

Global Capitalism Is Not All It's Cracked Up to Be

Free market orthodoxy is called into question

Book Review by Ted Wheelwright

There is now a spate of books criticizing the globalization of capitalism. This is one of the latest and best, as would be expected from a professor of politics at Oxford University, especially one who was a former supporter of the New Right. The historical approach adopted is clear from the first chapter onward, which begins thus:

Mid-nineteenth century England was the subject of a far-reaching experiment in social engineering. Its objective was to free economic life from social and political control and it did so by constructing a new institution, the free market... which created a new type of economy in which prices of all goods... changed without regard to their effects on society (p.1).

This process was called *The Great Transformation* by Karl Polanyi who wrote a classic book with that title in 1944 (Boston: Beacon Press) showing how the previous social markets were demolished and replaced by deregulated markets operating independently of social needs. This happened *within* many nation states, beginning with the United Kingdom in the 19th century, and is now accelerating within the world economy.

Gray considers that a similar transformation is now occurring within the world economy and led by so-called transnational organizations such as the International Monetary Fund (IMF), the World Trade Organization (WTO), and the Organization for Economic Cooperation

and Development (OECD). In the 19th century the country leading that transformation was the UK; in the late 20th century it is the USA:

According to the "Washington consensus," "democratic capitalism" will soon be accepted throughout the world... The manifold economic cultures and systems that the world has always contained will be redundant. They will be merged into a single universal free market (p.2).

Gray thinks this utopia can never be realized; its pursuit has already "produced social dislocation and economic and political instability on a large scale" (p.2). He thinks that free markets in the USA have contributed to social breakdown there on a scale unknown elsewhere. They have also generated a long economic boom from which the majority of Americans hardly benefit, yet despite high levels of inequality such markets

remain the sacred cow of American politics. Economic global-ization works to undermine global laissez-faire:

There is nothing in today's global market that buffers it against the social strains arising from highly uneven economic development within and between the world's diverse societies. The swift waxing and waning of industries and livelihoods, the sudden shifts of production and capital, the casino of currency speculation — these conditions trigger political counter-movements that challenge the very ground rules of the global free

False Dawn: The Delusions of Global Capitalism

by John Gray

London: Granta Publications, 1998
233 pages, £17.99



Ted Wheelwright teaches in the Department of Geography at the University of Sydney, Australia.

market (p.7).

Gray stresses that the free market is Anglo-Saxon in origin, being constructed in a context not found in any other European society. These Anglo-Saxon countries — UK, USA, New Zealand and Canada, never had peasantries, but a culture of agrarian individualism which preceded industrialization.

This incubated a culture in which the free market could be established, and presupposed “exceptional legal, social and economic conditions, along with the ruthless use of the powers of a strong state.” Even in such favorable environments, the free market proved so costly in human terms and so disruptive of the life of society that it could not be rendered stable” (p.14).

Consequently, as the democratic franchise was extended, so was state intervention, from the 1870s to World War I, which saw the foundation of the welfare state in Britain. Free trade was abandoned with the onset of the Great Depression. The political influence of laissez-faire was killed off, but “the classical liberal illusion of the free market as a self-regulating system still lingered through the inter-war years.” It took World War II to “jolt economic orthodoxy into accepting Keynesian ideas” (p.15).

Gray makes the important point that the managed economies of the post-war period did not arise from an “intellectual conversion from laissez-faire,” but from the horror of economic collapse and the dictatorships that led to World War II. British voters, for example, had no wish to return to the social order of the inter-war years. “In Britain, the idea was killed by the experience of a war economy, far more efficient than that of Nazi Germany, in which joblessness was unknown, and nutrition and health standards higher for the majority than they had been in peace time (p.16).”

He considers that as a result of the de-regulation and “marketization” which was installed in many countries in the 1980s, a breakdown of the present global regime could well result. The free market, he tells us

is a product of artifice, design and political coercion ... it is an end-product of social engineering and unyielding political will. It was feasible in nineteenth century England only because, and for so long as, functioning democratic institutions were lacking (p.17).

“The social costs of a completely free market cannot be legitimated for long in a democracy, because its counterpart is a ‘politics of insecurity.’...[its legal framework] must be placed beyond the reach of any democratic legislature.”

In short, contrary to popular belief, Gray emphasizes that free markets are not natural, they are *creatures of state power*. The social costs of a completely free market cannot be legitimated for long in a democracy, because its natural counterpart is a “politics of insecurity.” Hence, those who seek to design one on a world scale insist that “the legal framework which defines and entrenches it must be placed beyond the reach of any democratic legislature” (p.18).

This, then, points to the power of transnational organizations such as the WTO which determines what is to count as free trade, and what is restraint of trade. Such organizations are relatively immune from the pressures of democratic political life.

Restoring free markets has effected “profound ruptures” in societies where it has been attempted, but they have not succeeded in “establishing the hegemonic power that was envisaged... In all democratic states the political supremacy of the free market is incomplete, precarious, and soon undermined. *It cannot easily survive periods of protracted economic setback*”(p.19, emphasis added).

New technologies and free markets make full employment policies unworkable. Global markets transmit this instability to every country in the world, and in so doing “they make a new politics of economic insecurity universal” (p.20).

American readers will be particularly interested in Chapter 5, “The United States and the Utopia of Global Capitalism,” which begins by stating that “global laissez-faire is an American project.” The USA is said to be “detaching itself from other ‘western’ cultures in the extremity of its experiment in free-market social

engineering and in the intensity of the fundamentalist movements which that experiment is evoking.” These are seen as a response by American society to the derelictions wrought on it by a radically modernist economic system (p.103).

In the 1980s, a free-market orthodoxy “established its ascendancy over American public culture ... the Soviet collapse granted a new lease on life to the faltering American conviction that the U.S. embodies the modern age as no other country does” p.103). Whereas earlier in this century the American messianic tradition had “a noble and generous expression in Rooseveltian liberalism ... today the free market has displaced this.” The result has been to make liberalism “illegitimate in

***“New technologies and free markets
make full employment policies
unworkable.
Global markets transmit this
instability to every country in the
world, and in so doing ‘they make a
new politics of economic insecurity
universal.’”***

American public culture ... conservatives have become ranting evangelists for global capitalism” (p.104).

The Right “sought to identify American institutions with the free market,” despite the fact that American

government has never observed a rule of non-interference in economic life. Remolding America to suit the imperatives of free markets has involved the use of corporate and governmental power to bring about levels of economic inequality unknown since the 1920s, rupturing the liberal capitalism that produced America’s post-war supremacy (p.107).

Gray considers that America is no longer a bourgeois society, but a divided society

*in which an anxious majority is wedged
between an underclass that has no hope, and
an overclass that denies any civic obligations
... the political economy of the free market and
the moral economy of bourgeois civilization
have diverged — in all likelihood permanently
(p.111).*

There are equally penetrating chapters on post-communist Russia and Asia’s capitalism, for which there is no space to discuss here. The final chapter, “The Ends of Laissez-faire,” emphasizes that free markets are not self-regulating, they are prone to speculative booms and busts — financial markets in particular do not tend to equilibrium, especially now they are de-regulated. “*This volatility at the core of de-regulated financial institutions makes for a world economy that is organized as a system of free markets, essentially unstable*” (p.197, emphasis added).

As a result, he concludes, “we stand on the brink not of an era of plenty that free marketeers project, but a tragic epoch, in which anarchic market forces and shrinking natural resources drag sovereign states into ever-more dangerous rivalries” (p.207). -//-