MARKETS, MELTDOWN AND MARX

Eric Hobsbawm

For more than a decade there seemed only one viable economic system - unfettered capitalism. Now it is destroying Russia, failing in Asia and widening inequalities in the West. So why is new Labour still wedded to it? Eric Hobsbawm, Britain's foremost Marxist thinker, says it is time for Blair to go back to the basics of social democracy.

A funny thing happened on the way to the millennium: in 1998 Karl Marx came back. Ten years after it was assumed that he had been definitively interred under the rubble of the Berlin Wall, 10 years after the irreversible triumph of liberalism and the end of history had been proclaimed, here he is back in circulation on the 150th anniversary of the Communist Manifesto which, to everyone's surprise, including the ageing family of the old Marxists, produced an enormous echo in the press, entirely unexpected even a few months earlier. And all except some rare old cold-war holdouts stressed one thing: what this man wrote 150 years ago about the nature and tendencies of global capitalism rings amazingly true today! The triumphalism of 1989 has been replaced by nervous assurances that, whatever the arguments of Das Kapital, the [capitalist] system is, after all,basically sound.

Still people rediscover the downside of capitalism not by reading the Manifesto but by observing what it does in practice. That there was something wrong with the way the global economy worked in the 1990s first became obvious not to economists and politicians but to thinking capitalists like George Soros. I don't just mean that Soros announced many months ago (Atlantic Monthly, February 1997), to his credit as a person rather than as a businessman, that free market capitalism is the enemy of his guru Karl Popper's 'open society', along with nationalism, fundamentalism and the no longer operational communism.

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I mean that for some time now he has pointed out that the uncontrolled global financial system, which he had exploited as a successful speculator, was an invitation to disaster, and that the idea that it is beyond control cannot be accepted. Others have also come to the conclusion that the institutions which have attempted to regulate it, and notably the IMF,have been barking up the wrong tree. It is now evident that the critics are right. The crisis which began in South-East and East Asia and is now, according to the Economist, turning into a global capitalist crisis has suddenly reminded us just how badly capitalism can go wrong. This should long have been evident from the former USSR, the only country in the world to test the theory that all an economy needs is the introduction of the free market. Still, nobody paid much attention to the unparalleled social and human tragedy of the peoples of the former USSR until the Asian crisis threatened to destabilise the global financial system via the financial collapse of Russia. The Asian crisis also showed two other things. It has played hell with the reputation of bankers, economic advisers and gurus. The giant, and spectacularly misnamed, Long-Term Capital Management Fund, with the assistance of two Nobel-prize economists and an allegedly foolproof system, gambled away well over $100 billion until it had to be saved by,
in effect, a rescue operation of the US Federal government.

It was only months ago that Michel Camdessus of the IMF was referring to the financial turmoil in the East as 'a blessing in disguise' because it would move the Asian tiger economies towards more American-style free market capitalism. No wonder 'the IMF's reputation' - this is the Times speaking - 'has sunk to its lowest since the body was set up... in 1944'.

Under the impact of economic crisis not only governments but some of the most passionate champions of free-market globalisation, such as economists Paul Krugman and Jagdish Bhagwati, are now envisaging heterodox economic policies like exchange control, amid weepings and gnashings of teeth from the City of London. And this impact has demonstrated, in the case of Indonesia, that a major breakdown of capitalism can overthrow powerful political regimes. The time has therefore come to rethink the assumptions on which the policies of too many governments, including our own New Labour, have been based since about 1980 and on which the opinions of most economists have been based for even longer. These are basically the assumptions of laissez-faire, namely, of the superiority of the free market economy over any other. Why this should have appealed to ideologically individualist governments committed to capitalism on principle is clear. Why governments like Tony Blair's could be described as Thatcherism in trousers needs more explanation. I suggest there are four reasons.

First, that by the end of the 1970s the classic policies of the 'Golden Age' mixed economy had ceased to work well, and those of state-planned socialism were hardly working at all.

Second, there is what might be called the consensus of the neoclassical academic economists who dream of a nirvana of an optimally efficient and frictionless economy in a self-adjusting global market.

That is to say an economy with minimal interference by states or other institutions. Given the state of the world, this implied a systematic policy of privatising and deregulating the economy. In practice, of course, this was an economics which fitted the economy of transnational corporations and other operators in a period of boom. This consensus is now at an end. The third reason for Blair's attachment to the free market is what might be called the neo-liberal ideologists' equivalent to the old Marxists' belief in historical inevitability: the global economy is here. It makes any attempt at a national economy or a national policy impossible and therefore pointless. Any views to the contrary are, in the words of an earlier Paul Krugman, 'based on the failure to understand even the simplest economic facts and concepts'. It ain't so. Fourth, because New Labour assumed that, after Thatcher, political majorities depended on getting the votes of the Thatcherite middle class. Hence it had to bind itself hand and foot for five years. This may or may not have been the reason we won, but in the present turbulent state of the world economy it might be unwise to boast too much of rigid commitments till 2002, regardless of changing circumstances. What the current economic orthodoxy gives governments today is not a guide to policy but a marvellous bunch of excuses.

Of course some of the excuses offered by 'globalisation' are legitimate, at least in part, since there are some things that are actually beyond the power of any single government. But 'we don't want to do this' should not be disguised as 'there is nothing we can do about it'. There is and it must be done. Faced with a Wall Street collapse, will economists discover the powers of state action? Let there be an end to excuses, self-delusion or sales-talk about the importance of government in economics.

The global economy is indeed here to stay. But three things about it must be said. First, its operation and its further progress are not identical to the policy of extreme laissez-faire - as is proved by what has happened to Russia since the free marketeers got hold of it. Indeed Russia has made it impossible to overlook the problem of what the Nobel Laureate Douglass North calls 'transition economics'.

Second, the actors in the global market can no more function smoothly without non-market institutions than the national market. At the very least they require the equivalent of a system of law with sanctions to guarantee the performance of contracts and, more to the point, outside regulation -very notably of financial markets. The global economy has not replaced the world of states, political power and policies. The two coexist in mutual negotiation.

And third, the power of states over their territories may have decreased since, after two centuries of growth, it reached its peak after the second world war. Nevertheless their powers of control over the economy on their territory remain substantial.

There is, however, one way in which the rise of the global economy modifies the priorities of a Labour government. The further economic growth of Britain depends only to a small extent on what governments do in Britain alone. Fortunately, whatever may be said for the world as a whole, Britain's problem - like that of the other rich and advanced economies of the world - is not economic growth as such. That has taken care of itself for 200 years, except for relatively brief periods during the cyclical depressions which are the basic pulse-beat of the capitalist economy.

Moreover Britain today, like the other core regions of the European Union, belongs to the richest and most prosperous part of the world. The worst that is likely to happen economically to the British peoples is insignificant by the standards of what can happen, and is happening, to three-quarters of the human race. This is also due partly to the fact that we belong to the region of strong and effective welfare states, ie of states fundamentally concerned with matters of welfare and social redistribution. (This is probably the most lasting heritage of the organised labour movements of which Europe was the original home.) Let's not use the rhetoric of extremes. The worst economic scenario is not 'catastrophe', and the best is not paradise. The best is to go on doing as well as we have been doing in absolute terms for the past 40 years. It is in the social, cultural and - possibly - political field that there is scope for radical deterioration. But this is not my subject here.

Our basic problem therefore is twofold. It is how we control and regulate the operations of a capitalist market economy which, by its nature, tends towards what the American journalist William Pfaff calls 'nihilo-capitalism'. This can't be done by Britain single-handed, but for the first time in many years there is a possibility of coordinated action by several governments. The world crisis has once again put this question on the global agenda. It also happens to coincide with one of the rare moments in 20th-century history - the first since 1947 - when most countries of what has become the European Union are under governments of the centre-left, elected by voters sceptical of free-market fundamentalism. Whether this is a cause for optimism remains to be seen.

The other problem is how to distribute the enormous wealth generated and accumulated by our society to its inhabitants. This the market visibly does not do either. But doing something about the growing inequality and social maldistribution is in the power of nation-states because, give or take a few percentage points which are under the control of the EU, the nation-state remains the only device available for distributing GNPs by other than profit criteria. It still remains the essential tool. So it is time for the Labour government to remember that its major objective is not national wealth but welfare and social fairness.

There is, of course, both an economic and a social, as well as a convincing moral case for diminishing our strikingly increased inequality. A relatively even distribution of incomes has been, historically, good for economic growth. Incidentally, OECD growth in the period of ultra-liberalism has been slower than in the Keynesian Golden Age. And, as Richard Wilkinson and others have demonstrated, the greater the social and economic equality, the better a region's health, mortality, crime rates and 'civic community', hence, for those who need such arguments, the lower the financial cost to society.

How much we can afford to distribute or redistribute cannot be measured in absolute figures, or in terms of existing public expenditure, but only as a percentage of the total national wealth, whatever that is used for. Almost all the political argument in this field is about what government wants to pay, not whether it will take a larger/smaller share of the national product. Thus, by GDP criteria, Britain's expenditure on the National Health Service has risen over the past 30 years, as in all states, but it has remained lower than in all other developed states and has risen less. As our GDP rises faster than population, more becomes available to spend per capita. This may be so even if a regime wants to lower the percentage of the product that government takes as revenue, as the Tories did.

I shall say nothing about the welfare system, except that I agree with Frank Field [the former social security minister] on three crucial points: one that it must be universal, two that we must break with a system that generates welfare dependency among people of working age, and three that it can no longer be - perhaps that it should not ever have been - purely a system of state transfers.

On the other hand both the exclusively state-oriented policy of the Beveridge system of social security and the substantial rise in the black or grey economy, which the Thatcherite policy of fostering self-employment encouraged, has made this harder to achieve. It would have been a lot easier to solve the problem of adequate pensions for poorer working people with a lifetime of miscellaneous and changing jobs if trade unions and mutual aid societies had not been pushed entirely out of the system by the state. I also agree with Frank Field that welfare reform requires a lot more money, but, as I have suggested above, the argument that Britain can't afford it is moonshine.

As for the labour market, it has changed in three ways. It is now possible to produce the GDP with far smaller labour inputs than over before, and in very different ways. Also, labour markets for different occupations, levels of skill or income become virtually incommensurable. In every field and at all levels, the extremes grow and the winners take all.

What is happening today - and in the absence of unions and government action, without any countervailing forces - is what we see in the world cities like London and New York which are the hubs of the global economy. There is a polarisation between a concentration of high-income-generating jobs in high-profit making firms (finance, media) and a low-wage, casual, service population - between the City dealers and the office cleaners and security staff, catering workers etc. Finally the labour market is shrinking, thanks to the expansion of the informal or grey or black economy, which is fairly universal - but, obviously, much more rapid in states with neo-liberal policies, such as Mrs Thatcher's, which discouraged regular employment.

This brings me to the big question. Ideologically the Blair government is today distinctly to the right of the other centre left governments in the West - certainly of Clinton, Jospin, Prodi, probably of the new German government. How far is it prepared to recognise that the economic theory, or the excuses, it inherited from its predecessor, are going down the tubes? How far will it abandon a policy which was, essentially, based on the neo-liberal economists' consensus? Will New Labour in retrospect be judged to have failed for the same reasons that Very Old Labour failed in 1929 31, namely a refusal to break with current economic orthodoxy? At that time the rethinking came from the Liberals (Keynes was, you remember, a member of the Liberal Party). Will it again come from that quarter? How far will it recognise that there is not only a social, but an economic, case for returning to social-democratic policies? These are questions only Downing Street can answer. And 'standing still and emoting fuzzily' about Third Ways, is not enough.

Three things may be said in conclusion. The first was well known to Keynes, who knew about the world of business. Let there be an end to the assumption that government must give businessmen everything they say is indispensable to keep them happy. True, an economy is in trouble if the flow of profit, which fuels the private sector engine, runs dry. But we are not obliged to believe them if, having got used to extortionate salaries and profits, they claim that anything less will bring the economy to a grinding halt. Neither the British motor-trade nor British supermarkets will go out of business if their mark-ups are reduced to the lower level of American and continental supermarkets or motor dealers.

Second, as the most recent elections won by the left have shown notably in Sweden and Germany - voters are readier than economic advisers for positive government action. This may be so even in Britain. Whether or not government should renationalise the railways, if it did it is a safe bet that at present it would lose no votes.

Third, and most important is this: however powerful the argument 'this will not get us elected' was before May 1997, it must not be confused with the proposition: 'Our top priority is to get re-elected'. Carrying out its programme is a justification of reform in governments; getting re-elected isn't still less becoming the permanent party of government. (Actually,as we all know, a permanent political monopoly has not proved to be such a smart idea, either in undemocratic countries or in democratic ones.) Like President Clinton, New Labour will be judged, both by history and by the people, by other criteria than its success in winning another election. In any case, if there is any way of losing the next election, it is by not recognising that the age of neo-liberalism is over. ■

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