

Quarterly essays (in English and French) on the theme "Querying economic orthodoxy"

No. 68 – February 2017

Abandon economic fatalism

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Globalization is a tremendously positive force, but only if you are able to domesticate it to work for you rather than against you.

Dani Rodrik,¹ *The Globalization Paradox* (Oxford University Press, 2011), page 146.

Over the past three decades a fatalistic attitude about the "globalization of the economy" has taken hold throughout the world . . . According to this view, employers and employees must adjust to the "new economic reality" by becoming "more competitive". . . Globalization is therefore likened to an ever-accelerating steamroller without a driver which, unless economies get on board, will leave them crushed in its path . . . [on the contrary] it is vitally important to frame globalization from the outset as an outcome, not a cause.

Andy Smith,² *The Politics of Economic Activity* (Oxford University Press, 2016), pages 62-63.

A radically misguided attitude

The word *fatalism* describes well our current attitudes to the problems of globalization and technological change. Writer after writer, speaker after speaker, hammers home the message that the ineluctable rise of global trade and delocalization is going to overturn our economic structures; that the unstoppable march of technology is about to eliminate 20%, 30%, 40% . . . , or what have you, of our employments. These changes, we are told, are going to happen, whether we like them or not; our duty, therefore, is to adapt ourselves to them. Those who can't or won't adapt have no future.

But this amounts to saying that the economy is our master, that we human beings exist to serve it. Surely that is the wrong way round, is it not? The economy should exist to serve us. A quite different view of the matter is possible. Instead of seeing those wrenching changes as being caused by *external forces beyond our control*, by a kind of "fate", why not see them as *outcomes of our own decisions*?

International trade has destroyed many of our industries, because those of developing countries, "free" from the constraints of paying adequate wages, respecting workers' rights and protecting the environment, can produce everything much more cheaply than we can. But this destruction has not hit us because the low-cost countries have forced their products upon us. It has hit us because we, the developed countries, have gone out of our way to demolish trade barriers. We could have chosen to impose tariffs or other restrictions on imports from countries that fail to respect our values concerning democratic government, workers' rights, or care for the environment.³ We could have rejected the *unfair competition* that results from letting those countries' industries compete freely with ours. Instead, we decided to admit their underpriced products in huge quantities, basically because free-market thinking favours cheap goods for consumers and lucrative opportunities for traders. But a square deal for workers, avoidance of wasteful excesses of production and consumption,⁴ preservation of the earth's biodiversity and resources: how many, in the temples of the free-market religion, care much about these things?

Obsession with competition

The current frantic pace of technological development reflects another set of decisions: our obsessive pursuit, since the 1970s, of unrestricted competition. We have deliberately abandoned practices such as resale price maintenance, regulated insurance tariffs, fixed rates of commission on our stock exchanges, internationally agreed air fares, stabilized commodity prices . . . We have adopted the strategy of smoking out price-fixing agreements between enterprises and severely punishing their perpetrators. We have privatized public services like electricity and telephony, introducing competition between rival suppliers, where once there were public-service monopolies. It is still customary to believe that all these changes have been beneficial. They have provided wider choices and lower prices for consumers; that is all that really matters in the economy, isn't it?

The outcome of all those "reforms" is that, in almost all business sectors, we now have intense *competition on price*. Every business has to strive constantly to cut its costs, to enable it to cut its prices, to enable it to keep abreast of its competitors. So businesses are obliged to adopt every cost-saving gimmick that becomes available. Therefore, the technologists in Silicon Valley have every incentive to develop cost-saving gimmicks as fast as they can; and the technologists are spurred on by intense competition between themselves. So we face a flood of cost-cutting technologies, which operate largely by cutting out human work. This implies the potentially huge destruction of employments which, according to orthodox thinking, is our appointed fate.

However, in a less competitive world, the incentives to develop these technologies would be weaker, so they would develop at a more gradual and tolerable pace; some of them might not even develop at all. The first computers were constructed in the

1930s, and over the following forty years or so they developed quite slowly; that was a period when we were not obsessed by the supposed "need" for unrestrained competition. Thereafter, as free-market dogma took hold and the old restraints on competition crumbled, the pace of electronic technology's development became hectic. And we have come to believe that, however much we may fear what this hectic process may do to us, we have no way of restraining it.

Don't blame our stars

In reality, as Cassius pointed out to Brutus, *the fault . . . is not in our stars, but in ourselves, that we are underlings*.⁵ We are indeed "underlings" if we regard "the economy" as our master, to whom we owe submission and obedience. Yet it is ourselves, through our governments, regulatory bodies, trade associations, labour unions, law courts . . . who ought to decide how our economy functions. Decades ago, we decided that our economies should work under controls and constraints that provided a degree of stability and discouraged inordinately rapid changes. More recently, we decided to discard the constraints. So now we face the alarming fact that unconstrained economic forces, like Andy Smith's driverless steamroller, are controlling us, rather than our controlling them. They are forcing upon us a frenetic pace of change and upheaval, under which many of us, unemployed or scratching an independent pittance or slaving for rogue employers, cannot live in conditions of decency and dignity. Those who cannot, the unhappy underlings, search confusedly for ways out of this mess; they vote for political "quacks" who offer dubious panaceas.

We could choose, as we have chosen before, strategies that would restrain and retard the processes of globalization and robotization. Why are we now so reluctant to do so?

One obvious answer is the excessive political and financial power of today's big corporations, many of which find our present arrangements very profitable and have no wish to see them changed. It clearly pays them to import goods produced at Third World costs and sell them at First World prices, even if these prices have often to be trimmed by discounts. It also pays them to be able to drive out smaller competitors by undercutting their prices (*predatory competition*).

Another answer is that economics, as it is generally taught today in colleges, universities and business schools, generally holds that all "artificial" restraints on competition, whether within a nation (cartels or other kinds of price-fixing) or internationally (trade restrictions) are inherently reprehensible.

A false philosophy of freedom

Our tolerance of corporate power games and of excessive competition reflects something deeper than economics. It reflects a whole philosophy of "freedom" that has become widespread in recent times, partly because economists have encouraged it so

strongly. This philosophy holds that *freedom means simply absence of constraints imposed by other people*. Freedom is seen as a negative and indeed amoral quality, as the libertarian economist Friedrich von Hayek explained: *philosophers have sometimes defined freedom as action in conformity with moral rules. But this . . . is a denial of that freedom with which we are concerned.*⁶ Therefore, individuals, and corporations too, should be left as "free" (unconstrained) as possible, even if their unconstrained actions conflict with the public interest, or with morality and common decency. Entrepreneurs and corporations should be "free" simply to do whatever best suits their own interests and maximizes their own gains.

In particular, businesses should never enter into agreements to restrain competition between themselves; for such agreements would limit their "freedom" of action. Nor should governments impose rules, such as constraints on trade or price controls, that restrict competition and thus commercial "freedom".

If we adopt and promote this notion of freedom, it follows that we are unwilling to allow our community, through its various institutions, to regulate business behaviour so that it conforms with the common good and with sound moral standards. Consequently, the economic forces brought into play by free-wheeling businesses appear to be beyond our control, to be ineluctable "fates".

So we have an economy in which every business does whatever appears most profitable, with little care for the consequences of its actions for the environment, for the society within which it operates, for its own employees or subcontractors. The competitive drive to cut costs means often that activities have to be shunted off abroad, that workers have to be downgraded in pay and status, or replaced by automata. Don't blame us, says management, we are forced by the global markets to behave like this. If we don't get on board the steamroller, we shall be crushed.

Free-market dictatorship

Doesn't that mean that management (except, perhaps, in the biggest firms) is not really free at all, but lives under the dictatorship of global markets? Indeed it does. But the free marketeers' perverse concept of freedom means only "freedom" from constraints imposed *by other people*: the people who govern or regulate us, or the people with whom we might have cooperative (anti-competitive) agreements. The dictatorship of the markets doesn't count as intrusion upon our "freedom", because the markets are deemed to be impersonal forces, like the weather or the tides.

Hayek's famous book *The Road to Serfdom* (1944) argued that the mixed economy he knew in Britain was on a slippery slope leading straight to Communism. But by pursuing the so-called "freedom" of Hayek and his kind, we have taken the road to another kind of serfdom; we have fallen under the global markets' tyranny. In the

words of French philosopher Roger-Pol Droit, this is *not a master with a face, but an impersonal, permanent domination, all the deeper and less perceptible in that each of us has internalized it [ie, accepted it and made it part of ourselves].*⁷

A better notion of freedom

We need a different understanding of freedom, one that is married to morality and the common good, not merely to the individual's (or enterprise's) right to choose, for good or ill, in one's own selfish interest. Such an understanding is not far to seek; it is still with us, standing in a long tradition that reaches back to Biblical times and to ancient Greece. Thus, in Aristotle's thought, liberty is linked to virtue and good citizenship: *men should not think it slavery to live according to the rule of the constitution [or: the way of life of a good citizen]; for it is their salvation;*⁸ as a present-day scholar explains, *Aristotle's free man not only does what he desires, but he desires that which is truly good.*⁹ In Psalm 119 (verse 45) we read that *I will walk at liberty, for I seek Thy precepts;* in our own times, Rabbi Abraham Heschel has written that *man is free in doing good; he is not free in doing evil. To choose evil is to fail to be free.*¹⁰ Benjamin Franklin wrote that *only a virtuous people is capable of freedom.* Two modern French Protestant theologians explain that *freedom triumphs in communion and love . . . the grace of God liberates us from ourselves to engage in the service of others.*¹¹ The Catholic catechism of 1992 (para. 1733) states that *there is no true freedom except in the service of what is good and just.*

If we see freedom in these terms, we need no longer worry that, if we constrain businesses so as to prevent them from behaving antisocially and unjustly, we are guilty of "destroying entrepreneurial freedom"; for true freedom does not mean the power to misbehave. We need not feel that it is impermissible to restrain excessive and unfair competition, or to limit free trade where it leads to destructive abuses. We can feel justified in ostracizing and penalizing those entrepreneurs who treat workers as tools in their workshops, and their work as a commodity to be bought as cheaply as possible. Thus we can make the economy serve the wider and longer-term needs of our societies, not merely the myopic greed of capitalists and consumers. We can rid ourselves of the perverse belief that the economy is an irresponsible tyranny beyond our control.

The attraction of Trump

It seems unlikely that Donald Trump and his team have the capability, or even the desire, to reshape the American economy so that it works for the benefit of all Americans, rather than merely for that thin upper crust of which Trump is such a blatantly prominent member. But his administration, for all its obvious flaws, has one (probably its only) merit: it believes that it is possible, and desirable, for government to take positive action to modify the economy. It shares, after a fashion, the half-forgotten belief that we, as a community, have the power and the right, through our political and other institutions, to shape our economy to our wishes. We are not obliged to bow to the workings of the markets, as to an inescapable fate.

There, I suspect, lies one of the main reasons for the rise of Trump, and of other politicians of his ilk around the world. It is a crying shame that we seemingly have to resort to such bizarre and incompetent leaders to recover a modicum of economic common sense that we have lost since the free-market zealots hijacked the world. That hijack is a symptom of the weakness of our orthodox politicians, who have feebly allowed themselves to be led astray by the arrogant proponents of a gravely defective dogma.

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³ See Dani Rodrik, *The Globalization Paradox*, pages 240ff.

⁴ Free competition on price impels us to produce everything more "efficiently", with continually rising productivity of labour. This means that full employment can only be maintained by continual growth in production and consumption of goods and services. But the richer countries are already consuming too much, too wastefully, for the good of our environment.

⁵ Shakespeare, *Julius Caesar*, act I, scene 2.

⁶ Friedrich von Hayek, *The Constitution of Liberty* (Routledge & Kegan Paul, London, 1960), page 74.

⁷ Roger-Pol Droit, *Esclaves, heureux et libres* in *Le Monde* (Paris), 6th April 2007.

⁸ Aristotle, *Politics* (trans. Benjamin Jowett), 1310a.

⁹ Moira M. Walsh, *Aristotle's Conception of Freedom* in *Journal of the History of Philosophy* (October 1997), page 502.

¹⁰ Abraham J. Heschel, *The Insecurity of Freedom* (Farrar, Strauss & Giroux, New York, 1966), page 15.

¹¹ Laurent Gagnebin & Raphael Picon, *Le protestantisme, foi insoumise* (Flammarion, Paris, 2008), page 119.