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STATE VS. MARKET: WHAT KIND OF CAPITALISM?

M. D. Litonjua

The balance between state and market in the mixed economies of the world varies from country to country, as well as, from one historical period to another. In the United States, the pendulum swung to the state side to fight the Great Depression and to win the war against Nazism and Fascism. The postwar period was the Golden Age of American Capitalism that resulted from an implicit social contract between business, labor, and government. In the 1970s, the pendulum began to swing toward the market side as the New Deal economic and financial structures were dismantled. The increasingly deregulated markets, especially of the financial sector, led to the Great Recession of 2008. The big question today that needs to debated and answered is: Where will the pendulum move between state and market? How will the balance between state and market be restored? The answer will determine the kind of capitalism we need and should have.

The fall of the Berlin Wall in 1989 and the collapse of the Soviet Union in 1991 marked the end of "really existing socialism" and the triumph of capitalism. Soon thereafter globalization under the aegis of the ideology of neoliberalism accelerated its spread across nations and cultures, making economic borders porous and transnational corporations the dominant economic actors, having in the first shrouded the planet with a network of communication and transportation channels. It seemed that the economic system of capitalism had vanquished once and for all its lifelong competitor, socialism. It seemed that the mechanism of the free market had unquestionably demonstrated its superiority over the state in the management of economies.

Then came the Great Recession of 2008. The entire world was once more on the brink of a Great Depression. An unregulated financial market, manipulated and corrupted by insatiable greed, unbridled power, and unconscionable shenanigans, had brought the entire world economy before the abyss of panic, disaster, and

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damnation. "Capitalism is at bay," *The Economist* (2008), intoned. It took state intervention to bring back the world economy from the brink. Governments undertook a global bail-out in trillions, $2.5 trillion of taxpayers' money, *The Economist* says, to save capitalism from itself. "Self-regulation is finished," it was claimed. "Laissez-faire is done," it was announced.

And yet, barely five years after the debacle, while millions are still unemployed and suffering, while countries in the Eurozone are still in danger of default and bankruptcy, thus threatening the fortunes of the world economy, proponents of an unfettered market economy, continue to be true believers, opposing at the same time and in every instance, any measure of state regulation and state intervention in the economy. Capitalism is in crisis, for sure. Economic models are floundering, at a time when peoples and countries are gasping for economic breath. Thus, the stage is set for the great bruising debate for the future: State or market or what combination of both? What kind of capitalism do we need and should we have?

Economy and Society

The economy is one of the five basic institutions of society. Together with marriage and the family, education, the political system, and religion, it is found in all societies. A basic institution is a group's solution to a problem that all groups face. In the most fundamental instance of the economy, the problem is: How do we provide ourselves with food, clothing, and shelter? In the modern world, economic institutions are defined as the social structures that deal with the acquisition of land, labor, capital, and technology for the production, distribution, and consumption of goods and services. The study of the economy as a basic social institution is not concerned with the inner and intricate workings of an economic system. Such issues as fiscal and monetary policies, recession and inflation, unemployment and interest rates, fiscal deficits and national debt belong to the discipline of economics.

In the modern world, there are two ways of organizing and managing an economy: via the mechanism of the market or through the power of the state. The economic system that relies on the market is usually called capitalism, while the one that uses the power of the state is designated as socialism. In the modern world,

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however, there is no pure capitalism nor pure socialism; all economies are mixed economies, using a combination of state interventions and market operations. These combinations vary across nations and across the history of a particular nation. To illustrate: imagine a straight line, on which to array all economies in world, with the left end of the line indicating socialism, and the right end pointing to capitalism. No economy is placed at either extremes. The United States is nearest the right end, China is nearest the left end, and the Scandinavian countries are located somewhere in the middle. In the history of a particular country, the pendulum also swings between the left and the right. As a result of the Great Depression, the economic pendulum in the United States swung more to the left. The stagnation of the 1970s moved the pendulum to the right, and further to the right under neoliberal globalization. The question is: As a result of the Great Recession of 2008, where should the economic pendulum move? This is the gist of the great intellectual debate that will determine what kind of capitalism we will need and have.

Jefferson vs. Hamilton

In the early years of the United States, two visions for the future of the newly independent nation competed for attention and implementation. In the political economy of Thomas Jefferson, which has been characterized as "producerism," competition in free markets among great numbers of producers who lack the power to manipulate prices to their own benefit is assumed to minimize the cost of foods and services, which market-driven price reduction is equated with the interests of consumers as individuals. Other than a government with minimal defense and police functions, there is no public good or national interest distinct from the short-term interest of consumers in the lowest possible prices. Against the anti-statist views of Jefferson, Alexander Hamilton proposed a developmental state which encourages the private and public sectors as collaborators in a single national project of maximizing the military security and well-being of the community by means of technological modernization. The market is good to the extent that it helps necessary national industries and bad to the extent that it hurts them. Government is not the enemy of the private economy, but its sponsor and partner.

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After distinguishing these two visions, Michael Lind (2012: 15) passes judgment:

> What is good about the American economy is largely the result of the Hamiltonian developmental tradition, and what is bad about it is largely the result of the Jeffersonian producerist school. To the developmental tradition of Hamilton, Washington and Roosevelt, Lincoln and Clay, we owe the Internet and the national rail and highway and aviation systems, the single continental market that allows increasing returns to scale to be exploited by globally competitive corporations, the unmatched military that defeated the Axis powers and the Soviet empire and has generated one technological spin-off after another, and, not least, the federally enforced civil rights and minimum-wage laws that have eradicated the slavery and serfdom that once existed in the South and elsewhere.
>
> To the Jeffersonian tradition, even if it is exempted from blame for slavery and segregation, the United States owes the balkanization of the economy by states' rights and localism, underinvestment in infrastructure, irrational antitrust laws and anti-chain store laws designed to privilege small producers, exemptions from regulations and subsidies for small businesses (defined for many purposes as those with fewer that five hundred employees), the neglect of manufacturing in favor of overinvestment in single-family housing and a panic-prone system of tiny, government-protected small banks and savings and loans.

Lind (2012: 15-16) goes on to say that "at key moments in American history, forces invoking the rhetoric of producerist capitalism have defeated proponents of developmental capitalism." The tug-of-war between the Jeffersonian and the Hamiltonian visions of the American economy closely mirrors the debate between state vs. market as the main mechanism in the production, distribution, and consumption of goods and services in the modern economy. Although it is a mixed economy, the emphasis on the American economy has swung between state and market depending on the historical forces the economy has been subjected to, the problems it has encountered and has been swamped with, and the solutions that have been proposed and implemented.

Great Depression of the 1930s

The Great Depression of the 1930s was surely the greatest and the most serious crisis of capitalism, especially of American capitalism where it all started. The stock market crashed on October 29, 1929, "Black Tuesday," and hit bottom in July 1932, losing almost 90 per cent of the value of its high point in September 1929. By the end of 1930, a wave of bank failures swept through the United States, so

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that by 1931-32, more than five thousand American banks failed. From 1929 to 1931, 15 per cent of American banks went out of business. At the beginning of 1933, employment in industrial production had dropped to half of its 1929 level. By the time President Hoover left office in March 1933, unemployment had increased to 24.9 per cent. National income dropped from $83.3 billion to $40 billion between 1929 and 1932. Hunger and desperation stalked the land.

A number of explanations has been made for the Great Depression: The laissez-faire excesses of the Gilded Age and the Roaring Twenties; the Hawley-Smoot Tariff which became the highest in American history; the extreme global trade and currency imbalances, specifically the chronic American current account and capital account surpluses; the dramatic increase in income inequality, with many of the gains to the rich from their disproportionate share of growth used in speculation that inflated bubbles in stocks, real estate, and other assets; the maldistribution and underconsumption deriving from such inequality, which translated into insufficient and decreasing purchasing power by middle- and low-income Americans.

John Maynard Keynes' explanation stood out: The Great Depression was caused by the collapse of aggregate demand. Let us draw the picture: The capitalist economy is made up of households, representing demand, and businesses, constituting supply. There are two circular flows between the two: the goods and services flow, often called the "real" flow, in which households buy the goods and services produced by businesses, which provide labor for them; and the money cycle, in which people employed by businesses receive wages, which they then use to buy products and services. During the Great Depression, businesses were no longer producing goods and services and therefore were laying off people, because households were no longer buying goods and services, because they were no longer employed and receiving wages. The two circular flows were reinforcing each other in a vicious downward death spiral of deflation. The question, therefore, was how to break the downward spiral, and make it moving upward again.

The downward spiral was aggravated by the Hoover administration's mistakes: maintaining the gold standard: to

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prevent a run on the dollar in 1931, the Federal Reserve, instead of ignoring the gold standard and acting as a lender of last resort to failing banks, made credit scarce in order to prevent the outflow of gold; supporting the Revenue Act of 1932, the most dramatic increase in taxes in peacetime America, in an ill-timed attempt to balance the budget; rejecting more than a minimal intervention in the economy by the federal government, especially in the form of relief programs, even when roughly one in five Americans was unemployed; ordering the U.S. Army under General Douglas MacArthur to destroy the camp near the Capitol of veterans of World War I who were demanding the payments of promised bonuses: the nation was shocked by the use of bayonets and tear gas against the unemployed in the nation's capital. President Hoover did not only lack leadership in the greatest economic distress affecting the nation as a whole, but communicated the callousness of his administration to those suffering from the economic calamity.

"The revolutionary import of Keynes's theory," Robert Heilbroner and Lester Thurow (1982: 31) emphasized in italics, *"was that there was no self-correcting property in the market system to keep capitalism growing."* Keynes pinpointed the demand side as the key, and sought a substitute by which he could make households start buying again, which would make businesses producing goods and services again, employing people and paying them wages, thus making the circular flows virtuous and spiraling upward. He found it in government spending, even if it were deficit spending, i.e., the government should spend, even if it would go into debt in doing so, and provide the stimulus for the economy to start moving again. The gains from the resulting economic growth would pay for the debt or deficit incurred. "The crux of Keynes's message was therefore that government spending might be an essential economic policy for a depressed capitalism trying to recover its vitality," Heilbroner and Thurow (1982: 31-32) wrote. "Keynes propounded a philosophy as far removed from Marx as from Smith. For if Keynes was right, laissez-faire was not the appropriate policy for capitalism – certainly not capitalism in depression. And if Keynes was right about his remedy, the gloomy prognostications of Marx were also incorrect – at least could be rendered incorrect."

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When the darkness of the Great Depression descended on the United States, however, nobody knew exactly what was wrong and, therefore, nobody knew how to make it right. Franklin Delano Roosevelt, elected President in 1932, promised "the leadership . . . dedicated to a disciplined attack upon our common problems." But it had to be through "bold, persistent experimentation," he added later on in his Oglethorpe University Commencement Address on May 22, 1932. Keynes' ideas, for their sheer novelty, were not widely known in the United States before the mid-1930s, though he had been an established economic thinker in Great Britain since 1919. Roosevelt had not been impressed with Keynes in his meetings with him and, until the late 1930s, was not persuaded by the British economist's argument for large-scale deficit spending during a depression. But practically all the initiatives of the New Deal were engagements in promoting aggregate demand through deficit spending: the stimulation of industrial activity, infrastructure and public works projects, the relief programs, the employment of young people in rural areas, subsidies to artists, musicians, and writers, the recognition of unions, the establishment of minimum wages, social insurance through government regulation and provision. In fact, in 1937, repeating the mistake of Hoover when he sought to balance the budget in 1932, Roosevelt supported legislation in Congress to balance the budget by cutting spending and raising taxes, the result of which was a second sharp recession, the Roosevelt Recession, that erased many of the gains of the previous Roosevelt Recovery.

Finally, Roosevelt was persuaded to overcome his initial suspicion of the novel theories of Keynes about the necessity of large-scale spending by government to overcome deficiencies in aggregate demand. He delivered to Congress a message asking for a $3.75 billion relief program, and he took to the airwaves for a Fireside Chat. "What followed," Michael Hiltzik (2011: 389-90) writes, "was the most direct articulation of the New Deal as an economic stimulus program Roosevelt ever delivered. This was appropriate, for the program he outlined was the first explicit recommendation for fiscal stimulus he had ever made. It was, indeed, exactly the sort of stimulus program that later generations would identify as the essence of the New Deal, the sort of program against which the fiscal initiative of later presidents – Lyndon

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Johnson's Great Society, Barack Obama's American Recovery and Reinvestment Act – would be measured. Yet for Franklin Roosevelt it was an unprecedentedly audacious and ambitious step."

The four-year period between 1934 and 1937 saw economic growth at a rapid pace with no parallel in U.S. history, outside of wartime. Between FDR's inauguration in 1933 until 1937, the economy grew at 8 per cent, and between 1938 and 1941, the economy grew at more than 10 per cent. All of this, however, fell short of what was needed to provide a stimulus for the American economy commensurate with its problems. The New Deal failed to pull the U.S. economy completely out of the Depression, but Roosevelt succeeded in resuscitating American capitalism by reforming it. The New Deal was a social revolution as well as an economic revolution because it resulted in a more meritocratic society. In an open letter to Roosevelt in 1933, Keynes pointed out that "You, Mr. President, . . . are free to engage in the interests of peace and prosperity the technique which hitherto has only been allowed to serve the purposes of war and destruction." And in 1940 in the *New Republic*, he also wrote: "It seems politically impossible for a capitalist democracy to organize expenditures on the scale necessary to make the grand experiment which would prove my case – except in war conditions" (Lind 2012: 307). Indeed, it would take the Second World War, the greatest stimulus package you can imagine, the most expansive aggregate demand you can envision, to realize Keynes' "grand experiment," to get the U.S. and the world decidedly out of the grip of the Great Depression, and in the process to defeat Nazism and Fascism.

There is no better indication of the success of FDR's New Deal and Keynesian economics than the thirty-year period since the end of World War II to the mid-1970s which was an era of the Great Prosperity, achieved through the Basic Bargain (Reich 2010: 42-50). The main idea was contained in an implicit social contract between capital, labor, and government: maintain aggregate demand so that the productive capacity of the economy does not outrun the ability of people to pay, thus giving business incentives to invest and profits to make, but also give workers a proportionate share of economic growth so they won't shake the capitalist boat. The implicit social contract between Big Business and Big Labor, with government as Big Mediator, ensured that capital would get its

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profits, labor would raise its standard of living, and government would oversee political stability and economic prosperity for the country. Today, the economic ideas of John Maynard Keynes are dead, the implicit social contract has been shredded, and we are back to what Paul Krugman (2009a) calls "the return of Depression economics."

Success and prosperity were also true on the international level, where, as Barry Eichengreen and Peter Kenen (1994: 5-6) put it, "in most countries after World War II, domestic interest groups agreed explicit or tacitly to a settlement concerning the distribution of income and the organization of the economy. The establishment of welfare states and social-market economies created a web of domestic commitments and side-payments that locked in cooperative behavior. The resulting political stability and support that governments enjoyed at home buttressed the credibility of their international undertakings." This was the product to a large extent of the Bretton Woods System, to whose construction John Maynard Keyes made the most significant contribution. The objective was to create a favorable post-war environment for trade and investment while allowing countries to pursue full employment and social welfare policies. Mark Blyth (2002) called it an "embedded" liberal order, because capital controls were deemed necessary to prevent the welfare state from being undermined by large speculative international flows of capital. Finance, in other words, was to be the servant of economic and practical goals, not the master. When President Nixon removed the convertibility of the dollar in 1971, abandoned fixed exchanged rates and embraced floating ones in 1973, and abolished capital controls in 1974, he in effect killed the Bretton Woods Agreement. The Bretton Woods agencies, created in 1944, became the enforcers of a global disembedded neoliberalism.

Neoliberal Globalization

The Golden Age of postwar capitalism ended in the 1970s. The decade was a period of geopolitical and economic disasters that shook the foundations of the New Deal order constructed since the end of World II. The United States abandoned Vietnam in defeat. The global market experienced oil shocks following the Yom Kippur War in 1973 and the Iranian Revolution in 1979. By this time

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also America's industrial rivals, specifically Germany and Japan, had recovered from the devastation of World War II and were becoming competitive. The "little dragons of Asia" were registering rates of growth higher than those in the industrial West. At the same time, American productivity had not only slowed down but had grown shoddy, relying on advertising to attract American consumers to buy their latest models. To recoup their competitiveness, American companies increasingly offshored production to countries where wages were low, workers were nonunionized and repressed, authoritarian governments offered "order and stability," thus causing the deindustrialization of the country. The result of all this was *stagflation* – a toxic combination of declining corporate profits and spiraling wage-price inflation.

Stagflation allowed the ideas of Milton Friedman of the free market Chicago School, hitherto marginal to the reigning Keynesian consensus, to be heard. His Nobel Prize for economic science in 1976 marked the rightward shift in economic thinking. His vision of an unfettered market was embraced by Margaret Thatcher in England and by Ronald Reagan in the United States. Although the deregulation of the telephone and the airline industries started under Jimmy Carter, it was Reagan who announced that "in the present crisis, government is not the solution to our problem; government is the problem." Thus officially started the Great Dismantling of the New Deal economic infrastructure that brought us out of the Great Depression and that won the war against Nazism and Fascism. The dismantling had its most dramatic effects in the financial sector. By the time the Glass-Steagall Act, which banned joint investment and commercial banks, was repealed in 1999 under Bill Clinton, the entire financial structure erected by the Roosevelt administration had been demolished, and a shadow banking industry was already awash in esoteric financial instruments and greed. Lind (2012: 363) depicts a scene on June 3, 2003, in which "the Treasury Department's James Gilleran brought a chainsaw to a photo op. While speaking to reporters, he promised to cut piles of paper representing regulations of the financial sector. Joining him were representatives of four other US regulatory agencies in charge of overseeing finance, armed with less formidable (but still sharp) gardening shears. The message was clear: The Bush administration was

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tearing down the final pieces of the New Deal regulatory wall." It was as if nothing was ever learned from the Great Depression and the New Deal or, better, as if everything that was learned from them had to be jettisoned.

The Great Dismantling also coincided with the reversal of "the Great Compression" of incomes in the United States. Between 1913 and the beginning of the New Deal in 1932, the share of income in the U.S. going to the top 10 per cent was between 40 and 45 per cent, only to plunge and level off at between 31 and 32 per cent from World War II until the 1970s. Beginning in the Reagan years, inequality began to grow until it reared its pre-1929 level before the crash of 2008. The picture becomes worse: From 1979 to 2006, the top one per cent of the American population received 36 per cent of all income gains; from 2001 to 2006, the top one per cent increased its take to 53 per cent. Even more striking, the top 0.1 per cent received 20 per cent of income gains, compared with the 13.5 per cent received by the bottom 60 per cent of the population. The same picture emerges from a look at the rise of average annual incomes among quintiles of the population. From 1979 to 2006, the poorest quintile saw an 11 per cent increase, the second fifth an 18 per cent increase, the middle fifth a 21 per cent increase, the fourth fifth a 32 per cent increase, while 99 per cent of the fifth richest quintile got a 55 per cent increase, and, lo and behold!, the top one per cent took 256 per cent rise in average annual income (Hacker and Pierson 2010: 3, 23).

Joseph S. Hacker and Paul Pierson (2010: 3-4) write:

> These mind-boggling differences have no precedent in the forty years of shared prosperity that marked the U.S. economy before the late 1970s. Nor do they have any real parallel elsewhere in the advanced industrial world. A generation ago, the United States was a recognizable, if somewhat more unequal, member of a cluster of affluent democracies known as mixed economies, where fast growth was widely shared. No more. Since around 1980, we have drifted away from that mixed economy cluster, and traveled a considerable distance toward another: the capitalist oligarchies, like Brazil, Mexico, and Russia, with their much greater concentration of economic bounty. . . .
>
> Like a raging fever that announces a more serious underlying disease, rising inequality is only the clearest indicator of an economic transformation that has touched virtually every aspect of America's standard of living. From the erosion of job security to the declining reach of health insurance, from the rising toll of home foreclosures to the growing numbers of personal

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> bankruptcies, from the stagnation of upward social mobility to the skyrocketing of personal debt, the American economy that has delivered so much to the fortunate has worked much less well for most Americans. And this has been true not just over the past three years or thirteen years, but over the past thirty years. Winner-take-all has become the defining feature of American economic life.

The growing economic inequality in the United States is usually explained in terms, first, of the uneven and unequal economic rewards that education and skills bring; second, to "skill-based technological change" that has brought a massive shift from manufacturing toward more-knowledge-based employment; and, third, to a globalized economy that enable corporations to move production sites overseas where costs are lower. But Hacker and Pierson (2010: 40) write: "The hyperconcentration of income in the United States – the proximate cause of the death of America's broad-based prosperity – is a relatively recent development. It is also a development that sets the United States apart from other rich nations, calling into serious doubt the usual explanation[s] for America's winner-take-all economy." Instead, Hacker and Pierson (2010: 12) turn to an unusual culprit: American government and politics. The economic puzzle is also a political puzzle. "How, in a political system built on the ideal of political equality and in which middle-class voters are thought to have tremendous sway, has democratic politics contributed so mightily to the shift toward winner-take-all?" Because the political system has come to mirror the changes in the economic power of capital, labor, and professionals brought about by a market grown more and more unregulated. The free market economy has become a winner-take-all economy which has caused and captured a winner-take-all politics.

Under the aegis of neoliberalism – "disembedded liberalism" for Blyth (2002) – the unfettered market ideology spread over what was now a globalized world. Globalization was ushered in by the microelectronic revolution which shrouds the globe with new communication and transportation technologies like a hairnet, thus compressing time and space. Because of the microelectronic revolution, barriers to industry have fallen, borders between economies have disappeared, and competition has become the struggle of the fittest to survive (Litonjua 2008, 1999). Transnational corporations are free to scour the globe for the cheapest costs and for the highest profits, as they design new products, reorganize

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labor processes, relocate production sites, establish supply networks, and form commodity chains in the global marketplace. They rule the world as global economic empires (Barnet and Cavanagh 1994; Korten 1995).

Neoliberalism on the global front started as structural adjustment programs proposed by the International Monetary Fund (IMF) to solve the debt crisis of the Third World. As a result of the dramatic increases of oil prices in 1973 and 1979 by the Organization of Petroleum Exporting Countries (OPEC), Western international, especially American, banks found themselves drowning in petrodollars, which they then lent to Third World countries. By the early 1980s, starting with Mexico, it was clear that Third World countries would not be able to pay back their loans, would default, and declare bankruptcy. Fearing the effects of such bankruptcies on the entire world banking system, the IMF agreed to loan Mexico enough money to prevent a default, but required in return certain economic policies and reforms if there was any hope that Mexico would be able to repay its loans. The practice of requiring reforms came to be known as "conditionality," and the bundle of reforms as "structural adjustment programs." This action towards Mexico set a precedent for subsequent bailouts throughout Latin America, Asia, and Africa in the following decades.

The conditional reforms of structural adjustment programs were soon synthesized as policy instruments in ten areas – fiscal deficits, public expenditure priorities, tax reform, interest rates, the exchange rate, trade policy, foreign direct investment, privatization, deregulation, and property rights – about whose proper deployment Washington could muster a reasonable degree of consensus (Williamson 1990). "Washington" refers to the political Washington of congress and administration, the technocratic Washington of international financial institutions, the economic agencies of the Federal Government, the Federal Reserve Board, and the think tanks. Thus, this set of desirable economic policies came to be labeled as the "Washington Consensus," which reflected the worldview that market forces, liberalized trade, and general freedom in economic matters were more efficient, promoted a better allocation of resources, and resulted in greater prosperity than a system characterized by controls and restrictions. The mantra was: liberalization, deregulation, privatization.

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The "Washington Consensus" originally meant to create a regime to manage the debt of Third World countries had the intended effect of imposing a new discipline on affected countries, of creating a new framework for the relationship between First World/Global North and Third World/Global South countries, and of marking a fundamental shift in world order from national development to globalization. From the end of the Second World War and the demise of colonialism, the development project, aimed at increasing the productivity and raising the standard of living – longer life expectancies, more adequate diets, better education, better housing, and more consumer goods – of formerly colonized peoples, was framed in national terms. Under the aegis of the policy instruments and prescriptions of the "Washington Consensus" – the "Brussels Consensus" in the European Union – development was reframed as incorporation and integration into the emergent global economy. Instead of project loans, policy loans came to be utilized in forcing economies, societies, and cultures into the straightjacket – Thomas Friedman (1999) dubs it "the golden straightjacket" – of the globalization project (McMichael 2004).

With the failure of socialism in the Soviet Union and Eastern Europe and the apparent triumph of liberal capitalism and liberal democracy, the globalization project came to maturity with globalization being assiduously pursued under the flag of neoliberalism, a contemporary version of economic liberalism, emphasizing the market economy, limited government, free trade, deregulation, and privatization. Neoliberalism is the new market fundamentalism, George Soros called it, legitimating the unleashing of capitalist economic forces throughout the globalized world. It has become the central value and the principal method of restructuring personal, social, and ecological relations on the global level. Neoliberalism, the fundamentalist ideology of laissez faire capitalism, of pure and raw capitalism, is sweeping across the one world in the making, commodifying and commercializing human life and everything it touches – without moral moorings, without human values and considerations, without humane intentions and aspirations. It is a revived Social Darwinism. The neoliberal tunnel vision "looks *backward* to the late nineteenth century, seeking to revive the radical, unregulated capitalism of the Gilded Age and

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that era's belief that material progress depends on the fiercest forms of unchecked competition" (Dionne 1996: 12).

Neoliberalism aims to create not only a market economy, but a market society – "one market under God," as Thomas Frank (2000) puts it – and even a global market order, that is, neoliberalism would let the market, and solely the market, shape social decisions and set social priorities not only on the national level but on the global level as well. Nothing illustrates the neoliberal logic better than the memorandum written by Lawrence Summers (1991), then chief economist for the World Bank, in which he argued that since "the costs of health impairing pollution depends on the foregone earnings from increased morbidity and mortality . . . the economic logic behind dumping a load of toxic waste in the lowest wage country is impeccable," that "under-populated countries in Africa are vastly under-polluted" so that "the initial increments of pollution have very low cost," and that "the demand for a clean environment for aesthetic and health reasons" is higher in low mortality countries than in high. Therefore, "the problem with the arguments against all of these proposals for more pollution in LDCs (intrinsic rights to certain goods, moral reasons, social concerns, lack of adequate markets, etc.) could be turned around and used more or less effectively against every Bank proposal for liberalization." The response of Brazil's then Secretary of the Environment Jose Lutzenberger was: "Your reasoning is perfectly logical but totally insane . . . Your thoughts [provide] a concrete example of the unbelievable alienation, reductionist thinking, social ruthlessness and the arrogant ignorance of many conventional 'economists' concerning the nature of the world we live in." Summers was appointed the U.S. Treasury Secretary in 1999 and served through the remainder of the Clinton administration, later on became president of Harvard University, from which he resigned due to controversial remarks about women, and came back as economic adviser in the Obama administration. Lutzenburger was fired shortly after writing his response.

In fact, according to Philip Bobbitt (2002), we are now witnessing a fundamental transformation of the modern state, the transition from the decaying nation-state to the emerging market-state. The nation-state justified itself as an instrument to serve the

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welfare of the nation, while the market-state exists to maximize the opportunities open to the members of society. The nation-state promoted liberty and equality to the extent of acting as countervailing force to capital and of providing a social safety, while the market-state serves to protect the free operations of the market and leaves citizens to avail themselves of the opportunities provided by the market. More concretely, Bobbitt (2002: 229) quotes Mark Tushnet: "[A]ny deficiencies in the provision of health care or in income security after retirement are to be dealt with by market-based adjustments rather than ambitious redistributive initiatives. Similarly, poverty is to be alleviated by ensuring that the poor obtain education and training to allow them to participate actively in the labor market, rather than by providing generous public assistance payments."

In a subsequent volume, Philip Bobbitt (2008: 45) argues that the fundamental change in the nature of the modern state marked by the transition from nation states to market states leads to new methods, purposes, and technologies of warfare. Specifically, "market state terrorism will be just as global, networked, decentralized, and devolved and rely just as much on outsourcing and incentivizing as the market state," of which al Qaeda is the market innovator. Bobbitt (2008: 123) adds that "it is the global presence of the United States, the first and most dynamic of the emerging market states, that has been the main target as well as the chief precipitating factor of twenty-first century terrorism. American military power, American empathy and ideals, and American ubiquity have brought forth both American hegemony and al Qaeda, and will bring forth other global, networked terrorists in the future." The problem is that "we are not winning the Wars against Terror because the developments that empower terror are gaining – as markets increase, as weapons technologies diffuse, as clandestine communications become more effective and infrastructures more fragile – at a faster rate than our defenses, our preemptive strategies, and our legal institutions are adapting" (Bobbitt 2008: 16). What a blowback for a neoliberal social order!

Neoliberalism is an ideology, a system of ideas, that rationalizes, justifies, and legitimates the workings of laissez faire capitalism on a global scale. The market, it is true, is the most efficient, productive, and profitable economic mechanism in the

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long history of human ingenuity (see Lindblom 2001). We need markets, but we do not need to glorify them nor to demonize them, much less to enshrine them as idols or to rigidify them as ideologies. But to claim that the free market *alone* must make decisions, set priorities, and solve problems in the economic, social, political, and environmental fields in the emerging global order is ideological and idolatrous. Everything in the market is for sale (Kuttner 1997), to the highest bidder. But there things that money can't buy, because there moral limits to markets (Sandel 2012). The market reduces everything to a commodity. The market knows the individual only as a consumer. Thus, the market inevitably and structurally creates inequalities and injustices. The market knows no value except price as fixed by supply and demand. The market cannot conceive of public goods, nor the common good. The market runs roughshod over human dignity and human community. The market ignores human poverty and human solidarity. The market destroys social solidarities and leaves the poor to fend for themselves. The market enthrones the deracinated individual because in Margaret Thatcher's infamous words, "there is no such thing as society, only individuals," to which she later added, "and families." The market cannot create social justice and social peace. Left to itself, the unfettered market easily becomes a tool of predation by the wealthy and the mighty. Left to itself the unregulated global market leads to *Predatory Globalization,* as Richard Falk (1999) titles his critique.

Neoliberals know, but they do not say, that the totally free market cannot stand alone, cannot perform its miracles of efficiency, productivity, and profitability by itself. For the market to function, it has to depend on the physical infrastructure of communications and transportation built and maintained by the government; it needs the rule of law, the right to private property, enforcement of contracts, penalties against fraud and corruption, an independent central bank, regulatory and supervisory bodies, regulation of finance, tax collection, which only the state can provide. For the market to result in benefits that redound to the many, it has to rest on an institutional infrastructure, it has to be managed within a juridical framework, that controls its mobility and volatility, that tames its excesses and cruelties, that distributes gains and costs equitably, that directs it towards the goals of social

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justice and peace. Even the mainstream *Foreign Affairs* has weighed in, noting that inequality is greater now than at any other time in the last 70 years, and calling therefore for a New Deal for globalization by redistributing income (Scheve and Slaughter 2007). If nothing is done, then backlash against globalization is inevitable, erasing all the benefits that have accrued, however inequitably distributed. In that case, the choice will be, as the Latin America Jesuits (1996) put it: "For Life and Against Neoliberalism."

The imposition by the International Monetary Fund of one-size-fits-all neoliberal economic policies, in spite of criticisms of economists like Joseph Stiglitz (2006; 2002), former World Bank chief economist and Nobel laureate in economic science, continues to take its toll on the Third World/Global South. In response to IMF neoliberal demands, poor countries usually target the poor and the most vulnerable, who are powerless to mount any resistance. Thus, government programs in health, education, and welfare are cut; subsidies to small local productive activities in agriculture and industry are stopped; tariffs on imports which are more competitive than local products are lifted; the inflation caused by the devaluation of local currencies wreak havoc on the lives of the poor; any sign of unrest and protest is banned, silencing popular voices; the end result of all of which is pain and misery for the majority of peoples and populations. No wonder the poor in the Third World/Global South, having been structurally adjusted to death, consider the IMF and the Word Bank "Dr. Death" (Pooley 2000; Zagorin 1994).

As free markets wrested control from governments of the "commanding heights" – the dominant businesses and industries of the world economy – in the epic struggle that has turned the world upside down and dramatically transformed our lives, and in which "the lifeblood of the world's markets, the repositories of all the world's values, are financial instruments – often complex, certainly stateless, constantly swirling above and beyond the reach and comprehension of virtually all government officials, all created, controlled, and influenced by a comparatively small group of private actors" (Rothkopf 2012: 256), Daniel Yergin and Joseph Stanislaw (1998: 382-91) asked whether the changes are irreversible, or are part of a continuing process of development and evolution, or will invite a backlash, and answered that it will

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depend on the political, social, and economic consequences meeting five critical tests: Delivering the goods? Ensuring fairness? Upholding national identity? Securing the environment? Coping with demographics? The answer would come in 2008.

Michael Lind (2012: 391) concludes:

> In hindsight, the neoliberal cure was far worse than the New Deal liberal disease [i.e., stagflation]. The maturity of the New Deal's system of regulated, managerial capitalism coincided with the post-World War II boom and the greatest expansion of the middle class in American history. . . . The result was not the flourishing diversity hoped for by liberal consumer activists nor the solid, sustainable economic growth promised by free-market ideologues. Instead, the result was the collapse of unions, the decline of private R&D, three decades of wage stagnation, and an economy driven by financialization, speculation, and rising debt rather than by productive industry and rising wages.

Great Recession of 2008

The Golden Age of American Capitalism (1945-1973) was followed by the Great Dismantling (1976-2007), which logically led to the Great Recession. In the process, the managerial capitalism of the New Deal Order gave way to the new financial-market capitalism of the Great Dismantling. Finance which used to serve productive capital became the tail that wagged the entire neoliberal economy. Finance capital was called by William Greider (1997: 250, 227) "the Robespierre of this revolution," of the global neoliberal revolution, and pointed out that "finance capital's capacity to become deranged in search of higher returns has played out again and again in different forms of manias and crashes," which disorders, history also informs us, have been corrected in grim and violent ways: economic depressions and great wars. The implosion came again in 2007-2008.

The Great Recession of 2008 started with the bursting of the housing bubble. People were sold fraudulent *ninja* – no income, no job, no assets – home mortgages which were truly mind-boggling. No documentation or proofs of eligibility were asked for; no money down was required, but hefty interest rates were hidden in the thicket of contractual codicils. These mortgages were then thrown together into giant, opaque bond packages and sold as solid investments, with agencies, like Moody's and Standard and Poor's, affixing their high ratings. These packages were then sliced, diced,

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and pureed, repackaged, resold, and transformed into exotic derivatives which were bet on by bond traders and investors. Wall Street spewed terms like collateralized debt obligations (CDOs) to name these inscrutable financial instruments. Even the Securities and Exchange Commission (SEC) was confused by the actual contents of these far-fetched packages. The intent was to mislead, Joe Klein (2011) asserts, because the more accurate abbreviation might have been RCLs – repackaged crappy loans. When the crappy loans could not be repaid – the infamous subprime mortgage crash – the housing market, Wall Street, and the American economy imploded. With it, the entire world was brought to the brink of the abyss of another Great Depression. This was at the heart of the financial collapse that brought about the Great Recession.

The shadow investment industry which had metastasized during the Great Dismantling, but which was joined to the hip with the regulated banking industry through the repeal of the Glass-Steagall Act of 1933, now threatened to bring down the entire American, if not also the global, economy. When Lehman Brothers was allowed to go belly up, the complete meltdown of the financial system concentrated the minds of policy makers, and after two tries, the Bush administration got the Troubled Asset Relief Program (TARP) through Congress that created a $700 billion bailout fund for banks. Unfortunately, that was not enough. The economy continued to hemorrhage household net worth and wealth, home and stock prices, consumer and business spending, credit and jobs. Christina Romer, chief economic adviser to the incoming Obama administration, argued for a $1.2 trillion economic stimulus. But President Obama halved the suggested amount and Congress passed the American Recovery and Reinvestment Act (ARRA), which spent $878 billion over several years. The amount was too small and the effects too limited to effect a full economic recovery, but the government brought the country back from the precipice at great cost. Depression economics has returned, Paul Krugman (2009a) announced.

There were warning signs. To name a few. Deregulation created a serious disaster almost immediately after the passage of the Garn-St. Germain Act in 1982, which offered the owners of thrifts to engage in risky investment behaviors. The saving and loans crisis

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ultimately cost taxpayers $130 billion. In 1998, the failure of a single hedge fund, Long Term Capital Management, froze financial markets much like the failure of Lehman Brothers would do in 2008, and an ad hoc rescue had to be cobbled by the Federal Reserve to avert disaster. Another deregulatory disaster occurred in the electrical utility business when wholesale prices were allowed to be set by the market while limiting consumer-priced increases, which created opportunities for market manipulation by Enron. The energy empire ultimately crumbled, exposing a shocking variety of criminal practices, and its CEO Ken Lay died in prison.

Worldwide, there were also ominous clouds of warning. In 1994 a peasant uprising in the poor state of Chiapas, Mexico, was made to coincide with the start of NAFTA ((North American Free Trade Agreement). During the course of the year things went wrong: there was a steady drain on the reserves of foreign exchange, a devaluation was followed by a massive capital light, industrial production fell and real GDP plunged, thousands of businesses went bankrupt, and hundreds of workers lost their jobs. The "tequila crisis" was not confined to Mexico but had a "tequila effect" across much of the world and, in particular to other Latin American countries, especially Argentina. The U.S. treasury, at its own discretion, made use of the Exchange Stabilization Fund (ESF), money set aside for emergency intervention in foreign exchange markets, to provide a $50 billion credit line. Argentina's lower-profile rescue came via the World Bank, which put up $12 billion to support the nation's banks. In 1997 countries and economies, businesses and individual lives were devastated when the devaluation of Thailand's currency, the baht, triggered a financial avalanche that buried much of Asia. Foreign money that poured in from the previous decade hastily exited at the first sign of trouble, plunging Asian banks into crisis. There were fears of a worldwide economic meltdown due to financial contagion. The economic crisis hit Indonesia the hardest leading to the resignation of President Suharto. Even South Korea and Taiwan, Asia's "little dragons," were affected. Unfortunately, the IMF's diagnosis and cure made matters worse. Malaysia refused to bow to the IMF and was spared the worst effects of the crisis. The region recovered sooner than expected and mostly on its own terms. The "ruble crisis" soon followed and hit Russia in 1998, resulting in the

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Russian government devaluing its currency and defaulting on its debt. It led to a political crisis that threatened the first democratically-elected government of Boris Yeltsin. A $22.6 billion financial package from the IMF and the World Bank was needed to support reforms and to stabilize the economy.

Why did the Great Recession happen, in spite of all these warnings? Michael Hirsh (2010: 26) writes:

> The main reason the catastrophe occurred is that people in charge of our economy, otherwise intelligent and capable men like Greenspan, Rubin, and Summers – and later Hank Paulson and Tim Geithner – permitted themselves to believe, in the face of a rising tide of contrary evidence, that markets are for the most part efficient and work well on their own. . . . Mainly because the near-religious attachment to free-market absolutism had become a ruling principle that no single senior official in Washington dared to contradict – especially if he is politically ambitious – with a few lone exceptions like Brooksley Born [who as head of the Commodity Futures Trading Commission was berated by Summers, Rubin and Greenspan for recommending regulation of the vast ungoverned trade in derivatives].

Hirsh (2010: 48) also offers an interesting insight:

> In a supreme historical irony, the most extreme champions of this sort of scientism about markets – inspired by Friedman – came to look like mirror-image of the Leninists and Trokyists who sought to "scientifically" build socialism from the top during the height of Soviet power. Not that they would acknowledge this. Friedman and the Chicago school "created a mind-set that policy is impotent to solve economic problems and that the system can do it on its own terms," says Stephen Roach, an economist with Morgan Stanley.

Paul Krugman (2009b) has declared that it is not just the American economy that is bankrupt, but the economics profession as well. The Great Recession, the most serious economic crisis since the Great Depression, marks the intellectual collapse of the ideology of the rational free market, especially as applied to the financial sector. He writes:

> As I see it, the economics profession went astray because economists, as a group, mistook beauty, clad in impressive-looking mathematics, for truth. . . . Unfortunately, this romanticized and sanitized vision of the economy led most economists to ignore all the things that can go wrong. They turned a blind eye to the limitations of human rationality that often led to bubbles and busts; to the problems of institutions that run amok; to the imperfections of markets – especially financial markets – that can cause the system's operating system to undergo sudden, unpredictable crashes; and to the dangers created when regulators don't believe in regulation. . . . Economics, as a field, got in trouble because economists were seduced by the vision of a perfect, frictionless market system.

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Alan Greenspan, chairman of the Federal Reserve from 1987 to 2006, revered during his tenure but reviled in retirement, admitted as much in his testimony before a U.S. House Committee in October 2008 (Andrews 2008). He was "in a state of shocked disbelief," he told the Committee, the "modern risk-management paradigm" he championed "held sway for decades," but "the whole intellectual edifice collapsed in the summer of last year." The collapse of the intellectual edifice also meant the collapse of real-world markets, which continues to cause great suffering to a great many people as a result of the Great Recession of 2008. Adam Smith's metaphor of the invisible hand explained how markets for manufactured goods functioned, but he did not apply it to banks and financial markets. Instead, in an era of financial swindles and failed banks, Smith taught that government regulation was necessary to protect the public and the economy. The notion of financial markets as rational and self-correcting mechanisms was the invention of libertarian Austrian-school economists who championed unfettered markets and radical individualism, which Greenspan imbibed during his discipleship with the novelist Ayn Rand. Greenspan did not fully understand why the Great Recession happened because he had such obtuse faith in his libertarian philosophy that he did not entertain the possibility that he could be wrong. With his willed ideological certainty, he refused to foresee the dire consequences of his economic assumptions in the financial policies he enacted, promoted, and enforced. This is not invincible ignorance; it is intellectual arrogance.

Robert Sidelsky, the biographer of John Maynard Keynes, therefore, called for the return of the master. He reminds us, and we need being reminded, that Keynes ultimately saw economics not as a natural science but a moral one. This is perhaps the most important reason why Keynes continues to be and is relevant for today. The Great Recession of 2008 brought to a head wider issues that touch on economic growth, globalization, and the environment as they relate to the ethics of capitalism, to moral issues and judgments on poverty and inequality, on fairness, equity, and justice. Sidelsky (2009: xvii, 133):

> Keynes was a moralist. There was always, at the back of his mind, the question: What is economics for? How does economic activity relate to the 'good life'? How much prosperity do we need to live 'wisely, agreeably, and

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> well'? This concern was grounded in the ethics of G.E. Moore, and the shared life of the Bloomsbury Group. Broadly, Keynes saw economic progress as freeing people from physical toil, so they could learn to live like the 'lilies of the field', valuing today over tomorrow, taking pleasure in the fleeting moment. . . . He was a philosopher and moralist as well as an economist, and he never ceased to question the purposes of economic activity. Briefly stated, his conclusion was that the pursuit of money – what he called 'love of money' – was justified only to the extent that it led to a 'good life'. And a good life was not what made people better off: it was what made them good. To make the world ethically better was the only justifiable purpose of economic striving.

But something strange, even pernicious, happened on the sluggish road to recovery. It seems that people refuse to realize how close we were to another Great Depression, how government bails-out and stimulus-spending brought us back from the brink. In a sense it was also understandable since Wall Street soon began to make enormous profits once more and to reward itself with equally enormous salaries, while Main Street was still mired in foreclosures and unemployment, in growing poverty and inequality. Soon there was a backlash against the bail-outs and stimulus-spending that resulted in the emergence of a new political movement, the Tea Party, and the return of Republicans to majority rule in the House of Representatives. Republicans grew more intransigent: no compromise, no negotiation, no government spending, no tax increase, instead: budget cuts, tax cuts, cuts in benefits for public employees, cuts in entitlement programs.

Paul Krugman (2012a: xi) reminds us of Keynes' central dictum: "The boom, not the slump, is the time for austerity." But by the fall of 2009, much of the discussion in Washington had shifted from a focus on unemployment and growth to a focus on debt and deficits. Solutions to the continuing economic crisis, therefore, also changed focus from spending, stimulus, and growth to cutting spending and taxes, and austerity. But the change is dangerous and self-defeating. Cutting spending and austerity can only reduce consumer spending, which in turn leads to decreases in production, in employment, and ultimately in incomes, both of households and of the nation as a whole. At a time when the economy has not yet fully recovered but is still limping along, a round of cuts in spending, a program of austerity measures can only start the economy on another downward spiral. At a time when millions of Americans are still out of work, when the future of

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a whole generation of young people lay in ruins, to focus on the long run of debts and deficits while ignoring the short run of joblessness and suffering is ironically short-sighted. There will be no long run if we do not take care of the short run. Remember Keynes? "In the long run we are all dead!"

The events in the European Union where an austerity program is being pursued to solve their economic crisis are instructive. Nicolas Sarkozy of France, who with Angela Merkel of Germany, are the chief proponents of austerity, lost his bid for reelection. Great Britain is in a double-dip recession, after the austerity measures of the incumbent Conservative Party failed to bring about growth. Greece is in political turmoil as the country reels from the stringent austerity conditions of a bailout. Spain is also asking for a bailout of its banks, and Italy might be next to seek financial help. Will they be handed, in turn, austerity? The disturbing thing is that even in the face of these setbacks, there are no prospects for second thoughts for the "austerians," as the financial analyst Rob Parenteau felicitously dubbed them. Because, as Paul Krugman (2012b) asserts, "the austerity drive in Britain [as elsewhere] isn't really about debts and deficits at all; it's about using deficit panic as an excuse to dismantle social programs. . . [E]conomic recovery was never the point; the drive for austerity was using the crisis, not solving it." Remember David Stockman, Ronald Reagan's budget director, who confessed that it was all about "starving the beast?"

By March 2011, Alan Greenspan was back to his old position, calling for a repeal of the very modest attempts to tighten financial regulation in the wake of the financial crisis. According to Krugman (2012a: 100), "Financial markets were fine, he wrote in the *Financial Times:* 'With notably rare exceptions (2008, for example) the global 'invisible hand' has created relatively stable exchange rates, interest rates, prices, and wage rates.'" The political scientist Henry Farrell responded: "With notable rare exceptions, Japanese nuclear reactors have been safe from earthquakes."

Free-market ideologues continue to ply their wares along a dark, blind alley. Eugene Fama of the University of Chicago, the father of the "efficient-markets hypothesis," that, to put it simply, the market always gets it right, has given no ground at all; he asserts that the crisis was caused by government intervention,

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especially the role of Fannie and Freddie. Robert Lucas, who famously pronounced the death of Keynes in economic thinking and popularized the theory rational expectations, the economics version of finance's efficient market hypothesis, attacked the analysis of Christina Romer, Obama's chief economic adviser and a student of the Great Depression, and her recommendation for a stimulus, as "schlock economics." And yet, the economic theorizing of these two professors at the University of Chicago was the theoretical underpinning of the unfettered market that imploded in the Recession of 2008 (see Fox 2009; Cassidy 2009).

Public Power vs. Private Corporate Power

David Rothkopf (2012) thinks that the opposition between state and market, which was a surrogate for the ideological clash between United States and the Soviet Union, has been eclipsed by the epic rivalry between states and corporations, between public power and corporate power, with the power of giant transnational corporations gaining an upper hand over the diminishing power of states. There are four basic components of nation-states – the ability to pass and enforce laws, the ability to define and be defined by borders, the ability to print money and manage national fiscal affairs, and the ability to legitimately project force – and in each case the power of states has been chipped away and the power of corporations has grown. For one thing, there are fewer and fewer industrial states who can demonstrate strength in each of the pillars of their sovereign power and, therefore, exert great influence on other actors on the planet. Most are semi-sates, which while legally sovereign are not practically sovereign, because more than one of the pillars of statehood has been compromised as to be little more than a symbol. Then there are the failed states, where anarchy, conflict, and extreme poverty reign, which attract bad actors, often becoming havens of terrorists and criminals. The state has become constrained, but corporations are unbound.

The U.S. Constitution contains no mention of corporations. But ever since John Marshall, Chief Justice of the U.S. Supreme Court, in *Dartmouth College v. Woodward* of 1819, defined a corporation as "an artificial person, indivisible, intangible . . . possess[ing] properties . . . among the most important are immorality . . . and individuality," corporate "fictional persons" have accumulated

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rights and privileges that have only been won by real people. "Of the ten amendments that make up the Bill of Rights, corporations have successfully asserted the applicability of five to win protections for themselves. These include the First Amendment right to free speech; the Fourth Amendment freedom from unreasonable searches and seizures; the Fifth amendment prohibition against takings and double jeopardy (despite the fact that the amendment clearly refers to natural persons); and the Sixth and Seventh Amendment rights to jury trials in criminal and civil matters, respectively" (Rothkopf 2012: 184).

The application of America's most fundamental liberty, the First Amendment right to free speech, to corporations was made by the U. S. Supreme Court in *Buckley v. Valeo* (1976) and again in *Citizens United v. Federal Election Commission* (2010). The core of the decisions is that political speech is at the very heart of what the First Amendment is meant to protect; money expended in a campaign equals speech and is therefore protected. But "if money is speech, then can speech be really free?" Rothkof asks and elaborates (2012: 186, 193-94):

> There is no democracy, or country that claims to have a democratic character, that has come to grant corporations such a privileged role in polity as has America. Over two centuries, this country has gone from a debate about whether corporations should even be mentioned in the Constitution to a situation in which these artificial persons are granted the same protection as individual citizens. But of course in granting resource-rich, immortal entities such rights, one is able to fashion an extraordinary role for them.
>
> Nowhere is that clearer than with the idea that money is speech. One of the evils that the Fourteenth Amendment was conceived to eliminate was poll taxes that required certain groups of voters – such as African Americans – to pay for the right to vote. But in the context of modern American politics, if candidates cannot run unless they raise millions – or, in the case of presidential candidates, hundreds of millions – then there is a new form of poll tax in which the people who select the candidates are the ones who have the ability to make the donations that will determine who will run and who will not. And the "people" in the best position to do that are the actors with the greatest economic means: "artificial people" – an apparent injustice that helped trigger much of the backlash and anti-business ferment seen, for example, in 2011's Occupy Wall Street protests.

Corporations are the supercitizens of the global economy, who as they roam the world in search for the lowest costs that will give them the highest profits play the central role in advancing the

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processes of globalization and in ensuring that as they unfold, they do so in a way that benefits them even if the results were not optimal for states, nations, cultures, communities, and people. "Today's corporations often conduct something very much like their own foreign policy, and it is not uncommon for former senior diplomats, generals, or navy flag officers to be hired by corporations to interface with governments and to shape international strategies. These companies conduct active political advocacy campaign. They undertake significant security initiatives. They also provide health care, training, shelter, security, and other functions that states ought to but can't or won't provide. Increasingly, companies are found to be either co-opting the role of governments or seeking to profoundly sometimes illegally influence their direction" (Rothkpf 2012: 316).

Summarizing his study of the epic rivalry between big business and government, and the reckoning that lies ahead, Rothkopf (2012: 15) states:

> Any such study of the evolution of public and private power demonstrates that both have been repeatedly guilty of deep excesses and both have offered undeniable and enduring benefits. Both have evolved in tandem over time, sometimes seeking to crush each other, sometimes feeding mutual dependencies, sometimes allies, sometimes rivals. And such a study suggests that for all societies the most persistent and central challenge associated with this power struggle is defining a proper balance between public and private power.
>
> It is also clear that since 1980, in the United States that balance has been lost. The results have been so damaging that they threaten America's ability to lead both economically and politically. They have, as many from the Chinese government to Joe Stiglitz have accurately concluded, undercut American legitimacy. And they have opened the door for other nations with different models that offer a different balance of public-private power and a different set of associated values to set the terms for the next great period in international social and economic development.

The Capitalism of the Future

The end of the Cold War, the end of "really existing socialism" revealed that capitalism was not monolithic; there were at least three kinds of capitalism, three ways of organizing mixed economies that were basically market economies. East Asia had state capitalism: the alliance of big business and government, to promote primarily the interests of capital. Western Europe had

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social or social-democratic capitalism, which provided a generous social safety net of welfare to safeguard the well-being of labor. The United States had liberal capitalism, the most laissez-faire of the three, where the market is most unregulated, to meet the needs and wants of consumers. In the neoliberal global economy, which soon flourished, however, as Lester Thurow (1996: 1-5) puts it, "the market, and the market alone, rules. . . . 'Survival of the fittest' capitalism stands alone." It has destroyed the implicit post-World War II social contract in the United States, has undermined the welfare state in Western Europe, and made increasingly untenable East Asian state capitalism.

However, the Great Recession of 2008 which started in and spread from the United States has tarnished neoliberal capitalism. It has lost its luster as a model to be emulated.

This is especially so because judging from the debates in Washington, the Republican Party continues to cling to a central tenet of their ideology that government should be rolled back wherever possible and that markets should be unregulated as much as possible. It clings to the legacy of Reagan's anti-government rhetoric. The Democratic Party, for its part, tends to compromise because it too is heavily dependent on large corporate and financial interests for campaign money and contributions. It is time for Democrats to say: "Opposition to government is not the solution. Opposition to government was and remains the problem" (Dionne 2012b). Thus, alternative forms of capitalism, different balances between state and market have become more salient.

David Rothkopf (2012: 349-60) mentions four alternatives to the American model. 1. "Capitalism with Chinese Characteristics." The state is the architect and chief funder of major initiatives in the economy. But China is just growing too fast for the government to keep up. Besides, social programs are so limited that the country is constantly facing the potential of massive unrest. 2. Indian and Brazilian "Democratic Development Capitalism." Brazil and India have big populations still living below the poverty line, and have strong socialist and socially active political parties, which are necessarily focused on their great development challenges. The Brazilian government is engaged in social issues and social programs, while India has "peoplecentric" policies and a focus on stimulating consumption rather than exports. 3. German, French,

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and Scandinavian "Eurocapitalism." Swedish economics has evolved to encompass social programs that ensure workers a safe haven when confronted with the volatility of international markets and, at the same time, create a consequently greater willingness to embrace the risks associated with freer trade entrepreneurship. Germany, more than France, has given renewed relevance and appreciation for this model. Germany, more than the U.S., has been willing to use the power of government to help its workforce and its economy. 4. Singaporean "Entrepreneurial Small-Market Capitalism." Singapore's small size provides lessons for small countries, especially those associated with innovation and nimbleness, and the role of government officials in managing aspects of the state as though they were managing a large corporation.

Rothkop (2012: 360) concludes his survey of these four alternatives:

> The fact that virtually every other form of capitalism "on the market" has significantly greater roles for the state than advocated in and by the United States suggests that not only is the U.S. view unlikely to prevail, but indeed the momentum is actually with the alternatives. They are growing faster, they are combating inequality more effectively, they are competing more tenaciously, and they are protecting their people against the volatility of the modern marketplace more competently.

The central issue regarding the capitalism of the future is rethinking the relationship between nation-state and the multinational corporation, restoring the lost balance between the shrunken public power of the state and the unbounded private power of corporations (see Dionne 2012a; Pearlstein 2012; Edsall 2012). The case for government's role in our country's growth and financial success goes back to the very beginning. Both affirmative government and free markets are necessary not only from the point of view of economics, but from the perspective of Christian social ethics. It is important to say this because, for example, Catholic Republican Congressman Paul Ryan of Wisconsin professes to be inspired by Catholic social teaching in his economic thinking, but in reality is an avowed disciple of the libertarian novelist Ayn Rand (see Beyer 2012).

In 1991, to celebrate the hundredth anniversary of *Rerum Novarum,* the first social encyclical of the Catholic Church, Pope

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John Paul II issued *Centesimus Annus* (O'Brien and Shannon 2010). It could not but refer to the events that began to unravel in 1989: the liberation of Eastern Europe, the fall of the Berlin Wall, the disintegration of the Soviet Union, and the end of communism. Accordingly, it asks: Has capitalism triumphed?

The answer is obviously complex. If by *capitalism* is meant an economic system which recognizes the fundamental and positive role of business, the market, private property and the resulting responsibility for the means of production, as well as free human creativity in the economic sector, then the answer is certainly in the affirmative, even though it would perhaps be more appropriate to speak of a *business economy*, *market economy* or simply *free economy*. But if capitalism is meant a system in which freedom in the economic sector is not circumscribed within a strong juridical framework which places it at the service of human freedom in its totality, and which sees it as a particular aspect of that freedom, the core of which is ethical and religious, then the reply is certainly negative (no. 42).

In an earlier section, the encyclical provides the grounding for its affirmative answer.

The state, however has the task of determining the juridical framework within which economic activities are to be conducted, and thus of safeguarding the prerequisites of a free economy, which presumes a certain equality between the parties, such that one party would not be so powerful as practically to reduce the other to subservience. . . .

The state must contribute to the achievement of these goals both directly and indirectly. Indirectly and according to the principle of subsidiarity by creating favorable conditions for the free exercise of economic activity, which will lead to abundant opportunities for employment and sources of wealth. Directly and according to the principle of solidarity, by defending the weakest, by placing certain limits on the autonomy of the parties who determine working conditions, and by ensuring in every case the necessary minimum support for the unemployed worker (no. 15).

John Paul II, therefore, recognizes that there are different kinds of capitalism, different ways in which the market economy is organized, different combinations in which the principle of subsidiarity which reaffirms the market economy and the principle

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of solidarity which justifies the welfare state are worked out in practice. This is true on both the national and the global levels. But, at the time of writing, *Centesimus Annus* did not yet evince a full realization that the "really existing capitalism" is a global capitalism, and that this global capitalism is predominantly a laissez-faire capitalism.

What is the future of capitalism? What is the capitalism of the future? "The challenge," Ed Miliband (2012), the leader of Britain's Labour Party rightfully points out, "is not just to capitalism but also to politics. . . . The question is not so much whether 20th-century capitalism is failing 21st-society but whether politics can rise to the challenge of changing a flawed economic model." In the United States, the debate between the politics of growth which is pro-government and the politics of austerity which is anti-government has become a political trench warfare with no holds barred. "Conservatives are more willing to inflict harm on adversaries and more readily see conflicts in zero-sum terms – the basic framework of the contemporary debate" (Edsall 2011).

That being the case, the last word belongs to Rothkopf (2012: 364):

> For in the end, the twist in our story is that all power in that social, political, and economic ecosystem mentioned a moment ago ultimately flows from the people, the ordinary, fragile, mortal citizens, who grant it to the great enduring organizations that they create and allow to be created to serve them. They are not the bottom of the pyramid but its foundation, the only actors within it who are actually initially endowed with any power or rights at all, and thus the sole grantors of power to that changing mix of public and private organizations that have been or ever will be conceived and allowed to exist.

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