



13 September 2009
Economics

Taking stock of the market

25 January 2002

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The Case against the Global Economy and for a Turn Towards Localization - Private Planet

Let's fix the flaws of capitalism, not dismantle the system, says Huw Dixon.

The idea of free trade and the free market is a powerful ideology. The people who make money and wealth believe in it because it is in their interest to believe in it. Thus: markets are sacred and should not be interfered with, businesses should be left to make money. This imperative of faith can override all else. During the first blossoming of liberal free-trade ideology in the 19th century, even famines in Ireland and India were not seen as important enough for the British imperial power to interfere with the market: better to let people die. Unless, that is, business needed access to foreign markets. Then governments could be very useful, with their diplomats and guns.

In the 20th century, the United States became the nation whose business was business. In the late 1930s, the US Council on Foreign Relations developed a vision of a world opened up to trade with the US, so that US business would have access to world markets. This council consisted of businessmen and the foreign-policy establishment. The same people set up the Bretton Woods system and the related institutions of the International Monetary Fund, the World Bank and later the General Agreement on Tariffs and Trade (the predecessor of the World Trade Organisation). The driving vision was that creating a freer world-trade system might well make all participants better off, and would certainly benefit the US. The practical lever applied to developing nations was the loan: lend a country money on condition that it must open its markets and sign up to a list of conditions. The pursuit of this goal was moderated by the need to contain communism prior to 1990. Since then the IMF, the World Bank and the WTO have set about moulding the world to conform to the 1990s "Washington consensus", a collection of rightwing economic beliefs. Developing countries should liberalise their financial systems, privatise state-owned companies, deregulate markets and open up to international trade. Unsurprisingly, these are the very policies that maximise opportunities for the corporations of the US, Japan and the European Union to make money in these developing nations. The policies can have, and have had, disastrous effects on many of the economies concerned.

Both of these books explore various facets and details of this process. *The Case against the Global Economy* is an updated and globalised edition of the 1996 book, which was mainly US oriented. Its contributors cover many issues.

Several common themes emerge from this collection. First, the multilateral institutions such as the IMF and the WTO override or subvert national democracy. It is perfectly legitimate for countries to want to have a vigorous state-run welfare system covering health, education and other areas. Indeed, several of the richest countries have developed and prospered under just this environment. However, this does not fit in with the Washington consensus. Developing countries are being forced to adopt free-market alternatives to the welfare state. The General Agreement on Trades in Services attempts to liberalise all markets in developed countries, which will not go down well with European voters, as Agnes Bertrand and Laurence Kalfitides argue. However, as the Danish referendum on the euro showed, there is a gulf between what political elites see as our future and what we want.

Second, there is a drift downwards in standards. If one country has higher standards in some area (such as the environment), these are regarded as "non-tariff barriers" to trade. Countries and regional governments can be forced to abandon legitimate choices, and democracy is subverted. This drift downwards is not inevitable. The EU has set up a free-trade area based on harmonising standards, but many of these have been harmonised at high levels.

For all its faults, the EU is a relatively open institution, in which democratic politicians have the last word. The WTO is a closed, unelected star chamber, providing unaccountable judgements in secret sittings. Nowhere is

this downward drift better enshrined than in the North American Free Trade Agreement (Nafta): already Canadian and Californian environmental legislation has been declared invalid. Anything other than the lowest standards can be seen as a barrier to trade, and firms can sue, indeed have sued governments for damages in terms of lost profits. A major omission from the book is detail on the workings of Nafta. The book concentrates on the impact of trade institutions on the developing world, but they are also a way for business to avoid home-grown environmental and other regulation in the developed world.

Third, trade policy is defined purely by business and corporate interests. The interests of consumers and others such as small-scale farmers are scarcely considered. Vandana Shiva gives an excellent account of the impact of WTO agreements on Indian agriculture. While the EU and US provide massive subsidies to their agricultural industries, the WTO agreement has made it harder for the Indian government to help its small non-corporate farmers. Much the same goes for the interests of consumers in the EU. We may not want to eat genetically modified food, but it has been a struggle even to get proper labelling accepted in principle; it is still illegal to label food as GM-free in the Nafta zone.

David Cromwell's *Private Planet* is a one-man show, written by a British oceanographer driven by moral outrage. His book covers more recent developments than the first book, but is more limited in scope. It has an excellent case study of the Multilateral Agreement on Investment, which is part of the attempt "to provide high standards of investment protection and liberalise investment". In fact, it is a far-reaching proposal that would greatly limit democratic powers of national and local governments. If foreign investors (that is global corporations) felt they were being treated unfairly, they would be able to bypass national courts and legal systems and go to a WTO-style star chamber to get matters decided. "Unfair" is not used in the commonsense meaning. It could mean that perfectly reasonable public policies that reduced profitable opportunities for foreign companies would be banned. A slogan such as "buy local food" or the removal of GM foods from schools could become illegal.

Neither book has any contribution by an economist. Indeed, economists are cast in a rather bad light. This is an important omission. Economics does not say that the free market is perfect. The market can give rise to an efficient outcome, but only under idealised conditions that rarely hold. Even then, it may well get the distribution of income and wealth wrong; the market seems to live quite happily with widespread poverty. Economics shows that there is a need for intervention in and regulation of the market. Few economists would argue that education or health services should be provided exclusively by the private sector. The imperfections of these markets are so great that the market will almost inevitably get things horribly wrong. That was why the state took them over in the first place.

Monopolies also need regulating. In this regard, the US leads the world with its anti-trust legislation dating back to the early 20th century. It is not surprising that the Washington consensus does not include a rigorous anti-trust competition policy, nor do the World Bank or IMF require newly privatised industries to be appropriately regulated. This demonstrates that the people behind these policies are just free-trade space cadets, not proper economists.

There is a strand in both these books that the market is immoral and evil. This is unhelpful. The market organises our infinitely complex society. There is no alternative: we cannot go back to nature or revisit Stalinism. If I have one criticism of these books, it is that while their analysis of the woes of capitalism is good, their calls for a fight-back are utopian. Capitalism is here to stay and we need to learn to live with it. To live in a humane, happy and healthy society, we must make markets work for us. That is what regulation and intervention are about. They have their limits, but they are essential if we are to ride the tiger of capitalism together in comfort.

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The Case against the Global Economy and for a Turn Towards Localization

Editor - Edward Goldsmith and Jerry Mander

ISBN - 1 85383 742 3

Publisher - Earthscan

Price - £14.95

Pages - 328

Private Planet: Corporate Plunder and the Fight Back

Author - David Cromwell
ISBN - 1 897766 62 9
Publisher - Jon Carpenter
(Alder House, Market Street, Charlbury, OX7 3PH)
Price - £12.99
Pages - 239