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Thinking it through

No more miracles

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Two months ago I noted how the market was going out of fashion among many supporters of the existing system. In the serious capitalist press there are growing numbers of articles which extol the virtues of state intervention to prevent the system running into the ground. The veteran American Keynesian John Kenneth Galbraith has been receiving considerable publicity for his contention that only such intervention can save capitalism from itself. And even John Major has appointed that irreconcilable critic of the Thatcherite free market ideology, Wynne Godley, to the Treasury's seven strong council of economic advisors.

Among those in the forefront of the new interventionist fashion is William Keegan, economics editor of the

Observer. He attacked the Thatcherite claim to have produced an 'economic miracle' week after week through the 1980s. Now he has put his views about economic policy together in a new book, **The Spectre of Capitalism** (Hutchinson). The book shows all the strengths, but also all the weaknesses, of the new fashionable wisdom.

The strengths are its devastating tearing apart of the claims of the out and out marketeers to be able to make capitalism work. He shows how hollow the claims of enthusiasts of the policies of Reagan and Thatcher were. The apostles of monetarism could not control the money supply; it was only by doing damage to manufacturing industry that the government brought inflation under control in Britain in the early 1980s; supply side economics in the US led to huge budget and balance of payments deficits.

By the end of the 'free market' experiment in the US, he tells, even a far from radical commentator like Alistair Cooke could observe, 'the feeling is epidemic across the country that daily life, in every sort and size of community, is getting more squalid, expensive and dangerous' and predict 'social dangers, deprivations and frustrations' would lead to 'three possibilities: the second American civil war, triggered by separatist ethnic and regional uprisings; the arrival of a populist dictator; an emergency return to the benevolent form of socialism created by Franklin Roosevelt and the new deal.'

Yet, Keegan complains, it was to the Reaganites and Thatcherites that the Russian and East German reformers turned with the collapse of 'Communism'. The result was raging inflation, a slump in industrial production by a third or even half, a collapse of most people's living standards and a vast pool of real poverty, with no end in sight, so that the World Bank now admits it will take at least until the year 2000 for Polish output to return to its 1989 levels. In such circumstances, even the reformers' own panacea of privatisation can not proceed successfully, since no one wants to buy bankrupt enterprises: only 5 percent of trade and industry was sold off in the first year of Hungary's privatisation programme, while 'the much vaunted privatisation had hardly got off the ground in the Poland of 1991 and 1992.'

But there are two great weaknesses in Keegan's approach. These cause his own account often to be as flawed as that of those he criticises.

First, he absolutely accepts the conventional view of Marxism. So he sees everything that went wrong economically in Russia and Eastern Europe as stemming from an alleged Bolshevik policy of wanting to get rid of money overnight. And he dismisses any argument that capitalism is condemned by its very nature to decay or collapse as laughable and not worth discussion.

Second, he believes that what happened in the US under Roosevelt after 1932 proved that state intervention can avoid capitalist crisis. This, he says, is confirmed by more recent Japanese policies, which combine planning and the market. Here, he claims, is a model of capitalism in which long term economic growth overrides short term considerations of profitability.

He contrasts the policy of the governor of the Bank of Japan, Mr Mieno, who 'deliberately embarked on a strategy of reducing the level of the market to more sustainable levels', to the reaction 'to the excess of the 1980s' in London and New York, 'which was seen as contributing to the recession of 1990-91'.

Unfortunately, there is a always a time lag between a book being written and it being published. Keegan wrote these words at a time when the conventional wisdom was that Japan would experience, at worse, a drop in its growth rate and not a real recession. The Bank of Japan authorities held fast to this view right through to early July – only to do a U-turn a fortnight later when they could no longer hide from the reality of falling output, sales and profits.

This has shown that the Japanese boom of the late 1980s was as much that of a ‘bubble economy’ as that in Britain and the US. An orgy of stock exchange and property speculation allowed industrial companies to grossly inflate their profit estimates, undertaking investments that kept the boom running for about 18 months longer than in the West, only to end in a very similar recession.

Indeed, the domestic basis for Japanese capitalism’s boom was even weaker than that in the West. Through the 1980s the American economy grew in such a way as to provide an expanding market not just for its own firms, but also for those of Germany and Japan – mainly because of the build up on arms expenditure under Reagan. By contrast, the Japanese economy always depended on its ability to export to the US more than it imported. Even today, in recession, the Japanese economy still depends on American demand, with exports exceeding imports by some $9-6 billion (6 billion pounds) a month, nearly 90 percent higher than a year ago.

The Japanese model – or for that matter the Korean or Taiwanese models – can enable particular countries to enjoy export led growth if the rest of the world economy is expanding. But it cannot achieve self sustained expansion, and so offers no alternative to capitalism’s current worldwide malaise.

If people like Keegan want to understand why, they could not do better than to turn to the very ideas they are so dismissive of, those of Marx. For he showed it was not this or that form of organisation of capitalism that leads to crisis, but the very defining features of the system.