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Thinking it through

The market falls from fashion

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> Only three years ago, socialists were continually told that the market was the solution to all of humanity's problems, as the former Stalinists of Eastern Europe, the former Social Democrats of Western Europe and the one party states of much of the Third World rushed to enthuse about it.

Today things are beginning to look very different. The year 1992 might well go down as the year in which the revolt against the market started.

In Britain the political turmoil brought about by the government's announcement of pit closures was not just an expression of the deep wells of bitterness at the base of society over the cost of the market. It also reflected splits at the top of society, as industrialists began to see an unregulated market economy leading them into a slump.

Similarly in Eastern Europe and the former USSR the pendulum has begun to swing away from faith in untrammelled market forces. And again the swing has occurred within the exploiting class of industrialists and former nomenklaturists, as well as among the mass of workers. Yeltsin's ministers are under siege from the Civic Union – a parliamentary coalition centred round the Industrialists' Lobby. It demands a reimposition of central control over the economy and a slow, state directed move to the market along Chinese or South Korean lines rather than the present headlong rush.

So deep is the failure of the market that even the Adam Smith Institute has published a report which says, according to the summary in the **Guardian** (19 October),

> 'Three years after their anti-Communist revolutions, the countries of Eastern Europe face economic catastrophe, mass unemployment and social and political breakdown as their remaining state enterprises fall deeper into debt ...
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>> 'Hopes that privatisation would be achieved in five years have turned out to be "wildly optimistic". At the present rate it will take Poland, Czechoslovakia and Hungary 28 years to privatise only half of the state companies still in their hands.'

Such realities show the market cannot deliver to ruling classes, let alone to the rest of us, what its ideologues promise. It is not difficult to see why. The theory of the market is full of holes.

It says that the blind interaction between a mass of firms seeking profits and millions of consumers seeking maximum satisfaction will lead to a stable equilibrium as the supply of goods smoothly rises until it equals the demand.

The theory should have been dealt a death blow by modern chaos theory, which concludes that the blind interaction of a mass of particles does not lead to a smooth steady state, but to tumultuous flows and eddies, to sudden ups and downs. There is often a pattern, or rather a series of patterns, to these changes, which permits a certain level of prediction about them. But they certainly do not constitute a smooth, steady state equilibrium.

Long before chaos theory became fashionable Marx and Engels showed the fallacy of the equilibrium theory. Production is something that happens over time. The factories which are built to meet the current demand for goods do not come into operation until some time in the future, by when that demand will have changed. What is more, by taking on workers and buying up raw materials, the owners of those factories change that demand themselves.

As rival firms stampede to expand productive capacity in competition with each other they create demand for certain products that exceeds supply. There is an inflationary boom. Then, when the new capacity comes on stream, goods are produced on a scale which exceeds the demand for them, leading to a slump as firms can't sell their output. They sack workers and stop buying raw materials, so reducing the demand for other firms and deepening the slump even more.

The development of capitalism leads to such imbalances becoming greater, not less. For as mergers and takeover bids create ever larger firms, so rival investment projects undertaken during the boom grow ever greater and, with them, the gaps that open up between output and the market for it. Overproduction takes place on an ever greater scale, and slumps do even greater damage.

It is not only Marxists who have been aware of this. So have a minority of pro-capitalist economists, of whom the best known was Keynes. And even Hayek, the arch apostle of the market, recognised it did not lead to an equilibrium in which people could foresee the outcome of their economic activity.

Big businessmen who have extolled the theory of the market have always called upon the state to protect them from it in times of crisis. That was why the founding manifesto of the Communist International, written by Trotsky 73 years ago, could insist the key issue was not whether statification of the economy would take place, but 'who will be the bearer of stateised production – the imperialist state or the state of the victorious proletariat.'

But the world capitalist system has reached a level of development in the last couple of decades which prevents state control warding off crisis any more, because production and marketing now take place on an international scale. This became clear in the West with the recession of the mid-1970s and in the East with the 'stagnation' of the mid-1980s. Ruling classes desperate for an alternative to crisis suddenly turned to the old ideology of the untrammelled market.

But if state capitalist intervention could not ward off crisis, nor could going back three quarters of a century to the period which preceded that intervention. The current triple dip recession in the West and the endless contraction in the East are proving that much.

The challenge to the idea that market forces are all powerful makes it easier for those of us who are genuine socialists to put our arguments across. But we should never confuse our alternative to the market with that of the pro-interventionist faction among our rulers. We don't want a world based on the South Korean or Chinese model, any more than we wanted one based on the Stalin or IMF model.