London burning, stock markets melting… time for structural change!

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The events of the last few days stand as a reminder of how 'small' episodes, from the – always unlawful – killing of a young man in London to the – otherwise unimpressive – downgrading of the credit-worthiness of USA government bonds, can trigger huge and uncontrollable chains of events. The (anticipation of and eventual) downgrading of the USA led to a mini stock market crash that wiped out in the space of two weeks asset values equal to the annual GDP of Germany. And the shooting of Mark Duggan in London led to a British "Athens December 2008" moment that left within 72 hours hundreds of shops looted, dozens of homes burned down and, reportedly, more people dead.

But this is not a vindication of chaos theory: these events are not the "flap of a butterfly's wings in Brazil setting off a tornado in Texas", as chaos theory enthusiasts would have it. They are the outcome of structural features and deep-rooted pathologies of our economy and society: inequality, sensualisation, apathy, individualism, short-termism, and the prominence of the transactional over the substantive. In a global system where value is generated by high-frequency transactions rather than by actual – tangible or not – production, where wealth is measured by prices rather than by use-values, where – as an old man once said – circulation starts from money and ends in money rendering production and consumption a mere intermediary to the enhancement of monetary worth, in such a system, otherwise trivial events, such as the realisation (or simply acknowledgement) that USA bonds are not as safe a bet as the rotation of the Earth (which surely commands an AAA rating) but slightly, just a little bit slightly, more risky, can spread panic in stock exchange floors around the globe and push well-respected central bankers to throw billions of Euros to the secondary bonds markets to stabilise the spreads of countries like Italy and Spain which have seemingly nothing to do with the downgrading of the USA economy. And very similarly, in a society where the picture of inequality is scooped under the carpet (through socio-spatial fragmentation in schools, jobs, entertainment venues and neighbourhoods), where asset accumulation is decoupled from income (re)distribution (remember the inspired motto of Tony Blair: "we don't care about what happens at the top-end of the distribution"), and where the middle-class allows itself to believe that welfare state retrenchment can take place 'on the cheap' without its immediate consequences to the affected individuals becoming social consequences, in such a society, a simple mistake (well, let's call it that) by a couple of police officers can spark riots of blind violence that are as uncontrollable as a forest wildfire in a windy August night.

As always, public commentary on the events of the last two weeks offers a range of opinions as to what 'got us here'. From the 'spoiling welfare state' (which diluted the old working class ethos) to welfare state retrenchment (austerity policies that sought to 'economise' on resources for policing and for communal cohesion) and from fiscal profligacy by irresponsible governments (which allowed uncontrollable public debts in order to please their electorate) to speculative over-reaction by short-termist markets and self-interested rating agencies (which ignore fundamentals and attack currencies on the basis of self-fulfilling 'news'). There is of course an element of truth in all these. Markets do over-react and are indeed driven by short-term fluctuations and profit opportunities; governments have been overspending for years, operating in the comfort of an ideology that saw 'the end of boom and bust'; and while welfare state retrenchment does indeed accentuate inequalities and hurts disproportionately the poor and have-nots, over-generous safety nets and unconditional benefits (by an expansionary state in Britain, by over-jealous parents in Greece) have indeed created a culture of dependence, consumerism and weakened social consciousness. But what our hasty analysis of recent events fails to grasp is that economic crises and episodes of civil unrest are the other side of the coin of the model of economic growth and social development followed in our modern societies: the financialisation of the economy and commodification of social relations.

Dani Rodrik, one of the prominent economic gurus of our time, has been writing recently (see http://www.projectsyndicate.org/commentary/rodrik60/English) about the importance of the real economy (the actual production of things) and of gradualism in the process of structural change: radical shifts to the service economy and rapid growth without complementary changes in institutions and in the skills-base of the economy lead inevitably to inequitable growth and thus to accumulating social tensions internally and structural imbalances externally (this brings to mind Piore and Sabel's *Second Industrial Divide)*. The first, accumulating social tensions, are manifested in the emergence of the 'new poor' in our inner cities (those that have a Blackberry but no education, or a Playstation in their living room but no fruits and vegetables in their fridge) and in the global 'periphery'; while the second, external structural imbalances, take the form of huge current account deficits (e.g., in Greece), ever-rising household indebtedness (e.g., in Britain), or a disparity between domestic and national production (e.g., in Ireland). These are all signs of an unbalanced economy – and many have the footprint of societies that lack cohesion, solidarity and local social references ('local embeddedness' in the terms of social economic geography).

It is popular today to talk about structural reforms as a solution to the economic problems seen virtually everywhere in the western world – the USA included. These are invariably of the "supply-side" type, with policies ranging from the downsizing of the public sector and the commercialisation of health-care to the individualisation of employment relations and the depoliticisation of fiscal policy (implementation of binding fiscal rules). But structural reforms and supply side measures tend to treat the symptoms rather than the causes of the current problems. More flexibility and further commodification can allow our national economies to respond faster to 'unforeseen' events, in the stock markets and elsewhere, but they can do nothing to address the problems emanating from the asymmetry between real production and monetary worth and the disparity between the educated middle-classes and the lumpen-ised world of precarious employment. These problems and their natural consequences – which sometimes may take the form of violent riots by 'disenfranchised youths' and other times may take the form of the bankruptcy of a social security fund and loss of pensioners' income – require a much more radical re-think of our economic model and of our social order. They require new institutions that can govern a seemingly ungovernable economy and an evidently 'broken' society.

There are no easy solutions to this. Undoubtedly, we have a long way to go before we see the end of 'sudden' eruptions of mindless civil unrest and episodes of financial chaos. But the realisation that we are in need of deep institutional change – new forms, means and objectives for economic governance and new formal and informal institutions that can embed, distil and breed our changing social norms – is at least a first step. In this token, it seems to me that short-termist reactions "to calm the markets" and further liberalisation "to enhance flexibility" can offer very little, if anything, in this direction.