APOCALYPSE NOW?

Market systems survive their inevitable crises, says **William Coleman**

Is the end of the capitalist system nigh? The present financial crisis has moved several to conclude so. But many more in the long gone past have made the same precipitate and premature inference.

In 1857 the global economy was in the grip of 'the first world-wide crisis in the history of modern capitalism.' Sixty two of New York's sixty three commercial banks had failed. The financial houses of Hamburg were paralysed. Financial centres from Stockholm to Paris were shaken. The Western Bank of Scotland had crashed, and the Bank of England was forced to suspend the convertibility of its notes into gold.

In the light of this crisis, Marx told Engels in December 1857 that he was working 'like mad'—on what would become his *Das Kapital*—so that he could complete the book before the imminent overthrow of capitalism.

Marx need not have so troubled himself. When he died in 1883, the United Kingdom's national income was 74 percent higher than it had been in 1856. The contradictions of capitalism have long outlasted Marx's historical laws.

But with each recurrence of financial turmoil, there occurs the wishful thought that, 'At last! The day of reckoning has finally come.'

Not surprisingly, the gigantic disturbances of the 1930s produced a medley of books declaring as much. The most prudent of these was *Capitalism in Crisis* by Roosevelt's monetary advisor James Harvey Rogers, which painted a picture of the atrophy of market capitalism into uncompetitive, regulated state capitalism. In 1943 this vision was memorably articulated by J. A. Schumpter in *Capitalism, Socialism and Democracy*, in which he raised doubts as to the longevity of any genuine market system.

Just a few years later the market system was, of course, to commence its huge and transforming post-war boom. But the dismal end of this period in the stagflation of the 1970s provided the soil for the regeneration of 'capitalism in crisis' analyses. A simple title search over the internet yields three books of that decade with precisely that title and several more variants of it. One such—*The Crisis in Australian Capitalism*—was honoured with a preface by Sir John Crawford.

Reflecting the insurgency of Marxist thought of the 1970s, the favoured theme of this phase of crisis mongering was that the capitalist state had run through its bag of Keynesian tricks to stave off capitalist decline, and now the fateful day loomed. It was, proclaimed the Trotskyite Ernst Mandel, the era of 'Late Capitalism,' the title of his own work of 1972. As late as 1986—when the transition from socialism was about to abruptly descend—authors of this tendency were still writing books titled 'Economic Crisis and the Transition from Capitalism.'

In the event, crisis mongers were remarkably little abashed by the collapse of socialism in 1989. Instead, the recession of western economies of the early 1990s provided an opportunity for John Gray to emerge as a prophet of 'The End of Capitalism as We Know It.' But in his analysis, the situation was not diagnosed as that of the quack state doping the mortally ill capitalist patient. Rather, drawing on Karl Polanyi, Gray decried the non-feasibility of an uncontrollable market 'disembodied' from society at large. His text for this Polanyiate sermon was the Japanese economy, a very unlikely illustration of a market 'disembodied' from society. More plausibly, he identified the 'indigenous' capitalism of east Asia—'the Tigers'—as illustrating a capitalism desirably uncontaminated by the (supposed) market purism of the 'Washington Consensus.'

William Coleman is a Reader in the School of Economics at the Australian National University.

That the 'indigenous capitalism' of these tigers suffered a serious reverse in the East Asian Crisis 1997 only provided another cue for crisis mongers. Those events were the occasion of George Soros' *The Crisis of Global Capitalism: Open Society Endangered.* Rejecting both the implicitly state-hostile posture of Marxism and the state-hospitable posture of Polanyism, the billionaire financier sought his theoretical underpinnings in epistemology. Soros championed the dissolution between the perceiver and the perceived; a dissolution which implied, at least to his own satisfaction, the elimination of the distinction between 'the fundamentals' of an asset and the price of an asset. The upshot of this was that 'The global capitalist system which has been responsible for the remarkable prosperity of this country in the last decade is coming apart at the seams.' Indonesia, he declared, had experienced a 'pretty complete breakdown,' and most of its gains over the preceding 30 years of growth had 'disappeared.' Russia 'has undergone a total financial meltdown.'

The contradictions of capitalism have long outlasted Marx's historical laws.

It is not completely superfluous to observe that these drastic diagnoses of the 1990s were belied by later events. John Gray proclaimed a 'cataclysmic drop in activity in Japan,' but GDP grew by 4.8 percent in 1989, 5 percent in 1990, and small increases in following years. The financially molten Russia saw an 88 percent growth in real GDP between 1998 and 2008. And the completely broken down Indonesian economy experienced a 59 percent increase in real GDP.

Is then crisis mongering a delusion? Not entirely. Casting a historical perspective on the current Global Financial Crisis provides cause for both optimism and pessimism about a market-based economic system.

First, the pessimistic moral. The recent extreme events have revealed the much touted Great Moderation as another Great Illusion. The present disorder underlines the fact that the critics of 'capitalism' have been correct in assuming that an economic system that is given some reasonable freedom of movement will be liable to episodic convulsions. It is a commonplace fact that economic history is punctuated by a great variety of crises: banking crises, insurance crises, debt crises, monetary crises, financial crises, currency crises, and dollar crises. And it is studded by numerous economic contractions. I have mentioned the Commercial Crisis of 1857. But I could have cited six distinct 'major' UK business cycles in the 70 years before the crisis that so excited Marx. And I could keep pressing back further, and note The Berlin Commercial Crisis of 1763; The English Trade Crisis of the Early 1620s; Holy Roman Empire Monetary Crisis of 1619; The Hanse Crisis of 1468; and The Sterling Crisis of 1337–39. Crises go with economic freedom, as much as wars go with political sovereignty. They are going to happen, and will alas defy attempts to regulate them away.

But the very recurrence of these crises also leaves an evident optimistic moral: the market system survives these crises. Indeed, it survives them and grows still stronger. What needs fundamental challenge is not a market economic system; but a policy ethic that exhorts frantic, massive and largely futile efforts to immunise the market system from the regrettable but inevitable repercussions of financial crises.