Some Seeds Germinate Only in Fire

The global financial crisis offers a vital opening for change

BY MARJORIE KELLY

The scene is the White House at midnight. The date: March 3, 1933—the day before President Herbert Hoover is to attend the swearing-in of the newly elected Franklin Roosevelt. As Arthur Schlesinger, Jr. described it in *The Crisis of the Old Order*: "Across the country the banks of the nation had gradually shuttered their windows and locked their doors. The very machinery of the American economy seemed to be coming to a stop.... 'We are at the end of our rope,' the weary President at last said, as the striking clock announced the day of his retirement. 'There is nothing more we can do.' "

The scene speaks volumes about Hoover's belief system—devoted as he was to the mysticism of the "free market," even as evidence of its destructive capability lay all about. There is nothing to be done, he told himself. The market must self-regulate. That conviction remained nearly universal in business, even as the Depression lengthened into the mid-1930s. As Henry Ford said of government: "Let them let business alone."

Hoover did indeed leave business alone for nearly four years after the 1929 crash—while unemployment climbed toward 25 percent, and almost half the commercial banks closed. With Roosevelt the light did go on: The markets *won't* self-regulate us out of this mess. By 1938, even *Fortune* declared self-regulation a failure. "What failed was the doctrine of laissez faire," the editors wrote in a June 1938 editorial. "Every businessman who is not kidding himself knows that, if left to its own devices, Business would sooner or later run headlong into another 1930."

Scene shifts back to the White House. The time: the present. Stock markets are crashing around the world. From January through August, markets in Russia and Thailand are down 70 percent. From Indonesia to the Philippines, declines range from 40 to 60 percent. An estimated 40 percent of the world is in recession or depression, according to economist Charles McMillion of MBG Information Services in Washington, D.C.

Still the Treasury Department says, capital markets must self-regulate. The surest way to global prosperity, President Clinton says, is to free up international markets. Elsewhere, a few members of the policy elite suggest "capital controls," and some nations dare to act—Malaysia, for example, banning currency trading. But the consensus remains uncannily intact: Capital markets must self-regulate. The ghost of Herbert Hoover is risen from the grave.

The theory: Free capital markets will allocate resources efficiently. *The facts:* Among the five Asian nations that suffered the most last year, *all five* had liberalized the flow of capital earlier this decade. When free capital stampeded for the exits, their economies were devastated. Harvard economist Jeffrey Sachs told *Institutional Investor,* "There is absolutely nothing in the fundamentals of these economies that warrants anything like the declines they have suffered."

Our reality-tested theory might thus be restated: Free capital markets can destroy economies worldwide. But this seems not to register. The ideology remains magically unchanged—markets must self-regulate.

What can possibly be at work here? It's more than ignorance, it seems to me—and more than stubbornness. For what is at stake, ultimately, is not a statement of fact, but a system of values. It's a values system centering on the needs of capital. The claim that only capital can regulate itself remains vital because it is, in essence, a claim of sovereignty.

Sovereignty is a matter of who makes the law. It is a question of who rules. In the "ideal" free market economy, capital rules. We see this in corporate boardrooms, where stockholders alone may vote. We see it in NAFTA, where financial considerations are front and center, while worker and environmental issues are "side" accords. We see it in capital flows, where capital is free to protect itself, but governments are forbidden to do so. Capital rules. That's sovereignty. "Markets-will-self-regulate" is its rallying cry.

The assertion comes with the footnote that, by the way, markets will self-regulate to the benefit of all. (Sovereign kings made the same assertion: The monarchy is to the benefit of all.) Again facts contradict. Growing wealth inequality is not to the benefit of all. The Depression was not to the benefit of all.

This "to the benefit of all" footnote is a gesture toward democracy, but free market theory is at base aristocratic. The "freedom" it extols is for capital alone. Workers are voiceless, and the sovereign power of government is leashed. The economy is run by capital, for capital. It is an oligarchy of wealth, which, as philosopher Karl Popper observed, is the central characteristic of a closed society.

He described closed and open societies in his 1962 book, *The Open Society and Its Enemies.* In a closed society, he noted, "Good is what is in the interest of my group; or my tribe." Thus, good is what is good for capital. This belief is held in place by "a charmed circle of unchanging taboos, of laws and customs which are felt to be as inevitable as the rising of the sun," Popper said. Taboos—like the self-regulating market—are "beyond the possibility of any alteration whatsoever." They may not be disproved by facts.

The rigidity of the tribal value system can be broken only by crisis. We may be entering a crisis era now, akin to Hoover's—a time of crisis in the old order. It represents an opportunity. The real issue is not "capital controls," but the choice between the closed and open society—the aristocratic or democratic economy. Is our economy to be run by and for the few, or the many? Embedded in this question is the seed of the open society. It is a seed that germinates only in fire. That fire is visible on the horizon.

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