BOOK REVIEW

Andrew Glyn, *Capitalism Unleashed: Finance, Globalization, and Welfare*. Oxford University Press. Hardback, 256 pp., March 2006, ISBN: 978-0-19-929199-1. Paperback, July 2007, ISBN: 978-0-19-922679-5

Andrew Glyn created a considerable stir in economic and political circles in the early 1970s with a book entitled *British Capitalism, Workers and the Profits Squeeze*. The orthodox view amongst economists at the time was that, whilst 20th century capitalism faced a number of challenges, falling profits was not one of them. Put simply, Karl Marx's prediction that continuing capital accumulation would lead to falling profits and increasingly severe bouts of depression had proved wide of the mark.

Glyn and his co-author, Bob Sutcliffe, demonstrated that, from the 1950s onwards, profits in Britain and elsewhere *had* been on a downward trend, caused not so much by capital accumulation as by the increasing power of organized labour. Without a rebalancing of national income in favour of profits and away from wages and salaries, they argued, capitalism would face a slow death—just as Marx had predicted. The corollary for socialists was that organized labour should resist any such rebalancing and instead embark on revolutionary struggle to accelerate capitalism's demise. The authors made no secret about whose side they would be on.

Of course, we know what happened. The British economy in the 1970s lurched from crisis to crisis—the miners' strike, the three day week, rising inflation and unemployment, dwindling foreign exchange reserves, a brief respite after the IMF was called in, and finally the "winter of discontent" in which the government of James Callaghan tried vainly to roll back the real wage gains of the preceding years. The power of the trades unions, the government's dependence on them for financial and political support, and—though the government saw it as the means of bringing down inflation rather than restoring profits—ambivalence about protecting capital against labour, made this an unlikely project; and it ended in abject failure. But the outcome turned out to be not a victory for organized labour (except in the very short run) and the onward march to socialism, but rather the election of Margaret Thatcher, the weakening of the trades unions and capitalism's recovery. The election of Ronald Reagan had a similar effect in the USA, and likewise Francois Mitterand's retreat from socialism in France.

Andrew Glyn's new book *Capitalism Unleashed* provides an enthralling account of how the "decisive recovery in capitalism's strength and stability" (as he puts it) came about. Tight monetary policy accompanied by high unemployment which was necessary, Glyn concedes, in order to curb organized labour's appetite for inflationary wage claims; the curbing of trades union power through legislation and declining union membership; the reining back of budget deficits; privatisation and deregulation; the increasing power of financial institutions and the pressure on corporate managers to cut costs and raise profits; the growing integration of the major economies and the downward pressure on manufacturing wages arising from cheap imports from the Far East: these all contributed. Moreover, whereas in the 1970s and into the early 1980s some western experts on the Soviet economy were comparing the latter not unfavourably with the western economies, the collapse of the Soviet system meant that there was no longer any serious alternative to capitalism. As Glyn writes, "old certainties, which I shared, that economic problems would be readily solved once free market logic was supplanted by a planned economy operating according to production for need, now seem far too abstract to carry much conviction or political credibility".

But if capitalism is no longer in crisis and in the past couple of decades has produced significant gains, neither has it reached the "end of history" where growth and stability are necessarily assured. Glyn's command of the international data and of a vast literature enables him to challenge many of the new orthodoxies and to analyse a number of problems that the "unleashing" of capitalism has thrown up. The following are some of the issues he explores.

Liberalised financial markets, contrary to the orthodox view, have been pretty inefficient at allocating resources and have been accompanied by the sort of booms and busts that we used to associate with the 19th century—the Asian crisis of the late 1990s, the IT bubble and collapse, the Enron scandal, to name just three.

According to orthodox theory, free mobility of capital should have kept real exchanges (i.e. exchange rate movements adjusted for differential inflation) fairly stable; but in fact they have swung wildly, causing the loss of millions of jobs worldwide.

Then again, Glyn finds little evidence for the view that greater wage flexibility has resulted in more jobs. Likewise, he finds no serious evidence that higher spending on welfare, along with higher tax rates, has had a disincentive effect on output and productivity.

As for globalisation, he points out that, whilst in terms of aggregate real incomes there have been overall gains, the impact has been very uneven—with the western consumer and Chinese workers benefiting particularly, and workers in western manufacturing industries and the marginalised countries of Africa being hard hit. He argues that, given China's vast "reserve army of labour", wages in manufacturing less than 5 percent of what they are in the USA, and its fast technological catch-up, the challenge currently posed by China and to a lesser extent India is much more serious than most people currently think.

He points out that the most liberal and deregulated of the major economies, the USA and Britain, share the unhappy distinction of having the greatest income inequalities and the least social mobility. And for all the hype about the benefits of free markets, he shows that over the past fifteen years, growth of output per head in the major economies has fallen far short of what it was in the "golden age" of the 1950s and 1960s. Like other economists, he is unable to explain why exactly this has happened; but he offers some interesting clues.

Productivity tends to grow more slowly when economic growth is slow. The economies of Euroland and Japan were relatively depressed in the 1990s for a variety of reasons—in Japan, overvaluation of the yen and depressed confidence after their late 1980s "bubble"; in Euroland, because of currency overvaluation also, and the problems arising from German reunification. Moreover, despite the recovery of profits, investment in all the main industrialised countries, including the USA, grew less fast than it did in those earlier decades. Resource depletion and measures to reduce pollution were another depressing factor. So too was the fact that, in Europe at least, people chose to work shorter hours.

And if they preferred more leisure to more income, why not? Glyn reminds us that economic growth was supposed to make people happier, yet numerous surveys suggest that it does not. (Economists have only recently got interested in this. The Dalai Lama and others have been writing about it for years). What Glyn fails to mention is that faster growth enables countries to throw their weight around in the international arena—viz the recent record of China and the USA on the one hand, and Japan and Europe on the other.

Glyn reveals that between 1990 and 2003, hourly productivity in manufacturing grew fastest in a country less wedded to the liberal economic model than most, namely Sweden—at 6 percent per year compared with 5.2 percent in the USA and 3.2 percent in the UK.

When productivity growth did resume at a more rapid pace in the USA in the late 1990s, much of this came—not from the glamorous "new economy" sectors as is generally believed—but in mundane wholesale and retail trade. This in turn was partly fuelled by the surge in consumer spending, itself made possible by huge borrowing from overseas—all the more remarkable when one considers that historically the most powerful nations economically have been net exporters rather than importers of capital. This borrowing also made possible higher business investment than would otherwise have occurred, which again boosted US productivity.

The conventional market view is that foreign capital on such a vast scale has been drawn to America partly by the inherent dynamism of its economy. On Glyn's analysis, one can infer a rather different message—that the borrowing from overseas was itself instrumental in boosting American productivity and that when this borrowing reduces (as it inevitably must because no country can go on increasing its ratio of debt to national income indefinitely), America's superior productivity performance, and therefore her attractiveness to foreign investors, will wane. This further increases the risks of a "hard landing"—i.e. a sharp fall in the dollar, higher interest rates and recession. Once again, on this reading, liberalised financial markets appear to have "got it wrong".

While Andrew Glynn has long given up on the revolutionary struggle, he remains an idealist and an egalitarian. His basic proposition is that we are stuck with capitalism whether we like it or not; the task for political leaders is to make it work as best it can in the interests of all and not just some of their peoples. He accepts that governments will adopt different policies partly because of different attitudes to such things as equality and inequality; but he believes they can and should do better if policy makers would rely less on dogma and more on evidence. Not that all the problems he analyses *are* tractable; but he clearly thinks the unleashing of capitalism has gone too far and that the world would be a better place if the predominant model was capitalism of the Scandinavian rather than the Anglo–American variety.

Some of his students from the 1970s may be disappointed that he doesn't stray more onto the wilder shores of policy-making. Yet he does begin to do so in his final chapter when he argues the case for a Basic Income scheme that would benefit the vast majority of people whether or not they are able or willing to work. This would be set at a modest level initially and would cover everyone who is doing something "useful"—in paid work and, for example, doing voluntary work or in education; it would only exclude people who, for example, prefer surfing at Newquay to holding down a paid job. Rich countries like the UK, he suggests, can afford such a scheme, and it would do a lot to reduce the problem of incentives that exist at the bottom with our current means tested benefits. He doesn't think the scheme would have a serious disincentive effect for people on higher incomes. He admits that politicians would have a hard time selling such a scheme. Yet many policies that we now accept as a given would have been politically unthinkable to earlier generations.

Whether a Basic Income scheme for people within the UK should have priority over the funding by the UK and other wealthy countries of a minimum income for the poor of Africa and Asia is another matter. In economic terms, they are not necessarily mutually exclusive; but to this reader, the latter is where our political priorities should lie. I suspect Glyn would agree but this is not something he addresses.

Glyn has the rare gift amongst economists of writing simply and concisely about complex problems, and of making them interesting and intelligible to non-economists. *Capitalism Unleashed* is a brilliant book that should be read by everyone with a serious interest in the economic history of the past three decades and who wants to understand better the economic issues and dilemmas that will face us in the years ahead.

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