*Free Markets And The Sinking Of The Global Economy*

Joseph Stiglitz

USA: W.W.Norton and Company Inc. 2010

UK: Allen lane, 2010

ISBN 978-1-846-14279-6

**Robert Henderson**

This is a profoundly depressing book: not because its subject is boring or delivered in the leaden prose commonly beloved of academics; rather, the lowering of spirits arises from the fact that someone who won the Nobel Prize for Economics in 2001 and served as chief economist with the World Bank shows himself to be naïve to the point of imbecility.

Stiglitz's naivety is not simply an ad hoc expression of a character trait. It is shaped and ordered by being imprisoned within an ideology which contains a large dollop of fantasy, a fact made wondrously ironic because a thread running through the book is the levying of the same charge by Stiglitz against those who worship at the altar of Milton Friedman: as in 'Economics had moved – more than economists would like to think – from being a scientific discipline into becoming free market capitalism's biggest cheerleader.' (p. 238). Note the claim that economics was once a 'scientific discipline'. More of that later.

Stiglitz's ideological straitjacket is what might be called spendthrift internationalism. Like virtually every neo-Keynesian, he seems to have forgotten that Keynes' recipe for economic governance was a two part programme: the reduction of public debt during economic upturns and the spending of healthy amounts of public money during downturns, even if this means increasing public debt.

Stiglitz ignores the putting-money-aside-in-good-times part of the equation and fails to raise, let alone answer this question: if the public debt swells to such heights that it seriously distorts and depresses the economy by suppressing demand through the need to service the debt, much of which will go to foreign bond holders, is the use of public money to maintain aggregate demand, even if it has to be borrowed, the best way forward? These sums can be immense, especially when interest rates return to more normal levels. Ironically, in view of his failure to substantively address the question of the dangers of massively increasing public debt, Stiglitz makes a point of emphasising that the $1.5 trillion of US government debt currently held by

China costs the US $15 billion p.a. at 1% but would cost $75 billion at 5% (p. 190).

The man's weakness for ideological capture is further displayed by an unquestioning acceptance of the man-made global warming religion, for example, when he writes of the US energy industry '….which poured greenhouse gases into the atmosphere, even with incontrovertible evidence that it was leading to climate change' (p. 187); or puts his general case with 'The biggest environmental challenge, is of course, that posed by climate change. Scarce environmental resources are treated as if they are free. All prices are distorted as a result, in some cases badly so.' (p. 188)

Stiglitz's solution to the present economic disaster is, God help us, global regulation: 'If a new global reserve system, and, more broadly, new frameworks for governing the global economic system, can be created, that would be one of the few silver linings to this otherwise dismal cloud.' (p. 211).

A good idea of where he is coming from can be gleaned from his chapter and section headings which include A New Capitalist Order, Towards A New Society, Toward A New Multilateralism. (I wonder if Stiglitz is aware of how closely these echo in tone the fascist and Nazi slogans of the 1930s?)

What form would this Stiglitzian global regulation take? He would require nation-states to effectively subcontract the economic management of their country to some as yet undefined world authority:

> 'In a well-designed global reserve system countries with persistent surpluses would have their reserve currency allocation diminished, and this, in turn, would encourage them to maintain a better balance. A well-designed global reserve system could go further in stabilizing the global economy, for if more of the global reserve currency were issued when global growth was weak, it  would encourage spending – with a concomitant increase in growth and employment.' (p. 234).

But Stiglitz has much greater dreams of world control:

> 'Achieving the new vision will require a new economic model – sustainability will require less emphasis on material goods for those who are over consuming and a shift in the direction of innovative activity. At the global level, too much of the world's innovation has been directed at saving labour and too little at saving natural resources and protecting the environment – hardly surprising given that prices do not reflect the sacristy of natural resources. The"re has been so much success in saving labour that in much of the world there is the problem of persistent unemployment, But there has been so little success at saving natural resources that we are risking environmental collapse.'  (p. 192)

It is difficult to see how anyone who is not blinded utterly by a quasi-religious devotion to internationalism could believe such a thing. The history of international organisations which attempt to subsume the interests of nation states for a claimed general good is one of unbroken failure, from the League of Nations to the present day farces of the World Trade Organisation – which applies its regulations according to the strength of transgressors rather than as a matter of law – and the UN, an organisation overwhelmingly comprised of authoritarian states which routinely flout in the most emphatic manner the moral principles on which the organisation was founded.

Most pertinently for the present, we have the example of the Eurozone countries twisting and turning as they are faced with the desperate prospect of a Euro member, Greece, going bankrupt, with the likes of Spain, Portugal and the Republic of Ireland forming a disorderly queue behind the Greeks to be next to the point of sovereign debt default.

Despite the fact that the Euro is in danger of collapsing, the richer members of the Eurozone are showing sustained reluctance to transfer money to the poorer ones to stabilise the currency or to emphatically underwrite their public debt. As I write (5 May) an agreement appears to have been finally cobbled together to prop-up Greece with a mixture of loans from the richer Eurozone states and the IMF; but it is far from certain either that the Greek people will allow the austerity measures which are a condition of the loans to be put into operation – a riot is currently happening in Athens – or that they will be any more than a temporary reprieve for Greece. If the rest of the so-called Eurozone PIGS (Portugal, Ireland, Greece and Spain) come calling with similar requests for help it is unlikely that they could be accommodated by either the EuroZone or the IMF.

This reluctance of Eurozone states to act outside their national interest should be salutary for the internationalist, because the European Union is by far the most advanced example in the world of a supranational political union formed without the use of overt force. Moreover, the Euro is the jewel in the federalist crown for the political elites of the major countries within the EU, elites who are constantly, overtly and covertly, pressing forward the agenda for a United States of Europe. If the Euro falls it will deliver a deadly blow to their federalist dream. Yet even that will not persuade them to resolutely support Greece because of their fear of uproar and civil disorder from their national populations.

If the Eurozone states, with half a century of experience of the EU in its various incarnations, will not act as a single entity without regard to national interests, how much more fanciful is the idea of the establishment of a global regulatory system in a jurisdiction where there is no experience of an existing supranational union and vastly greater differences in wealth, culture and history than exist within the EU? It is so improbable that fanciful is much too polite a word, for the project touches the confines of lunacy.

It may be nonsense in terms of its practicality, but it is also dangerous nonsense, because even though it could never be a practical proposition, the effort to put it in place would result in gross losses of national sovereignty and that means, as those of us living in the European Union know only too well, an ever looser democratic grip of electorates on their political elites.

Stiglitz is also remarkably negligent when it comes to the practicality of regulating private enterprise, giving no indication that he has any meaningful grasp of the difficulties involved. Even at the domestic level, the experience of the past decade, starting with Enron, shows how poor even the governments of the most sophisticated economies are at preventing everything from mind-boggling recklessness to outright criminality. This is partly due to collusion between politicians and business in reducing legal restraints on what business may do, and partly the sheer difficulty of devising a system of regulation to deal with massive private concerns which frequently spread across their activities across the globe. To take just two examples. First, it is very difficult to find people willing and able to do the work to accept public sector salaries and operate within the constraints of public service – a particular problem in the banking sector because of the vast remuneration paid to those in need of regulation and the complexity of the financial instruments used and other transactions such as currency speculation. Second, the use of audits conducted by private firms paid for by the company audited as a regulatory check is questionable in any circumstances because of the conflict of interest. It becomes meaningless in the case of very large companies, because only a handful of accountancy firms are large enough to deal with the audit and they not only receive fees for the audit but frequently sell other services such as management consultancy to the firms they are auditing. If it is immensely difficult to keep a grip on businesses operating in a national market, imagine how those problems would be multiplied if there was an attempt at a global regulatory system for banks and their ilk, a regulatory regime which would have to spread across a vast array of political systems, business practices and cultures.

The infuriating thing about Stiglitz is that he does not have the excuse of ignorance or incomprehension for his naivety. He frequently identifies problems but then ignores them, most plausibly because they do not fit with his ideology. For example, he acknowledges the pull of national interest and castigates at length the failure of the present global financial authorities such as the IMF and World Bank to either prevent the present crash or to have managed either sympathetically or efficiently the economies of those countries which sought help. In spite of these flirtations with reality he still has a childlike faith that another set of institutions can succeed, although pathetically he admits that 'What the new system of global economic governance will look like may not be clear for years to come.' (p. 212). In short, he is in the NeverNeverLand of 'Let my wishes come true.'

This refusal to accommodate himself to reality extends to market economics itself:

> 'Adam Smith may not have been quite correct when he said that markets lead, as if by an invisible hand, to the well being of society. But no defender of Adam Smith would argue that the system of ersatz capitalism to which the United States has evolved is either efficient or fair, or is leading to the well-being of society.' (p. 200).

What Stiglitz is complaining about here is both the amount of taxpayer subsidy, hidden and overt which American business receives, from agricultural subsidies to the present gigantic banking bailout, and the general ability of corporate America to reduce competition through political lobbying. The problem with his complaint is it does not address the question of what constitutes a free market and how the concept of a free market is aligned with politics.

A truly free market would be one in which there was no state intervention, the consequence of which would be monopoly or at least greatly reduced competition. The fact that anti-monopoly laws are the norm rather than the exception in advanced economies means that the markets in even supposedly market economies are not only state-regulated markets, but markets regulated in the most fundamental way to prevent the natural end of a free market. Labels matter. Call laissez faire economics not free market economics but state-regulated market economics or even anti-monopoly state-regulated market economics and it takes on a very different emotional connotation. Free is a feel good word; state-regulated generates at best a neutral emotional response and at worst is a feel bad word.

Stiglitz is strongly in favour of such state intervention: 'Making markets work is.....one of the responsibilities of the state' (p. 201); and he fingers the Left for taking the lead in this area:

> 'It is an irony that the "Left" has had to take an active role in trying to get markets to work in the way they should, for instance, through the passage and enforcement of anti-trust laws to ensure competition, through the passage and enforcement of disclosure laws to ensure that/ that market participants are at least better informed; and through the

> passage and enforcement of laws on pollution, and financial sector regulation… to limit the consequences of externalities.' (p. 201)

Moreover, he does not trust the market wholly even where it works efficiently: 'Efficient markets can.....produce socially unacceptable outcomes.' (p. 204)

Stiglitz cannot or does not want to see that state intervention compromises the very idea of a free market because it is a market designed not by Nature but men. Once it is allowed that it is legitimate for the state to intervene in the market, the pass has been sold on the concept of a free market, because intervention of any sort having happened, it is impossible to argue that any other sort of state intervention is in principle wrong, dangerous or inefficient. All that can be done is to argue on the detail, that this or that is contingently undesirable. The situation is akin to that between free expression and censorship, You either have free expression or a range of permitted opinion. One breach of free expression and any censorship is arguably permissible. It is also noteworthy that Stiglitz does not tackle the problem for free markets of other gross state interferences such as limited liability, patents and copyright or the less overt market distortions, particularly those in evidence in international trade, such as different tax regimes, legal systems and social legislation. (It is important to understand that laissez faire economics and international trade are not the same thing. International trade draws upon any form of domestic economy, from the market-driven to the wholly state-owned.)

An even more fundamental difficulty is the fact that Stiglitz starts from the position that capitalism/market economics can be objectively defined and has an objective reality. This mentality is epitomised by Stiglitz's frequent references to economics as a science, an example of such claims I gave early in the review. This is a common practice amongst the social science academic fraternity and is born of the inferiority complex commonly found amongst them; for social scientists know in their heart of hearts that subjects like economics lack the predictive power of the natural sciences and are in their often speculative and subjective content more akin to the humanities than science.

Physics and chemistry allow a great deal of prediction because they are concerned largely with describing physical and chemical phenomena and events which are bound by natural laws. Other sciences like biology and geology, are less successful with prediction, but nonetheless they concern themselves with objectively verifiable facts such as the physical structure of organisms and the sequence of rock strata. They can also meaningfully predict in areas such as genetic inheritance. The social sciences have much less predictive power than biology and geology. Psychology in areas such as IQ testing and the creation of experiments come closest to the natural sciences in method, but even here the vast amount of dispute over the results of such testing and experimentation suggests that the subject is far from certain in the way that the natural sciences are certain.

But most of social science is even less certain than those narrow aspects of psychology for it deals with observations of human behaviour which by their nature are in some degree tainted with subjectivity however hard the researchers try remove them. For example, how can class, or if you prefer socio-economic status, be objectively decided? The income of people can be measured as can their educational accomplishment; but class is far more than that because it embraces not only cultural difference in terms of interests, but the£ different social relationships classes generate. For example, traditionally the poor have formed a much more interdependent relationship with one another than have the better off amongst their own class.

Social scientists over the past half century have attempted to disguise this unfortunate lack of predictive ability and permanence of observed phenomena by introducing ever more complex mathematics and statistics into social sciences to lend it a specious similarity to sciences such as physics and chemistry. It also had the effect of making social science ever more opaque to the lay public. This opacity meant in the case of economics that objections to economic theory, especially the dominant theory of the day, could be readily evaded where those objections came from those outside the academic fraternity.

In the case of economics there is precious little similarity with the natural sciences, for its predictive pow∏er is very weak and much of its theory is based on supposition rather than hard fact. Even the most basic ‘laws’ of economics, those of supply and demand, are not scientific laws in the sense that Newton’s laws of motion or Boyle’s Law are laws, for there are a significant number of instances where the higher the price of something the more will be sold (extraordinary demand curves).

Such demand arises in three situations. The first is where the person wishes to pay a certain amount for something because they either wish to give someone a present which will reassure the recipient by its value that they are valued by the giver or to acquire something expensive for themselves which will impress others. The second is where something is being offered at such a low price that the prospective buyer doubts its quality or provenance. This is particularly true of food and drink. The third is brand loyalty. A person may be able to buy something of equal quality at a lower price – for example, supermarkets’ own brand goods – but prefers to pay more for a brand of which they have grown fond.

There is also a great deal of irrationality (as economists define irrationality, i.e. making spending decisions which are not the most materially beneficial or even harmful ) in the way people make economic decisions. For example, people smoke, drink, take drugs and overeat despite knowing they are spending money on that which has deleterious effects on their health. They bet even when they know it is very long odds that they will win. People also commonly fail to invest money saved in the most profitable way, not least because they lack the expertise to make any meaningful judgement themselves of what would be the best bet.

The point about such behaviour is that human beings are not desiccated calculating machines. People drink, take drugs, smoke and overeat because it gives them pleasure or to satisfy an addiction, which in a sense is pleasure or at least an easing of pain. They bet despite astronomical odds against winning because they are buying that precious human asset, hope. They may fail to make sound investments because they are not willing to devote the time to learn about investments because they are either intellectually lazy or prefer to use their time in other ways. Such qualities cannot be readily quantified and probably not meaningfully quantified at all. All this uncertainty gives weight to the old joke about ask three economists for an economic prediction and you get four opinions.

Does all this uncertainty mean economics has no value, that it can predict nothing of consequence? It is a moot point. The problem is not that economic predictions never come true, but that there is no certain way of deciding which predictions will come true either in terms of when something will happen or its exact effect. Government forecasts are routinely seriously wrong and no economic forecaster or economic model is consistently reliable.

The problem of deciding which forecast is most likely to be correct is further complicated by the facts that economics is tightly tied to politics and that academic economists will be subject to the natural social pressure of going along with the herd even if they do not want to. There is also the strong tendency within humanity towards ideological capture, especially those ideologies which promise a ready and comprehensive way of guiding people to make decisions. Laissez faire economic theory is a prime example of such an ideology, for it both removes from its adherents any need to go through the laborious and demanding job of assessing situations pragmatically and provides, at least in what might be called its vulgar form, a simple rule to apply in any circumstance: namely, the market is God and will provide. There is a further problem with laissez faire: its consequences, whether intended or not, tend in practice to promote the interests of the haves over the have nots. Hence, there is also a base motive to promote it.

Stiglitz wants to have his economic theory cake and eat it, too. He recognises the fundamental problems raised by both laissez faire economics and globalisation. Yet when push comes to shove Stiglitz still supports both. He wants to control economic activity for the purpose of maintaining what he wrongly imagines to be the operation of the free market, whilst advocating a good deal of state involvement in the economy beyond merely regulating the banks: for example, his draconian view of what needs to be done to satisfy the global warming agenda and his desire to see large transfers of wealth from the first world to the developing world. Yet despite this authoritarian caste of mind, he still fancies himself to be a pro-markets man.

One last example of Stiglitz's divorce from reality. He is still banging the tired old comparative advantage drum, the idea that countries (or areas within countries) should concentrate their economic efforts on that which they can produced most competitively. (In the early days of laissez faire economics as a dominant ideology in Britain, from the 1840s onwards, the likes of Cobden, Bright and Ricardo argued that Germany, then un-unified, should forget about industrialising and concentrate on agriculture.) The idea epitomises the detachment of laissez faire from reality, for it ignores small matters such as national security through self-sufficiency in vital goods and services and the danger of structural unemployment arising from sudden drops in demand – caused by war, blockade, natural disaster, economic depression, the rise of new international competitors or the obsolescence of a product – for the narrow range of products offered by the country narrowing its economy on the comparative advantage principle. Stiglitz puts forward an adaptation of the classic idea:

> 'A country's comparative advantage can change: what matters is dynamic comparative advantage. The East Asian countries realised this. Forty years ago, Korea's comparative advantage was not in producing chips or cars, but in rice. Its government decided to invest in education and technology to transform its comparative advantage and to increase the standard of living of its people.' (pp. 195/6)

This is pure baloney. South Korea has not concentrated on what they did best but has gone through the dramatic process of industrialisation. That is a one off step change not merely an economic event which be repeated. Once industrialised, all a country can do economically, short of de-industrialising, is make changes in the detail of its economy, a very different process to that of moving from a pre-industrial to an industrial society. Moreover, the idea that it is efficient either in terms of economic progress or social utility for a country to constantly have to re-invent its economy would, I suspect, strike most people as absurd. Human beings need a degree of stability in their lives.

Stiglitz fancies himself to be a rational man applying a scientific discipline. In reality he is simply a man with a deep need for certainty and security. This makes him a sucker for ideological capture, and once captured he comfortably ignores facts which conflict with the ideology and takes past failure to implement the ideology as evidence not of the impracticality of the-creed, but as a signal that the ideological ends were not sought fiercely enough and, consequently, must be pursued with ever greater vigour and ruthlessness until the ends are obtained.

This book is worth reading for one reason and one reason only: as a primer on the modern internationalist mentality of those who increasingly control our lives. At that level it is a truly frightening read, for these are people with real power and influence who exhibit a toddler-level capacity for ignoring reality as they dwell in a world of dangerous dreams; dreams based on the globalist ideal of the free movement of goods and people, which are utterly at odds with the tribal instincts of humanity and consequently doomed to traumatic failure.