unions and other organisations, as well as associated intellectuals, to shape and press its demands. The Keynesian model, combined with Fordist production, was a response to these demands that reconciled them with a capitalist system of production.

Behind these generalisations rests a more diverse picture. The basic approach was embodied in public policy a decade before the end of World War II in two places – Scandinavia and the USA – in both cases as the result of coalitions between forces representing industrial workers and small farmers. The US New Deal in this complete form was only a temporary arrangement. The Scandinavian labour movements, far more powerful than the US one, were able to take the model forward to its welfare-state form, joined for a time in that effort after the war by the then also powerful British labour movement.

The labour movements of continental Europe, crushed by war, fascism and Nazism, and divided among themselves by religion, were far weaker. The Keynesian model as such developed more slowly, and governments took different means to stabilise economies. In some countries, particularly France and Italy, there were real possibilities of communist domination of the labour movement. Governments had to ensure that working-class life escaped the insecurity of the 1920s and 1930s. State ownership of important parts of the economy, combined with agricultural subsidies to ensure that still large peasant populations would not join the radicalism of industrial workers, were used to provide the stability in the early years. They were not so subtle as Keynesian policies, and permitted considerably more state intervention in the economy, while consumer demand was slow to rise. However, the outcome was similar in terms of protecting workers' incomes from market fluctuations. In time demand management and strong welfare states also appeared in these economies. Meanwhile, the vast injections of Marshall Aid from the USA meant that public spending – in this case another country's public spending – further stimulated the economies and maintained the security of working people's lives.

Germany was even more of an outlier. It benefited fully from Marshall Aid, but did not formally adopt Keynesianism until the late 1960s, when the model was nearing the end of its period of dominance. The initial German economic recovery did not depend on domestic consumer demand but on capital goods production (to re-establish production facilities) and exports. The country's own formal economic policy stance depended on balanced budgets, an

autonomous central bank, and a high priority on avoiding inflation: major ingredients of the neo-liberal model that was to succeed the Keynesian one. It can however be argued that the German economy was during this period dependent for its stability, not on pure markets, but on a general Keynesian environment, or on other countries' Keynesianism: US public spending through Marshall Aid and rising consumer demand in the USA, UK and elsewhere.

Germany was not however an outlier in a further ingredient of the demand management model: neo-corporatist industrial relations. This had not been anticipated in Keynes's own writings, and it featured hardly at all in US and only fitfully in British approaches; but it was fundamental to the Nordic, Dutch and Austrian cases. Under neo-corporatist industrial relations trade unions and employers associations have regard to the impact of their agreements on labour costs on the general level of prices, and particularly on export prices. This can work only if these organisations have sufficient authority over all firms to ensure that the terms of the deal are not significantly broken. The countries listed, where this kind of collective bargaining has been particularly important, are all small economies, heavily dependent on foreign trade. Broadly similar arrangements developed in Germany, the only large country involved, as part of the priority on export- as opposed to domestic-led growth of that economy.

The importance of neo-corporatism for present purposes is that it addressed the Achilles' heel of Keynesianism: the inflationary tendencies of its politically determined ratchet. Countries that had Keynesian policies but no or weak or neo-corporatism – before all others the UK and (though with less reliance on Keynesianism) the USA, but by the 1970s France and Italy too – were highly vulnerable to the inflationary shocks unleashed by the general rise in commodity prices during the 1970s, particularly the oil price rises of 1973 and 1978. The wave of inflation that then affected the advanced countries of the West, though nothing like what had been experienced in Germany in the 1920s, or in various parts of Latin America more recently, more or less destroyed the model.

On to privatised Keynesianism

An intellectual challenge to Keynesianism had long been ready. The advocates of a return to 'real' markets had never ceased to be active, and a range of policies was in readiness. The key objective was to have governments withdraw from accepting overall responsibility for the economy. While for the purposes of this article we are concentrating on demand management, Keynesianism had become emblematic of a far wider range of policies of regulation, welfare provision and subsidy. The opposing set of ideas required an historical moment to justify their installation in the approaches of governments and international organisations. The 1970s inflationary crisis provided this. Within a decade or so such ideas as

the absolute priority of near-zero inflation at whatever cost in terms of unemployment, the withdrawal of state assistance to firms and industries in difficulties, the priority of competition, the predominance of a shareholder maximisation as opposed to a multiple stakeholder model of the corporation, the deregulation of markets and the liberalisation of global capital flows had become orthodoxy. Where governments in countries with weak economies were unwilling to accept them, they were imposed as conditions for assistance from or membership of such international bodies as the International Monetary Fund, the World Bank, the OECD or the European Union. When the Soviet Union collapsed in 1989, the more westerly of its former allies were brought within the scope of the new model.

A further change that had taken place was the declining autonomy of the nation state. The post-war political economy had been founded on the basis of governments that could exercise considerable discretion in how they managed their economies. By the 1980s the process generally known as globalisation, both a producer and a product of the deregulation of financial markets, had eroded much of that autonomy. The only actors capable of rapid action at global level were transnational corporations, who preferred their own private regulation over that by governments. This both advanced and even rendered necessary the new model.

Just as a class – that of industrial workers – can be seen as the bearers of the Keynesian model, so we can identify a class whose particular interests seemed to embody the general interest in the new model: the class of finance capitalists, geographically grounded in the USA and the UK but extending across the globe. If the world was to gain from the liberation of productive forces and enterprise that the spread of free markets would bring, the class of those who dealt in the unregulated finance that massaged and helped those markets to grow would benefit particularly. Whereas the tight labour markets and regulated capitalism of the Keynesian period had seen a gradual reduction in inequalities of wealth in all advanced countries, the following period was to see a sharp reversal of these trends, with the highest rewards (at least in the western world) going to those working in and owning financial institutions.

Two questions are immediately raised by this. First, what had been the fate of the industrial working class, whose interests had seemed so politically urgent in the 1940s and 1950s? And what became of the need to reconcile the instability of markets with people's demand for security in their lives, which had been both politically and economically so important?

The initial crisis of Keynesianism in the 1970s had been accompanied by an extraordinary wave of industrial militancy, such that one might have thought that the challenge of that class was becoming more rather than less important.

But this was an illusion. Rising productivity and the globalisation of production were in fact undermining its demographic base. Starting in the USA, the UK and Scandinavia, the share of employment in mining and manufacturing began to decline throughout the West. The militancy of the 1970s served only to encourage governments that were so inclined to lend their hand to hastening that decline, as occurred in the UK with reference to the coal and some other industries during the 1980s. Industrial workers had never constituted a majority of the working population anywhere, but they had been the growing class; now they were declining. By the 1980s they had been replaced as leaders in industrial militancy by public employees, with whom governments could deal directly without disturbing the market economy much. The main growth sectors of the new economy, private services, were usually not organised and had developed no autonomous political agenda, no organisations to articulate their specific grievances.

In the regime of largely unregulated international finance that was instituted during the 1980s, governments were far more worried about capital movements than labour movements: positively, in that they wanted to attract investment from free-floating capital with short time horizons; negatively in that they feared that such capital would move away if they did not provide conditions in which it was happy.

However, as we have noted, the Keynesian model had met an economic demand from capitalists themselves for stable mass consumption as well as workers' demands for stable lives. In the newly industrialising countries of South Asia and the Far East this was not a problem. Until very recently these largely undemocratic countries have depended on export markets rather than spending by the mass of their populations. But this was far from possible in the existing advanced economies. Indeed, dependence there on increased domestic consumption rather than exports had intensified rather than weakened. As the industries making many of the products bought in mass markets moved to new producing countries, or, if it remained became dependent on less and less labour, employment growth came to depend on markets in personally delivered services, which are not so subject to globalisation. It is easy to buy a Chinese T-shirt in a western shop and benefit from low Chinese wages; it is hardly feasible to travel to China to get a cheap haircut. Immigration is the only way that globalisation affects such services, but its impact is limited by controls of population movements (which have not benefited from market liberalisation but have in general been intensified), and by the fact that immigrants' wages, though usually low, are not as low as in their home countries. So the puzzle remains: if the instability of free markets had to be overcome to usher in the mass consumption economy, how did the latter survive the return of the former?

During the 1980s (or 1990s, depending on when the neo-liberal wave hit a particular economy) the answer first appeared to be a negative one, as rising unemployment and continuing recession became the dominant experience. Then things changed. By the end of the 20th century the UK and the US in particular were demonstrating declining unemployment and strong growth. One explanation might be that, in a really pure market economy, the rapid alternations of boom and bust associated with the earlier history of capitalism do not occur. In the perfect market there is perfect knowledge, rational actors can therefore perfectly anticipate what is going to happen, and can adapt their behaviour to produce a seamless web of adaptation. Did the USA and the UK really enter this nirvana at the turn of the century?

No. Knowledge is far from perfect; exogenous shocks, whether hurricanes, wars or the actions of irrational people who do not behave as theory says they should, continue to impact on economies and to disturb calculations. As we now know, two things came together to rescue the neo-liberal model from the instability that would otherwise have been its fate: the growth of credit markets for poor and middle-income people, and of derivatives and futures markets among the very wealthy. This combination produced a model of privatised Keynesianism that occurred initially by chance, a real case of market entrepreneurship, but which gradually became a matter for public policy so important as to threaten the entire neo-liberal project.

Instead of governments taking on debt to stimulate the economy, individuals did so. In addition to the housing market there was an extraordinary growth in opportunities for bank loans and, particularly important, in credit cards. It was common for people to hold cards from more than one credit-card company as well as several store-specific ones.

This explains the great puzzle of the period: how did moderately paid American workers, who have little legal security against instant dismissal from their jobs, and salaries that might remain static for several years, maintain consumer confidence, when European workers with more or less secure jobs and annually rising incomes were bringing their economies to a halt by their unwillingness to spend? US house prices were rising every year; the proportion of the value of the house on which a loan could be raised was also rising until it reached more than 100%; credit card possibilities were growing. With some exceptions European property values remained stable. Credit card growth was slower.

Europeans were told by orthodox experts that the answer to their economic problems lay in producing more and more labour insecurity and cutting back on their welfare states. They eventually more or less obeyed, but found few positive results. No-one told them that these insecure workers would

need to be enabled to take on unsecured debt in order to boost consumer spending.

In Anglo-America the anti-inflation bias of public policy further encouraged the model. Anti-inflationary policy bears down on the prices of goods and services that lose their value as they are consumed. Producers of food, material goods and services like restaurants or health centres confront an environment hostile to rises in their prices. This is not the case with assets, things that do not lose their value in this ways: real property, financial holdings, some art objects. A rise in their price is simultaneously a rise in their value, and does not contribute to inflation. It was seen as an act of political manipulation when the UK government removed mortgage repayments, but not rent, from its calculations of inflation, but it was technically quite correct. Therefore assets, and earnings based on assets, have not been the objects of neo-liberal counter-inflation policy. Anything that could be switched from prices and wages derived from the sale of normal goods and services to an asset base therefore did very well. This applied to proportions of salaries paid as share options and to spending funded by extended mortgages rather than by salaries and wages.

Eventually governments, especially British ones, began to incorporate privatised Keynesianism into their public policy thinking, though the phrase did not occur to them. While a reduction in the price of oil would be seen as good news (because it reduced inflationary pressure), a reduction in the price of houses would be seen as a disaster (as it would undermine confidence in debt), and government would be expected to act through fiscal or other measures to get prices rising again. There had been an initial implicit public policy boost to the model back in the 1980s when the privatisation of council housing enabled large numbers of people on moderate incomes to take on mortgages and, later, to explore the scope for extended mortgages. But the move to more explicit policies to have house price constantly rising crept up during the first years of the 21st century until the massive interventions into housing finance and the banking sector in general during 2007 and 2008.

Most of this housing and consumer debt was necessarily unsecured; that was the only way in which privatised Keynesianism could have the same counter-cyclical stimulant effect as the original variety. Prudential borrowing against specified collateral certainly would not have helped the moderate-income groups who had to keep spending despite the insecurity of their labour market positions. The possibility of prolonged, widespread unsecured debt was in turn made possible through innovations that had taken place in financial markets, innovations which for a long time had seemed to be an excellent example of how, left to themselves, market actors hit on creative solutions. Through markets in derivatives and futures the great Anglo-American finance houses learned how to

trade in risk. They found they could buy and sell risky holdings provided only that purchasers were confident that they could find further purchasers in turn; and that depended on the same confidence. Provided markets were free from regulation and capable of extensive reach, these trades enabled a very widespread sharing of risk, which made it possible for people to invest in many ventures that would otherwise have seemed unwise.

An inability to share risks widely had been at the heart of the economic collapses of 1929 and the 1870s. In the 1940s it had seemed that only state action could solve this problem for the market. But now, absolutely in tune with neo-liberal ideology and expectations, was a market solution. And, through the links of these new risk markets to ordinary consumers via extended mortgages and credit card debt, the dependence of the capitalist system on rising wages, a welfare state and government demand management that had seemed essential for mass consumer confidence, had been abolished.

After privatised Keynesianism: the responsible corporation?

In the event it was only abolished for a few years. All theories of market economics depend on the assumption that market actors are perfectly informed, but privatised Keynesianism depended on what were presumed to be the very smartest actors concerned, the financial institutions of Wall Street and the City of London, having highly defective knowledge. This is the Achilles' heel of this model, corresponding to the inflationary ratchet of original Keynesianism. Banks and other financial operators believed that each other had studied and calculated the risks in which they were trading. But during autumn 2008 it became clear that had they done so they would not have entered into many of the transactions they undertook. The only calculations made were that there was a good chance that someone else would buy a share in the risk. The only mystery is why, if they all behaved like that they somehow believed that all the others were not doing the same. Bad debts were funding bad debts, and so on in an exponentially growing mountain.

Some people became extremely wealthy in the process, but this does not mean that they were parasites. They continued to be the class whose particular interests represented the general interest, because we all benefited from the growing purchasing power that this system generated. At least, this is true in the UK, USA and one or two other places. French, German and most other continental European citizens may feel differently, as their financial elites joined in the act, while they experienced little of the growth in credit.

Once privatised Keynesianism had become a model of general economic importance, it became a kind of collective good, however nested in private actions it was. And given that necessary to it, powering it, was irresponsible

behaviour by banks in failing to examine their asset bundles, *that very irresponsibility became a collective good*. This in itself explains why governments had to bail out the firms involved, more or less nationalising privatised Keynesianism.

And so a second regime to reconcile stable mass consumption with the market economy ended. Both Keynesianism and its privatised mutant lasted 30 years. As regimes in a rapidly changing world go, that is probably as good as it can get. But the question arises: how are capitalism and democracy to be reconciled now? Also, how will the enormous moral hazard established by governments' recognition of financial irresponsibility as a collective good now be managed? The public policy response has not been 'now stop all this', but 'please carry on borrowing and lending, but a little bit more carefully'. It has to be so; otherwise there will be a danger of real systemic collapse.

Two things characterised the transition from pre-war economics to Keynesianism and that from original to privatised Keynesianism: the availability of alternative ideas and the existence of a class, serving whose interests would serve a general interest. It is fashionable to claim that at the present juncture we lack the former, while not noticing the latter. This is wrong on both points.

Many of the ideas that constituted neo-liberalism had been lying around for more than 200 years when they were refashioned for public policy use during the 1970s. Today many of the components of the much younger mix of demand management and neo-corporatism are still around in the economic strategies of small states, usually today combined with portions of neo-liberalism too. Most widely noted, though not unique, is the Danish way of combining a strong welfare state and powerful trade unions with very flexible labour markets. That seems to square the circle of market flexibility and consumer confidence, as well as powering a dynamic and innovative economy. There is no shortage of policy mixes; only of coalitions of political forces capable of supporting them in the larger economies; and this returns us to the question of significant social classes.

Just possibly the current arrogance of the financial sector, demanding the right to privatise gain and socialise loss, is an equivalent of the industrial militancy of the 1970s, the pride that went before an historical decline. But this is doubtful. Economic prosperity continues to depend on supplies of capital through efficient markets far more than it then depended on the industrial workers of the western world. A difference of geographical reach is part of the explanation. The decline of the western industrial working class does not mean a decline in that class globally. More people are engaged in manufacturing activities today than ever before; but they are divided into national, or at best world regional, lumps with very different histories and trajectories. Finance capital does not come in solid lumps but more like a liquid or gas, capable of

changing shape and flowing across jurisdictions and regions. We remain dependent on both labour and capital, but the former is subject to *divide et imperia*, the latter is not – unless we see a major return to economic nationalism and limitations on capital movements that will lead to the breakup of the major corporations that dominate the global economy and probable major economic decline.

The most likely new model is one that in fact depends increasingly on those corporations; the logic of globalisation that imparted an important role to TNCs has not disappeared with the financial system. There has always been a tension at the centre of neo-liberalism: is it about markets or about giant firms? They are far from being the same: the more that a sector is dominated by giant firms, the less it resembles the pure market that in principle lies behind nearly most of today's public policy. There may well be intense competition among giant firms, but it is not the competition of the pure market. This is supposed to be characterised by very large numbers of actors, such that each remains incapable of having an effect on prices by its own actions, and certainly incapable of wielding political influence. In the pure market everyone is a price taker; no-one a price maker. The kind of strategic action – such as selling short – that has characterised contemporary financial markets simply cannot happen.

Even while the neo-liberal epoch was just beginning, economists at the University of Chicago, usually considered to be the main centre for the generation of neo-liberal ideology, were preparing a new doctrine of competition and monopoly that was soon to influence the US courts, undermining the old principles of anti-trust legislation that were at the heart of US and, more recently, European competition law. It was not necessary, the doctrine argued, for there to be actual competition for customer welfare to be maximised. Sometimes a monopoly, by its very domination of the market can offer customers a better deal than a number of competing firms.

This is not the place to examine the merits of this argument in detail. It is being used here only to show the fundamental ambiguity within neo-liberal thinking itself over what are usually seen as its fundamental characteristics: competition and freedom of choice. The recent banking crisis has seen, on both sides of the Atlantic, governments supporting, and gaining the support of competition authorities for, mergers and acquisitions that considerably reduce competition and choice.

The financial markets failed when the fundamental criterion of complete knowledge and transparency ceased to characterise banks' relations with each other. If we now add to that a sector with considerably reduced competition, as well as extended guarantees of support from the state in the event of irresponsible behaviour, we have a potentially serious problem of system

legitimacy. At the same time, unless a country's political structure is likely to support something like a 'Danish' solution, we remain dependent on the financial system to resume privatised Keynesianism if capitalism's other problem with democracy is to be resolved.

The initial answer is a return to more regulation to compensate for declining competition and to avoid moral hazard, and in the immediate term this is happening. But we have been here before very recently. After what was in retrospect the first sign that the financial markets were not as effective at automatic self-regulation as was claimed on their behalf, the Enron and World.com scandals at the beginning of the century, the US Congress tightened regulations on company auditing in the Sarbanes-Oxley Act. It quickly produced complaints from the sector that enterprise was being stifled, and threats that finance houses would leave New York for the more permissive regime in London.

The same has been happening after the bout of regulatory measures being visited on the financial sector as part of the deal with governments to save it. How can the derivatives markets get to work in supporting high levels of borrowing if they are to be subject to rules that make much of that borrowing more difficult? Meanwhile, low- and medium-wage, insecure workers will not be able to carry on spending unless they can get their hands on unsecured credit, even if at less maniac levels than had been occurring. Furthermore, this will be a financial sector with a reduced number of major players, with very easy access to government and often shaped by government itself during the course of the 2008 rescue packages. One assumes that most governments that have been acquiring banks in the bout of unforeseen nationalisation that followed the October 2008 collapse do not intend to hold on to them according to the old model of controlling the 'commanding heights' of the economy. The fact that big banks operate internationally will itself be a disincentive to that. It is however also unlikely that these banks will be privatised through general public share issues. They will most likely be levered into the hands of a small number of leading existing firms deemed responsible enough to run them in good order. There will overall be a gradual slip towards a more negotiated, voluntary regulatory system. Justified by arguments about flexibility and of reducing burdens on the taxpayer, actual regulation will be exchanged for lightly monitored guarantees of good behaviour by the large financial firms.

To predict this is hardly crystal-ball gazing: it is a general trend in government-firm relations right across the economy. Sharing neo-liberal prejudices against government as such, frightened at the impact of regulation on growth, and believing in the superiority of corporate directors over themselves at nearly everything, politicians increasingly rely on corporate social responsibility

for the achievement of several policy goals. The UK government even has a minister with responsibility for the subject.

Hardly a regime shift; just an adjectival shift from unregulated privatised Keynesianism to self-regulated privatised Keynesianism. But some implications of the change have more radical implications. First, the system will less and less be legitimated in terms of the market, freedom of choice and an absence of government involvement. Rather, there will be partnership between government and firms, or autonomous actions by firms commended by governments, with largely informal outcomes attempts to reconstruct trust. It will be 'big firms are good for you', rather than 'markets are good for you'. In some respects this resembles neo-corporatism, but with two major differences. First, organised labour will not be present, except as a token actor, as it has little power or competence at the level of global finance. Second, firms participated in corporatist deals as members of associations, which provided something of a level playing field among different firms. Today's giant, global firms have little time for associations, and seek anything but a level playing field when they build relations with governments. The new 'responsible corporation' model will however resemble corporatism in being limited to nation-state (just possibly EU) level, to which level governments' competence is limited, while the firms remain global and retain a capacity to regime-shop.

Second, and less important economically but more significant politically, this model will see a considerable enhancement of current trends towards a displacement of political activity from parties to civil society organisations and social movements. The model brings firms to prominence, not just as lobbies of governments, but as makers of public policy, either alongside or instead of governments. It will be firms that decide the terms of their codes of behaviour and responsible practices. Firms therefore become political subjects and objects in their own right, ending the sharp separation between governments and private firms that is the hallmark of both neo-liberal and social democratic politics. At the same time, as governments of all parties have to make similar deals with firms, and equally fear for their country's ability to attract liquid capital if they are too demanding of them, differences among parties on core economic policies will shrink even further than they have already. Party politics will still have much with which to concern itself: the relative share of public spending; questions of multi-culturalism; security. But it will vacate the former heartland of basic economic strategy. In reality it vacated this some years ago in most countries, but shreds of it remain in some parties' rhetoric.

It is already the case that for nearly every major corporation there is a web site revealing details of its conduct, assessing its fulfilment of its social responsibility claims. As this remains a no-go area for party conflict, it will grow

in importance in civil society politics. It will have the major advantage that it will not be so trapped at the nation state level as party politics; many of these groups are transnational. But it will be an unsatisfactory politics, as it lacks the formal citizenship egalitarianism of electoral democracy, while retaining many of the bad habits of parties. Activist groups are capable of grabbing attention with exaggerated claims or (in contrast) cuddling up to corporations in exchange for various resources just as much as are parties. It will also be a highly unequal struggle between them and the corporations. It is not a regime that either neo-liberals or social democrats want; but it is what we are all likely to get; and it may well reconcile again the capitalism economy and the democratic polity.

This is the kind of social forecasting that depends on an extrapolation of current trends. Can one not do better than that and peer further forward? Before very long the global economy will start to need the purchasing power, and not just the labour power, of the billions living in Asia and Africa. That will require serious thinking about the transfer of spending power, not to mention an increase in the price of T-shirts, and a completely different kind of global regime. What would trigger such an emergence of something finally resembling Marx's global proletariat? Probably not his own ideas; more likely radical Islam. But this is likely to become really serious politics after the next 30 years.

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