

Soros warns of "market fundamentalism"

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The growing realization over the past 12 months that the so-called "Asian meltdown" is in fact a crisis of the world capitalist system has brought a series of warnings from within ruling circles about the dangers posed by the unrestricted operations of financial markets.

The World Bank, for example, has implicitly criticized the prescriptions of its sister organization the International Monetary Fund insisting that the primary role of fiscal and monetary policy must be to shore up aggregate demand and "expand the social safety net."

The London-based newspaper the *Financial Times* has published numerous articles and comment pieces over the past months warning that unless central banks take corrective action there is a danger that the world can plunge into a 1930s-type depression. Likewise, *The Economist* magazine has issued several warnings over the past 12 months that the rise in share values on Wall Street signifies the development of a "bubble economy" the collapse of which could have far-reaching consequences.

Some of the most strident warnings about the state of global financial markets have come from the international financier George Soros, who achieved international notoriety after his Quantum Fund made around \$2 billion at the expense of the Bank of England during the sterling currency crisis of 1992.

Soros began the year with an article in the *Financial Times* warning that the Asian financial crisis--at that stage dismissed by US president Clinton as a "glitch" along the road--could set off a world deflation tendency unless action were taken to counter it.

When the financial crisis spread to Russia in August, Soros published a letter declaring that its banking system was on the point of collapse. The following month, during testimony to the US Congress, he pointed to wider implications of the Russian events, warning that the global capitalist system was "coming apart at the seams."

He told the Congress there was a need to "rethink and reform" the global capitalist system and that as the Russian experience had shown "the problems will become progressively more intractable the longer they are allowed

to fester."

Rethinking the capitalist system, Soros insisted, had to begin with the recognition that financial markets are inherently unstable. The global capitalist system was based on the belief that markets, if left to their own devices, would tend to return to an equilibrium position. But this view was false and "instead of acting like a pendulum financial markets have recently acted more like a wrecking ball, knocking over one economy after another."

Now Soros has brought together his fears about the operations of the international financial markets in a new book entitled *The Crisis of the Global Capitalism*. The book itself does not contain any significant new insights into the operations of world capitalism, much less any solutions to the crisis. But it is not without interest that a major participant in the international financial markets should voice his concern that the entire world capitalist system is heading for a disaster.

Soros sets out his concerns in the opening paragraph: "We live in a global economy, but the political organization of our global society is woefully inadequate. We are bereft of the capacity to preserve peace and to counteract the excesses of the financial markets. Without these controls, the global economy, is liable to break down."

And on the next page Soros continues this theme: "The development of a global economy has not been matched by the development of a global society. The basic unit for political and social life remains the nation-state. International law and international institutions, insofar as they exist, are not strong enough to prevent war or the large-scale abuse of human rights in individual countries. Ecological threats are not adequately dealt with. Global financial markets are largely beyond the control of national or international authorities."

There is nothing particularly original in these thoughts. Soros has merely pointed to the central contradiction of world capitalism identified by Marxists throughout this century--that between the development of a global

economy and the division of the world into rival competing nation-states.

According to Soros, the chief danger to stability is the emergence of what he calls "market fundamentalism"--the belief that the common interest is best served by individual decision-making and that attempts to maintain the common interest by collective action distort the market mechanism. "It is market fundamentalism," he insists, "that has rendered the global capitalist system unsound and unsustainable."

Soros notes that the present situation is not the first time that a global capitalist economy has developed. The first version of the global economy developed at the end of the nineteenth century. However, despite being sustained by major imperial powers, with a common ideological outlook and a stable monetary system based on gold, the system broke down.

"The nineteenth-century incarnation of the global capitalist system," he writes, "in spite of its relative stability, was destroyed by the First World War. After the end of the war, there was a feeble attempt to reconstruct it, which came to a bad end in the crash of 1929 and the subsequent Great Depression. How much more likely is it, then, that the current version of global capitalism will also come to a bad end, given that the elements of stability that were present in the nineteenth century are now missing?"

Soros is critical of the moves by the IMF, the US Treasury and the leaders of the G7 to improve the flow of information on financial markets to try to prevent the emergence of crises in the future. The prevailing doctrines about the operation of financial markets have not changed and the assumption is that with perfect information markets can take care of themselves. He insists that the "debate" must be broadened.

"It is time to recognize that financial markets are inherently unstable. Imposing market discipline means imposing instability, and how much instability can society take? ... To put it bluntly, the choice confronting us is whether we will regulate global financial markets internationally or leave it to each individual state to protect its interests as best it can. The latter course will surely lead to the breakdown of the gigantic circulatory system, which goes under the name of global capitalism."

Soros insists that to "stabilize and regulate" the global economy and prevent such a breakdown, a global system of political decision making is necessary. However in advancing this "solution" Soros runs up against the real contradictions and conflicts generated by the system of rival capitalist nation-states.

"A global society," he writes, "does not mean a global state. To abolish the existence of states is neither feasible nor desirable; but insofar as there are collective interests that transcend state boundaries, the sovereignty of states must be subordinated to international law and international institutions."

However, as Soros himself acknowledges, the greatest opposition to this idea is coming from the United States which is "unwilling to subordinate itself to any international authority." In other words, at the very point where the development of a truly global economy requires the creation of international institutions to prevent a breakdown of the whole system, the divisions between the most powerful nation-states are deepening, thereby rendering such collaboration increasingly difficult, if not impossible.

There are many examples of this process: the increasing inability of the major capitalist powers of the G-7 to reach agreement on economic policies, the conflicts within the IMF over funding and policy issues, the trade tensions between the US and Europe and between the US and Japan, the development of the euro as an international currency to challenge the dollar, and the recent breakdown of the APEC summit, to name but a few.

And in the two weeks since the publication of Soros' book, one of the most graphic examples of "unilateralism" has occurred with the US onslaught against Iraq aimed at securing its interests against its capitalist rivals in the resource-rich Middle East and central Asian regions.

Soros has pointed to some of the central contradictions of the world capitalist system. But the proposals he advances make clear that the representatives of the bourgeoisie, even where they are conscious of the disasters which the market system is producing, are unable to advance any program which can lead civilization out of the impasse in which it now finds itself.

See Also:

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