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New Economy vs. Old Ways

by Goran Lukic

New buzz-words are entering into the traditional economic landscape of industrial relations. Managers and politicians who want to be in touch with new economic trends are using terms such as 'green economy', 'renewable energy' and 'corporate social responsibility (CSR)'. Another concept that is being touted as a 'big idea; is 'fair-trade' or 'Creating Shared Value (CSV)'. It seems that these terms are being translated into real action. According to an HSBC Global report, 19% of anti-crisis measures in France were put into the renewable energy sector in 2009, while 13% of Germany's 2009 anti-crisis measures were put into green investment and green tax reform. Q-Cells, a manufacturer of photovoltaic cells, which has its headquarters in the German city Bitterfeld-Wolfen, began its operations in 1999 with 19 employees, and soon had more than 1 000 people on its payroll.[1]

According to Fairtrade International (FLO), the fair-trade industry is booming. The sales of Fairtrade-certified products grew by 15% between 2008 and 2009. In 2009, Fairtrade-certified sales amounted to approximately €3.4 billion worldwide. There are now 827 Fairtrade-certified producer organisations in 58 countries, representing over 1.2 million farmers and workers. In addition to other benefits, approximately €52 million was distributed to communities in 2009 for use in community development.

All the above-mentioned new economic models, which are based on regenerative development demand, are receiving vast policy attention as a new post-industrial alternative to corporate globalization.[2] As such they are being transformed into concrete policy goals. For example, the President of the European Commission Jose Manuel Barroso said in the European parliament in 2010 that he wants to see 3 million "green jobs" by 2020. FLO estimates that six million people already benefit directly from Fairtrade.

Be that as it may, the following dilemma arises out of these observations: is it that capitalism has acknowledged its social and ecological limits of growth or has it acknowledged the second contradiction of capitalism, as James O'Connor puts it (the first being capital versus labour) and started to transform itself into "human-face" capitalism? This second contradiction is related to the observation that capitalism undermines the "conditions of production", like soil, water, energy, and public services, which all necessarily need to be sustained. The latest report from the Working Group on Climate Change and Development (NEF, 2009) was very clear on the grounds of the limits of growth – it quoted the words of Professor Roderick Smith of the Royal Academy of Engineering at Imperial College who observed that with each 'doubling' of the economy, you use as many resources as with all the previous 'doublings' combined.[3]

An alternative view is that this very same human-face capitalism is a mere spin-off strategy of capital, which rests on the Marxist warnings of a long history of converting the limits of capital into its advantages. This means that the very same 'new economic models' are being (ab)used for further 'global integration' of the basic capitalism model by seeking new territories with cheap production costs, only this time it is with the help of governments and consumers.

Unfortunately, we can find more and more concrete cases of the latter scenario.

Evergreen Solar, a company based in the United States of America (USA), received at least US$43 million in assistance from the government of Massachusetts in the last three years. That did not stop the very same company from closing its American operation, laying-off 800 workers by the end March 2011 and moving to China for a joint venture. According to the company chief executive, they couldn't compete with Chinese state-subsidised low prices for solar panels.[4] Only two weeks after the news about Evergreen Solar the Financial Times issued an article about the light bulb maker Bridgelux, which uses low power, light-emitting diodes. Most of the Bridgelux workers are based in Asia. Bridgelux is also considering moving its remaining manufacturing staff offshore.[5] Q-cells, the German company mentioned in a previous section, suffered heavy losses in the second quarter of 2011. On the other side, state-subsidised Chinese competition benefits from the billions in feed-in tariffs in Germany. German electricity consumers are helping to fund the rise of Chinese solar producers. The numbers support the claim. According to the Rhenish-Westphalian Institute for Economic Research, the average German household pays about €123 a year to subsidise green electricity.

It seems that when it comes to implementing the green economy as a business model, it is obviously not only back to the "business as usual" migration of capital towards cheaper production costs. It's also about having access to new state-subsidised capital. A case in point is the car company Fiat. While it stands as the greenest car company in the latest Newsweek 2011 'green rankings',[6] it is the same company that implemented the highly controversial Pomigliano agreement. The Pomigliano agreement gives a strong impetus to the process of the deconstruction of the social pact set up in July 2009 and even forbids any strike action against the new anti-labour regulations put in it.[7] And when building a common FAS plant in Serbia, it got vast state subsidies, which also include large sums of tax relief until 2018.

The triangular formula of sustainable relation between three economies (of people, market and planet) as was put by NEF (2009) is obviously in real danger of falling into a formula of a state-subsidised 'saving of the planet' whose cost is social dumping and workers' rights. The reality of that unsustainable formula is Evergreen's labour costs in China, which are about one-ninth of that in the USA. To put it another way: in 2008, the National Labour Committee (NLC) published a report entitled "The Toyota you don't know" in which it stated that low-wage temporary workers make up one-third of Toyota's Prius assembly-line workers, mostly in the auto-parts supply chain.[8] They are signed to contracts for periods as short as four months, and are paid only 60 percent of a full-time employee's wage. It's obvious to say that the very same worker cannot afford to buy a Toyota Prius.

Which leads us to fair trade, "a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade", according to FINE, an informal association of the biggest fair trade networks. I must say that I firmly agree with the goals. But let's go back to the worker, for whom it's much too obvious that he can't afford a Toyota Prius. Now let's ask him a different question: are you capable of being a consumer of fair trade products, which are traditionally more expensive? The answer is very likely to be the same as in the case of the Toyota Prius – no. This kind of answer won't come only from this worker - it will come from a larger global pool of low-wage workers who are losing their buying power. Over the whole period from 1973 to 2006 the average real wages of a USA worker (outside agriculture) for example rose by less than 1 per cent.[9] At the same time, much of the production moved to the offshore and machine -controlled operations, which meant big losses of jobs. General Motors (GM) for example now makes most of its cars in China, where it employs 32 000 hourly workers, against only 52,000 hourly workers in the United States, down from 468 000 in 1970.

One could find more 'fair trade' consumers if one climbs further up the social and economic status ladder. Put simply, it is rare to find working class people in fair trade stores. There is something seriously wrong with that picture, because it seems that fair trade widens the gap between social classes. If you can afford fair trade goods you are probably a middle –to-upper class consumer. Companies define that kind of social stratification as market segmentation – they want to shape a "highly conscious ethical consumer" as a new market niche. And on the way there they will try to clean up their public image by emphasising their fair trade direction (although that means one extremely small department with ten fair trade products) – and by making some additional profit. In 2006, Starbucks paid US$1.42 per pound for the coffee from Ethiopian farmers. The very same coffee had a selling price of US$10.99 per pound.[10]

As important as it is, the 'brave new world' of new economy has real dangers. It recognises class division only to transform it into market division. It recognises social stratification, only to transform it into social labelling. And finally, it recognises human values, only to transform them into market components. So, it's not only the *orientation* of the economy, that we need to change, it's also the *basic framework* of economy, that we *must* change. Or will having an expensive hybrid car and drinking fair trade Ethiopian Starbucks coffee satisfy our need to change the world?

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2 Milani, B. (2000): Designing the Green Economy. Rowman and Littlefield Publishers Ltd.

3 New Economics Foundation (2009). Available at: (http://www.neweconomics.org/sites/neweconomics.org/files/Other_worlds_are_possible_0.pdf)

4 Bradsher, K. (2011): Solar Panel Maker Moves Work to China. Available at: (http://www.nytimes.com/2011/01/15/business/energy-environment/15solar.html?_r=1&pagewanted=all)

5 Waters, R. (2011): China dims prospects for Silicon Valley jobs. Available at: (http://www.ft.com/intl/cms/s/0/99e5fa62-2b1b-11e0-a65f-00144feab49a,s01=1.html#axzz1ckDPt6yC)

6 Yarett, I. (2011): The World Green Giants. Newsweek, 24th October 2011.

7 Garibaldo, F. (2011): Fiat is at war, says Sergio Marchionne. Available at: (http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_155448.pdf)

8 Available at: (http://www.globallabourrights.org/admin/reports/files/TOYOTA_JAPAN_FINAL_WEB.pdf)

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10 Quora (2011). How much profit does Starbucks make on a typical coffee? Available at: (http://www.quora.com/How-much-profit-does-Starbucks-make-on-a-typical-coffee)

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