THE FUTURE OF CAPITALISM WILL BE DECIDED IN THE CITIES

10 September 2012

Mikael Stigendal
Professor in Sociology at Malmö University

www.mikaelstigendal.se

Abstract: This paper puts cities at the forefront of the discussion. Cities have become on the one hand the engines of economic growth where on the other hand large concentrations of people suffer from an increasing inequality, seriously aggravated by the crisis, but cities have also become places where new solutions are in the making. The paper pursues a perspective, defining capital as basically a social relation, which enables me to criticise growth but also the belief in no-growth. Without growth, capitalism won’t survive and thus, the demand for no-growth challenges not only a desire but a whole system. That seems unrealistic as long as no alternative exists to put in its place. Furthermore, capitalism doesn’t only consist of economy in the narrow sense but a relationship between growth and welfare. Hence, the increasing inequality in recent decades has to be understood in its relationship to a mainly financialised growth. Various urban policies have addressed these two dominating trends, also correctly in their conjunction, but often assessing the results as failures. In contrast, I will point out such assessments as flawed, because they tend to endorse the dominating relationship between financialised growth and unequal welfare. In the attempts to overcome the current crisis there is a lot to learn from urban policies and the paper will highlight some policy implications of initiatives carried out at the local level.

The deepening crisis should be regarded as a challenge of how we understand the economy. In this paper, I will suggest an understanding based on a distinction between two main definitions of capital. To put forward and explain this understanding is the first purpose of the paper. The second purpose is to highlight the implications of this understanding for cities. Cities have become central in three aspects; as nodes of economic growth, as concentrations of people suffering from an increasing inequality and as places where the new solutions are in the making. I will start by presenting the two definitions of capital and argue in favour of the one which I call the exchange-value definition of capital. This gives me the opportunity to state that capitalism is both less and more than the economy. The idea of it as less than the economy paves the way for an understanding of the solutions suggested in this paper, while treating it as more than the economy enables us to understand why inequality has increased. Furthermore, an exchange-definition of capital provides us with an important explanation to
why cities have become nodes of economic growth. I will deal with each one of these three aspects in turn and thus gradually develop my argument for why cities have become central.

Positioning cities as central to the economic development may seem odd from the perspective of conventional economics which, as David Harvey (2012: 27-28) puts it, “routinely treats investment in the built environment in general, and in housing in particular, along with urbanization, as some sidebar to the more important affairs that go on in some functional entity called ‘the national economy’”. The fiction of a national economy tends to take precedence. In contrast, recent publications from the project Social Polis (http://www.socialpolis.eu/) as well as the EU-report Cities of tomorrow (Hermant-de-Callataÿ & Svanfeldt, 2011) have highlighted the centrality of cities. I hope to sustain such a view and with an understanding of the economy which draws on Marx and many of his successors. However, let me clarify that I am too young to have got stuck in the value controversies of the 70s. Instead, I’m much inspired by the approach that Diane Elson suggested in an article written more than 30 years ago, but yet of immediate importance. As she puts it, value theory in Marx should not be understood as a labour theory of value but as a value theory of labour, because “it is not a matter of seeking an explanation of why prices are what they are and finding it in labour. But rather of seeking an understanding of why labour takes the forms it does, and what the political consequences are” (1979: 123). In my view, such an approach opens up the possibilities for bridging for example Marx- and Keynesian-inspired thinking. It is with the hope of contributing to such an endeavour, very much needed these days, this paper has been written.

1. Two definitions of capital

Capital nowadays seems to be defined in so many different ways, as for example technical, social, democratic, economic, cultural, environmental and financial capital. However, one definition has almost been forgotten. Nor is it one among all the others. As I see it, it differs from the others. According to this definition, capital is essentially a social relation, namely the one that arises between the buyer and the seller of labour power. Even money, machinery, buildings and trucks may be capital but only when they convey this special social relation between persons. As Marx (1996: 753) puts it, “capital is not a thing, but a social relation between persons, established by the instrumentality of things”. And it is from him that this definition stems.

In his definition of capital, Marx answers a question concerning the origin of profits. It is the profit that makes something a capital. Many would probably agree to that, although not all want to measure the gains in money. Therefore, nor does everyone call it profit. Capital appears as something that can generate more. Consider for example, the many potatoes generated by a single one. It amazed the Physiocrats in the 1800th century and as they saw it, every profit therefore derives from agriculture. The soil appeared to contain a capacity to generate more. According to the most used Swedish textbook “Our economy” assets in general may contain this capability. Capital is defined as “resources
Future of capitalism

- money, machinery, factory buildings - which in various ways can be used” (Eklund, 2005: 33 – my translation).

But this is not the same answer as in Marx regarding the question of where profits stem from. In the definition advocated by Marx, profits stem from a special relationship between persons, conveyed by things. Things that convey this relationship between persons can be called capital. In the other definition, profits stem instead from the thing itself and therefore I propose to call it a use-value definition. Marx defines use-value as the material content of a thing. The representatives of what I call the use-value definition have in common that they attribute to the thing some sort of material content which makes it generating more. This use-value may take shape in for example money, machines or factory buildings, but also in culture and social networks. On the basis of a use-value definition, capital is not necessarily a commodity.

However, all commodities consist of use-value. Otherwise they wouldn’t be bought. But all commodities also have exchange-value. Otherwise they wouldn’t be sold (Jessop, 2002: 16). While the use-value depends on the relationship between the needs of the buyer and the material content of the commodity, the exchange-value depends on the relationship between different commodities. The use-value expresses a quality, often difficult to quantify, while the exchange-value means a quantity. Every commodity is a unity of use-value and exchange-value.

The definition maintained by Marx represents what I propose to call an exchange-value definition because it regards profits as stemming from the social relation between the seller and buyer of labour power. Formally, this is an exchange relation. This does not exclude that profits may arise in other ways, for example due to a housing bubble. That awakens the old question about the difference between the price of a product on the market and its inherent value. It is a question that Adam Smith thought a lot about in his time, but whose relevance seems to have been forgotten in recent decades with continuous price increases in the housing market (Harvey, 2012: 41). There seems to have been grounds for a belief, strongly criticized by Marx, with the words of Bob Jessop (2002: 13) “that economic value arises from the immanent, eternal qualities of things rather than from contingent, historically specific social relations.”

Housing seems to have generated its own profits, that is, as long as they are sold in time. When prices fall, it will become clear who is the looser and who will have to pay retroactively for the earlier profits. The same goes for all other goods and services. You can make a profit on them if you manage to sell them at a price that is higher than their actual value. But that does yet belong to the exceptions. In a fully competitive market no one should be able to sell their goods and services at a price that is higher than the actual value. The invisible hand that Smith was talking about takes care about that. Profits therefore appear as exceptions. It doesn’t seem to be possible to make a profit in the normal case, i.e. when the goods and services are sold at prices in accordance with their actual values.
Future of capitalism

It’s exactly the normal case that the exchange-value definition of capital can explain. According to this definition the normal profit derives from the relationship between the selling and buying of labour power. The capitalist pays for the use of the labour power for a certain time. The workers are paid for the value of their labour power. But what the workers produce is something else. It has a higher value than the value of the labour power. The difference constitutes what Marx calls the surplus-value, which lays the basis for the profit. And it need not be unjust, as long as the workers are paid for the value of their labour power. It is a special advantage for the buyer of labour power, but really no wrong against the seller (Marx, 1996: 204).

Although I’m critical of use-value definitions, heavily dominating in recent decades, my criticism doesn’t target all the research carried out. On the contrary, I see great gains with a lot of research on for example cultural and social capital. But why call it capital (Fine, 2007)? Why use the word capital as signifier? It is precisely the use of the word capital that my criticism concerns. Anyone who takes the immanent, eternal power of things to generate more for granted represents a use-value definition. Unlike the exchange-value definition, use-value definitions depart from something fixed and pre-existing, thereby making a fetish of capital, i.e. a thing with supernatural qualities. This makes it more difficult to understand how profits can stem from a social relation, also a process, as Harvey (2010: 40) puts it, “in which money is perpetually sent in search of more money.” On the basis of the use-value definition, the concept of capital loses its analytical value, as I see it, and becomes more a matter of faith or sheer confusion. Moreover, using the word capital as a signifier obscures the insights enabled by an exchange-value definition.

But which are these insights? What is there to gain from an exchange-value definition of capital? There are several advantages and I intend to specify three with a bearing on the theme of this paper. First of all, it enables us to understand that the economy doesn’t solely consist of capitalism. Capitalism is the part of the economy where growth is profit-driven. Another part of the economy is needs-driven, represented by for example publicly owned schools or hospitals and the so-called social economy. A third part of the economy is the one which consists of smaller firms, directed at keeping themselves afloat and not necessarily to grow. Secondly, the exchange-value definition enables us to understand that capitalism isn’t restricted to the economy. Capitalism is both less and more than the economy. It’s not contained in a demarcated sphere of society. For that reason, it has to be understood in its “inclusive sense” (Jessop, 2002: 5). Thirdly, on the basis of the exchange-value definition we may understand how cities have become solutions to the “capital surplus absorption problem” (Harvey, 2010), which constitute an important explanation to the growth of cities and their regionalisation in recent decades. I will deal with each one of these points in the following chapters.
2. Three types of growth

All production of goods and services do not grow. And should not do it. Why, for example, should the hairdresser in the square cut more customers if the current ones are sufficient for the business to go around? Then she will soon have to employ someone, but maybe she does not want that. Indeed, economic growth may be not only undesirable but also unsustainable. As the Commission led by Joseph Stiglitz writes in their final report "the seemingly bright growth performance of the world economy between 2004 and 2007 may have been achieved at the expense of future growth. It is also clear that some of the performance was a ‘mirage’, profits that were based on prices that had been inflated by a bubble.” (Stiglitz et al, 2009: 9) There are indeed strong reasons to be critical of unbridled growth. It is therefore important to ask why we need growth. Why not keep it constant?

The answer is that you cannot if you want to remain a capitalist. Capital must grow for it to remain capital (Evans, 2009: 2). With capital I mean assets, labour power and social relations included in the profit-driven sector of the economy, i.e. the capitalist part of the economy. Growth is one of its basic characteristics. Capitalists are those who set the process in motion, driving the growth of capital (Harvey, 2010: 40). It may be owners, managers or supervisors at various levels, but also for example speculators of all kinds. Capitalism is not the same as the entire market economy (Braudel, 2001). It is a type of market economy or a part of what we call a market economy. Another part is made up of self-employed, such as the hairdresser or the bakery on the square, whose activities are not primarily intended to make a profit. And then it cannot be called capitalism. Nor can a municipally owned school where the work is indeed performed by employees, but not established primarily to make a profit. The market economy thus consists of at least three parts. Richard Smith (2010: 33) makes a similar distinction:

> Of course there are some, typically small, privately-owned businesses, or niche industries -- farms, restaurants, mom-and-pop stores, landlords, as well as larger sole ownerships, partnerships, and family-owned businesses which can, if they so choose, carry on producing and marketing more or less the same level of output year-in year-out so long as they don’t face immediate competition -- because the owners of such businesses do not have to answer to other owners, to shareholders. Regulated public utilities comprise another category of enterprises that can also largely escape competitive pressures to grow because their sales, prices and profits are guaranteed and set in advance.

But those are not most of the economy, Smith adds. In terms of growth, most of the economy is profit-driven and thus capitalist. It consists essentially of social relations, however contradictory. Those who buy and sell labour power have conflicting interests, stemming from the dialectical contradiction of the commodity between its use- and exchange value; the former a quality and the latter a quantity (Colletti, 1998; Jessop, 2002: 16). Dialectical means that the two both repel and attract each other. Within a commodity they can’t exist without each other but yet tending to exclude each other.
Future of capitalism

Because of this basic contradiction, capital must be regulated. Also the relationship between different capital, such as banks and industry, embody the basic contradiction and need to be regulated. There is nothing abnormal about that. Regulations belong to the normal. The capitalist economy is not a self-playing piano. Its contradictory and incomplete social relationships can’t work without being regulated (Becker et al., 2010: 226). Regulations can’t be regarded as external, exogenous intervention, but they are included as normal constituents of the capitalist economy.

What emerges when these regulations are successful can be called regimes of accumulation (Aglietta, 1987; Jessop & Sum, 2006) or modes of growth (Jessop, 2002: 56). A mode of growth means a long-term pattern of relationships between production and consumption. As Becker et al. maintain (2010: 227), it is characterised by a specific combination of productive/financialized, extensive/intensive and introverted/extra- grated accumulation. For such long-term relationships and thus modes of growth to emerge, it is not sufficient with single forms of regulation. It takes entire modes of regulation. That is, context of norms, institutions, organizational forms, social networks and behaviour that can temporarily stabilize a mode of growth, despite the conflict-prone and antagonistic character of capitalist social relations.

Thus, regulations are needed due to the inherent contradictions of capitalism, but also due to the incompleteness of the capital relations (Jessop, 2002: 18). Profit-driven growth functions as a circuit. It begins and ends with money. What happens in between must generate a profit. Otherwise, it may not be called capitalism. But capitalists can’t decide about everything that happens in between. Consumers can’t be forced to buy. We may be influenced, but it must at least appear as if we choose ourselves.

Furthermore, people can’t be forced to produce labour power, that is, give birth to children and raise them into obedient wage-workers. They can’t be forced to educate themselves. They can’t even be forced to sell their labour power. To sell our labour power we have to own it. Otherwise, we can’t sell it. Concomitantly, we can only sell our labour power for a specified period. Otherwise, we would in fact sell ourselves and turn into slaves. Capitalism requires the existence of free people who own their labour power and therefore can sell it. People must also be sufficiently free to make their own choices and buy what they want.

Much must therefore be made to happen which the capitalists can’t decide about. But it must happen. Otherwise the circuit can’t be closed and completed. Then growth stops, capital can’t remain capital and capitalism cease to exist. But what needs to happen depends on how and in what form capital grows. For growth, it must do all the time. It is part of the profit-driven growth logic. Otherwise, it may not be called capital. But grown it has, periodically very successful. That has then proved the existence of specific forms of capitalism. Understood in this inclusive sense, capitalism does not comprise only profit-driven growth. Nor does it include only growth and welfare in their particular relationship, i.e. accumulation regimes. As Jessop (2002: 5) states, “seen in integral or inclusive terms, specific forms of capitalism can be interpreted as an ‘accumulation regime + mode of regulation’”. Thus, it should be
made clear that this short paper doesn’t deal with capitalism but more specifically with capitalist accumulation regimes, i.e. relationships between profit-driven growth and welfare.

3. Relationships between growth and welfare

I the first chapter I maintained a view of capitalism as both less and more than the economy. Viewing it as less than the economy means to take other types of growth into consideration. Viewing it as more than the economy means to highlight the relationship between profit-driven growth and welfare. This relationship has appeared in at least three different forms, associated with three different stages in the development of capitalism. The first stage was characterized by a lack of welfare for the workers. Profits were based on an impoverishment of the workers, through extensions of the working day. That led the workers to join forces and establish trade unions. Over time, a new relationship emerged between profit-driven growth and welfare. The new relationship was based on the struggle of workers, but it also lied in the interest of capitalists to increase the demand of consumer goods. If no one buys what is produced then the profits can’t be realized. This new stage, known as the Fordist mode of growth, was secured through a distinctive mode of regulation, materialized in the Keynesian welfare national state (Jessop, 2002: 55). As Andreas Novy (2011: 249) writes, “the unique achievement of universal social rights was linked to a specific form of territory, the nation, and a specific public institution, the state, which was the nodal point of regulation”.

In this stage it was important to have decent working conditions and increased real wages for the producers to become affluent mass-consumers. A whole new realm emerged outside of work. It became known as welfare, and included both increases in real wages and an expansion of the public sector (also called the social wage). During the second stage, welfare was financed by money that had been earned through production. And it was in everyone's interest. It was in the interest of capitalists that real wages rose and the public sector expanded because that also increased demand and made profits real. In short, the relationship during the second stage was one between a productive growth and an equalizing welfare.

The third stage began around 1980 and has lasted since (Arrighi, 2007: 156; Callinicos, 2010: 55). To understand this stage we need to distinguish between productive and financialised growth (Callinicos, 2010: 23ff). The first two stages were dominated by productive growth, albeit of different types. The first type of productive growth can be termed extensive and the second one intensive (Aglietta, 1987: 70; Becker et al., 2010: 227). In the third stage, a financialised growth has dominated, based on speculation (“fictitious capital”) and rents (Arrighi, 2010: 230; Becker, 2010: 228). Moreover, profits have increased its share of total production value at the expense of wages and taxes (Harvey, 2010: 12; Callinicos, 2010: 55). That has made the collective welfare increasingly difficult to finance and paved the way for the emergence of private alternatives.
The restructuring of the capitalist economy has implied an increase of the divisions regarding wages and working conditions. When the former industries moved abroad the workers lost a lot of their former power base. In many of the new industries workers have become individualized finding it much more difficult to assert themselves collectively. Some of the population has got it better off financially and managed to afford the private alternatives, while others have had to be pleased with a collective welfare of deteriorating quality and weaker ability to compensate for the increasing divisions. A major redistribution of wealth has taken place, endorsed by a recent report from the OECD, *Divided we stand - why inequality keeps rising* (OECD, 2011).

At the same time people in the Global North have been inundated and kept pleased with all the cheap products produced by impoverished producers in the Global South. The development of mass consumption has thus continued. But the mass-producers no longer mass-consume, as in the second stage. The mass-producers can’t afford that because of the often poor wages and appalling working conditions in the Global South. Mass-consumption takes place in the Global North, but by borrowed money more than earned. And this is in the interests of the dominating capital, i.e. the capital that make their profits on financial transactions, speculation and lending. The capital that now dominates has not the same interest in increased wages as profits derive to a higher extent from the decrease of wages as a proportion of total production value.

People's welfare has increasingly come to be based on speculation and loans. That is, for example, how the new pension systems functions (Becker et al, 2010: 228). Many are speculating in stocks and securities. It has become important to make a career in the housing market. As long as housing prices rise, anyone can make a profit by moving. Many mortgage their homes to other consumption in the knowledge that prices, after all, seem to rise. It works, but only as long as prices rise and that do not last forever. In recent decades several large bubbles have been blown up with large fluctuations as a result and usually to the benefit of financial capital. The bubbles and the risk of them have become an important source of profits for finance capital. It has also become an important part in the great redistribution of wealth. Since 1973 there has been hundreds of financial crises around the world, compared to very few between 1945-73 (Harvey, 2010: 8). The WHO-commission on social determinants of health (2008: 19) summarises the development:

*Progress in global economic growth and health equity made between 1960 and 1980 has been significantly dampened in the subsequent period (1980-2005), as global economic policy influence hit hard at social sector spending and social development. Also associated with the second (post-1980) phase of globalization, the world has seen significant increase in, and regularity of, financial crises, proliferating conflicts, and forced and voluntary migration."

In short, the relationship during the third stage has been one between a financialised growth and an “inequalizing” welfare (Evans, 2009: 3). Some have got it better, others worse, not by coincidence but as a consequence of the financial sector having replaced the industrial sector as leading capital. The
Future of capitalism

profits are largely made on depressed wages, quasi-monopolies, privatization, deregulation, and not the least people's inability to choose the right among all kinds of alternatives. For a significant part of this growth, inequalities in health and welfare have served as a prerequisite. New markets have appeared when the redistribution of wealth has made it possible for some to demand for goods and services that can’t be mass-produced elsewhere.

4. Overgrowth

In the capitalist part of the market economy, the profit is an end in itself (Marx, 1996: 163). As Richard Smith (2010: 31) puts it, “the growth imperative is virtually a law of nature built-into any conceivable capitalism”. Grow or die is the capitalist maxim. This means that capitalist companies primarily compete with their profits. The profit is essential for the extent to which the capitalist company may attract new capital and to what price. Characteristic of capitalist production is therefore also an effort to rationalize and reduce costs in order to strengthen competitiveness and make a higher profit. But that also leads to fewer workers left to produce the surplus-value. And since profits basically stem from the difference between the value that workers produce and the value of their labour power, profits tend to fall (Arrighi, 2007: 45ff; Harvey, 2010: 94).

To avoid this, the capitalist economy has to be expanded (Bellamy Foster and Magdoff, 2009: 101), either through the launching of new products and services, or by other activities converted to capitalism, for example through privatizations. In other words, it requires even more growth (Harvey, 2010: 45). Otherwise, profits fall and ultimately that means a threat to the existence of capitalism. The demand for increased growth is thus a tendency of the capitalist economy. In the language of this paper, I will call it a tendency to overgrowth because capital tends to grow more than there is demand for. I join ranks with those that regard this overgrowth, more usually called over-accumulation of capital, as the origin of the current crisis (for example Arrighi, 2007: 8; Callinicos, 2010: 57).

The tendency to overgrowth leads to what Harvey (2010: 26) calls ”the capital surplus absorption problem”. Alongside such phenomena as military expenditures, urbanisation has become decisive to counteract the tendency to overgrowth and absorb the capital surplus through for example the reconstruction of city-centres and building of suburban homes. Indeed, the growth of cities has become one of the most important responses to the capital surplus absorption problem, making cities central to the dynamic of capitalism (Harvey, 2008).

5. Urban growth combinations and societal boundaries

Cities became central to the dynamic of capitalism already during Fordism; i.e. the second stage of the relationship between growth and welfare. However, the urban absorption of capital surplus has intensified in the last decades due to the redistribution of wealth. The cities cannot afford to pay for
Future of capitalism

growth themselves and provide opportunities for new jobs. City representatives across Europe (local as well as regional administrations or national agencies) have had a hard time in recent decades lacking the funding needed to counteract the increasing cleavages and being more or less forced to rely on attracting international capital. This has become the main solution for cities in the wake of lost tax revenues. In order to avoid a further decline they have had to position the city in the global capitalist economy as engines of growth.

A lot of public money has been spent, mainly on the infrastructure, to attract international capital and enable new jobs. That has contributed to growth, but with another kind of growth logic than the profit-driven. My point is that cities have become engines of growth combinations. Profit-driven growth has been combined with needs-driven. Public money has been spent on the basis of needs, for example lowering unemployment or alleviating poverty. The profit-driven logic has certainly been superior but growth consists of the needs-driven logic as well.

However, one may very well question the relevancy and justifiability some of these needs. To position cities as engines of growth a new politics have been developed, characterized by horizontal relationships called governance instead of building on traditional government. This has led to a lack of democratic legitimacy, highlighted by the EU-report Cities of tomorrow (Hermant-de-Callataý & Svanfeldt, 2011: 25) as “the growing complexity of political decisions and the apparent increase in global private interests’ influence have led to a situation where politics seem to have become subordinate to economic interests”.

Cities have made themselves part of the global relationship between growth and welfare which has dominated during the past 30 years and which explains the increase in inequality. Thus, not only growth but also the relationship between growth and welfare has to an increasing extent become an urban issue. On the one hand, the metropolitan cities constitute nodes of regulation in the global economic development. Thereby, cities have also become bases for the dismantling of the nation state's former boundaries. On the other hand, the financialized mode of growth and its concomitant increase in inequality have led to the emergence of new societal boundaries and indeed barriers, comparable to the earlier ones of the nation-state. During the heydays of Fordism, the reach of different social systems coincided with the boundaries of the nation-state. Along with globalization, the former societal boundaries have been dismantled. Instead, new societal boundaries have emerged and materialised in the metropolitan cities. They can certainly not be determined accurately to the millimetre, like the ones of the nation-state, but they fill a similar function and constitute the new spatio-temporal fixes (Jessop, 2002: 48). By setting these boundaries contemporary society makes itself coherent and removes the problems outside itself; problems caused by contemporary society itself.
6. The future of capitalism

I have tried to show how foundational the capitalist form of urbanization is for the reproduction of capitalism. Therefore, cities need to be regarded as central in the discussion of the deepening crisis and the pursuit of solutions (Harvey, 2012: 65). How can cities contribute to resolving the crisis and decide about the future of capitalism? This is the question that I will try to answer here in the last chapter. And the answer depends on what we mean by growth. Others have suggested prosperity without growth and although I deeply sympathize with the reasons, I cannot agree with this solution (Jackson, 2009). So many needs remain to be fulfilled and then it cannot be reasonable to advocate an end to growth. Furthermore, I do not regard such demands as very realistic because the profit-driven growth is backed up by so much power. I agree with Richard Smith (2010: 29) that anti-growth economists don’t understand the peculiarities of capitalism, “that growth is an iron law of capitalist development, that capitalism cannot exist without constant revolutionizing of productive forces, without constantly expanding markets, without ever-growing consumption of resources”. Under capitalism, no-growth would just be a recipe for mass unemployment and examples of this proliferate in front of our eyes at this very moment. The question must instead be what growth should be given priority to.

Economic growth means an increase in gross domestic product (GDP), usually defined as the total value of goods and services for final use produced in a country for the market and the public sector. The definition does not include just any production whatsoever. The rapidly growing security industry, with cameras and fences designed to keep out, contributes to GDP. That is not the case, however, with the volunteer night wanderers trying to bridge the boundaries and create understanding. That is also production, or work if we would rather call it that, and it definitely contributes to welfare, but it is not recognised as such and counted in GDP. The Stiglitz Commission (2009: 14) highlights this problem as well:

*For example, many of the services people received from other family members in the past are now purchased on the market. This shift translates into a rise in income as measured in the national accounts and may give a false impression of a change in living standards, while it merely reflects a shift from non-market to market provision of services. Many services that households produce for themselves are not recognized in official income and production measures, yet they constitute an important aspect of economic activity.*

The WHO-commission on social determinants of health (2008: 150) makes the same point when they recommend governments to “include the economic contribution of household work, care work, and voluntary work in national accounts and strengthen the inclusion of informal work”. What the two commissions hint at is the need of a fundamental reorientation of how to understand the economy. In fact, to become influential the recommendations need to be supported by a new understanding of the economy. This is exactly what I have suggested in this paper.
And it leads me to conclude that needs-driven growth and production should be recognised and supported, regardless if it takes place inside or outside the market. That would change the situation dramatically for people, many of them women, who currently make decisive contributions to welfare and cohesion but without being recognised for it. To be recognised and thus seen would probably also mean empowerment and a boost in self-esteem for many. It would also contribute to dismantle the barriers in the cities as a lot of needs-driven production goes on outside them. Furthermore, it would make it necessary to reconsider many previous projects and initiatives funded by the structural funds and for example EU-programmes like URBAN or URBACT. In my research over the years, I have seen so many good and interesting initiatives, indeed social innovations, wasted and forgotten because they haven’t fulfilled the expectations regarding number of jobs etc.

Recognizing and strengthening needs-driven production would lay the ground for other growth combinations, more favourable for a relationship between growth and an equalizing welfare. That would also make the needs highlighted and involve more people in discussions about them, which may pave the way for a more relevant and justified needs-driven growth. That won’t replace the profit-driven growth because contemporary cities cannot do without capitalism. Instead, city representatives should use the power they have much more proactively to attract international capital in favour of an equalizing welfare. A strengthened needs-driven production would provide the city representatives with a better guidance and also an enlarged power base. That would perhaps have a deterrent effect on some capitalists, while other may find it particularly interesting to invest in a city with a vibrant development of social innovations. In particular, it would contribute to strengthen productive capital at the expense of financialized.

7. Policy proposals

- Put cities at the centre of the discussion about the current crisis because the decisions taken by and in the cities concerning growth and its relationship with welfare have a decisive influence on the future of capitalism.
- Rethink and enlarge the concept of growth by recognizing and strengthening needs-driven growth and production outside the market, among other things by developing new measurements.
- Reconsider many on-going and previous projects and initiatives funded by the structural funds and for example EU-programmes like URBAN or URBACT and highlight the social innovations on the basis of a renewed concept of growth.
- Policies should not focus one-sidedly on either economic or social issues but instead consider the relationship between them.
Future of capitalism

- Develop measures and statistical data in order to clarify how the economy is compounded regarding the growth combinations, i.e. financial and productive capital, profit-driven and needs-driven growth etc.

- Explore the opportunities and proactively establish growth combinations of profit- and needs-driven growth that favours productive capital and an equalising welfare.

References


Future of capitalism

Harvey, David (2012) Rebel Cities. From the right to the city to the urban revolution. US: Verso


Novy, Andreas (2011) Unequal diversity - on the political economy of social cohesion in Vienna. European Urban and Regional Studies 18


Smith, Richard (2010) Beyond growth or beyond capitalism? Real-world economics review, issue no. 53

