

Marketing The World

The collapse of communism has not been greeted with triumphalism in the West. Rather, there is a mood of uncertainty and foreboding.

Charlie Leadbeater explains why

Capitalism enjoyed a great revival in the 1980s. After the stagflation, crises, oil shocks and recessions of the 1970s, the world economy has enjoyed eight years of sustained growth, with buoyant world trade and a worldwide investment boom. Politically there has been a great turn to the right, led most extravagantly by the new Right in the US and UK but equally apparent in the consolidation of the power of the CDU in Germany and the pragmatism of socialist governments in power in Australia, New Zealand and France. The culmination of the decade in which capitalism was re-energised came in 1989 with the collapse of planning and communism in the face of markets and capitalism. Socialism's 80-year threat to capitalism had been decisively defeated. It was indisputably capitalism's decade.

With this recent track record of success one would have thought the apostles of capitalism would be brimming with confidence. Yet at best there is a mood of uncertainty and doubt, at worst a sense of defensiveness and foreboding. In large part, this foreboding is due to the way the world economy seems to be shuddering into recession. The party of the 1980s is coming to an end. The signs were already there in the UK recession and slower growth in the US, before Iraq invaded Kuwait. But the Gulf conflict and the rise in oil prices has made it increasingly likely there will be a generalised world recession next year.

Fear of recession has been heightened

by the collapse of the Gatt talks on liberalising world trade and the consequent threat of a rising tide of protectionism. A trade war of export subsidies and import quotas could slow growth considerably. However, the significance of the collapse of the Gatt talks goes well beyond a failure to agree on levels of agricultural subsidies.

The failure of the Gatt talks to ensure the course of development of the world market in its moment of apparent triumph, is symptomatic of a deeper worry. It is a failure, especially of the US and the European Community, to take custody of the development of the world market. The advanced capitalist states are only just coming to terms with the character of the new world their success in the 1980s created, and the responsibilities for its development that they have to shoulder. The most striking sign of that success - the wave of revolutions of 1989 which brought down communism in eastern Europe - was a dramatic case of a much more general trend which dominated politics in the last decade: the extension of the reach of the market.

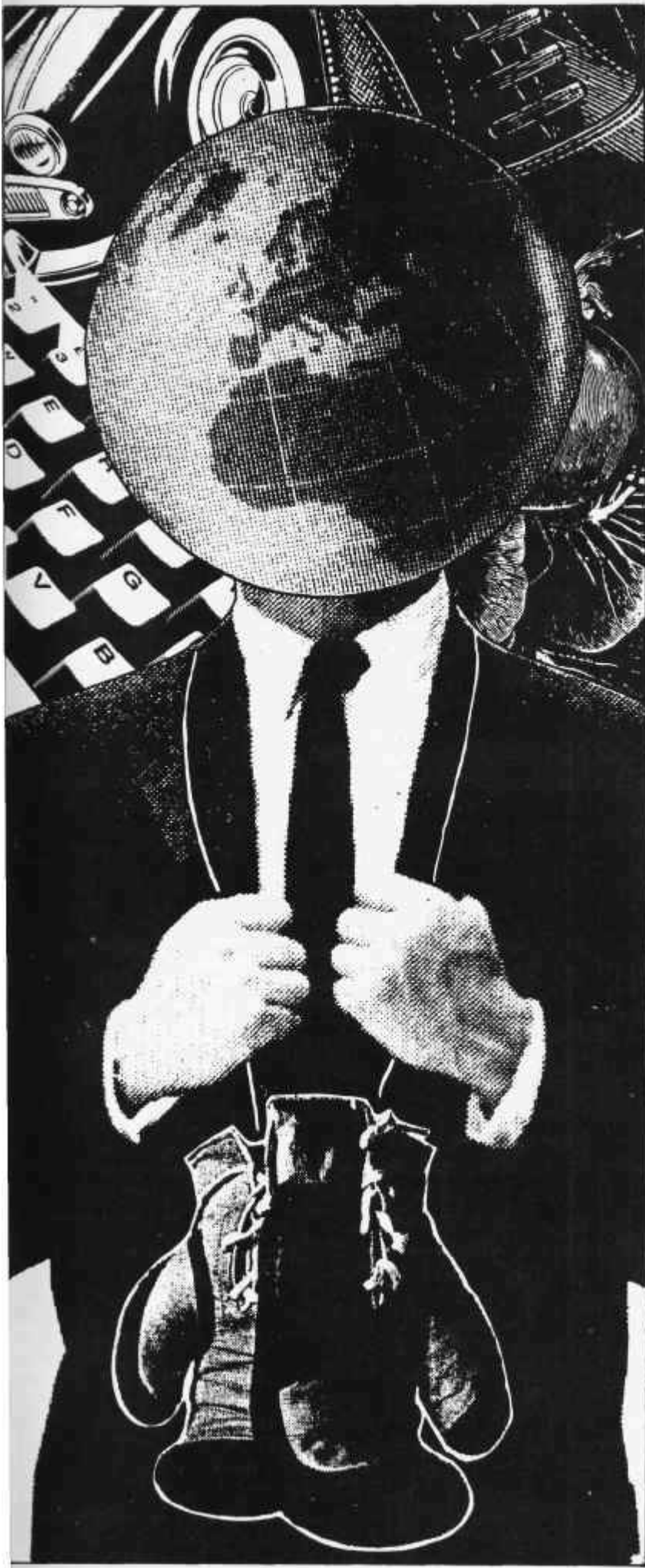
Capitalism's success in the last decade has had three components. First, the geographic extension of the market to more areas of the world, pre-eminently eastern Europe but also into Africa and South America. Second, the growing integration of that market through world trade, seamless international financial markets and cross border investments by multinational companies. Third, the intensification of the market within societies. The market is making

its way deeper into economies through measures such as privatisation (now a worldwide movement stretching from eastern Europe, through the UK to South America) and the opening of national economies, especially in the developing world, to the disciplines of the international market. The collapse of communism in eastern Europe was the rousing finale to a decade, in which the market made headway throughout the world as the dominant institution of economic co-ordination both within economies and between them.

The main question facing market societies now is this: how will the fabric of the world market, which brings them all together, be maintained? Who will take responsibility for mediating conflicts of interest between market economies, in whose interests will the widening world market be created?

But the very spread and intensification of the power of the market is creating its own tensions. It is from this that the uncertainty flows. The events of 1989 challenge capitalism's identity and unity as well as confirming its dominance. Capitalism has been deprived of the great unifying external threat of communism. We are moving from an era where political debate turned on the opposition between capitalism and communism, into an era where it will turn on the differences between market-based societies. Acceptance of the market will no longer be a controversial issue, it will be a shared common interest. However, beyond that essential common ingredient, there will be many varieties of market economy. Flour, eggs and milk are the common ingredients of most cakes. But those common ingredients are the basis for wonderful diversity: chocolate, coffee, fruit cake, carrot cake and so on. In much the same way we will become more aware in the next few years that possession of a market is not the stamp of homogeneity but the source of diversity.

There will be several dimensions along which market societies will differ. They will have different positions in the world market economy: they may be protectionist or open to trade. They will vary in their resources and the character of their industrial bases: developed or developing; rich or poor; industrialised or newly industrialising; commodity producer, manufacturer or service provider. They will have different cultures: the individualist Anglo-Saxon capitalist economies or the more collectivist economies in the Far East. They will be led by different philosophical approaches: the regulated capitalism of christian democracy in continental western Europe or the free market philosophy of the new Right in the UK and eastern Europe. They will differ in the political institutions which accompany the market: liberal democracy or authoritarian regimes. They will be more or less environmentally responsible. There will be economies where the state disavows its role in



economic development and those where it consciously adopts an active role. These distinctions are not new. But the intensification of the power of the market will widen these differences rather than draw societies together.

The historic triumph of 1989 will not create the grounds for unprecedented solidarity between the triumphant market societies. On the contrary it threatens fragmentation. It is the risk of this fragmentation and tension - mainly economic rather than military - which is feeding the uncertainty and doubt about the future.

For accompanying the general extension of the power of the market in the 1980s have been important shifts in the balance of power within the world economy. The revolutions of 1989 were part of a much wider shift in the balance of economic power within the world economy.

These shifts have been a growing source of friction between market economies. Managing international economic relations between very different kinds of market economy will become the central concern of international politics. The most important shifts in the last decade have taken place within the capitalist world rather than between the capitalist and communist worlds.

It is clear we will need a much more complex map of international relations. The old association of east with communism and west with capitalism will not do. In the last decade the most dynamic forces, which shifted the balance of power within the world economy, were not marchers on the streets of Budapest, Prague and Warsaw but skilled workers in factories in Japan, Korea and Taiwan. The capitalist east is at the heart of the shifting balance of power within the world economy.

The most dynamic part of the capitalist world is in Japan and in its wake Korea, with Thailand, Malaysia, Taiwan and Singapore following behind. The competitive threat these economies pose to the traditional European and North American market societies is increasingly not a question of low labour cost production. The Japanese in particular are heading up-market to high quality, innovative, well styled products, with new products coming on to the market with astounding speed. Last year Sony produced 1,500 new products, about five every working day. Toyota is spreading alarm through the world motor industry with its new Lexus luxury car. It costs about \$30,000 less than the equivalent BMW or Mercedes while being technically superior. This is a remarkable achievement to have moved in less than 15 years from sub-compact and family cars into the high-quality, luxury market. The world's consumer electronics industry is being reshaped by the Japanese and the computer industry is about to follow.

The rise of the Far Eastern economies does not just demand that we redraw

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our physical maps of the capitalist world. They also demand a reassessment of the values, cultures and institutions which accompany capitalism. In many of these countries, pre-eminently Korea, the state plays a powerful role in economic development. In Japan a collective culture of sharing responsibility and duty to society, family and company is much more important than the individualism associated with the West-em capitalism of America and Britain. The rise of Japan is not just a geographic shift in the balance of power within the world economy, but also a shift in the values associated with dynamic market economies. The individualist American values, which combined with mass production and marketing to lead capitalist growth from the 1930s to the 1970s, is giving ground to a different kind of capitalist culture.

This loss of American dynamism is the other side of the rise of the Pacific Rim economies. The triumph of West over East in 1989 and the Gulf crisis far from confirming US ascendancy have exposed its severe limits. The US economy is heading for recession, while Japan continues to grow strongly. This has been accompanied by a growing crescendo of concern about the weakness of the US manufacturing base in competition with the Far East. Some US auto makers have taken to overtly racist anti-Japanese advertisements along the lines of: 'We build cars for people our size'. Sony's purchase of Columbia Pictures, Matsushita's acquisition of MCA and the way that Japanese property companies have been buying up parts of Manhattan have caused far more outrage about the loss of America's soul than the threat of communism.

The Gulf is a prime example of the military and economic contradictions in the US world role as the great protector of capitalism. New global security arrangements in the wake of the end of the cold war not only need to match strategic military and defence considerations, they also need to tally with the reality of economic power. That reality is that America can no longer fulfil the role it has assumed.

The Gulf war is unfolding against a backdrop of domestic economic crisis in the US. The 1991 federal government deficit could exceed \$300 billion. The US still has strategic interests stretching from the Pacific to continental Europe, yet its share of world GNP has fallen by a half since the early-1950s. Germany and Japan are stable democracies with highly prosperous economies but neither aspires to such a military role. Establishing a stable relationship between the economically powerful but militarily unambitious states such as Japan and Germany and the economically weakening but militarily strong states such as the US, will be the heart of the new post-cold war order, not the rapprochement between capitalist and former communist states.

Alongside changes in the balance of

power between Japan and the US is the changing character and world role of Europe. The economic reconstitution of Europe has profound implications for the reshaping of relations between some of the most powerful capitalist economies. The economic integration of the single market programme, economic and monetary union and beyond that the embrace of the eastern European states into the EC is an ambitious attempt to rework the foundations for growth in Europe.

The integration of the European economies is a direct response to the power of Japanese and to a lesser extent US companies. The aim is not so much to create a European market but to create European industries, with a solid enough base to compete with Ford and Toyota, General Electric and Mitsubishi, IBM and Hitachi.

Economic integration is forcing relations between the market economies of Europe to be remade. It has highlighted the differences between the varieties of capitalism which inhabit Europe - principally the clash between the relatively corporatist approach in Germany, the free market rhetoric of the UK and French protectionism and state capitalism. A burning issue of the next decade will be the terms on which these quite different kinds of capitalism are brought together.

As Europe becomes more integrated, so its role within the world economy will become more significant. The row over the Gatt talks - first within the EC to agree a common position, and then with the US at the talks in Brussels - shows how disruptive the EC could be within the world economy. Europe's integration in the direction of a regional power might provide a model which will be followed in other areas of the world, for instance in the growing integration of the Mexican and Canadian economies with the US, or in moves to create closer links between the Asian economies of the Far East. We could be moving towards a situation where the world divides into more or less hostile, supranational trading blocs of nations. It is still unclear whether economic and monetary union is designed to create a fortress Europe, relatively impregnable to outsiders, or an open Europe which will play a full role in developing an open world market. In the past the individual actions of Britain or Germany might have had some limited bearing on the issue. Now Europe is the key.

The extension of the market in the last decade, the shifting balance of power within the world economy and the clashes between market societies with different cultures and strategies, raises the question of how this world market will be maintained and managed. What sort of institutions will be required to reconcile economies with very different interests ?

The lack of effective international institutions to cope with more extensive, more complicated relations is one

of the main causes of uncertainty. The institutions of the cold war, built on military alliances East and West will no longer suffice. In future very different institutions will be needed to provide stability.

They will have to be truly international in their scope, unlike the institutions of the cold war, which like Nato were focused on Europe. They will need to be capable of handling relations between far flung states with a diversity of interests. And the new institutions will need to be much more economic than military or defence-oriented.

The collapse of the Gatt talks is a sign of how difficult it is to manage relations between market societies. One problem was the breadth of the issues on the agenda, which ranged from banking and insurance to textiles, patents, farming and semiconductors. Another was the number of countries involved - 107. But one of the main difficulties was the EC's unwillingness to cut subsidies to its farmers by more than 30% over the next 10 years. There are 10m farmers in the EC contributing just 3% of its output. For their sake, prices in world agricultural markets will be artificially reduced, incomes in developing states will be held back and there will be enormous waste within Europe.

World trade is the most all-embracing example of the type of issues which will become increasingly significant with the end of the cold war and the consolidation of the world market. But there are several others.

As international companies grow to take advantage of the spread of world markets, so they want to invest abroad to manufacture products in the markets where they are sold. This is already raising a range of issues: almost every industrialist complains that it is virtually impossible to find a way into the German and Japanese markets; the UK government is hostile to takeover bids from French state owned companies; there is growing concern in the US about the scale of Japanese acquisitions. Cross-border investments are becoming increasingly politically controversial. There is no international regulatory body capable of matching the power of large international companies, which may seek to monopolise parts of global markets.

Financial markets have extended their reach and become more integrated in the last decade, creating a 24-hour round the clock trading system, stretching from Tokyo, to New York and London. There is only national regulation of these financial markets even though their gyrations (October 1987) can have tremendously powerful effects on the state of the world economy. In general, financial flows are becoming as important as the flow of goods in the world economy. All these issues — the way international flows of trade, investment, and finance are handled - will have a bearing on the legitimacy of the world market. But the most important

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issue is how market societies will co-operate to deal with environmental despoliation. As yet progress here has been painfully slow for it demands an unprecedented level of political co-operation.

The task of creating institutions to foster co-operation and shared responsibilities between competing economies was easier to contemplate when the world economy was growing in the early 1980s. But with growth faltering in the US, the UK, Australia, France and many other European economies, the shine has been taken off capitalism's triumph. Slower growth in itself is encouraging states to turn inward, to protect themselves. It will promote sectional, self-interest. The stronger economies will be less willing to bear their responsibilities to the weaker. Most significantly, Germany is transfixed with the excitement and the costs of reunification, while Japan, lender of last resort to the world economy, has cut sharply the outflow of investment funds to the rest of the world.

Slower growth is likely to accentuate the differences between economies. What is particularly interesting is that the economies which are showing the poorest health, the UK and the US, are the ones where the new Right has had the greatest influence. It is in Germany and Japan, where capitalism has always been relatively corporatist and regulated, with the state playing an important role, that growth is most robust.

Domestic politics cannot be separated from these shifts in the balance of power in the world economy. One vital ingredient in Thatcherism's demise was its inability to cope, politically or economically, with the shifts in the world economy, some of which it championed fiercely in the early 1980s.

Her departure represents an admission that radical, neo-liberal remedies have failed to do the trick in transforming the British economy. It is also an admission that economic nationalism has had its day, in the UK at least. Her resistance to the ideas of a European economic superpower created to compete with Japan and the US was one of the main causes of her downfall. Mrs Thatcher's resignation marks the end of an experiment to regenerate the economy through extreme Anglo-Saxon capitalism. It has suffered defeat not at the hands of socialism but at the hands of alternative, more successful forms of capitalism in Germany and Japan.

The end of Thatcherism should set in train a slow adjustment to reality: while the new Right may have led the ideological resurgence of capitalism in the last decade, the economic resurgence has been led by Germany and Japan. This in turn will force further changes in the agenda of British politics to learn from more successful economies. If there is a common theme to their success, it is that good market economies have to be able to overcome the inhe-


rent weaknesses of the market. In particular they must be good at making sure long term needs are taken care of, even though the market often forces short term issues to the fore. Thus the successful market economies treat labour like an asset which should be invested in rather than a commodity to be traded; they have settled relationships between their financial and industrial sectors to promote long-term investment; they enjoy low inflation, cheap investment finance and macro-economic stability; the state does not overstate nor disavow its role within the economy. Societies which are able to plan for the long term on these issues are as a result likely to be able to respond much more effectively to other long term issues such as environmental despoliation and reducing defence activities.

The market economies, fresh from the decade of their triumph, have good reason to pause. They have been deprived of the familiar enemy against which they united in the past. They are on the verge of a recession. It is not clear who will take responsibility for maintaining the fabric of a world economy which embraces quite different forms of capitalism. The spread of the market is creating pressures for self-interest and fragmentation, which are much more powerful than the countervailing forces in favour of solidarity and co-operation. Capitalism's cold war with communism is over. It now seems to be preparing for war with itself .•

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