THE SECOND MELTDOWN OF THE IDEOLOGY OF MARKET FUNDAMENTALISM

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1. MARKET FUNDAMENTALISM MARK I AND MARK II

It was not only banks and large corporations that experienced meltdown in the USA in September-October 2008. What is perhaps more important is that the ideology of market fundamentalism (Mark II) has also collapsed. This was also called the ideology of *neoliberal globalism* and it was used over the past 30 years to legitimise the American controlled system of global capitalism (also called the American empire). The ideology of market fundamentalism was popularised since the early 1980s by the following slogans: "roll back the state"; "leave it to the market"; "the market knows better". Its policy instruments were privatisation, deregulation, commodification, liberalisation and a further "enclosure of the commons".

The meltdown of market fundamentalism in 2008 was the second meltdown of this ideology. The first meltdown took place in 1929, when the Wall Street Stock Exchange collapsed and the world was dragged into the Great Depression (1929-1933). Market fundamentalism Mark I was also called the ideology of *laissez-faire capitalism* (or economic liberalism) and was used from ±1850 until ±1918/31 to legitimise the British-controlled system of global capitalism (also called the British empire). In this period the process of globalisation and free-market capitalism were driven by the conviction that the unrestrained market system was a *self-regulating* system and that government intervention into the system will cause more harm than good.

2. THE SOCIAL DEMOCRATIC CONSENSUS FROM 1950 UNTIL 1980

The period of laissez-faire capitalism ended in Europe during the First World War but not in the USA. During the 1920s the ideology of laissez-faire capitalism and the system of "rugged capitalism" reigned supreme in the USA. During the "roaring twenties" the Americans were convinced that unrestrained free-market capitalism was enabling them to dance to the tune of the Charleston towards everlasting prosperity. President Coolridge captured the spirit of the period with his remark that "the business of America is business".

The excessive speculation on Wall Street led to its collapse on 29 October 1929 and to the most severe depression the world has ever experienced. In 1933 the unemployment rates were 25% in the US, 30% in France and Britain and 40% in Germany.

President Roosevelt, with his New Deal policy of 1933, was in favour of a system of mixed-capitalism in which the state and the market should play complementary roles in relation to each other. John Maynard Keynes published his *General Theory* in 1936 in which he supplied the theoretical justification for a system of mixed-capitalism and for comprehensive government intervention in the economies of Western countries.

After the Second World War all the industrialised countries reached a remarkable degree of consensus about what the nature of the politico-economic system in the post-war period ought to be. They decided to institutionalise a system of *social democratic capitalism*, i.e. a system in which the democratically elected state would no longer play a subsidiary role to the capitalist system, as had been the case until then. The purpose of the *social democratic* consensus (ideology) was to include the working class (or the lower classes) – about 70% of the total population – in the advantages and privileges of the politico-economic system. This class was excluded from such advantages and privileges in the system of laissez-faire capitalism. The leaders of the post-war world realised that the working class had made such huge sacrifices as soldiers during the two world wars and had suffered so much hardship during the depression of the 1930s that they could not any longer be excluded from the advantages and privileges of a growing economy.

The post-war system of social democratic capitalism was based on the ideology of social democracy. The governments of industrialised countries committed themselves to building proper welfare states, to maintain full employment, to implement poverty-alleviation programmes and to maintain price and exchange rate stability as well as control over the international flow of capital within the framework of the Bretton Woods System.

The social democratic consensus was in place in all industrialised countries from ±1950 until ±1980. It attained almost all its aims: reasonably full employment, a high rate of economic growth, a more equal distribution of property and income, better education and health services for all, and price and exchange rate stability. The period became known as the Golden Age of Social Democratic Capitalism.

3. THE REAGAN/THATCHER "TURN" TOWARDS NEOLIBERALISM AND MARKET FUNDAMENTALISM

The 1970s were a problematic decade for the USA for several reasons: the Vietnam War was lost; the Watergate Affair undermined US prestige; the Egypt-Israel War (1973) was lost; OPEC was launched and the price of oil increased from $3 a barrel to $12; stagflation and tax revolts were experienced in the USA; and the Iranian Revolution (1979) precipitated a second oil crisis.

In the midst of these economic and political problems Margaret Thatcher (1979) and Ronald Reagan (1981) suspended their participation in the post-war social-democratic consensus. Both Thatcher and Reagan were taken in tow by the capitalist elite in their respective countries to restore the power of the capitalist class vis-à-vis the working class and vis-à-vis the democratic state. Both made a sharp "rightwards" turn on the ideological spectrum. By implementing their neoliberal policy approach of privatisation, deregulation and the retrenchment of the welfare state, the state again became the "servant" of capital, while labour became again systemically excluded and again put in a position of subordination to capital as was the case in the system of laissez-faire capitalism (1850-1918/31).

In all fairness it should be acknowledged that the politico-economic system institutionalised after the war had became somewhat clumsy by the 1970s. The rapid growth of the welfare state led to all kinds of bureaucratic inefficiencies and red tape as problems that needed to be addressed. The continental countries brought about moderate reform. Britain and the USA – and the capitalist elites in these countries – were not prepared to support moderate reform. They were adamant that the clock should be turned back to the laissez-faire "old order" of the nineteenth century. Through a massive propaganda campaign capital succeeded in regaining its position of power vis-à-vis labour and also succeeded in the British-American countries in "relegating" the state to the position of "servant" of capital instead of being a servant of capital and labour as was the case during the period of social democratic capitalism (1950-1980).

In all the British-American countries the share of GDP earned by labour declined from ±70% in 1980 to ±60% in 2008. The distribution of property and income had become somewhat more

equally distributed in British/American countries from 1950 until 1980, but became much more unequally distributed after 1980.[1]

The social democratic approach was perpetuated after 1980 in continental Europe. These countries, however, found it increasingly difficult to maintain their social democratic approach intact within the framework of the American-controlled system of neoliberal global capitalism. But income and property remain much more equally distributed in continental countries than in the British-American world (see Cornia, 2004: Chapter 2).

4. THE DOUBTFUL JUSTIFICATION FOR MARKET FUNDAMENTALISM

The ideology of market fundamentalism has been justified over the past ±200 years in the name of certain persons and/or schools of economic thought and by arguments about what the real purpose of the state and the capitalist economy is or should be. It is necessary to make a critical analysis of all these justifications.

4.1 *Adam Smith's Invisible Hand*

[1] The share of wealth held by the top 1% of the American population was more than 40% in 1920. It declined to 20% during the mid-seventies and increased again to more than 40% in the early 1990s (see Thurow, 1996: 32). According to *Newsweek* (26 Jan 2009), the after-tax income in the USA grew from 1979 until 2004 by 9% for the bottom 20%, by 69% for the top 20% and by 176% for the top 1%. The top 20% of tax payers realised nearly three quarters of all income gains between 1979–2000.

Stiglitz made this critical evaluation of neoliberal capitalism after the bankruptcy of Enron and other large American corporations. After the meltdown of 2008, his criticism of neoliberal capitalism has a prophetic quality.

4.2 *The New Classical School of Economists*

The overwhelming majority of professional economists at universities and at research institutions in the Western world are neoclassical economists. The name of economics as an academic discipline was originally Political Economy. In the last quarter of the nineteenth century a new school of economist emerged – the neoclassical school. This school is of the opinion that the free market economy (or the capitalist system) is a *natural* construct and that it is possible to formulate "economic" laws that will be as consistent and as predictable as the natural laws that are formulated by the scientists who study physics and the other natural sciences. The neoclassical economists then changed the name of Political Economy into *Economics* to imply that it was a natural science like *Physics*.

Joseph Stiglitz observes that neo-classical economics has suffered "a triumph of ideology over science". Instead of regarding their theories as tools in the pursuit of knowledge, neoclassical economists made them the required viewpoints from which to look at economic phenomena. As far as they are concerned, "reality" should adapt to their "theories" – not the other way around.

The neoclassical school not only regarded "the competitive free market system" as a *natural* construct that operates in accordance with certain discernable economic laws. They also claimed that this system is a *self-regulating* system in which the market price of every commodity will be determined by natural forces at the equilibrium level (where supply is equal to demand) and that, if all the individual markets (including the labour and the money markets) are in equilibrium, a macro-economic equilibrium would prevail. According to the ideology of free market capitalism, the great virtue of this system is that it will allocate scarce resources efficiently and will create conditions that will be conducive to capital accumulation and a high rate of economic growth. In this system all productive resources will be remunerated in accordance with their productivity.

Therefore, everyone will benefit fairly from the advantages of the system. A huge gap exists, however, between this theory and the hard reality.

Over the years very complicated mathematical and econometrical models were built by neo-classical economists in an attempt to bridge the huge "gap" between theory and reality. In all these attempts theory has maintained its ascendancy over reality. In spite of these attempts, the idea (or ideology) that the free market system is a *self-regulating* system and that government ought not to intervene with its (alleged) virtuous operations, has lived on to underpin not only laissez-faire capitalism (1850-1931), but also neoliberal capitalism (1980-2008).

Unfortunately for the neoclassical economists, capitalism – in whatever version – is not a natural

The impression is often created by neoclassical economists that the "market price" is a good enough indication of the true *value* of the relevant article. To suggest that market prices – given the manifold imperfections of all markets – offer a solution to the *value* problem in Political Economy is preposterous. The value problem is a *moral* problem that can in no circumstances be left to be solved by the vicissitudes of market forces!

Economists who succeed in questioning the "correctness" of market prices convincingly also succeed in questioning the legitimacy of capitalism. Amartya Sen (2006) is such an economist. He describes the believability or the "correctness" of market prices as follows:

The roots of capitalism are to be found in the Italian city-states of the fourteenth and fifteenth centuries: Florence, Venice and Genoa. It was in these cities that the accumulation of capital was conceived as an end in itself independent of what the purpose of political authority in these cities may have been. In due course the capitalist class in these cities succeeded in organising themselves into capitalist oligarchies that took over the government of the city states. The capitalist oligarchies then used their "political" power for waging war and building empires, and to promote their sectional interests and their opportunities for accumulation and profit-making.

The development of capitalism could not have taken place over the past 700 years without the active involvement of the city-state and nation-state governments in matters concerning the creation of the institutional framework of the capitalist system. To put it in unequivocal terms, *a market-orientated economy only becomes a capitalist system when important parts of the business sector succeed in prescribing to the government how to protect and how to advance the business elite's interests*. In this regard the governments of capitalist countries have played an indispensable role in creating and maintaining property rights and in supplying the legal framework necessary for property owners to define and to exercise their property rights. The same is true about other essential capitalist institutions such as the development of money, of banking and of market institutions. During the long period of capitalist development, the capitalist elite/class regularly pressurised the nation states – and is still pressurising them – to create circumstances conducive to capital accumulation and profit-making. The development of capitalism was, therefore, for many centuries closely intertwined with state building and war making and, ultimately, with empire building.

In the seventeenth century the Dutch capitalist oligarchy that in effect governed the Netherlands was responsible for the development of banking and financial institutions, and for waging continuous wars, and it succeeded in capital accumulation through empire building.

4.4 *Growthmanship and the purpose of a politico-economic system*

An important feature of the propaganda onslaught of the capitalist elite – in both laissez-faire and neoliberal capitalism – was that a high rate of economic growth is the *panacea* that will solve not only the problems of the capitalist class, but also of the population at large. Those that regard a high economic growth rate as a panacea and as the main (or only) purpose of an economic system are making themselves guilty of what is known as *growthmanship*. Kenneth Galbraith (1967: 164, 348) describes the belief in growthmanship in the USA sarcastically as follows:

The belief that increased production is a worthy social goal is very nearly absolute. It is imposed by assumption, and this assumption the ordinary individual encounters, in the ordinary course of business, a thousand times a year. Things are better because production is up. There is exceptional improvement because it is up more than ever before. That social progress is identical with a rising standard of living has the aspect of faith. *It is, per se, a good thing.*

C. Elliott (in Munby, 1966: 339-340) warns that those in favour of growthmanship are guilty of "making the rate of growth of income per head a fetish or a talisman [and with it] we are in danger of making it also the ultimate criterion by which everything else is judged ... One may ask oneself whether economic growth ... is not becoming a new golden calf. The hysterical fascination that the rate of growth of income per head exerts [in industrial countries] is infectious.

The rate of economic growth is not, and cannot be, *the* aim of a politico-economic system. The obsession with growthmanship is an inappropriate approach that can only be propagated by those who are of the opinion that an economic system (for example, the capitalist system) operates in isolation from other social systems, and that an economic system (capitalism) is *per se* a law unto itself.

The capitalist system cannot operate in a political vacuum. The appropriate question to ask is not what the aim of the economic system (capitalism) ought to be, but what the aim of the politico-economic system (democratic capitalism) ought to be. The aim that should be pursued by the joint politico-economic system of a country is to promote the general interest or the common good (or the *bonum commune*) or the social welfare of the *society at large*. Let us concentrate on social welfare in an attempt to give concrete meaning to these concepts.

Britain fought six big mercantilist wars from 1689 to 1815. During this period Britain was a "fiscal military state" and in a position to finance its many wars better than its competitors by using its more developed taxation and loan systems. The British government's active involvement in the military industry, in building the navy, in conquering new colonies and in opening up new opportunities for accumulation for the emerging British capitalist class to a very large extent stimulated capitalist growth in the 18th century.

In the nineteenth century Britain became a "navy-industrial complex". Although a remarkable peace was maintained between the European countries from 1815 until 1914, Britain fought 50 fairly big colonial wars in the nineteenth century to protect the capitalist class's huge interests in Britain's large territorial colonies in Asia and Africa.

In 1961 President Dwight Eisenhower warned that "we must guard against the acquisition of unwarranted influence, whether sought or unsought, by the *military-industrial complex*". Eisenhower was justifiably concerned about the way the military industry had restricted his abilities to take sound political decisions. Since 1961 successive US administrations have been pressurised to intervene regularly in the private sector economy of the USA to promote the interests of the capitalist elite. In the early 1980s Ronald Reagan succumbed to the pressure of corporate America when he took his "turn" to the right and accepted the neoliberal agenda. His policy measures of "rolling back the state, retrenching social security and deregulating the corporate sector" suited the corporate sector like a glove. What was at stake in the early 1980s was a realignment of the power relationship between capital and labour. Reagan's agenda restored the dominant position of capital over labour and restored the situation that had been in place during the centuries before the post-war social democratic consensus.

The social welfare of a country depends on many factors and on the mutual relationship between these factors. It does not depend on economic growth alone, but also on the degree to which the democratic state and the capitalist economy succeed to promote jointly all the factors that are relavent to "social welfare", while taking into account the relationships of complementarity and conflict that may exist between these factors and also having the mechanisms to make the trade-offs that are inevitable. From this broad perspective we can ckaim that the *social welfare* of a country depends mainly on four factors, outlined below

4.4.1 *On economic growth*

Social welfare depends on how efficiently an economy operates and on the level of economic growth. To attain these things the government has to create a sound economic order and install and maintain a sound regulatory framework. The government must continuously create circumstances that will be conducive to economic growth. The capitalist system does not always operate efficiently and is often inclined towards "market failures" and to "market distortions" (by corporations that have too much power at their disposal). The government must try to correct these failures and distortions. We must be aware of the fact that the government sector is also inclined towards "bureaucratic failures". Consequently, a huge responsibility rests on the shoulders of civil society to scrutinise the actions of both the capitalist economy and the democratic state. Democracy and capitalism must constantly be accountable for their deeds.

4.4.2 *On stability and sustainability*

Social welfare also depends on the stability and sustainability of the economic, political, social and ecological systems. The maintenance of high levels of employment and price and exchange rate stability are important from a narrow economic point of view. But all kinds of conflict can emerge between economic growth and price stability, or between economic growth and ecological sustainability. In all such cases, it is the responsibility of the democratically elected government to "administer" the necessary trade-offs in such a manner that social welfare will be promoted – over the short term, but especially over the long term.

The implication of a high economic growth rate for ecological sustainability has become a very serious matter. During the period of neoliberal capitalism (1980-2008), the USA displayed a shocking lack of sensitivity towards the ecological implications of economic growth and high living standards. The US population is one twentieth of the world population, but it is responsible for almost one third of the carbon dioxide pollution. In spite of this dismal state of affairs, President Bush was not prepared to sign the Kyoto Protocol on global warming. The reason he did not sign it was that the capitalist elite regarded it as against the grain of its short-term economic growth interests!

4.4.3 *On the distribution of property, income and opportunities*

The social welfare of a country depends critically on how equally (or unequally) property, income and opportunities are distributed between the different groups or classes in society.

The government ought to be concerned with *social justice*, even if the steps to promote it lead to a lower economic growth rate. The free market system has a *systemic* tendency to distribute property and income "upwards". The social democratic governments in continental Europe rectified this tendency with high levels of taxation on the rich and high social spending on the poor. The continental welfare state operates with much stronger unemployment insurance than in America.

The neoliberal governments in British-American countries have turned a blind eye to the market's tendency to distribute property and income "upwards". It is, therefore, not surprising

that property and income became much more *unequally* distributed in British-American countries since 1980 compared with what happened in continental Europe.[3]

4.4.4 *On civilization and value considerations*

The social welfare of countries depends in last resort – but very importantly – on considerations of civilization and values. It should be acknowledged that the term "civilization" is a "quicksilver" entity and that it is not easy to give a concrete definition to it. But the importance of maintaining and promoting civilization and adhering to certain moral and/or religious values cannot be underestimated. The government has to promote civilization and the chosen values that support it through its educational and legal systems and through other institutions. Non-government organisations often make an important contribution to the development of civilization.

We have reason to be sceptical, however, about the contribution neoliberal capitalism has made over the past 30 years towards promoting civilization in the true sense of the world. The capitalist elite have taken the government in tow during this period. The capitalist elite were powerful enough during this period to determine not only the economic agenda, but also the government's political, social and cultural agendas. It has indeed elevated economic growth and material wealth to a fetish and a talisman. The preference that was given to the wealth and the privileges of the top 20% to the detriment of the poorest 50% is indeed not a sign of civilization. The agenda of neoliberal capitalism fostered a rich man's cult and a tradition of hidden theft, it sponged on society with its avarice and greed; it legitimised "uncivilized" behaviour towards those living in poverty and destitution; it glorified unrestrained individual selfishness and created space for the transnational corporations to do as they liked globally. In the American neoliberal system the powerful transnational corporations cannot be called to accountability by either the government or by society at large.

The American per capita GDP is ±25% higher than that of Western European countries. But if we consider the fact that these countries give greater weight to the "non-economic aspects of life" to a higher degree than the USA in their social democratic approach, we have reasons to

[3] In the US the top 1% of American receives in 2005 14.3% of the national income – their largest share since 1929. The top 5% receives 27,2%, the top 20% received 52,2%, the next 20% received 14,4%, the middle 20% received 14,9, the next lowest 20% received 9,1% and the lowest 20% only 4,2%. The lowest 40% received 13,3% compared to the 27,2% of the top 5% ! (see Irwin, 2008: 17).

believe that the social welfare of the Western European countries is at a higher level than the social welfare of the USA.

5. CONCLUSION

President Barrack Obama said in his inaugural address that the meltdown "crisis has reminded us that without a watchful eye, the market spins out of control. The nation cannot prosper long when it favours only the prosperous". He would have done better if he had stated unequivocally that the market had been spinning out of control during the past three decades. The big challenge facing the Obama administration is whether it is powerful enough vis-à-vis the capitalist elite and/or the corporate sector. Real power since 1980 was vested in New York and not in Washington. The Obama administration has the responsibility to shift enough power back to Washington. Will the meltdown crisis enable him to administer such a powershift? It is doubtful. Perhaps the meltdown crisis is not deep enough to enable him to administer a large enough powershift to enable him to restore a system of social democratic capitalism not only in the US, but also in the relation between the North and the South in global capitalism. The hugh domestic inequalities in British American countries and the global inequalities between the North and the South ought to be address urgently to restore *social justice* in a shockingly divided world.

Amartya Sen writes in an article on "Capitalism Beyond the Crisis" (New York Review of Books, Vol 56 (5), March 26,2009) as follows about the attention the inequality problem ought to receive amidst the present economic crisis:

> "Since the suffering of the most deprived people in each economy – and in the world – demands the most urgent attention, the role of supportive cooperation between business and government cannot stop only with mutually coordinated expansion of an economy. There is a critical need for paying special attention to the underdogs of society in planning a response to the current crisis, and in going beyond measures to produce general economic expansion"

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