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Site Index

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Archives

Marketplace

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Protecting the Losers in the Global Spread of Capitalism

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By ROGER COHEN

BERLIN -- In Western capitals there is a rush to rethink the world. At issue is the end of the so-called Washington consensus, which has held more or less unchallenged since the end of the Cold War: that more open markets, freer trade and larger international capital flows are necessarily good.

The catalyst has been disaster that no rally on Wall Street can quickly undo. The global financial crisis has thrown 20 million Asians back into poverty in the last year, made 40 percent of the Russian population poorer than ever, and produced growing unemployment in Brazil, a country already racked by some of the greatest disparities between rich and poor in the world.

"International volatility has been such that free-market capitalism is on the defensive," said Robert Hormats, vice chairman of Goldman Sachs International. In place of the old certainties lies disquiet.

At the heart of the disquiet is the growing sense that however fecund the global exchange of trade, information and money has been in recent years, this unbridled flow can also be capriciously destructive. Forms of intervention to control or direct the flow are therefore being heatedly discussed.

"A very important debate has begun, sparked by the general realization that you cannot leave people unprotected before the global market," said Anthony Giddens, the director of the London School of Economics. "There is a will to recognize the need for some new governance of the world economy."

The question of just what that new governance should be is creating a world of unusual intellectual flux, one comparable to the post-1945 era in its quest for some overarching design for equitable development. Just as the development of

the New Deal and the European welfare state rescued industrial capitalism from its interwar collapse, so a similar and equally critical quest has now begun at a global level for cushions to the harsher effects of electronic capitalism.

Prominent economists have suggested a global taxation on currency speculation, the establishment of a second United Nations Security Council for economic affairs that would act to avert disaster in the economic field, limits on international flows of capital, and setting target zones for exchange rates.

But such steps, which have fairly wide support in Europe, tend to provoke deep suspicion in the United States, although the danger that further volatility could lead to spreading protectionism and possible political upheavals is widely recognized in Washington.

At the center of the disagreement between Americans and Europeans lies the nature of today's instantaneous world. Has this new global society amounted to an electronic energizer, as the Clinton administration has tended to argue, a revolutionary generator of new wealth, new job possibilities and greater freedom?

Or has the brave new world, as many European intellectuals have insisted, been no more than a slick reincarnation of the unfettered capitalism of the 19th century, using new technology to atomize societies, isolate the poor and advance a new ideology of exploitation upheld by an ever-wealthier, online global oligarchy?

"We live in an increasingly unequal world," said Elmar Altwater, a political scientist at the Free University of Berlin, "and what we have now understood is that this will continue as long as there is no political correction. Incomes based on labor simply have not grown in real terms, even as income based on the global application of capital has soared. What is needed is more political intervention."

Jean-Paul Fitoussi, an economist and adviser to French Prime Minister Lionel Jospin, said: "If there are systematic losers from today's global economy, we could be overwhelmed. A way must be found to bring the Frankenstein of deregulated global financial markets under control."

Such references to "Frankenstein" in the same breath as "markets" makes many American economists grimace. After all, the United States under Bill Clinton has seen the creation of millions of new jobs, a vigorous economy that derived 30 percent of its growth from international expansion and, until recent volatility, consistently soaring share prices.

In Europe, by contrast, high unemployment and increasingly strained social security systems have bolstered a far darker vision, popularized by a best seller called "The Economic Horror" by French writer Viviane Forrester. It has sold more than 310,000 copies and been translated into 17 languages.

"Shame should be quoted on the stock exchange for it is an important element of profit," Ms. Forrestier writes in one of the milder phrases of her uniformly bleak catalog of contemporary devastation.

Pierre Bourdieu, a French intellectual with a large and passionate following, a man who is perhaps the nearest figure that France now has to a Jean-Paul Sartre, has made his name with relentless and more sophisticated attacks against what Europeans and Latin Americans generally call ultraliberalism, that is, unfettered free-market orthodoxy.

A dapper, soft-spoken man, Bourdieu argues that the central aim of "the pure logic of the market" has been to weaken every collective group -- the nation itself, the state, labor unions, cooperatives, associations -- to install what he calls a worldwide "reign of absolute flexibility" in which international capital and multinational corporations dictate terms of employment and wages. "Ours is a Darwinian world of insecurity and stress, where the permanent threat of unemployment creates a permanent state of precariousness," he has written.

The quest for fairness has been strengthened in Europe by the arrival of governments whose intellectual inspiration comes from the left: Tony Blair in London, Lionel Jospin in Paris, Massimo D'Alema in Rome and Gerhard Schroeder in Bonn.

It has also been reinforced by the ravages that the rapid, often herd-like daily movement of money across frontiers has recently inflicted on such societies as Indonesia, Thailand and Brazil.

The abrupt unmasking of Russia's sham capitalism -- with its "stock market," its "financiers" and its privatized companies beside zero regulation, almost zero tax collection, rampant asset-stripping and a general absence of the rule of law -- has also brought home the danger of exporting a modern capitalist market economy to a society unready for it.

Reviewing this and other fiascos, World Bank president James Wolfensohn said last month, "We have to learn to have a debate where mathematics will not dominate humanity."

Clinton, too, has noted recently that a quarter of the world's population now lives in countries with declining growth. He has begun to talk about the need to "lift the lives of ordinary people." Still, what form of regulation the market needs and in what degree remain matters of sharp dispute.

Blair talks about the "rebirth of progressive politics," by which he seems to mean that the state has an active role to play after the Thatcher years but one that is highly disciplined and ultimately aimed at giving everyone a stake in the national economy. Clinton has proposed a "third way," between capitalism and socialism.

The term "third way" is not new, however, and has been applied during this century to everything from German social democracy through Yugoslav economic experiments to attempted reforms in the Soviet Union during the Gorbachev era. What both Blair's and Clinton's formulations have in common, though, is the notion that highly disciplined public entities can bring the necessary balance to market forces.

So far, Western governments have instructed the World Bank to direct extra funds to "the most vulnerable groups in society" and provided an extra \$90 billion to the International Monetary Fund to be used to try to pre-empt crises. But these are essentially short-term band-aids.

More sweeping measures are certain to meet resistance. "The last thing the world needs is an economic Security Council at the United Nations," said Hormats of Goldman Sachs. "If you really want to undermine confidence, that would do it." He added that limits on flows of capital through controls or regulations should be approached warily.

Paul Krugman of MIT has argued in *The New Republic*, however, that pressure to constrain or limit international capital flows seems certain to grow if the response to crises continues to be governed by the need to "mollify market sentiment." Krugman says that cutting interest rates is what is really needed to revive these economies and give poor people in countries like Brazil a better chance to make their way.

Such limits on capital flows would be a body blow to the spirit of American capitalism, which has been so buoyant and dominant since the Cold War's end. This capitalism has been revolutionary, introducing millions of people to stock-holding both directly and through mutual funds.

But capitalism elsewhere has also had a much crueler face as rising poverty rates in Asia, Latin America and Russia show. "Capitalism survived after World War II," said Fitoussi, the French economist, "because we invented a system where there were no consistent losers, everyone gained a little." The problem, he said, is that that is no longer the case.



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