

LECTURE 16

The Liberal Defence of Capitalism

The present crisis, which is very great indeed, has placed the concept of ‘neo-liberalism’ into the past tense, in much the same way as George W Bush has vanished from the scene. The anti-capitalist movement has simultaneously lost two of its most important unifying concepts during the course of the last; the rapacious free market, and the leader of the neo-con neo-liberal conspiracy against mankind. And, it will take some time for the movement to develop a new set of poles and slogans around which to organise – the slaughter in Gaza and the role of anti-Zionism has provided the movement with a unifying element, but a more coherent view of the evils of capitalism will be needed in the context of wholesale recession and the potential for the spontaneous emergence of widespread social disorder. [Greece/Dublin/Spain]

However, it is precisely because of this, that it is important to look at the concept of ‘neo-liberalism’ to see the relationship between it and the movement’s approach to democracy and how many of its campaign’s and participants have sought to figure the relationship between capitalism and democracy.

In our discussion last week we looked briefly at the difficulty of determining how capitalist society is administered – how power is exercised – and we considered whether it was possible or useful to talk about the class character of the state by using the term ‘capitalist state’. Evidently, we cannot assume that capitalism and democracy are synonymous. Societies dominated by commodity production – commercial or capitalist societies – did not arise as democracies. Indeed many of those societies that

have struggled to become democracies over the course of the last hundred years or so have done so against very great odds.

Even today, there are many states in which, while they are founded upon the defence of private property and of free labour markets, power is exercised in a wholly repressive and dictatorial manner. Such states are *capitalist* in the sense that they are founded upon respect for private property and free labour markets, and *dictatorships* in the sense that they are not founded upon the rule of law, or upon genuinely representative assemblies – they routinely suppress freedom of speech and organisation, and persecute minorities.

Whereas all the rich, fully developed capitalist states are liberal democracies, a great many of the poorer capitalist states are repressive oligarchies or military dictatorships in which great power is often wielded by ‘pre-capitalist’ or ‘non-capitalist’ power brokers deeply embedded within family and other traditional social structures; structures which are often inimical to the operation of free labour markets or to the centrality and free disposal of private property.

[CRONY CAPITALISM, CLANS, TRIBES, FAMILY AND RELIGIOUS AND OTHER ETHNIC COMMITMENTS]

It is evident that liberal democratic states are founded upon the twin pillars of the defence of private property and the establishment and promotion of free labour. All the elements usually associated with these kinds of state: the rule of law,

representative government, freedom of speech, organisation and assembly (and, consequently, freedom of religion), and the recognition and defence of minority rights, might be said to flow from the defence of private property and of free labour.

However, private property and free labour might well be *necessary* conditions for liberal democracy, but they are certainly not *sufficient* conditions.

It is often argued that they are *necessary* conditions because *there can be no freedom without private property and free labour*. This is certainly what anybody who defends capitalism would argue.

Indeed, when we were looking at the ‘meaning of communism’ a week or so ago, and without reference to any actual historical contingencies, I argued that there was “a tyranny implicit in a form of majoritarian rule” in which the production of all goods and services and the direction of all labour was in the hands of the majority. I argued this because popular democratic assemblies would constitute the foundation of a popular democratic communist state; even in the most ideal of circumstances such a state would rest upon the abolition of private property, the abolition of the labour market, and the introduction of the direction of labour. The distinction between economic and political life would be dissolved and all decisions concerning resources and planning would be political decisions. Such democratic assemblies would rule by the warrant of the majority and it is unclear how those who disagreed with their decisions would be able to assert their right to oppose the abolition of private property or of free labour.

There is a similar, *though not so complete*, tyranny within liberal democratic states; it is not possible to ‘contract out’ of the defence of private property – although you are allowed to establish communes or co-operatives, in which collective ownership is incorporated into the capitalist system – you cannot overturn the reign of private property or of the free labour market – but you can work collectively or co-operatively if you wish to do so. However, under communism, you would not be allowed to contract out of the communal property arrangements or the direction of labour. Minorities opposed to the communist system would have much less room for manoeuvre than those opposed to capitalism currently have in relation to the establishment of ‘alternative’ modes of life and work.

So, the liberal democratic states do not, under any circumstances, accept or permit attacks upon private property or of the right of workers to freely choose whom they will work for. Representative assemblies and parliaments are able to regulate private property, to establish the rules and compensation applicable to situations in which property is nationalised or subject to compulsory purchase. Liberal democratic states also regulate the labour market, recognising trade unions, controlling the movement of labour across borders, establishing minimum wages and minimum conditions of employment – they may also in times of war and crisis impose conscription and the forcible direction of labour – but these emergency measures are never allowed to undermine the *ideal objective* which is the allocation of labour and the determination of the price of labour (i.e. the level of wages), by the pressure of *supply and demand* within a largely free labour market.

Consequently, it is highly unlikely that the dominant economic and social groups within the liberal democracies would peacefully accept the abolition of private property or of the free labour market. If by some chance, popular majorities were won in parliamentary elections for the abolition of private property and free labour, it is safe to assume that we would find ourselves in a profound constitutional emergency in which the liberal parameters of democratic debate would dissolve into a revolutionary crisis. Whether such a crisis was resolved by armed force or not it is clear that one conception of property, *private property OR communal property*, would have to prevail.

It is with these considerations in mind that we should now turn to the arguments advanced by those who believe in the defence of capitalism.

In the anti-capitalist movement defenders of capitalism are routinely referred to as 'neo-liberals'. *Opposition to 'neo-liberalism' is a key motivating value within the anti-capitalist movement.* However, 'neo-liberalism' is a term like 'socialist', 'communist', 'anarchist' and 'libertarian' – it is ill defined and has been put to many different and contradictory purposes. Neo-liberal can be applied to the big currency trader and capitalist, George Soros, and to the international civil servant, Joseph Stiglitz, who are both deeply critical of much, which the International Monetary Fund and other international institutions have done, in recent years. The term neo-liberal

can be applied to those who defended the ‘Washington consensus’¹ and to those who bitterly opposed it. The term can be applied to those who believe in balancing the free market with judicious state intervention and protection and those who believe in a free market free-for-all.

Similarly, there are other defenders of capitalism like, Vladimir Putin, or leading members of the Saudi royal family, who are emphatically *defenders of something like capitalism* but are most certainly not in favour of unrestricted ‘market forces’.

So, we have to be careful when we discuss ‘neo-liberalism’ to define what it is that we are talking about.

[THERE ARE ACTUALLY NO ‘NEO-LIBERALS’ – ONLY PEOPLE CALLED ‘NEO-LIBERALS’ BY THEIR ENEMIES]

For the purpose of this lecture I am talking about the movement among economists and political theorists, which through the course of the twentieth century opposed the growth of state control of economic life.

From the time of the First World War and the Russian Revolution there have been people who have argued strenuously against state economic control – arguing that

¹ See ‘Washington Consensus’, Harvard University, Center for International Development, Global Trade Negotiations, Home Page, <http://www.cid.harvard.edu/cidtrade/issues/washington.html>; and, John Williamson, ‘A Short History of the Washington Consensus’, Peterson Institute for International Economics, 2004, at <http://boodstore.iie.com/publications/papers/williamson0904-2.pdf>. Active links to both these articles can be found on Documents page at Studies in Anti-Capitalism at www.studiesinanti-capitalism.net.

whether such controls were put in place by Communists, Fascists, or by democratic parliaments, that state control of economic activity could only contribute to a restriction of personal liberty *or to the outright abolition of freedom*, and to economic stagnation; to an arbitrary restriction of economic growth and of general prosperity.

The outlook of these thinkers was informed both by the experience of the Soviet Union (founded in 1922) and to the responses of politicians, administrators and civil servants to the catastrophic slump in 1929. They were deeply critical of Social Democratic, Fascist, and Conservative, attempts to use state power to direct more and more of economic life. Consequently, they were critical of Franklin Delano Roosevelt's use of state power to promote the New Deal in the United States. And, if they accepted these measures at all would only see them as emergency measures that should be disposed of as rapidly as possible.

[THESE IDEAS ARE FOR OBVIOUS REASONS NOW GAINING RENEWED RELEVANCE]

[HOWEVER, UNLIKE FDR, OBAMA DOES NOT FACE THE SOVIET UNION OR ANY OTHER KIND OF INCIPIENT COMMUNIST THREAT – SO THERE IS LITTLE SUPPORT AMONG RULING CIRCLES FOR THE RENAISSANCE OF “NEW DEALISM” – CAPITALISTS IN AMERICA CAN POWER AHEAD WITHOUT MAKING DAMAGING CONCESSIONS TO THE STATE OR TO THE TRADE UNIONS – NO THREAT FROM THE LEFT, MEANS A FREE HAND ON THE RIGHT]

These pro-capitalist thinkers always associated the free use of private property with the freedom of the individual and the promotion of liberty.

They used the term ‘liberal’ in its European sense to mean a preference for minimal and dispersed government, “rather than in its current American sense which indicates the opposite preference for an extension and concentration of governmental powers.”² The word ‘liberal’ in America can often mean what Europeans would think of as ‘left-wing’ or ‘social democratic’ – in fact this American usage probably refers back to the kind of government intervention pioneered by Roosevelt’s New Deal.

So, the founders of the so-called ‘neo-liberal’ outlook saw themselves as defending human dignity and freedom. They believed that the erosion of commitment to these values throughout the world during the first half of the twentieth century was rooted in the decline in the belief in private property and competitive markets. They believed this because they believed that markets *diffuse power and initiative* in ways that promote freedom and dignity, while state (and collectivist) restrictions and controls (like protected monopolies, trade unionism and welfarism) inevitably lead to the stifling of initiative and the erosion of personal liberty.

Perhaps the most important early work to be produced by somebody promoting this school of thought was *Socialism: An Economic and Sociological Analysis*, published by Ludwig von Mises in Germany in 1922.³ This book contains an extremely detailed analysis of socialist economics and the political and social implications of such a form

² Mont Pelerin Society, ‘Short History and Statement of Aims’, <http://www.montpelerin.org/aboutmps.html>, MPS, accessed 08/03/06

³ Ludwig von Mises, *Die Gemeinwirtschaft: Untersuchungen über den Sozialismus*, Jena: Gustav Fischer. This text, slightly expanded, was first published in English as *Socialism: An Economic and Sociological Analysis*, translated by J. Kahane, London: Jonathan Cape, 1936. The edition used in this lecture is that published by Liberty Classics of Indianapolis in 1981 and was based upon the English edition published by Jonathan Cape in 1969.

of economic organisation. As such it formed the basis of a long and sustained campaign against the idea that state management of the economy was the ‘progressive’ solution to the problems encountered by capitalism during the first thirty years of the twentieth century.

In the years during and following the First World War *Fabianism* and *Sozialpolitik* influenced many young economists and planners. The idea of using the massive power of the state to attempt to overcome the problems of inflation, unemployment and poverty – resulted in a widespread belief in various forms of state intervention and regulation. Against this trend, Ludwig von Mises, succeeded in gathering around him a number of young intellectuals who were won over by the analysis he had set out in *Socialism: An Economic and Sociological Analysis*. This group faced many years of swimming against the stream, but the coherence and cogency of their arguments enabled them steadily to develop a greater appreciation of the political and social implications of the economic liberalism, which they were promoting.⁴

Among the most influential people in this group was F. A. Hayek. In April 1938 he published an article entitled, ‘Freedom and the Economic System’, in the *Contemporary Review*. Public Policy Pamphlets of the University of Chicago published an enlarged version of this article in 1939. And, it formed the basis of the hugely influential book, *The Road To Serfdom*, published in March 1944.

⁴ F. A. Hayek, ‘Foreword’, 1978, in Ludwig von Mises, *Socialism: An Economic and Sociological Analysis*, Indianapolis: Liberty Classics, 1981, pp.xix-xxiv.

Despite the impending defeat of the fascist states, the vast expansion of state intervention represented by the huge growth of Soviet and other Communist influences and by the war economies of the United States, Canada and the United Kingdom, prompted Hayek to seek to intensify discussion of what form development should take following the war.

Economic liberalism, which had been under constant pressure since 1914; Stalinist expansion and the growth of welfarism, trade unionism, and state intervention, in the West continued to represent a mortal threat to liberal values concerning both private property and free labour markets.

However, undaunted, Friedrich Hayek continued to argue for a defence of liberal values and the economic forms he thought they rested upon. In spring 1947 Hayek convened a meeting of 36 scholars – economists, historians, and philosophers – at Mont Pelerin near Montreaux in Switzerland. This group established the Mont Pelerin Society [MPS]. The members of the Mont Pelerin Society⁵ committed themselves to analyse the nature of the crisis threatening civilisation, human dignity and freedom. [SEE DOCUMENTS PAGE ON WEBSITE]⁶

They were clearly convinced that the erosion of belief in private property and competitive markets was leading to erosion of individual liberty.

⁵ The Mont Pelerin Society, <http://www.montpelerin.org/>.

⁶ See particularly, Ludwig von Mises, *The Anti-Capitalistic Mentality*, Princeton NJ: D. Van Nostrand Co, 1956. Active link to <http://mises.org/etexts/mises/anticap.asp> available on Documents at Studies In Anti-Capitalism, www.studiesinanti-capitalism.net.

Since those days in the late forties Hayek, Milton Friedman, and many others have championed economic liberalism by arguing for the reduction of state intervention, trade union influence, and welfarism. And, since the 1970s, what came to be called monetarism and ‘neo-liberalism’ in the policies of Margaret Thatcher and Ronald Regan began to gain considerable ground. In their struggle against trade union influence and other vested interests within the state and the professions they sought to weaken the grip of welfarism and of state intervention in their economies.

The International Monetary Fund and the World Bank were used in order to promote ‘neo-liberal’ policies of deregulation and free trade throughout the world. Professor Brad DeLong, the economic historian, argues that the purpose of free trade and ‘neo-liberal’ policies is essentially two-fold. *First*, that the strong trading and investment links promoted by free trade is the most effective way to speed up the transfer of technology and *know-how* from the rich countries to the poorer countries of the world. And, *secondly*, that because governments are on the whole lousy at running big manufacturing or commercial companies, the state should, as far as possible, avoid becoming directly involved in making and selling things.

It is on the basis of arguments such as these that so-called ‘neo-liberals’ fight against nationalisation and have promoted a massive process of denationalisation throughout the world.

At its core, so-called ‘neo-liberalism’ or economic liberalism contends that the virtues of liberal democracy, the rule of law, representative assemblies, freedom of speech,

freedom of religion and the protection of minorities, rest upon the defence of private property, competitive markets, and free labour markets. It is their belief that only competitive markets can effectively diffuse power throughout society and prevent small groups and cliques from dominating society and bending everybody to their will. Consequently, neo-liberals are as opposed to monopolies as they are to price-fixing cartels like OPEC; they are the enemies of crony capitalism as much as they oppose 'excessive' trade union influence and welfarism. They stand everywhere for a reduction of state intervention in economic life and for the breaking down of tariffs and barriers to the export and import of goods and services throughout the world, and for the broadest possible extension of free trade.

The divisions of opinions that may occur between economic liberals are those concerning the process of reform and deregulation – there are occasions when some liberal economists will argue for greater caution than others in the process of deregulating a developing economy. In these circumstances what is being brought into play are arguments which concern whether it is either effective or right to expose weaker economies or sectors of production to the sharp dislocations caused by competition from stronger economies or from those that can offer cheaper goods and cheaper labour.

However, these are tactical disputes among economic liberals. This is because, underlying their entire position is the idea that the market is, in the end, the only efficient and effective means of allocating resources and that any measures taken to

ameliorate the deleterious social impact of market forces should be strictly limited and temporary in their operation.

[HOWEVER: RECENT CRISIS

HAS EXPOSED SERIOUS PROBLEMS]

- Climate Change
- Wage Stagnation
- State Run Investment Funds (Sovereign Wealth Funds)
- Credit Crisis:
 1. Liquidity
 2. Solvency – or at the very least, not knowing exactly what a company or institution is worth
- Reregulation
- More redistributive taxes
- New forms of international policy co-ordination
- Fear of Protectionism

The lesson of all this is that the boundary between the state and the market within mature capitalist economies is not fixed – it shifts constantly, sometimes by small increments, sometimes by large swings – we are now witnessing a violent, rapid, and somewhat panic driven swing towards much larger state regulation of the market.

This will not alter the arguments of economic liberals they will continue to fight to allow the market its head – they will, of course, continue to advocate deregulation and free trade.

[RECENT TORY ARGUMENTS ABOUT COMPETITION AND THE SIZES OF ENTERPRISES – FIRE BRAKES]

This, I suspect is an entirely necessary tension within the system – the tension between the state and the market – between political decisions and the market.

NEXT WEEK

THE CRISIS OF CAPITALIST DEVELOPMENT