Labor Market Institutions, Education and Elites in Flexicurity Societies

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October 3, 2009

1   Introduction

In this introductory section we consider briefly some basic features, but also problems, which have to be solved in a flexicurity economy through appropriate combinations of aspects of economic flexibility and social security. In the next section, where we provide a modeling proposal for the flexicurity debate in the European Union, the budget equations and the economic behavior within these equations are presented. We then briefly provide some sustainability results for such a flexicurity model.

We consider the suggested labor market reforms as representing one central pillar for a flexicurity society, to be supplemented however by two further essential pillars: the schooling system and the role of political and economic elites, which we will investigate in detail in the remainder of the paper. The proper working of these two further pillars is in our view a necessary precondition for the success of the proposed labor market reforms. It is to be stressed however in this context that we only discuss an ideal economy and society in this paper and not at all the progress path that may lead us to such a new social structure of accumulation.

> The concept of flexicurity attempts to find a balance between flexibility for employers (and employees) and security for employees. The Commissions 1997 Green Paper on Partnership for a new organisation of work stressed the importance of both flexibility and security to competitiveness and the modernisation of work organisation. The idea also features prominently in the adaptability pillar of the EU employment guidelines, where the social partners are invited to negotiate at all appropriate levels agreements to modernise the organisation of work, including flexible working arrangements, with the aim of making undertakings productive

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and competitive and achieving the required balance between flexibility and security. This balance is also consistently referred to in the Commissions Social Policy Agenda 2000-2005 (COM (2000) 379 final, Brussels, 28 June 2000).[1]

The concept of 'flexicurity' was implemented on the political level in Denmark by the social democratic prime minister Poul Nyrup Rasmussen in the 1990's[2] and it was introduced into the academic literature by Ton Wilthagen, see Wilthagen (1998, 2004) on the Dutch origins of the flexicurity model. The role of the flexicurity approach in the performance of the Danish economy is critically investigated in Anderson and Svarer (2007); for further critical assessments of the proposals for and the discussion on a flexicurity economy the reader is moreover referred to recent contributions by Funk (2008) and Viebrock and J. Clasen (2009). We stress in this context that our following approach to flexicurity is a purely macroeconomic one that neglects the difficulties of how to implement flexicurity on the microlevel from the economic, the social and the juristic point of view.

1.1 Basic principles and problems

The flexicurity concept – primarily discussed with respect to the Nordic economies – intends to combine two labor market components which – as many economists might argue – cannot be reconciled with each other, namely workplace flexibility in a very competitive environment with income and employment (but not job) security for workers in this economy. The problem here is to find the appropriate mix between these two aspects of labor market institutions, intended to overcome both the case of flexibility without much security (free hiring and firing capitalism) as well as the case of security without much flexibility (past Eastern socialism).
Basic aspects, questions and problems of the search for such a combination of flexibility with security (where many alternative ways of solving this task are conceivable) are the following ones:

1 How much flexibility in:

   1.1 hiring and firing and job discontinuities?

   1.2 wage and price setting?

   1.3 technical change (creative destruction) and life-long learning?

   1.4 coping with the forces of globalization and financialization?

   1.5 skill differentiation and the selection of elites?

2 How much security in:

   2.1 base income payments?

   2.2 employment protection?

   2.3 location of the working places (workplace mobility)?

   2.4 the gestation of atypical employment and skill preservation?

[1] http://www.eurofound.europa.eu/areas/industrialrelations/dictionary/definitions/flexicurity.htm
[2] See http://www.eurofound.europa.eu/areas/industrialrelations/dictionary/definitions/FLEXICURITY.htm

2.5 education and equal opportunities at primary and secondary schools?

Moreover, in order to get social acceptance for such a combination of the needs of capital and the needs of labor, the following problems must also find a positive solution:

3 Basic aspects of social cohesion in a modern democratic market economy

3.1 consent-based cooperation between capital and skilled and high skilled labor,

3.2 acceptance of job differentiation and status differences,

3.3 proper citizenship education and democratic evolution,

3.4 the accepted establishment of equal opportunities as well as differentiated labor profiles and processes of elite formation,

3.5 reflected and controlled institutional evolution.

In this paper we will provide a theoretical model which reconciles the aspects 1.1/2 with the problems 2.1/2.2, while the other aspects of the enumerated points remain however excluded. Moreover we shall simply assume here that the societal issues in the last block are developed to such an extent that the proposed model is not only transparent to the citizens of the considered capitalist society, but has indeed led to basic agreement on how the economy has to be organized and the society to be developed further.

2   A 'Tableau Economique' of Flexicurity Capitalism

We now design as an alternative to the Classical Goodwin growth cycle, which describes the reserve army mechanism of an unleashed form of capitalism, a model of economic growth that rests in place of overaccumulation (in the prosperity phase) and mass unemployment (in the stagnant phase) on a second labor market which through its institutional setup guarantees full employment in its interaction with the first labor market, the employment in the industrial sector of the economy, which is modeled as highly flexible and competitive. This model of flexicurity capitalism, to a certain degree of the same type as Quesnay's ideal 'Tableau Economique', extends the approach of Flaschel et al. (2008) towards a treatment of heterogeneous skills and the skill formation processes this requires in an advanced market economy. In the basic framework we are considering an economy where the size of the workforce (and all of its components) are given magnitudes (the given natural rate of growth is equal zero). We assume that labor productivity in the industrial sector z is given and sufficiently large (to allow for positive saving rates of households working in the industrial sector), and the output-capital ratio a given magnitude.

We first reconsider the sector of firms in such an economy which is indexed by 1:

Firms

Production and Income Account:

Uses			Resources	
δK			δK	
$\omega_{1a} L_{1a}^d,$	$L_{1a}^d = Y^p/z$		$C_1 + C_2 + C_r$	
$\omega_{1b} L_{1b}^d,$	$L_{1b}^d = Y^p/z,\ \omega_{1b} = \alpha_{1b}\omega_{1a}$		G	
$\Pi \qquad (= Y^f)$			$I \qquad (= Y^f)$	
$\delta_1 R + \dot{R}$			S_1	
$Y^p + S_1$			$Y^p + S_1$	

This account is still a simple one. Firms use their capital stock (at full capacity utilization Y^p as we shall show later on) to employ the amount of high-skilled labor (in hours, indexed by a): $L_{1a}^d = Y^p/z_a$, at the real wage ω_{1a}, the law of motion of which is to be determined later on from a model of the wage-price interaction in the manufacturing sector. They in addition employ normal (skilled) labor force (in hours, indexed by b): $L_{1b}^d = Y^p/z_b$ at the wage ω_{1b}, which is a constant fraction α_{1b} of the market wage in the high-skill labor market. Both skilled and high-skilled workers are working overtime or undertime depending on the size of the capital stock in comparison to the size of skilled and high-skilled workers currently employed by firms. The rate $u_x^w = L_{1x}^d/L_{1x}^w, x = a, b$ is the utilization rate of the workforce L_{1x}^w in the primary labor markets, the industrial workers of the economy (all other employment originates from the work of households occupied in the second labor market by the government).

Besides primary labor markets (in the privately organized industrial sector) we have a second labor market for both skilled and high-skilled workers (that is organized by government agencies and indexed by 2) and indirectly also a third labor market (where the government acts as employer of first resort, indexed by 3). These third labor markets are however operated under the same remuneration and workload conditions as the second labor markets (which gives the reason why we do not consider here the government as being an employer of last resort).

Firms produce full capacity output[3] $Y^p + \delta_1 R = C_1 + C_2 + C_r + I + \delta K + G$, that is sold to three types of worker households, the industrial workers who have to pay all taxes and government transfer out of their salaries, the workers in the public sector and the retired households, to the investing firms and to the government. The demand side of the model is formulated in a way such that this full capacity output can indeed be sold. Deducting from this output Y^p of firms their real wage payments to skilled and high-skilled workers (and depreciation)[4] we get the profits of firms which are here assumed to be fully invested into capital stock growth $\dot{K} = I = \Pi$. We thus have Classical (direct) investment habits in this model with an employer of first resort.

We have assumed a fixed proportions technology with $y^p = Y^p/K$ the potential output – capital ratio and with $z = Y^p/L_{1x}^d,\ x = a, b$ the output - labor time ratios (which determine the employment L_{1x}^d of the workforce L_x^w of firms and which grows at a uniform given rate m).

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[3] augmented by company pension payments $\delta_1 R$.

[4] the term S_1 is equal to $\delta_1 R + \dot{R}$.

We next consider the skilled and high-skilled household sectors which are composed of two types of workers one working in the private sector and the remaining part in the public sector of the economy. The total number of high skilled workers is $L_a^w = \alpha_s t_a L_o$ and that of skilled workers is given by: $L_b^w = (1 - \alpha_s)t_b L_o$. We are assuming here a given population L with constant deterministic age structure $L = tL_o$, where T is the given lifetime of an individual household and where L_o denotes the number of people of a certain year of age. This number is assumed as constant for all vintages between 0 and T.[5] We moreover assume here that the work life of skilled workers is t_b years and that of high-skilled ones $t_a(< t_b)$ years. We finally have assumed here that there is a given ratio α_s of students[6] having just finished their (comprehensive and all day) schooling years who are (by exit or entry exams) qualified to enter the phase of higher education (leading to high-skilled degrees at 'universities' and other tertiary education institutions). Given the constant vintage structure within the stationary population we thus have a workforce $L_b^w = (1 - \alpha_s)t_b L_o$ of skilled workers in the economy (who start their working life directly after (primary and secondary) schooling, while $L_a^w = \alpha_s t_a L_o$ is the number of high-skilled workers of the considered model economy. Year-in year-out the economy has therefore a given amount of school students L_s, university students L_u, high-skilled workers L_a^w, skilled workers L_b^w and retired workers L_r (contributing work according to their willingness and capability) for which it must organize education and work in the primary and the secondary labor markets (including the government activities as an employer of first resort).

Households I: high-skilled (a) and skilled (b) workers in primary labor markets

Income Account (Households A,B):

Uses	Resources
$C_1 = c_1(1 - \tau_1)(\omega_{1a}L_{1a}^d + \omega_{1b}L_{1b}^d)$	
$T = \tau_1(\omega_{1a}L_{1a}^d + \omega_{1b}L_{1b}^d)$	
$\omega_{2a}L_{3a}^w,\ L_{3a}^w = L_a^w - (L_{1a}^w + L_{2a}^w)$	
$\omega_{2b}L_{3b}^w,\ L_{3b}^w = L_b^w - (L_{1b}^w + L_{2b}^w)$	
$\omega_{2b}L_r,\ L_r = t_r L_o$	
S_1	$\omega_{1a}L_{1a}^d + \omega_{1b}L_{1b}^d$
$Y_1^w = \omega_{1a}L_{1a}^d + \omega_{1b}L_{1b}^d$	Y_1^w

Households II: Secondary high-skilled (a) and skilled (b) workers

Income Account (Households A,B):

Uses	Resources
C_{2a}	$\omega_{2a}(L_{2a}^w + L_{3a}^w) = Y_{2a}^w,\ \omega_{2a} = \alpha_{2a}\omega_{1a}$
C_{2b}	$\omega_{2b}(L_{2b}^w + L_{3b}^w) = Y_{2b}^w,\ \omega_{2b} = \alpha_{2b}\omega_{1b}$
$Y_2^w = Y_{2a}^w + Y_{2b}^w$	$Y_2^w = Y_{2a}^w + Y_{2b}^w$

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[5]Note here that we also assume here that all persons after schooling and before retirement are working in this economy, both women and men (with child-raising obligations here left in the background of the model.)

[6]the determination of which will be discussed later on.

Both households of type I are taxed at the same tax rate τ_1 and consume with the same marginal propensity to consume c_1 goods of amount C_1. They pay (all) income taxes T and they pay in addition – via further transfers – all workers' income in the labor markets that is not coming from firms and from government tax revenues (which is equivalent to an unemployment insurance and therefore indexed with an index 3.) Moreover, they pay the pensions of the retired households ($\omega_{2b} L_r$) and accumulate their remaining income S_1 in the form of company pensions into a fund R that is administrated by firms (with inflow S_1, see the sector of households and with outflow $\delta_1 R$). Wage rates are determined by wage-negotiations of high-skilled workers in the industrial sector, while all other real wages are constant fractions of these negotiated wages and are uniform for all skilled workers in the government sector and for retired persons (who however receive extra company pension payments according to their accumulated contributions to the work, their occupation time in the primary sector).

The transfers $\omega_{2a}(L_a^w - (L_{1a}^w + L_{2a}^w))$ and $\omega_{2b}(L_b^w - (L_{1b}^w + L_{2b}^w))$ can be considered as solidarity payments, since workers from the primary labor markets who lose their job will automatically be employed in the second labor market where full employment is guaranteed by the government (as employer of first resort). We consider this employment as skill preserving, since it can be viewed as ordinary office or handicraft work (subject only to learning by doing when such workers return to the first labor market).

The secondary sector of households is here modeled in the simplest way that is available: Households employed in the secondary labor markets, i.e, $L_{2a}^w + L_{3a}^w, L_{2b}^w + L_{3b}^w$ pay no taxes and totally consume their income. We have thus Classical saving habits in this household sector, while households of type I may have positive or negative savings S_1 as residual from their income and expenditures. We assume as law of motion for pension funds R:

$$\dot{R} = S_1 - \delta_1 R$$

where δ_1 is the rate by which these funds are depreciated through company pension payments to the 'officially retired' workers L_r assumed to be a constant fraction of the 'active' workforce L^w. These worker households are added here as not really inactive, but offer work according to their still existing capabilities and willingness that can be considered as an addition to the supply of work already organized by the government $L_{2a}^w + L_{3a}^w + L_{2b}^w + L_{3b}^w$, i.e., the working potential of the officially retired persons remains an active and valuable contribution to the working hours that are supplied by the members of the society. It is obvious that the proper allocation of the work hours under the control of the government needs thorough reflection from the microeconomic and the social point of view, which however cannot be a topic in a paper on the macroeconomics of such an economy.

The income account of the retired households, shown below, shows that they receive pension payments as if they would work in the secondary skilled segment of the economy and they get in addition individual transfer income (company pensions) from the accumulated funds R in proportion to the time (and type as which) they have been active in the first labor market as portion of $\delta_1 R$ by which the pension funds R are reduced in each period.

Income Account (Retired Households):

Uses	Resources
C_r	$\omega_{2b}L_r + \delta_1 R, \ L_r = t_r L_o$
Y^r	Y^r

There is finally the government sector which is also formulated in a very simple way:

The Government

Income Account: Fiscal Authority / Employer of First Resort

Uses	Resources
$G = \alpha_g T$	$T = \tau_1(\omega_{1a}L_{1a}^d + \omega_{1b}L_{1b}^d)$
$\omega_{2a}L_{2a}^w = \alpha_a T$	
$\omega_{2b}L_{2b}^w = ((1-\alpha_g) - \alpha_a)T$	
$\omega_{2a}L_{3a}^w, \ L_{3a}^w = L_a^w - (L_{1a}^w + L_{2a}^w)$	$\omega_{2a}L_{3a}^w$
$\omega_{2b}L_{3b}^w, \ L_{3b}^w = L_b^w - (L_{1b}^w + L_{2b}^w)$	$\omega_{2a}L_{3a}^w$
$\omega_{2b}L_r^w$	$\omega_{2b}L_r^w$
Y^g	Y^g

The government receives income taxes, the solidarity payments (employment benefits) for the secondary labor markets paid by workers in the primary labor markets and old-age pension payments. It uses the taxes to finance government goods demand G and the surplus of taxes over these government expenditure to actively employ both skilled and high-skilled workers in the government sector. In addition it employs the workers receiving 'unemployment benefits' and it in fact also employs the 'retired' persons to the extent they can still contribute to the various employment activities. We therefore have that the total labor force in the secondary labor markets is employed through the government which is organized by government in the way it does this in the administration of the state in all modern market economies.

We assume that real wages in the public sector are limited by the following conditions

$$\omega_{2a} \geq \bar{\omega}_{2a}, \quad \omega_{2b} \geq \bar{\omega}_{2b},$$

where $\bar{\omega}_{2a}, \bar{\omega}_{2b}$ are the levels of real wages where the expressions L_{3a}^w, L_{3b}^w are zero, i.e., where the planned employment in the private and the public sector are just sufficient to clear the labor market. This condition therefore provides lower bound for public real wages which prevent that there are supply constraints from the side of the labor market in this model of flexicurity capitalism.

In sum we get that workers are employed either in the primary labor market and if not there then by the government sector concerning public administration, infrastructure services, educational services or other public services (in addition there is potential labor supply L_r from the retired households, which due to the long-life expectancy in modern societies can remain effective suppliers of specific work over a considerable span of time). In this way the whole workforce is always fully employed in this model of social growth (and the retired persons according to their capabilities and willingness) and thus does not suffer from human degradation in particular. Of course, there are a variety

of issues concerning state organized work that point to problems in the organization of such work, but all such problems also exist in all actual industrialized market economies in one way or another.

Assuming a real wage Phillips curve as law of motion for the real wage of high-skilled workers and a dynamic form of Okun's law for the evolution of the high skilled employment to capital ratio, one can show the following propositions, see Flaschel (2009, ch.10) for details:

Proposition 1

> *The balanced growth path of the model is a global attractor for the dynamics of real wages and the workforce to capital ratio of firms.*

Proposition 2

> *The steady state of the law of motion for the company pension funds per unit of capital ratio is positive and a global attractor for the evolution of this ratio.*

The 'Tableau Economique' which we have constructed in this section is therefore a viable one from the economic point of view, though there are foundations of such a society which are not covered by these economic principles yet. Such further fundamentals of a flexicurity society will be considered in subsequent sections of the paper.

3 Education and Schooling

3.1 Educational Systems: Basic Structures and Implications

In this section we extend the flexicurity model towards the integration of an educational sector that is adequately structured concerning the objectives of such a society. We assume as in the section 2 that there are only two types of workers, skilled ones (b) and high-skilled ones (a) and assume again a stationary population $L = tL_o$ in an environment exhibiting exogenous Harrod-neutral technical change. The natural rate of growth of the section 3 is thus set equal to 0 for reasons of simplicity.

The expression L_o represents the stationary number of people of age $\tau, \tau = 1, \cdots, t$, with t denoting the given lifespan of each individual agent of the economy. There are $L_r = t_r L_o$ retired people in each given year, $L_s = t_s L_o$ students on the primary and secondary education level, $L_u = \alpha_g t_u L_o$ students on the tertiary education level, $L_b = t_b L_o$ skilled workers and $L_a = t_a L_o$ high-skilled workers (and $L_c = t_c L_o$ children in the background of the model).

The t_x-coefficients express the number of years an agent will be part of this population group.[7] Finally, it is assumed that the current system allows a fraction α_s of $t_s L_o$ to go to University to become high skilled workers, while the remainder enters the workforce as a member of L_b^w after having finished school with a final certificate. To keep the model simple, we abstain from vocational schools, apprenticeships or dual systems.

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[7]with respect to concrete numbers one therefore could for example assume $t_c = 6, t_s = 12, t_u = 5, t_b = 47, t_a = 42, t_r = 15$.
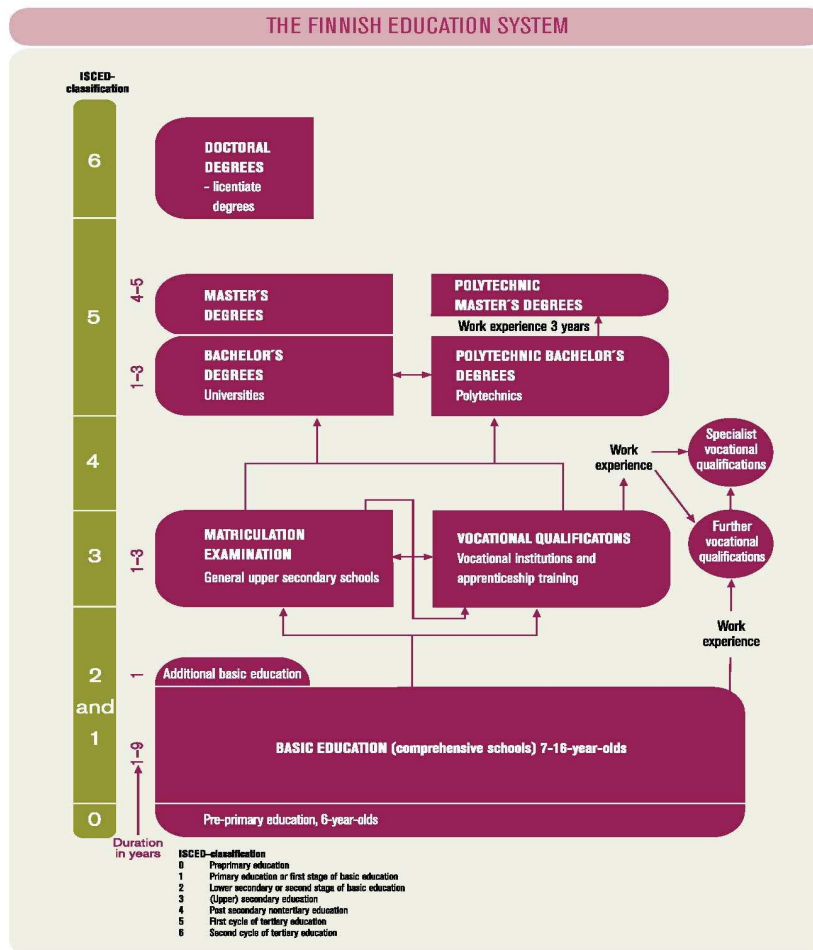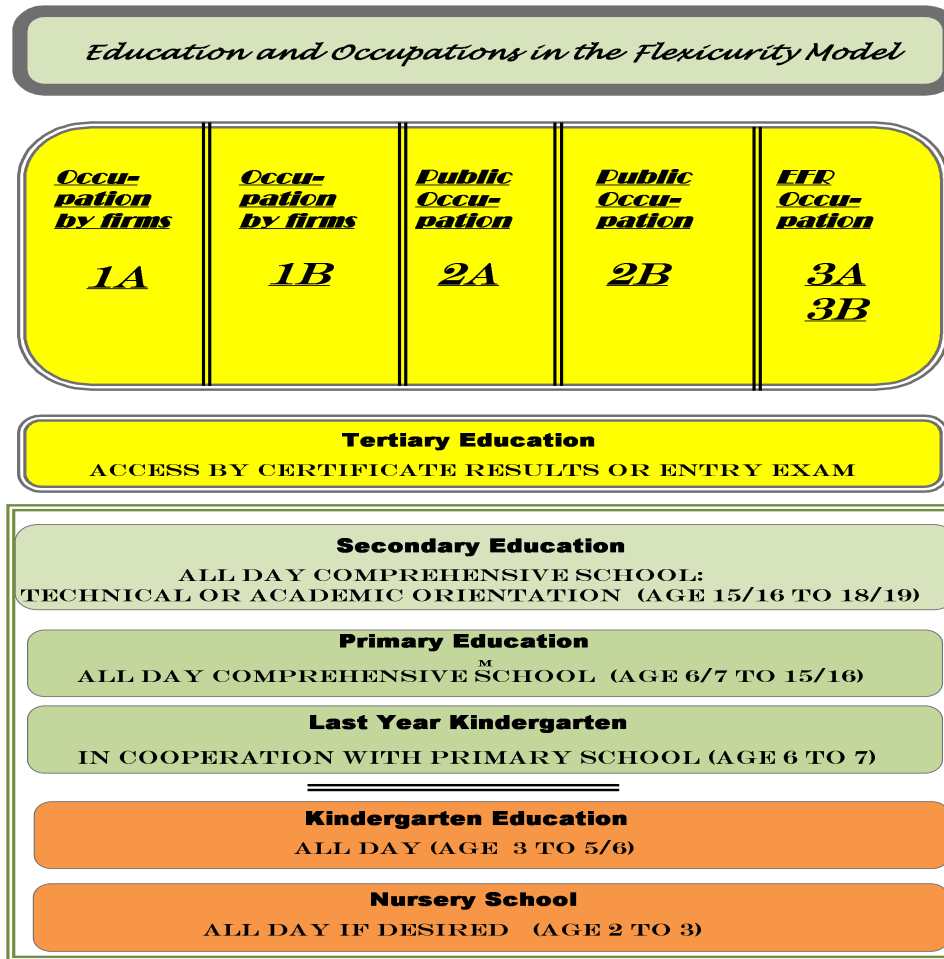
Figure 1: The Education System of Finland[8]

Before we come to a graphical representation and analysis of such a stylized educational system, we provide with figure 1 a brief representation of an existing example: the Finnish educational structure as it is provided by the National Board of Education in Finland. Distinguishing marks of this school systems are:

1 A comprehensive compulsory - school for all students with no differentiation between good learners and those with learning difficulties,

2 two ways to finish secondary school which both can lead to a higher qualification (to enter universities or polytechnics),

3 further details which are not to be seen in this figure such as the renouncement of grading until the last two years of basic education.

For our purposes we however use the somewhat simpler structure of an educational system underlying the considered type of flexicurity capitalism, which however has to be augmented now in view of the three labor markets that can exist under flexicurity for both workers of type a and b. With respect to our model of flexicurity capitalism we thus stylize figure 1 even further and obtain the structure shown in figure 2.

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[8]Source: http://www.edu.fi/english/SubPage.asp?path=500,4699.

Note with respect to this table that workers of type b can only be in one of two situations as far as their salary group is concerned, since employment of first resort is remunerated at the same level as workers of type b actively employed in the government sector. For workers of type a this however implies that they can be in one of three states concerning their salaries, since they are paid higher wages when actively employed in the public sector. Note that we will consider only a steady state situation in the following and thus investigate the implications of balanced reproduction in this type of capitalism (shown to be an attractor of situations of unbalanced growth in an earlier section).

Education and Occupations in the Flexicurity Model

| Occu-pation by firms 1A | Occu-pation by firms 1B | Public Occu-pation 2A | Public Occu-pation 2B | EFR Occu-pation 3A 3B |

Tertiary Education
ACCESS BY CERTIFICATE RESULTS OR ENTRY EXAM

Secondary Education
ALL DAY COMPREHENSIVE SCHOOL:
TECHNICAL OR ACADEMIC ORIENTATION (AGE 15/16 TO 18/19)

Primary Education
ALL DAY COMPREHENSIVE SCHOOL (AGE 6/7 TO 15/16)

Last Year Kindergarten
IN COOPERATION WITH PRIMARY SCHOOL (AGE 6 TO 7)

Kindergarten Education
ALL DAY (AGE 3 TO 5/6)

Nursery School
ALL DAY IF DESIRED (AGE 2 TO 3)

Figure 2: The Education System in Flexicurity Economies: Stylized Representation

With respect to the above stationary subdivision of the population of the economy let us consider now the situation where this workforce reproduction scheme allows for the case where there is no employment of first resort needed for the workforce of type a. If $\alpha_s L_o$ is the number of students that go from primary and secondary education to tertiary education after finishing school we get for the parameter α_s in the considered situation on the one hand the definitional relationship:

$$L_a^w = \alpha_s t_a L_o, \quad L_b^w = (1 - \alpha_s) t_b L_o$$

On the other hand we have as active employment rules for workers of type a:

$$L_{1a}^w = Y^p/z, \quad L_{2a}^w = \alpha_h T/\omega_{2a} = \alpha_h \tau_h \left(\frac{\omega_{1a}}{\omega_{2a}} L_{1a}^w + \frac{\omega_{1b}}{\omega_{2a}} L_{1b}^w\right)$$

The equilibrium condition $L_a^w = L_{1a}^w + L_{2a}^w$ then implies

$$\alpha_s t_a L_o = Y^p/z \left(1 + \alpha_h \tau_h \left(\frac{\omega_{1a}}{\omega_{2a}} + \frac{\omega_{1b}}{\omega_{2a}}\right)\right)$$

which in turn gives:[9]

$$\boxed{\alpha_s = \left(1 + \alpha_h \tau_h \left(\frac{\omega_{1a}}{\omega_{2a}} + \frac{\omega_{1b}}{\omega_{2a}}\right)\right)\frac{L_{1a}^d}{t_a L_o}}$$

This ratio must be applied for the access to Universities if the reproduction of high skilled workers is such that no first resort employment is necessary for them. A numerical example may help to understand this condition in more detail. Since workers employed in the industrial sector pay all taxes we may assume the following crude estimates for the expressions that determine the equilibrium α_s :

$$\alpha_h = 1/3, \tau_h = 0.5, \frac{\omega_{1a}}{\omega_{2a}} = 4, \frac{\omega_{1b}}{\omega_{2a}} = 2, \quad \frac{L_{1a}^d}{t_a L_o} = 0.5$$

This gives for α_s the value $\alpha_s = 0.5$, a value that coincides with what is suggested by studies of the OECD. The above formula for the university access ratio α_s clearly shows the possibilities by which this ratio- may be increased (if desirable).

Even though we divide the working population into two groups - skilled and high skilled workers - it should be taken into consideration that skilled workers have finished their schooltime on the same level as high skilled ones, only with lesser results in their final examinations which are equal to 'Abitur' in Germany, 'Baccalaureate' in France or 'A-Levels' in Great Britain. Thus it is guaranteed that the workforce as a whole is well educated and trained far above basic skills. To gain such high qualifications might be regarded as an exaggerated aim, but examples, especially from the Scandinavian countries, show that a strict concept of 'demand and support' will be able to get such results in the school population.

3.2   Education, Equal Opportunities and Life-Long Learning

In this section, we will first discuss the conditions of a suitable educational system (preschool and school, yet with an emphasis on school education). To gain the described results demands a strict support of the rules of 'equal opportunities' in order to eliminate all hindrances for children to participate in an education that fits their abilities and allows them to meet the requirements of the schools. Furthermore we will discuss the competitive way in which students in their final exams gain University access or not. This concludes the relationship of equal opportunities and competition in a more general aspect.

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[9]The ratio $\frac{L_{1a}^d}{t_a L_o}$ compares employment in the first sector (of high skilled workers) with the common core employment of all workers.

Secondly, we will deal with the demand of life long learning assuming that part of all the peoples' leisure time is used for keeping their skills up to date as well as accepting skills enhancements offered by their employers. A generally accepted necessity of lifelong learning will allow for a continuous high skill level in all sectors where skilled or high skilled workers are doing their job, but it holds true in a similar way for all pensioners who still feel fit to take an active part in the workforce.

We will finally deepen our reflections on education by discussing the role of equal opportunities in its close relationship to Human Rights which are strongly related to democracy. This leads to the discussion of democracy and citizenship education as well as Human Rights education. It should be clarified that we can here only outline these questions which will be discussed in more detail in future work.

The school system

To become - and be - a member of the workforce demands great engagement even if employment is guaranteed, although the industrial sector is free to hire and fire, since the employer of first resort will take over the fired workers, both skilled and high skilled persons. All workers owe their education and welfare expenses to the tax payers, the industrial workers in this model type. Thus, the system is extremely supportive by giving work to all, but it is also highly demanding by expecting full commitment by everyone due to the fact that it depends on the mutual giving and taking in this society. This demands a high consensus within the society with regard to the necessity of work and the working conditions. It is the task of education to provide students in (pre)schools not only with the necessary skills to become adequate workers in their later professions and jobs but also to help them to understand this system and to integrate themselves into it. This kind of integration is not to be misunderstood as a simple adaption but it concludes - as does socialization - the development of an independent, mature and responsible personality which is part of the aim of education as described in this paper. A positive view on work is a necessity in a society where all persons are assumed to find work, but are also obliged to engage in their work, even after their retirement. A contradicting attitude towards work in the public and media discourse where consumption and leisure time are often more favored than work, is not compatible with the demands of our model. Based on these underlying assumptions, skills are here understood in a broad sense which transcends intellectual or technical competencies, but include work attitudes, teamwork etc.

As we have made clear above, all students will be led to leave school on the level of 'Abitur'. This demands a good education from the very beginning. Therefore, in our society 'school' starts in an early stage, also due to the fact that the mother will normally return to work two years after the birth of the child. Our educational system - named school system for reasons of simplicity - begins for children at the age of 2 though nursery schools may be available for younger kids if parents prefer so. All forms of schooling are thought to be all-day institutions though families may have a choice of lesser schooling until the child is 3 years old. In nursery schools children are cared for by trained personnel. Even if there is no formal training, they already learn first - mainly social - skills which include first behavior rules in a community such as how to share toys, how to behave during meals in an age-adequate way etc.

Further skills that are learnt in this age are linguistic and communicative ones. This happens in families, too, but in an educational setting as in a nursery school more

support will be given by guiding the children. As in kindergarten, children also learn at the age of 2 to use materials and thus train their fine motor skills. They are also trained to use their bodies and exercise their movements. This demands caretakers with a good training on a University level. This holds as well true for the following kindergarten period which should last for three years. Skills which are already trained in a first approach in the nursery schools will now be deepened in a more and more systematic way though, of course, the stages of development of a child have to be kept in mind as well as the necessity of formal and especially informal play. When the last kindergarten year is either transferred to primary schools or organized together with them, it is possible to allow for a gradual transition into school.

Following the Scandinavian role Model of schooling, all children will be together in a general school at least until grade 8 or 9 when they are about 15 or 16 years old (cf., e.g. Ministry of Education and Science of Sweden, 2004). Any earlier division into different school types would lead to a selection before all main abilities will be developed so that young people would be bereaved of the chance to evolve into the skilled person that they are. A longer time of learning together will furthermore help them to develop social skills. Finally, a selection before or just when they have reached puberty would probably intensify the general problems to that time. When students have to opt for different types of secondary or high school thereafter they can be aware that all types will lead them to a matriculation certificate though with different focuses (either more academic or more technical) and a different length of schooling (between 2 and 4 years depending on the preferences of a student) so that they are able to plan their secondary school time with the help of their teachers, following their individual abilities, and interests.

This school system needs to bring to light all abilities and interests a child may have, since otherwise the ambitious aim of a final certificate for all cannot be reached. This means that the school education works in a way such that educational support for the differently talented students obeys the principle of equal opportunities. We have a double task resulting from the principles of equal opportunities where each child will be given the optimal support. The one task is to eliminate social or structural hindrances such as family income, level of education of the parents, social stratum, migration background etc. In our system, these forms of disadvantages should become less important when all - or at least most - parents will be skilled or high skilled persons with an adequate income. Yet, disadvantages - which are often connected with discrimination - may remain due, e.g., to the social, regional or political background of a family. Here, it is an important task of all forms of schooling to overcome these disadvantages by giving the necessary support.

While this is also a task to be fulfilled by the state and the society, it is the domain of schools and education to find the special abilities of a child and support them as the second task. Education has to improve its didactic and methods, so that each child can be supported in its special competencies, and furthermore that each child can be supported individually so that he/she will be able to pass a successful school career. This strong focus on individual support in relationship with the common aim of reaching the final certificate demands not only a well equipped school with regard to teaching personnel, further personnel such as social workers, psychologists, librarians, medical helpers and close relationships with professionals from outside such as sport trainers, artists etc., but it also demands a well equipped school with attractive rooms and interior. Special support will be given for students with disabilities within integrative

classes (cf. Report 2006). Equal opportunities are thus an aim in the school system but also the way in which the ambitious aim of a final certificate for all can be reached.

It has to be asked how the competitive end of school, when only those with the best results will be allowed to go to University, fits into this approach, even if this could be about 50 percent. This is surely a more general question of whether equal opportunities are compatible and if so, in which way, with competition. Competition is part of school life and in most cases it is a planned part of education, e.g. in those sports where naturally a winner will be declared at the end, such as sprinting or high jumping, where students are not equally quick. In schools where individual abilities are detected and supported, competition in this sense will do no harm since students learn that they have different abilities which makes them winners in different disciplines, yet education has to make sure that there are no obvious losers.

This attitude is supported when students are not ranked within their class but measured by their individual progress. Then there will be a winner after the 100m sprinting, but each child will learn about his or her individual successes or be supported to further improve itself, since all children will take part in sports even if their main abilities are, e.g., in music. The competition at the end of the school time is of a different character, since it is a competition due to the fact that there are not enough University places and subsequent job opportunities for all - following the idea that the society needs only a certain amount of high skilled persons with University degrees.

Tertiary education, lifelong learning and equal opportunities

This is not the place to discuss the question whether a society and workforce can be imagined where all persons may go to University mainly to complete their personal education, though the division into skilled and high skilled positions will not be abandoned. The graded high school where students attend different types of either mainly academic or mainly technical education will already lead to a kind of preliminary decision between those who want to go to University and those who will enter only the skilled workforce after receiving their certificate. It will certainly be a task of school education to prepare students to such situations of competition and the possibility of not gaining the wanted position. This has to be compensated by developing individual abilities and skills some of which may be more valid for leisure time, e.g. playing an instrument without reaching the top level for orchestra music.

The selection for University will be based on school results in the final certificate, though entry exams are also an option. According to recent results by OECD, there exist realistic expectations of about 50% of students going to University (cf. OECD 2007). About half of the students with the final certificate can thus be supposed to become high skilled workers in our model. This is not the place to go into the details of University education and the distribution of students to different studies, but concluding this discussion of the school system we want to stress the necessity of an education that allows for individual development and support under the principles of equal opportunities.

Students who finish school with the final certificate and enter the workforce as well as those who do so after having finished University are already well trained in organizing their learning processes, since one of the principles of teaching will be to teach students how to adopt learning competencies, i.e, how to learn to organize a learning program, how to work together with others and to learn how to find out about special skills as well as about weak points. The aim is to lead students to an independent learning style

that fits best for the individual learner. Learning portfolios may be a recommendable way to keep records of this learning process. It can be assumed that young adults will be able to continue with this procedure as well as to continue documenting it.

The European Union had already declared the year 1996 as the European year of lifelong learning and passed a resolution on 'Lifelong Learning' in 2002 (Council 2002). It is here stressed that learning starts in the pre-school age and lasts until post-retirement. Furthermore, it is relevant here that the resolution refers not only to all kinds of learning, including the entire spectrum of formal, non-formal and informal learning, and that the aim of learning is not restricted to skills and competencies with regard to later employment. Instead it is regarded as important within a personal, civic or social perspective as well. While school education and thus learning in schools follows a common curriculum where the highest possible grade of individualization and interest-dependence is guaranteed though a general curriculum remains to be followed, lifelong learning after school and University is far more guided by individual interests and the needs of a person, though there will also be on-the-job training in most professions, since skills and knowledge have to be updated on a regular basis.

The idea of lifelong learning adds to the concept of equal opportunities, since the personal access to knowledge and competencies is increased by the possibilities of learning independently of age or position. Therefore it is necessary that the educational system offers a variety of learning procedures after school and University, such as adult education centers but also the possibility of access to arts, museums, nature and its learning opportunities. Mobility will add to lifelong learning of languages and cultures, but also of professional skills. Lifelong learning includes all forms of social learning and is also highly important for political learning.

Political learning plays an important role in education, especially in a model where the state has a major role as employer and provider of social services. Political learning, which is often referred to as citizenship education, is of high relevance in a system that depends on the individual skills and knowledge of its workforce but at the same time demands a high amount of social commitment and acceptance of different work places though no unemployment. Furthermore, the principles of equal opportunities on which we have commented above, are integrated in political concepts such as Human Rights so that the necessity of political learning is again underlined. Political learning will be part of school education as well as of lifelong learning. Human Rights education provides all necessary contents and skills to cope with in a democratic society, especially since Human Rights and democracy are inseparably interconnected. Thus, democracy as the underlying state model as well as equal opportunities as the adequate principle for social justice can be deduced from Human Rights. Democracy education, citizenship education and human rights education are well-established and partly overlapping forms of education which provide not only an introduction into the necessary knowledge of political structures, but prepare furthermore for different kinds of participation in democratic procedures. Additionally they intend to increase media competence to allow students as well as adult learners to understand actual political decision making processes.

4 Schumpeterian Processes of 'Creative Destruction'

We have considered in Flaschel (2009, ch.10) in detail the macroeconomic (effective demand) problems a flexicurity economy might face and now come to a brief discussion of the microeconomic problems it has been constructed for as a solution, namely the socially acceptable handling of exit and entry problems with respect to the real capital stock as well as labor supply.

The most remarkable feature of existing capitalism is definitely its property to revolutionize the technological foundations and the product frame of such market economies. The first in depth treatment of this fundamental tendency was given in Marx's (1954) Capital, Vol. I based on what he called the law of value. Schumpeter knew Marx's work very well, but developed his own vision of the microdynamics of capitalism which in place of some questionable monotonic tendencies asserted by Marx, with the exception of the secular law of increasing labor productivity, led him to the consideration of long waves in his work on business cycles (see Schumpeter, 1939). Marx, of course, had not lived long enough to become aware of long phased cyclical changes in the economic and social structure of capitalist economies, but was nevertheless able, on the basis of his value theory, to discuss the secular tendencies of the concentration and centralization of capital and this even on a globalized scale.

Schumpeter's (1912) 'Theory of Economic Development' started from a quite different theoretical apparatus as compared to the classical theory of labor values and production prices, namely from the Walrasian concept of a perfectly competitive market economy which for him described the circular flow of economic life in given circumstances. To this he then added economic development and credit and most fundamentally the dynamic character of the entrepreneur who is initiating spontaneous and discontinuous changes which forever alter and displace the previously existing equilibrium state.

> These spontaneous and discontinuous changes in the channel of the circular flow and these disturbances in the center of equilibrium appear in the sphere of industrial and commercial life, not in the sphere of the wants of the consumer of final products (Schumpeter, 1912, p.65).

Concerning today's Walrasian theory of general equilibrium where production is but an appendix to consumption theory, this is a totally different perspective and this may also give one reason why Schumpeter (1942) later on used the theory of monopolistic competition as the starting point of his analysis of the dynamics of capitalism. Defining development as driven by the spontaneous action of the dynamic entrepreneur Schumpeter (1912, p.66) then classifies the possibilities for such actions as follows:

> Development in our sense is then defined by the carrying out of new combinations. This concept covers the following five cases: (1) The introduction of a new good that is one with which consumers are not yet familiar or of a new quality of a good. (2) The introduction of a new method of production, that is one not yet tested by experience in the branch of manufacture concerned, which need by no means be founded upon a discovery scientifically new, and can also exist in a new way of handling a commodity commercially. (3) The

opening of a new market, that is a market into which the particular branch of manufacture of the country in question has not previously entered, whether or not this market has existed before. (4) The conquest of a new source of supply of raw materials or half-manufactured goods, again irrespective of whether this source already exists or whether it has first to be created. (5) The carrying out of the new organization of any industry, like the creation of a monopoly position (for example through trustification) or the breaking up of a monopoly position.

To realize these various activities the role of credit is essential, since it allows to start such projects with a degree of innovation, often created by new ideas of new entrants in certain markets. Credit helps to redirect labor and capital from old combinations to definitely new ones through process or product innovation and more, see the above list given by Schumpeter. It is therefore not just the use of idle resources of the economy, but the redirection of the employed resources towards new projects and the extra profits they can generate in comparison to their competitors. A typical example here is the railroadization discussed at length in Schumpeter (1939).

The innovative character of the Schumpeterian entrepreneurs thus alters the way the economy has been functioning so far and this the more rapidly the larger the scale on which such entrepreneurs enter the scene. Of course there are subsequent processes of the diffusion of the newly created technology or products which in the course of time reduce extra profits and these new projects have become a routinized economic activity. Yet processes of innovation and diffusion may cluster in historical time and may thus lead to the long phased evolution of social structures of accumulation as they are described historically in Schumpeter (1939) as three Kondratieff waves (superimposed by shorter cycles in addition).

It is not our intention here to go into the details of Schumpeter's analysis of the forces that drive the evolution of capitalist economies. We refer the reader instead to the paper by Swedberg (1991) on Schumpeter's work and biography and to a voluminous edition on Schumpeter and Neo-Schumpeterian Economics edited by Hanusch and Pyka (2007). Our interest instead is to go on from Schumpeter's analysis of capitalism to his analysis of competitive socialism and the implications it may have for the model of flexicurity capitalism that is the subject of this paper.

Questioning the sustainability of (at his time) existing Eastern state socialism from the viewpoint of immaturity, Schumpeter (1942) developed a concept of socialism for Western countries in the state of maturity characterized as a type of competitive socialism built on foundations erected unconsciously through the big enterprizes created by the Rockefellers, the Vanderbilts and other famous dynasties in the Western industrialized countries. Schumpeter discusses the question of whether this type of socialism can work, how the corresponding socialist blueprints should look like and to what extent they are superior to the capitalist mark II blueprints (of the mega-corporations) that Schumpeter conceived as having made obsolescent the entrepreneurial functioning of his view of capitalism mark I, the dynamic entrepreneur and the process of creative destruction which is conducted by this leading form of an economic agent.

Monopolistic practices, vanishing investment opportunities and growing hostility in the social structure of capitalism where part of the reasons that in Schumpeter's view characterized the decomposition of capitalism as he investigated it in 1942. Against this

scenery he described the superiority of the socialist blueprint of Western competitive type, the transition to this form of social structure of accumulation and the comparative efficiency of such economies. In a separate chapter he discusses the human element in this type of economy, the problem of work organization and the integration of bourgeois forms of management under capitalism into this type of socialism including the incentive problems concerning the behavior of these economic agents.

A typical statement with respect to the latter situation is:

> It is not difficult however to insert the stock of bourgeois extraction into its proper place within that machine and to reshape its habits of work. $\cdots$ Rational treatments of the ex-bourgeois elements with a view to securing a maximum performance from them will then not require anything that is not just as necessary in the case of managerial personnel of any other extraction Schumpeter (1942, p.65).

It may appear from today's perspective that his focused and provocative discussion of these points in section III of the chapter 'The Human Element' can be questioned to a certain degree. However, the managerial element in existing Western capitalism has become more and more the focus of public debate ranging from the salaries to the ethics the (top) managerial personal should receive and adopt, respectively. Actual discussions on the behavior of industrial management therefore are already preparing the ground for a situation where these persons may be attributed an appropriate level of exclusiveness, that may completely suffice to motivate their efforts to a sufficient degree with a problem-adequate perspective. We do not however claim here that such short characterizations suffice as considerations of the issue. On the contrary, detailed microeconomic and other investigations are absolutely necessary here to deal with such issues, yet, these issues have to be dealt with in actual capitalist management problems anyway. The important point in Schumpeter's arguments is that Western capitalism may transform itself automatically into some kind of competitive socialism on the basis of Western management principles. Such a statement can also be applied to the the evolution of the Nordic European countries which may be en-route on a progress path towards a kind of social structure of accumulation we have modelled as flexicurity capitalism in this paper.

With respect to the workforce of firms – in capitalism as well as in his type of socialism Schumpeter (1942, p. 213) states:

> Second, closely allied to the necessity of incessant training of the normal is the necessity of dealing with the subnormal performer. This term does not refer to isolated pathological cases, but to a broad fringe of perhaps 25 % of the population. So far as subnormal performance is due to moral or volitional defects, it is perfectly unrealistic to expect that it will vanish with capitalism. The great problem and the great enemy of humanity, the subnormal, will be as much with us as he is now. He can hardly be dealt with by *unaided* group discipline alone - although of course the machinery of authoritarian discipline can be so constructed as to work, partly at least, through the group of which the subnormal is an element.

In view of our discussion of the working of Marx's general law of accumulation under today's conditions in Western type economies we would however point here to the fact

that capitalism itself is in part responsible for the existence of the subnormal element as characterized in the above quote from Schumpeter's work. Mass unemployment, and its consequences for family life much beyond the current status on the labor market, alienation from human types of work organization, degradation of part of the workforce as the unskilled element in an otherwise flourishing economy, the rise and the fall of the welfare state and the latter's consequences for basic income needs, sufficient health care, sufficient care for the children and the elderly and adequate schooling systems are just some of the reasons why the 'subnormal' element in the population is a persistent fact of life. In this respect, we would claim that the social acceptance of a system of flexicurity and its educational substructure – as we have sketched it in this paper – would be one way to eliminate the 'subnormal' segment from the population gradually, but maybe not totally.

We therefore assert here that a system of flexicurity capitalism – based on the principles we have modelled in this paper – would progressively tend towards social acceptance and social learning processes that put it on a progress path towards viable economic reproduction, sufficient income and care for everybody and – if security is well developed to cope with flexibility of a Schumpeterian kind (creative destruction) – that leads it into a situation where it can easily compete with societies that are subject to the Marxian reserve army mechanism and the ruthless capitalism that derives from it.

The central message of Schumpeter's (1942) work on 'Capitalism, Socialism and Democracy' – that socialism is created out of Western capitalist economies, and not on the basis of (the now past) Eastern type of socialism – thus can be carried over to the current debate on the possibility of flexicurity capitalism. Also this form of socio-economic reproduction may be organized through large production units and their efficient – though bureaucratic – management, a form of management that is developed out of the principles used under capitalism in the efficient conduct of large (internationally oriented) enterprizes. Equally well, as we currently experience this in the service sector (both for industrial production as well as for private consumption), there may be sufficient room for the dynamic entrepreneur of Schumpeterian type, in particular through the flexible entry and exit conditions the flexicurity variant of capitalism may allow for.

It is certainly true that contemporaneous capitalism (often of the ruthless type, but in certain countries also of a socially acceptable kind) is not likely to be forced into a defensive position, at least from its performance on the goods and on the labor markets (though the current operation of financial markets may produce extremely undesirable results). Yet, the consciousness that ruthless, unrestricted capitalism is producing significant negative external social and environmental effects is increasing throughout the world economy and this gives the hope that an alternative form of capitalism – based on flexicurity principles – may be superior in its socio-economic performance, at least when approached in the state of maturity as it was already considered a necessity in Schumpeter's vision of a democratic society based on competitive socialism.

To a certain degree this alternative variety of capitalism also is of a ruthless type, if Schumpeterian creative destruction processes are allowed for, but as in any democratic society there are of course more or less close limits to the choice of techniques (for example in bio-genetics) and the choice of products (for example in war-games), limits that are to be set by the elected political leadership of each country.

Marx viewed the general law of accumulation and its perpetual reserve army mechanism as the element that not only allowed, but was also needed for the reproduction of cap-

italism. Schumpeter considered changes towards a competitive socialism as a possible alternative to the form of capitalism of his times. We think that there is a chance for an alternative to current forms of ruthless capitalism that not only adopts some welfare principles, but that is founded on a coherently based socio-economic structure that is socially accepted, but that is flexible enough to quickly adjust to the changing world market conditions. The foundations are social acceptance in an educated democratic society. The problems are given by the mastering of Keynesian types of business fluctuations and Schumpeterian types of creative process and product revolutions and – of course – of the control of financial markets such that the real activities of an economy do not just become the side-product of a casino as it was already observed in Keynes's (1936) General Theory.

The essential ingredients along the progress path towards a social structure of flexicurity type are not only a basic income guarantee of the workfare type (which includes the obligation to work), but also a reorganization of the labor market towards an employer of first (not last) resort who organizes in a decentralized way the work for all people not employed within privately run industries, but also the work of officially retired person who are still willing to offer their human capital on the labor markets of the economy. The workability of the designed reproduction scheme of flexicurity type of course depends – in the same way as many other actual organizational problems – on detailed microeconomic analyses of the labor relations within large, medium-sized and small business firms as well as in the public sector. Such economic incentives need to be coupled with an educational system that not only creates the basis for skill formation, but also provides the proper foundations for citizenship education in a democratic society, where citizens essentially approve the high degree of flexibility in the industrial part of the economy (and not only there) on the basis of the security aspects of the flexicurity concept and the equal opportunity principles during primary and secondary education. Goodwin has proposed, see in Flaschel (2009) the appendix to ch.10, to construct an M(arx)K(eynes)S(chumpeter) system for the analysis of the functioning and evolution of actual capitalism. We here in principle have proposed a similar thing with respect to ideal constructions by Marx (1954) and Schumpeter (1942), the so-called reproduction schemes of Marx and Schumpeter's vision of a competitive (western, not eastern) type of socialism, both to be confronted with Keynesian effective demand problems. This MKS-system may be regarded as the attempt to introduce a social structure of accumulation that is not of the ruthless competitive type of the functioning of actual capitalism, in particular as we observe it at present.

> Le laissez-faire, c'est fini
> (Nicolas Sarkozy, Le Monde, September 27, 2008).

But what comes next?

5   Elites in flexicurity societies

This section of the paper considers an important (in our view indispensable) human component for the proper working of (advanced) flexicurity societies, a component that needs to be integrated into the model of the present paper, primarily by considering incentive compatible rewarding systems for this group of people which are decisive importance

for the conduct of the society. We believe that Schumpeter's following statement on the integration of the ex-bourgeoisie into his Western type of Competitive Socialism can be meaningfully extended to the flexicurity societies we are considering in this paper:

> In capitalist society, social recognition of performance or social prestige carries a strongly economic connotation both because pecuniary gain is the typical index of success, according to capitalist standards, and because most of the paraphernalia of social prestige – in particular, that most subtle of all economic goods, Social Distance – have to be bought. This prestige or distinction value of private wealth has of course always been recognized by economists. ... And it is clear that among the incentives to supernormal performance this is one of the most important. ... Moreover the prestige motive, more than any other, can be molded by simple reconditioning: Successful performers may conceivably be satisfied nearly as well with the privilege – if granted with judicious economy – of being allowed to stick a penny stamp on their trousers as they are by receiving a million a year.' (Schumpeter, 1942, p.208).

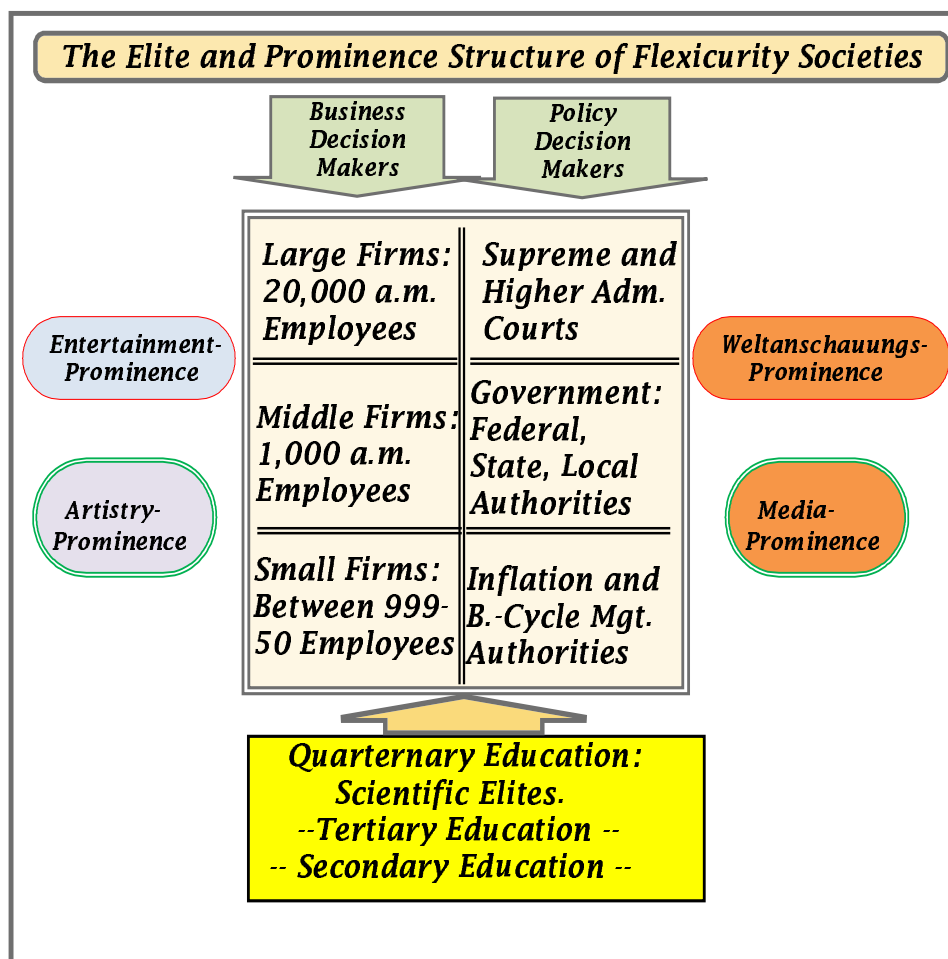## 5.1   Some basic observations

Elites (and their subelites) are a crucial component for the societal development processes, since they by and large determine decision rules, decision making, decision evaluation and the sanctions in the case of failure. Their structure, formation processes and reproduction, i.e., how the elite status is attained and transmitted to others, their leadership role, i.e., how their power is exercised and controlled, and their ethics, i.e., how consistency between the goals of elites and national objectives can be obtained, needs therefore detailed discussion within democracies (as well as within non-democratic societies) and of course also within our ideal model of a flexicurity society.

From an historical sociological point of view, the role of elites is investigated in detail in Hartmann (2007). In the present section we have of course to reflect our approach against the background of such actual studies, but have to go on from there to the partly constructive as well as normative consideration of the formation and reproduction of elite, subelite and (for completeness and as a contrast) also prominence structures in our flexicurity model.

The basic task for elites is decision framing and in particular top decision making, by and large in the inner domains shown in figure 3. There is of course also decision making in the domains outside the rectangular shown, but we consider this area more as an environment within which elites are operating, an environment which moreover is not only formed by elites in the narrower sense of the word, but also in the extreme by just prominent people. Elites conduct top decisions, but it is by no means obvious that their performance can be considered always as adequate or even excellent in this respect. Their selection process should therefore in principle rest on the best education available within the educational system, but it may still well be that social origin and habitus play a role when new elites members are selected through the established elite.

The current situation of world-wide capitalism, in democratic as well as non-democratic societies, is characterized by massive failures in elite behavior, in particular in sectors related with commercial banking and for example also in automobile production, but also

in other areas of primarily economic and financial management processes. This raises quite generally the question of how elites should be educated, selected and sanctioned (in the case of elite failures). In order to discuss this we need a structure describing elite categories, elite selection processes and positive or negative elite rewarding systems (incentives and sanctions). In the following – based on figure 3 – we attempt to provide a sketch of such a structure, as foundation for an analysis of how elites have behaved in actual economies and societies and here in particular of how they should behave in the ideal flexicurity society that is the topic of this paper.

The Elite and Prominence Structure of Flexicurity Societies

Business Decision Makers

Policy Decision Makers

Large Firms: 20,000 a.m. Employees

Supreme and Higher Adm. Courts

Entertainment-Prominence

Weltanschauungs-Prominence

Middle Firms: 1,000 a.m. Employees

Government: Federal, State, Local Authorities

Artistry-Prominence

Media-Prominence

Small Firms: Between 999-50 Employees

Inflation and B.-Cycle Mgt. Authorities

Quarternary Education: Scientific Elites.
--Tertiary Education --
-- Secondary Education --

Figure 3: Elite categories and education

We observe with respect to the above figure that it contains more structure than was so far considered in our flexicurity model. There is on the one hand not only the question of the income and goods and services demand of elites which must be integrated into the formal structure of the model, but also the way elites in the business sector shape the course of the economy. There is on the other hand the role of political elites in the execution of the separation of powers in a modern democratic state. The normal division of estates is into an executive, a legislature, and a judiciary. We distinguish in this respect the government on the federal, the state and the local level and its interactions with various forms of 'parliaments' on these three levels, and with respect to judiciary the Supreme Court and higher administrative courts. In addition we consider under a flexicurity system not only the by and large conventional role of a Central Bank (for

the control of inflation), but also a new fiscal authority (for the control of the business cycle) and the cooperative interaction between these two authorities. Thus there is only a reduced role for the government itself with regard to fiscal policy (by and large here concentrated on infrastructure evolution and growth), since we assume that business cycle oriented fiscal policy is to be conducted - similar to central bank independence – by an independent fiscal institution in our flexicurity world.

The main task for a flexicurity debate of the elite structure of the society is to understand how persons (should) attain, use and preserve or transmit their status in the elite group of a country in actual economies and the desirability of this top level structure from the societal point of view, and how these processes of elite formation should be further developed (or modified) in order to get a rationally founded balance between efficient elite economic and political decision making processes and their socially adequate performance. This also includes the discussion on property rights which are here viewed as follows.

There is or can be private property for small firms (defined by a size under 1000 employees). Yet the role of the proprietors is here restricted after some limited extraction of profits for personal income usage to choosing the direction of investment made out of profits (and possibly also financed by credit). Large firms by contrast have a board of managing directors (top managers, controlled by an independent supervisory board), who conduct the investment (and employment) decisions of their companies and who assume liability for their decisions to a certain degree. In the middle range of firms shown in figure 2 there may be some mix of the two possibilities just considered. We stress that we do not go into details here, but leave these issues for future work on property rights under flexicurity (concerning the details of property rights and defined liabilities).

Elites are not only distinguished or even exceptional in their decision shaping power, but they also will differ – in factual economies as well as in our flexicurity society – with respect to rewards from the skilled and also the high-skilled persons in this latter society. In the discussion of the Western (competitive) type of socialism that Schumpeter envisaged as a possible future of capitalism, these rewards were not only expressed in categories of income and wealth (where Schumpeter thought that much less was indeed necessary than in the capitalist economies of his time), but also in terms of social distance.

> In capitalist society, social recognition of performance or social prestige carries a strongly economic connotation both because pecuniary gain is the typical index of success, according to capitalist standards, and because most of the paraphernalia of social prestige – in particular, that most subtle of all economic goods, Social Distance – have to be bought. This prestige or distinction value of private wealth has of course always been recognized by economists. ... And it is clear that among the incentives to supernormal performance this is one of the most important. ... Moreover the prestige motive, more than any other, can be molded by simple reconditioning: Successful performers may conceivably be satisfied nearly as well with the privilege – if granted with judicious economy – of being allowed to stick a penny stamp on their trousers as they are by receiving a million a year.' (Schumpeter, 1942, p.208).

5.2   Elite Groups and Areas of Operation

We start our investigation of the formation and the role of elites with a presentation of elite categories and their areas of operation which supplements the occupational structure we have already considered in figure 2. The main categories in this area concern economic decision processes, political decision mechanisms, and the social and cultural environments in which these processes are embedded, but also the occurrence of negative elites, most notably in oligarchies and under dictatorship. We observe that the structures to be discussed below are not yet formally integrated into the flexicurity society we have modelled so far. This task will only be sketched here and therefore remains by and large for future research.

- Business administration and economics (agriculture, manufacturing, services, trade and banking):

  - national and international decision making leadership
  - top administration
  - innovation conduct and Schumpeterian creative destruction
  - ownership elites in the sector of small (and partially medium sized) firms

- Politics and political administration:

  - national and international decision making leadership
  - political representation
  - top administration
  - high nobility and state representation

- Culture and value formation (prominence):

  - outstanding ethical figures, religious leaders
  - scientific leadership
  - arts and top entertainment

The above gives a survey of the possible types of elites we have to deal with in modern democratic societies, including flexicurity systems, but also in more or less non-democratic societies such as plutocratic systems, one-party systems, dictatorships and even worse, i.e., societies with state terrorism, in particular exhibiting so-called ethnic cleansing and the like. Also, the influence of elites – whether good or bad – is not restricted to the consideration of top leading figures solely, but also includes lower level elites (subelites), where in particular in business administration one studies how such elites are molded and cared for in the attempt to recruit from them top elite members when needed.

The above structure exhibits functional elites as well as educational elites, and to a certain degree simply prominent persons. Of course members of the elite (or subelite) can have multiple identities within the sketched structures. We stress however that we will focus on functional elites (power elites) primarily and will consider other types of elites as being mingled with the (less important) status of prominence often, in particular in the domain of arts and the media, and even more in the range of well-established persons

within entertainment and weltanschauungs-perception. An important exception may here occur in the area we have called quaternary education where world-class research groups are being formed and are working together under the guidance of top scientists. Notable further exceptions are state representatives (presidents, kings and queens) and leaders of the dominant religions (which to a certain degree are also the top managers of large enterprises).

5.3 Education: Foundation for social competency and behavior

The next lists describe the educational steps in the formation of (new members of) elites in a flexicurity society and does this primarily from the common perspective. Of course, there are exceptions to these rules to be allowed for, such as they are for example given by open universities for the skilled segment of the labor market (based on the possibility of only part time occupation or simply by a voluntary utilization of leisure time of the accordingly motivated members of the skilled workforce). Such penetrability within the societal structure in particular applies in our model economy quite generally to political careers, where in principle all members of the workforce should have access to (but not to State Secretary positions and similar political state agencies – where extra skills are required).

- No child left behind, no talent wasted:

  - qualified education of all teachers and educators at university
  - equal opportunities, but also the promotion of individual gifts of children and students in primary and secondary school (and pre-school)
  - detection of special talents of students at school
  - positive recognition of talents at school by all participants

- Foundations of elite careers:

  - normal elite careers (major exception: politicians) are based on tertiary education as prerequisite and pass through the group of high-skilled workers
  - reflection of social backgrounds and the social origin of elites
  - elite universities and related educational institutions
  - reflected elite habitus
  - reflected citizenship awareness
  - ethical norms and the conduct of social power
  - regional, national and international aspects of education

Elites – in particular in a flexicurity society – must be well-educated, well-trained and also well aware of their citizen obligations as well as in their role as leading decision shapers and takers, moral institutions and leading representatives of the political and cultural system they are belonging to. Education of elites is a crucial element in any society, not only from the point of view of preparing the talented persons for their adult occupations, but also with respect to their ethical conduct in a pluralistic democratic society and their role as citizens of such a society. This includes not only the reflection

of the factual origins of elite formation, their habitus and their full participation in a multi-faceted democratic society, but also the reflection of elite failures, in particular in their conduct, the misuse of power and human rights.

It has to be taken into consideration here that it cannot be predicted whether a child will become a member of elites as an adult even if the social and intellectual background of his/her family may give reason for such an assumption. Therefore, it is absolutely necessary to support each child in its progress so that he/she can develop all their skills, competencies and talents. This demands an education as we have shortly described it in section 3 which starts early and is capable to support each child in his/her individual progress. The necessity of an early support of the development of children is one of reasons why not only teachers, but all educators need a tertiary education at a university. The individual support of all children in preschool and school is mainly due to the underlying concept of equal opportunities which however also includes the support of gifted and highly gifted children. Since there is consensus in most societies about the necessity of elites it is also a duty of schools to keep in mind that some children might develop the skills, behavior and responsible commitment to belong to this group in their later adult life. The slogan 'no child left behind' stems from an American concept to bring forward all students by promoting their skills and talents. While there is not the place here to examine the success of the implementation of this concept in the USA (which may be questionable) it is obvious that its underlying idea of equal opportunities can only be realized in an open school system which allows to individually support all students by respecting their own pacing (cf. the description of a possible model of a school system in section 3).

While it is a task of schools to detect and support students - among them those who will belong to the elites later on - it is mainly tertiary education where students get the chance to proceed in their development of skills and competencies towards later (top) executive or managerial tasks. In most cases they will finish their studies with a PhD. In many countries there are schools and universities - often titled elite schools and universities - which mostly (should) provide not only an excellent education but also (currently too much?) access to a network which will be helpful in the career of the students.

In section 3 we have considered it as a task of the educational system to take care that the social background of a child will not hinder his/her school career. In the case of elites, we face a different situation: It is quite often the social background that determines - or at least strongly adds to - the development of a student towards a later member of elites, not least by enabling him/her to attend an elite school and/or university. These experiences may add to an elite habitus later on. We regard it as an important task of school and university to help these students to reflect the social power they may gain later on and thus deepen their responsibility in their later position. Here, dealing with Human Rights will be as important as establishing a reflected citizenship awareness to hinder that elites separate from the rest of the society by loosing their commitment and responsibility concerning this matter.

Education in the 21st century is no longer a regional or national matter though regional and national aspects are part of education especially with regard to the demands of the particular society. Education in the 21st century is a global matter as well where international connections and responsibilities have to be taken into account. It is obvious that this is also a fact to be considered in the education of elites.

To conclude we again have to stress the fact that 'elite education' does not exist in the proper sense of the expression since it can not be predicted whether a child or student may become a member of the elite even if the social background may suggest so. Therefore it remains the tasks of schools to add to the best education of all students so that those with the best skills and competencies may develop to members of the elite after their university studies. We believe, that these two demands of equal opportunities and the development of elites can and must be fulfilled.

5.4 Stages and types of career (and decent) paths

This section briefly discusses the standard procedures in the selection of members of the elite (and also their dismissal) in a flexicurity system. We have already pointed to the fact that there must be exceptional careers at least for certain types of functional or educational elites, most notably political ones. There must exist in addition a system of sanctions in the case of failure or misconduct that can be accepted by the members of the elite as well as the ordinary citizens of the considered society.

- Career paths of elites:

  - tertiary education normally required for all high-skilled professions
  - political elites both from skilled and high-skilled persons through majority voting
  - professional elites through qualified majority voting of selected representatives of both skilled and high-skilled persons
  - exceptions for very specifically and individually talented persons like artists
  - top, medium and low level elites and corresponding selection principles
  - Regional, national, supranational levels
  - company owners, chief executive officers, supreme courts and other supreme decision bodies, party leaders, prime ministers and cabinet members, top researchers, leading personalities engaged in the cultural sector
  - Conduct criteria and control criteria (incentives, sanctions and status removal)

Career paths of elites are of course very different depending on the elite category, as for example for top managers and top politicians. In the first case the role of elite habitus and an informal selection process may actually be typical, while in the latter case there may be the need for a march through party stages with selection processes depending less on elite habitus, but popularity, though this applies more to percentage voting systems than to majority voting systems (which we prefer from the perspective of acting capability). In universities the selection process is also less dependent on elite habitus, but more on formal screening criteria (publication records, third party funds). In arts and entertainment there may be very personalized selection processes that also depend on fashions and the media. We have however stressed already that such groups of the society may be considered more adequately as prominence than as elites, due to the lack of power they have in their decisions concerning larger segments of the society. Career paths of elites and elite formation processes can vary significantly even within democratic societies such as the UK and Germany, see Hartmann (2007) for detailed studies of five major democratic countries. Elite careers are of course easier to establish

if the social origin of the person is characterized by high financial, human and cultural capital as far a the family environment of such a person is concerned. But the educational system should be such that also all other talents can unfold, at primary and secondary school embedded in a system of equal opportunities and on the tertiary level by special selective support of talented people, including access to elite universities and similar institutions.

Of course, access to elite positions are to be organized in different ways as far as in particular economic and political leadership is concerned. In the former case it is professional education that is of high importance, while political leadership should in principle be open to all members of the voting population, excluding of course persons where integrity doubts are existing. In arts and entertainment it is by contrast individual and very specific performance which is the basis for success and the attainment of an elite status. In this area we however distinguish between elite and prominent people with the former group being fairly small and where the latter group is more characterized by their media presence and not so much by extraordinary achievements or performances.

5.5 Preferences, incentives and responsibilities

The preferences of the various members of the elite are of course endogenous ones, which are formed by their family, by the educational system and later on in interaction with each other (and this not only in a flexicurity society). In the later process in particular there may be self-supporting processes at work that increase the professional and moral integrity of the members of the elite, but also ones that are of opposite type as the current world financial crisis has shown. It is therefore important to reflect the preference formation of elites in detail, in particular at the early stage (within education) where their membership to such a segment of the societal structure is not yet a real issue. Points of importance in this area in particular are the following ones.

- Preferences, incentives and responsibilities:
  - income levels sufficiently above skilled and high skilled workers, but in addition also the provision of 'social distance' (not based on million Euros of income and extraordinary wealth, but on distinguishedness)
  - exclusiveness provisions a la Schumpeter (1942)
  - the need for preferences that are not based on extreme personal wealth, unchecked personal power, etc. as core personal objectives
  - ethical obligations and citizenship awareness
  - progress paths in elite formation and elite performance processes
  - responsible real wage management in interaction with both skilled and high skilled workers and their representatives
  - elite status can get lost in the case of personal failures

Preferences of the members of an elite of a particular type of occupation are of central importance for the conduct of such elites in the formation of their personal goals, at best of course when they are in accordance with human rights, the national objectives and the public interest of the considered society. Yet, preferences – even if they are not

distorted by excessive income, wealth and power objectives – can be in conflict with such objectives, for the right or for the wrong reasons. There therefore is need for a mechanism that can detect what is right or wrong from the societal point of view and incentives as well as sanctions have to be established which encourage actions producing positive economic and social results.

Preferences in elite groups are far from being exogenously determined, since there is intensive interpersonal preference interaction on this level of decision making. Preferences also change with age and experience of the elite persons. Schumpeter (1942) – discussing of how to integrate the ex-bourgeois element into his model of a Western type of socialism – provides examples that demonstrate that the incentives to motivate elites need not be extreme income payments and the prospect of becoming very wealthy in the course of their career, but may indeed only be given by a certain level of exclusiveness to be related with their elite status. Indeed the power elites in economics and business administration may have (or should have) objective functions that are not conducive for the best of the countries or companies they are directing.

Supplement:
We briefly indicate in the following how the accounts of the groups forming the elites of the society can be integrated into the formal structure we investigated in section 2. We continue to consider a stationary population and assume now that the number of people in an elite position L_{1e} in the industrial sector of the economy is a constant fraction of the number of high skilled workers L_{1a} in this sector (representing by and large the stock of people from which elites in the business sector are recruited). As budget equation of the group L_{1e} we assume the following situation:

$$\omega_{1a}L_{1e} \geq (1 - \tau_{1e})(1 + \gamma_{1e})\omega_{1a}L_{1e} + \phi_{1e}\Pi = c_{1e}(1 - \tau_{1e})(1 + \gamma_{1e})\omega_{1a}L_{1e} + S_{1e}.$$

This group of the working population therefore exhibits to sources of income, wage income $(1 + \gamma_{1e})\omega_{1a}L_{1e}$ which is increased by the factor $1 + \gamma_{1e}$ compared to the wage income of high skilled workers and profit income $\phi_{1e}\Pi$ which is a constant fraction of the profits of firms, but also of the losses of firms if profits become negative. There are thus deductions from the wage income of business elites in the case their firms face a loss, but these deductions are limited from below by the wage sum that elites would receive when remunerated as high skilled workers solely. We have assumed a constant marginal propensity to consume c_{1e} with respect to their wage income (after taxes) in the above equation which we consider to be less than one so that part of this income and the profit income of elites is saved in the form of the company pension funds considered in addition to base pension payments in this paper.

Elites L_{2e} in the public sector – a constant proportion of the stock of labor L_{2a} – exhibit as budget equation the expression

$$(1 - \tau_{2e})(1 + \gamma_{2e})\omega_{2a}L_{2e} = c_{2e}(1 - \tau_{2e})(1 + \gamma_{2e})\omega_{2a}L_{2e} + S_{2e}.$$

They therefore do not bear any risk for the performance of the public sector in the form of income losses (but can of course loose their status as a member of their elite). Moreover remuneration may be significantly (but not extremely) lower than the remuneration of elites in the business sector. We stress here that this discussion concerns only the basics of the remunerations of elites, where further incentives and also further sanctions may

be established as they are currently discussed in the public debate on the failure of elites around and after the subprime / banking crisis.

5.6   Elite failures

We restrict our discussion here to the case of democratic societies as they are assumed to underly the flexicurity systems of this paper. The following list here only provides some first distinctions that demand for detailed societal mechanisms in order to minimize the occurrence of such possibilities. This in particular includes the establishment of independent and properly working professional conduct of supervisory boards (in business administration, controlling the board of managers) and the given existence of parliamentarian structures (on the political level).

- Elite failures:
    - malfunctions and incompetence with respect to leadership and accomplishment
    - misuse of elite positions
    - corruption, corrupted utility functions
    - unreasonable or even illegitimate enrichment
    - risk and gambling motivations instead of thorough screening of investment opportunities (commercial banks)
    - rules for the loss of an elite status
    - inadequate human resource management
    - inadequate environmental resource management
    - inadequate management of the Schumpeterian process of creative destruction of production technologies

That elites can fail on a grand scale is currently an obvious fact, relating primarily to the inadequate conduct of commercial banks (and other financial institutions) and the bad loans they have generated on a world wide scale. But also in industry, most notably in the automobile industry, did top decision makers favor outcomes that have little to do with an innovative Schumpeterian process of creative destruction of processes or products, but with the short-sighted preservation of their elite status through routines and non-innovative behavior that primarily supported the power and income position of the elites in question. Globalization trends were simply ignored, in particular under political regimes that were by and large backward looking concerning the interaction of innovation and environmental protection.

5.7   A summing up

Following Higley (2006) we now define – against the background of what we have discussed in this chapter – elites as

> persons, who by virtue of their strategic locations in large or otherwise pivotal organizations and movements, are able to affect political outcomes regularly and substantially.

We would here include the conduct of firms down to a certain minimum level besides the conduct of the state on its three levels (again down to a certain minimum level) and also – but only rarely – independent and publicly financed research and develop units with a significant impact on the society. Elites are therefore defined by the (democratically controlled) power they possess with respect to decentralized as well as centralized economic and political management problems. There may be a small educational elite in addition, but surely not to the extent the formation of elites occurs in the sphere of commerce and political decision making. We note again that this discussion of elites is not yet firmly integrated into the formal model of this paper, in particular concerning the income (and other rewards) of elites as well as their spending propensities. The discussion of subelites (doing preliminary work for the elite) is also not yet considered here. We have however reached now a stage where the characteristics of elite structures is visible enough in order to discuss on this basis their reproduction in time and in specific societies such as the one considered in this paper.

On the basis of what has been discussed above there moreover result the following central topics which have to be approached and solved in elite research on actual elites and their integration into a flexicurity society as it may come about on a progress path from welfare states to workfare systems and from there on to flexicurity societies.[10] Of course, such progress paths depend on the preference formation within the group of voters and the political elites that result from their voting decisions. Work to be done includes:

1. international comparisons of how persons get, use and perpetuate (or not) their elite status or power position in actual capitalist democracies,

2. implications of this analysis for the formation of elites in flexicurity economies where income, wealth and personal power over large institutions, in particular over social (re-)production processes are not the main motives that drive elite behavior,

3. institutional reforms that make decision processes in all areas of the society more transparent, more responsible and more effective from the social perspective.

It is a bit surprising that there is not much research effort in this central area of the future development of capitalism, be it from the conceptual, theoretical and or the empirical point of view. The reader is referred here from the historical perspective to the classic work of Pareto (1935, 1968), to the various, meanwhile also classic contributions of Pierre Bourdieu, see Hartmann (2007) for a discussion, to Mills (1959), Rothkopf (2009) and of course again to Schumpeter (1942) who discussed the question of the formation of elites on the basis of the views he had on a Western type Socialism and the superiority of majority-voting democracies in the formation of competent political elites in such a framework. A large collection of papers with a wide range of topics in the area of the sociology of elites is also provided by Scott (1990).

Elites – here considered in the context of flexicurity systems – (should) have significant competencies in shaping the course of such societies in an economically efficient and socially sensible way and are equipped with an appropriate social status that gives them in a controlled way the power of quasi – from the individual perspective temporary –

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[10]See Vis (2007) on such matters.

ownership of the means of production as well as of the political apparatus. Control of elites can be to a certain degree intrinsically organized, but must also definitely depend on understandable selection mechanism that are to be controlled by legislature as well as policy makers and thus indirectly by the voting population of the society. We consider such a scenario as a significant step forward from what was considered in Schumpeter's (1942) analysis of Capitalism, Socialism and (majority voting) Democracy, yet a step that does not devalue the results already obtained by him under the impacts of in particular World War II and the factual socialism of his time. Eventually this may lead to a theoretical structure (called the M(arx)-K(eynes)-S(chumpeter) system by Goodwin, R.) where the Marxian conflict about income distribution has become a rationally controlled one, where however Keynesian effective demand may still be a restriction to the working of the economy and where there exists a modernized type of Western type socialism as envisaged by Schumpeter.

6 Conclusions and outlook

Starting from the problematic features and the social consequences of the reserve army of unemployed workers characterizing the evolution of the labor markets of many contemporaneous capitalist economies, this paper tried to demonstrate that there is – on the theoretical level – an alternative to the unleashed capitalism that is currently ruling the world (in developed as well as developing countries). As a substitute for the multilayered degradation of a significant proportion of the working population also of democratically governed societies we designed an economic reproduction scheme (including education, skill and elite formation) of a competitive form of capitalism that combines flexibility of a very high degree with security of income as well as employment for the members of the workforce. Schumpeter's investigation of the workability of a competitive type of socialism is thereby carried one step further towards a social vision which preserves to a great extent the advantages of the existing capitalist forms of production and circulation, but which nevertheless creates a social structure of accumulation which in its essence is liberated from the human degradation we can observe even in leading industrialized countries in the world economy.

We believe that Schumpeter's process of creative destruction can also be implemented in such an economy, in particular on the level of the smaller firms shown in figure 3, since it indeed has remained present in the evolution of capitalism after World War II and thus can be further continued in from of the processes that we have observed in particular in the last twenty years. It is part of the tasks of the elite structure shown in figure 3 (to the left in the middle box) to just foster such processes of creative destruction. This process of innovation and diffusion may create long waves in the evolution of the potential output-capital ratio as well as of the growth rate of labor productivity on the macrolevel (including significant irregularities in these two time series) driven by bunching productivity shocks. It is the task of the EFR to adjust to the problems this creates for the first labor market in addition the processes that drive effective demand and the actual output capital ratio in the context of Keynes' explanation of the trade cycle mechanism, of course also present under a flexicurity regime.

The essential ingredients along the progress path towards such a social structure are not only a basic income guarantee of the workfare type (which includes the obligation to

work), but also a reorganization of the labor market towards an employer of first (not last) resort who organizes in a decentralized way the work for all people not employed within privately operated industries, and also the work of officially retired person who are still willing to offer their human capital on the labor markets of the economy. The workability of the designed flexicurity scheme of course depends – in the same way as many other actual organizational problems in contemporaneous market economies – on detailed microeconomic analyses of the labor relations within large, medium-sized and small business firms as well as in the public sector. Here, economic incentives as discussed in Schumpeter (1942) need to be coupled with an educational system that not only creates the basis for skill and elite formation, but also provides proper foundations for citizenship education in a democratic society, where citizens essentially approve the high degree of flexibility in the industrial part of the economy (and not only there) on the basis of the security aspects of the flexicurity concept and the equal opportunity principles it is based on during primary and secondary education.

Elites play an important and even central role in models of flexicurity capitalism and their formation must therefore be carefully reflected by the educational system. Malfunctioning elites have currently caused a world-wide crisis of capitalism, in particular since they just anew provided and example for Keynes's statement:

> When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done.
> (John Maynard Keynes, 1936, p.159).

Later additional warnings, in particular by Hyman Minsky, have also by and large been ignored, who for example has stated:

> Success breeds disregard of the possibility of failures. The absence of serious financial difficulties over a substantial period leads ... to a euphoric economy in which short-term financing of long term positions becomes the normal way of life. As previous financial crisis recedes in time, it is quite natural for central bankers, government officials, bankers, businessmen and even economists to believe that a new era has arrived. (Hyman P. Minsky, 1982, p.213).

It is therefore of outmost importance that wealth – and the interrelated power – accumulation by individuals that gets out of control, risk-loving individuals and financial institutions that primarily use financial markets to gamble on them on a world-wide scale, and other types of malfunctioning elite behavior based on preferences where wealth and power are the main objectives, give way to an elite formation and preservation process that focuses on citizenship education including ethics, and competence and responsibility in place of 'greedy' elite behavior as we currently have observed it in many cases. The kick of incredible wealth is not really needed in order to induce talented person to do excellent work, as already Schumpeter (1942, p.208) observed it in his discussion of integrating the ex-bourgeois element properly into his model of 'competitive socialism. Exclusiveness and distinctiveness may be ways to additionally reward elites under flexicurity capitalism, but of course there may also be numerous more concrete incentives (and controls) that induce elites to play the role they have to play for the well-being of the societies they are living in.

There is one additional problem concerning the microlevel that is extensively discussed in Schumpeter's (1942) ch.s 16 and 17 for the type of competitive Western socialism he is modelling there. This problem concerns the design of mechanisms by which prices and quantities are determined in the industrial sector. On p.183 he states that it is not the bloodless concept of perfect competition that is to be used for the principles that govern the formation of prices, quantities and incomes, etc., but in fact more the actual mechanisms adopted by big business under capitalism that will solve this task. This even more holds in a flexicurity system which is here viewed as an organic evolution from the unleashed forms of capitalism to socially controllable ones by consistently building on principles that are discussed in isolation from each other already in existing Western capitalist democracies.

We think that the basic mechanisms in the price – quantity dynamics of capitalism are of a Classical cross-dual type interacting with Keynesian dual price – quantity adjustment processes. The latter concern on the quantity side the Keynesian dynamic multiplier process and on the price side a dynamic Kaleckian markup pricing process. Cross-dual elements in this conceptually separated quantity and price dynamics are then given by, on the one hand, the flow of capital into sectors of high profitability and the consequences this has for the supply of commodities and, on the other hand, the price reactions to these quantity changes. We cannot however consider these interacting price and quantity adjustment mechanism here any further, but refer the reader for a formal discussion of them to Flaschel and Greiner (2009). In any case there is no problem for the working of a flexicurity economy here, since it basically will perform in the way this is already solved under big business capitalism. A discussion of the Lange-Lerner type is therefore not needed here and in fact also not conducive.

The essential changes under flexicurity concern in the first place the labor market and the abolishment of the reserve army mechanism. Our discussion of elites has furthermore shown that property rights will also be changed in favor of elected boards of managers, leaving room for private ownership only in the smaller segments of the economy. But this is not a huge step away from what we already find in reality. It is in any case much easier to perform than the labor market reforms we need in the transition to a flexicurity society. Moreover, there may then also be a greater role for the credit channel to play under flexicurity and less or no role to play any more for equities in the financing process of the investment of firms, in line with Schumpeter's views on the role of credit in an entrepreneur framework. The public discussion of a stricter regulation of financial markets is currently a dominating one and is therefore a good starting point for a further analysis of the role credit, stocks and bonds should play in the globalized world we are living in.

Central for the transition to a new form of capitalism is of course the human element concerning workforce behavior in the process of efficiently organized production and elite behavior in the conduct of the society, including the provision of an educational sector that is prepared to create the necessary skills and the ethics that is needed for a sustainable evolution of a democratic form of capitalism that serves the interest of the majority people and not just a minority class of elites in the business sector. Getting control over the Marxian distributive cycle mechanism in a Keynesian trade cycle framework and the Schumpeterian waves of technical change is the task that management and workers have to solve interactively in a democratic way in the further evolution of capitalist market economies.

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