THE TROUBLE WITH CAPITALISM

'BASED ON WIDE KNOWLEDGE ... AND SHARP ANALYSIS, EVERYONE WHO READS IT WILL LEARN FROM IT'
LIBERATION

HARRY SHUTT

AN ENQUIRY INTO THE CAUSES OF GLOBAL ECONOMIC FAILURE

The Trouble with Capitalism

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Harry Shutt was educated at Oxford and Warwick universities. He worked for six years in the Development and Planning Division of the Economist Intelligence Unit (EIU). He then moved to the Research Department of the General and Municipal Workers' Union (1973–76) and subsequently became Chief Economist at the Fund for Research and Investment for the Development of Africa (1977–79). Since then he has been an independent economic consultant. His books include *The Myth of Free Trade: Patterns of Protectionism since 1945* (1985), *The Trouble with Capitalism: An Inquiry into the Causes of Global Economic Failure* (1999), *A New Democracy: Alternatives to a Bankrupt World Order* (2001) and *The Decline of Capitalism: Can a Self-Regulated Profits System Survive?* (2004).

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An Enquiry into the Causes of Global Economic Failure

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FOREWORD

Apocalypse Now?

Since this work was conceived and written in the mid-1990s, much has unquestionably changed in public perceptions of the world's financial and economic prospects. Most obviously, there is an inescapable recognition that the prolonged global stock-market boom – which had by 1997 been in progress for fifteen years and had seen major indices rise by as much as sevenfold – has given way to a sustained period of declining performance over the subsequent period, starting with the bursting of the dotcom bubble in 2000. It has thus conspicuously confounded the euphoric predictions of an indefinitely sustained rise in the market, on which many cheerleading analysts (with significant encouragement from such authoritative figures as the Chairman of the US Federal Reserve Board) had incited investors to bet their shirts right up until the millennium collapse.

The fact that this failure has only begun to be generally recognised since the start of the global 'credit crunch' in August 2007 is due to the successful engineering of a prolonged market rally from 2003 – which most media commentators chose to portray as a new bull market but which has now ended in a new meltdown that has sent share prices back to the level of 1997.[1] What few were willing to recognise until the bubble burst is that this four-year market surge was only made possible by the deliberate and unsustainable stimulation of credit growth through a combination of (a) abnormally low interest rates relative to inflation – thanks to the benchmark US Federal Funds rate being held at 2 per cent or less for three years from late 2001 (i.e. below the prevailing rate of price increases) – and

(b) exceedingly lax regulation of both credit and housing markets (in much of Europe as well as the USA). The net result was that in the United States the total of annual net new borrowing more than doubled from $2,016 billion in 2001 to $4,395 billion in 2007. Such unprecedented expansion of credit – which was broadly reflected in the rate of increase in financial assets throughout the industrialised world – in turn helped fuel rates of growth in global GDP (averaging 4–5 per cent in real terms) between 2003 and 2007, higher than any recorded since the 1960s.[2]

Thus the extraordinary profligacy of this latest credit bubble, following that of the 1990s, can be seen to have made possible – for this brief four-year period – a rise in global growth at rates up to double the average recorded in the preceding twenty-five years. As should have been obvious, however, such a rise in expenditure (most of it on personal consumption) could only have been achieved through exceptional levels of borrowing that could not be sustained for more than a few years. Equally, it should have been clear that the level of debts incurred could only be repaid (if at all) at the expense of much lower levels of consumption in future. In short, vast numbers of people in the industrialised countries had been induced to spend far beyond their means, with the inevitable consequence that, once this process became manifestly unsustainable and easy credit was withdrawn, demand for many goods and services would 'fall off a cliff'.

The resulting financial and economic collapse, which is by now widely perceived as the most serious crisis of global capitalism since the Great Depression of the 1930s (if not in its entire history), is clearly in line with the predictions made in the book. Yet, while to that extent it may appear to have been vindicated, its analysis of the causes of the crisis is still very far from being generally accepted. Indeed mainstream analysts have devised some bizarre explanations for the onset of the crisis, while steadfastly ignoring its long-term, fundamental causes.

Thus at the time of writing the most widely peddled official account of the origins of the financial crisis is that it stems from a 'savings glut' in emerging markets, particularly China, which it is alleged flowed in large volumes to developed-country markets, where it had the effect of driving down interest rates. This in turn, the story goes, encouraged borrowers and lenders to enter into risky loans in markets that were lightly regulated, ultimately leading to the disastrous level of bad debts. What this account of events[3] crucially omits is the fact that (as noted above) the low interest rates driving the credit bubble were actually the result of deliberate policy on the part of the US Federal Reserve to prop up financial markets and the economy from 2001 – in response to the bursting of the dotcom bubble in 2000 – by holding interest rates below the level of inflation. Perhaps the most striking aspect of this patently dishonest analysis is its failure to take account of or explain any of the other financial bubbles that had been inflated since 1987 – an apparent attempt to explain the present financial crisis as something that had blown up out of the blue, if not quite an act of God.

Such deliberate distortions of reality reflect a more general, and all too understandable, tendency on the part of the global establishment to try to ignore the longer-term factors behind the crisis. In particular they seek to divert attention from the chronic relative stagnation of the world economy since the 1970s, which has made it increasingly impossible to find sufficient outlets for reinvestment of inexorably accumulating corporate profits – not to mention the artificially stimulated flows of capital into pension funds and other savings vehicles – in productive assets, as opposed to unproductive and highly risky speculation. The central theme of the book, particularly of Chapters 7 and 8, is how the would-be saviours of the capitalist profits system have since the 1970s resorted to ever more ingenious methods to overcome this inescapable tendency – the essence of the business cycle, familiar from the earlier history of capitalism since the nineteenth century.

It is notable, however, that those who resist this analysis are no more willing or able openly to try to confront or refute it than they were at the time the book was first published in 1998. The same applies to the rather more novel argument advanced in the book that the problem of excess capital has been further exacerbated since the 1970s by technological change tending to raise the productivity of capital and thus reduce the amount of it needed for each extra unit of output. A related and even more important aspect of this phenomenon is the reduced demand for labour, which has resulted in its progressive devaluation along with that of capital. Since the book was written this trend has arguably become even more pronounced and inescapable, as the pressures of the globalised market reveal the impossibility of creating sufficient adequately paid jobs to meet the demand from the still rapidly growing labour supply.

So far from coming to grips with the reality of these developments – and the problems they clearly pose for a continuation of the traditional model of global growth and 'development' – official opinion (as represented by politicians and mainstream commentators) remains committed to maintaining or restoring strategies of high growth rates and 'full employment' in the face of cataclysmic collapse. In this fantasy world there is seen to be no alternative to encouraging consumers who are already living way beyond their means to borrow even more, while hugely expanding public spending (against a background of looming fiscal bankruptcy) so as to try to create jobs – if only temporary ones – for the tens of millions who have lost them in the downturn.

More disturbingly, a key part of this implausible scenario of recovery – around which the global establishment has coalesced – is claimed to be the vital role of the banking sector in providing the necessary credit to revive consumption. In fact, given that at the time of writing there appears to be limited appetite among most consumers for taking on new loans – as opposed to paying down the excessive ones they have already taken on – this notion is to be viewed with scepticism. Rather it may be considered as a self-serving justification by the politically powerful financial sector for the massive bailouts they have (thus far successfully) sought from taxpayers so that they can be recapitalised and enabled to dispose of the speculative structured products (such as asset-backed securities) – with a face value of trillions of dollars – without taking huge losses, such as would wipe out not only shareholders but most bondholders as well. As a result of this brazen act of legalised theft – the full scale and implications of which are still to be revealed – the global economy stands to be burdened with crippling additional public debt for decades. Remarkably, this is being allowed to happen despite strong public protests and the objections even of eminent economists, who have pointed out that it would be far more cost-effective from the standpoint of the public interest to allow the major banks either to go bankrupt or to be nationalised – and who have also expressed their alarm at the corrupt power of big finance to thus subvert and corrupt the processes of supposedly democratic governments.[4]

It might have been hoped that one benefit of the crisis is that the neo-liberal ideology (based on the mythology of free markets and minimal state intervention in the economy), which has been dominant since around 1980, would be overthrown – at least for the foreseeable future. However, given that the alternative now proposed by the global establishment[5] is ostensibly a reversion to the Keynesian, mixed-economy model of economic management that had previously been dominant since the 1940s, this represents a step backward to the delusions of the past rather than forward to a more workable model based on new realities. As such it stems from a wilful refusal to recognise why this model had been exposed as a failure by the 1970s – if indeed it had ever had more than a marginal role in facilitating the post-war boom.

Thus even if the onset of financial catastrophe since 2007 can be viewed by the author as a grimly satisfying vindication of his prediction made ten years earlier, the continuing almost unanimous refusal of mainstream opinion to grasp the true reasons for the disaster that has occurred is a measure of the book's failure to capture the attention of those with power to influence the policy agenda. Yet this refusal is itself a sad confirmation of the very tendency, identified in the book, for the ruling elite – in line with historical precedent – to shrink from coming to terms with inevitable change for as long as they feel able to delude themselves that there is some hope of escaping it.

Bearing in mind the dramatic conjuncture that has developed in the global economy since 2007, the book's analysis of the fundamental reasons for the failure of the capitalist profits system may appear more pertinent than ever. Equally, the outline in the final chapter of the type of radical changes needed if a sustainable world order is to be created might seem more worthy of some consideration in the now unavoidable debate on the way forward. First and foremost among these is the need to abandon growth as the central plank of economic policy everywhere – a necessity made all the more urgent by the intensifying threat to the welfare (if not the survival) of the human race now posed by global warming, a consideration undoubtedly seen as far more pressing now than was the case in 1997. Another factor that makes this need even more compelling than it did at that time is the proliferation of economic distortions and wasteful misallocation of resources resulting from official efforts to sustain growth – such as subsidising investment in the most expensive forms of power generation (nuclear, wind) in preference to energy conservation.

As made clear in the book, but seldom emphasised in public debate on the issue, a rejection of growth maximisation as a public good is bound to be fatal to the long-term survival of the profits system in anything like its present form, given that its health depends on continuously expanding outlets for profitable new investment. This helps to explain both the diehard rejection of any downgrading of growth as a policy objective on the part of big business and, by extension, the existence of a powerful lobby committed to discrediting the threat of global warming. Remarkably, on the other hand, many opponents of the continued emphasis on growth, such as the UK Green Party, fail to make this connection and continue to proclaim their commitment to a capitalist economic order.

Any such move to dethrone growth would have still wider implications. For an acceptance that there must be limits, both globally and nationally, to the expansion of economic output would obviously mean that the share of value-added (GDP) available to individuals and communities would need to be limited. This will entail, as noted in the final chapter, some form of de facto rationing of paid work (or otherwise limiting individuals' access to a maximum) within national communities – together with significant restriction of competitive international trade flows. In this connection it is encouraging to note that this inescapable truth has begun to be accepted in more respectable circles, such as the Sustainable Development Commission in Britain.[6] Likewise there is increasing interest in the proposal for a basic or citizen's income, which would guarantee all adults a minimal survival stipend by right (i.e. not means-tested, though not necessarily unconditional) in lieu of virtually all existing welfare benefits – although there would still be a requirement for some form of rationing of access to paid employment.

Such signs perhaps point to a welcome evolution in fundamental economic philosophy which may prove to be the most positive consequence of the profound upheaval now shaking the world. This would imply not simply rediscovering the once familiar territory of welfare economics, but the need to go considerably beyond this. For it has become apparent that giving primacy to the welfare concerns of the vast majority, in terms of meeting their basic needs, is fundamentally incompatible with the principles that have dominated the global economic agenda for two hundred years, according to which the priority is to target the level of production so as to bring it in line with the available or potential capacity of productive factors – rather than adjusting capacity to the actual or potential level of need or effective demand. (A more rational approach – rejecting growth maximisation and giving priority to stability and security consistent with equity and maximum economic efficiency – is described in a more detailed elaboration by the author of the likely features of a post-capitalist model, *A World without Profit*, to be published in 2010.)

But while there are grounds for hoping that more rational principles may be starting to find favour with sections of informed opinion, there is (as noted above) depressingly little sign of any crack in the monolithic commitment of the political mainstream to the status quo based on serving profit-maximising producer interests. Still more disturbing is the apparent refusal of any established political party or pressure group in the industrialised world to engage in a serious discussion of the fundamental flaws of the existing model. This obtuseness, at a time of manifest breakdown of the established order, seems to be only explicable in terms of the utter irresponsibility of the ruling elite towards protecting the public interest and their corresponding indifference to the upholding of civilised values. Such an interpretation is rendered all the more compelling by the multiplying manifestations of criminality in the corporate world and the seeming complicity of the authorities in failing to deter such behaviour. This tendency, which (as reflected in the book) was already identifiable in 1997, has only intensified since, as witnessed by the unprecedented corporate frauds (of which the bankruptcies of Enron and WorldCom were merely the largest) precipitated by the bursting of the dotcom bubble in 2000 and – even more terrifyingly – the official connivance at fraud exposed since 2007 by the collapse of the housing bubble in the USA and Britain and the implosion of the huge pyramid (Ponzi) schemes of Bernard Madoff and other US fund operators.

Such chilling manifestations of official indifference to the fate of human civilisation in its darkest hour seem to bear out the worst fears expressed at the end of the book. Indeed it is hard to escape a pervasive sense that corrupt and irresponsible forces have gained such effective control of the world that they are able – even in the face of looming catastrophe – to marginalise and suppress any more enlightened elements in their desperate attempt to preserve their power and privilege. It is naturally the author's hope that works such as this may still make a contribution to stemming this pernicious tide and thus keep alive the prospect of a more stable and humane world in the future.

April 2009

Notes

1. As of April 2009, as reflected in the US benchmark Standard & Poor's 500 index.
2. Based on IMF data. It should be noted that these may be somewhat exaggerated due to distortions in GDP measurement (notably in the USA) since the mid-1990s – see pp. 194–5, 104–6 below.
3. Endorsed notably by former Fed Chairman Alan Greenspan ('The Fed Didn't Cause the Housing Bubble', *Wall Street Journal*, 11 March 2009).
4. Joseph Stiglitz, interviewed on CNBC's *Power Lunch*, 4 March 2009; Simon Johnson (ex-Chief Economist of the IMF), 'The Quiet Coup', *The Atlantic*, May 2009.
5. As expressed by the G20 summit's pronouncement in April 2009.
6. Prof. Tim Jackson, *Prosperity without Growth? The Transition to a Sustainable Economy,* Sustainable Development Commission, London 2009.

Introduction

In the dying years of the twentieth century we live in the shadow of a seemingly irresistible consensus. This is the belief that *laissez-faire* capitalism has so clearly demonstrated its superiority over all imaginable economic systems that any deviation from it is ultimately untenable and unsustainable. Accordingly, it is argued, every country must now dedicate itself to establishing a fully liberalised economic system, in which the state will have only a minimal role; societies which henceforth seek to interfere with the free operation of the market will do so to their detriment.

The rapid advance of this new consensus to near universal acceptance owes much to the recent conspicuous failure of economic models based on extensive state intervention to deliver adequate levels of prosperity or security – most spectacularly in the fallen Soviet empire. Yet despite this apparently compelling logic, anyone endowed with a reasonable capacity for impartial observation of everyday realities – and for treating official propaganda with due scepticism – might recognise that such claims of a triumph for the free market and of its supposedly magical powers are profoundly perverse, for at least three reasons.

First, they ignore the truth that over the two decades since the late 1970s – when official opinion in the industrial market economies started to lose faith in state intervention – any moves towards creating a recognisably free market economy have been largely offset by measures of enhanced state intervention in support of private business interests. Thus, notwithstanding an unprecedented shift away from public ownership in favour of the private sector and extensive deregulation of the financial markets, governments in all the industrialised countries have shown a redoubled tendency to use taxpayers' money to subsidise private enterprise (through tax breaks, grants, loan guarantees and other devices). For this reason, and also because it has proved impossible to hold down the fiscal burden of welfare payments in a climate of chronic economic stagnation, they have been unable to prevent the state's role in the economy – as reflected in the share of national income accounted for by governments – from continuing to rise during the years since 1980.

Second, to the extent that liberalisation has occurred in the world's industrial market economies since the late 1970s, it has not resulted in a general rise in prosperity, but rather has failed to stop the spread of poverty to an ever growing proportion of the population, and the remorseless rise in public deficits and indebtedness. Thus in Britain, which is by no means untypical of industrialised countries in general, 25 per cent of the population are now so financially deprived as to be dependent on various forms of state benefit for their survival (compared with less than 10 per cent in the mid-1970s), while the level of public debt as a proportion of national income has doubled over the same period. Closely related to these developments is the inexorable slide in the rate of economic growth, which in the industrialised countries as a whole has fallen continuously, decade by decade, since the 1960s – so that the average for the first half of the 1990s has been less than half that recorded thirty years earlier. Likewise in the rest of the world (comprising the so-called developing countries and the economies 'in transition' from Communism) the application of strongly liberalising economic policies in the 1980s and 1990s – largely at the behest of aid donors in the industrialised world – has failed to prevent their economic performance and living standards from declining, even relative even to those of the increasingly stagnant industrial market economies.

Finally, any genuine move in the direction of *laissez faire* and the minimalist state would represent a total reversal of the historic trend of the past hundred years or more which favours progressively greater intervention by the state (notably in the form of welfare benefits) to offset what have been perceived as the unacceptable side-effects – economic and social – of the capitalist free market. It would therefore appear to put at risk the social and political stability which, since the late nineteenth century, governments, and indeed most private-sector interest groups, have come to see as indispensable to the development of industrial societies.

This book is an attempt to expose the realities of the contemporary evolution of the global capitalist economy, and thereby to dispel the illusions which lie behind the neo-*laissez-faire* prospectus. By viewing it in the context of the longer-term development of the world economy it also seeks to demonstrate that the reason for the aggressive and irrational dogmatism of the Western political establishment in trying to forge this new consensus is a growing sense of the increasing fragility of capitalism rather than of its enduring strength. Indeed the reader may well conclude that only acute awareness of a genuine threat to the survival of the dominant vested interests could explain such systematic distortion of reality.

In some respects, it may be noted, the analysis presented here of the chronic weakness of profit-maximising capitalism is traditional, in that it emphasises the distorting and destabilising effects of the recurrent excess supply of capital in relation to the demand for it. What is perhaps less familiar is the revelation that technological change is leading to a long-term relative decline in the demand for fixed capital, thereby rendering traditional capitalist structures obsolete – much as the new technology of steam power made inevitable the replacement of feudal structures and cottage industries by capitalist enterprise some two hundred years ago.

As well as placing contemporary developments in their historical context, the book attempts to bring together different fields of economic analysis (such as the impact of technological change, the evolution of financial markets and Third World development) which are all too often considered in isolation from each other. Inevitably the treatment of some issues – each of which may properly be viewed as meriting an entire book rather than a single chapter to do them full justice – may be regarded as unduly foreshortened. On the other hand, the risk of some oversimplification may be thought unavoidable if we are to achieve an integrated understanding of the different manifestations of global economic breakdown and their essential interrelationship – and thus to grasp that they are in need of common remedies that are both radical and international.

It will also be apparent that the book steps beyond the confines of economics to consider the cultural, ethical and geopolitical ramifications of latter-day capitalist development. Many of the value judgements expressed are inevitably subjective and may be considered by some to be out of place in a work of serious economic analysis. However, it is the author's strong conviction that we need constantly to remind ourselves of the impact of the economic system on almost every area of human activity, and that only when these connections are more widely understood will economic issues receive the attention they deserve.

Indeed, as failure to resolve the world's profound economic distortions gives rise to more and more symptoms of social breakdown and civil strife in every continent, the need to focus wider public attention on their causes and effects has never been more pressing. Despite this the increasingly monolithic ruling interest group is striving harder than ever to convince the public that management of the economy is a purely technical question which can be understood only by 'experts' – by, for example, entrusting anti-inflation policy to unelected officials – and thus removed from political debate. If this book can in a small way counteract such organised indifference it will have served a worthwhile purpose.

ONE

The Origins of Modern Capitalism: A Brief History to World War II

ALTHOUGH capitalism is today generally recognised as the dominant economic system in the world, many people are scarcely aware that it has only attained this position relatively recently in human history. Even in Europe, where capitalism first made its appearance, it can hardly be said to have become the prevalent economic mechanism over much of the continent until around the middle of the nineteenth century. Up to that point economic activity had been regulated, in Europe as elsewhere, primarily by a system of customary rights and obligations within a stratified social order, where access to economic resources was generally determined far more by accident of birth than by commercial enterprise or financial acumen.

This system, loosely identified by the term 'feudalism', had been the more or less settled order of Europe – social, political and economic – since the end of the Dark Ages some thousand years before – as it was, broadly speaking, in most other parts of the world, including Japan and much of what is now known as the Third World. In the latter, indeed, feudal relationships often remain of central importance in the economic sphere to the present day, especially in the rural areas where such a large proportion of the population still lives.

Just as there are still many relics of the feudal system surviving in the late-twentieth-century world, so there were many instances of capitalistic enterprise occurring during the feudal era, particularly from the fifteenth century onwards. Yet prior to the late eighteenth century such activity tended to be confined to commerce – where it developed particularly in response to the demand for risk capital to finance long, costly and risky (but potentially lucrative) trading expeditions to the remoter parts of the world. A significant obstacle to the further development of such devices was posed by continuing restraints on the practice of usury (lending money at interest), which was contrary to the teaching of the Church. Indeed religion – along with strong social traditions based on a mixture of sectional vested interests and certain popular notions of equity – was for a long time a powerful force in resisting the more exploitative and adverse consequences of the untrammelled operation of market forces or the exercise of property rights derived solely from financial wealth.[1]

Whereas the expansion of commerce provided the initial stimulus for the first significant manifestation of capitalist enterprise in late medieval Europe, its further development received enormous impetus from the technical advances in navigation which, starting with the discovery of the Americas at the end of the fifteenth century, rapidly extended commerce to the far ends of the earth. But if this initial advance can thus be attributed to one technological breakthrough, it was a series of far more significant ones in the eighteenth and early nineteenth centuries that finally pushed the feudal economy into a state of terminal obsolescence, at least in the Western world, and ensured the irresistible advance of the forces of capitalism. These comprised the various innovations in the harnessing of energy – through the application of steam power – which made possible the mechanisation of key processes in manufacturing, mining, agriculture and transport.

The increasingly large concentrations of capital needed to permit the application of these new technologies – far greater than those demanded by international commerce – would have been unthinkable without a capitalist structure of enterprise. Yet to make this socially and politically acceptable a profound ideological change was also indispensable. This entailed not only abandoning the medieval restraint on usury but, just as crucially, giving primacy to essentially impersonal property rights, derived from monetary transactions, over the personal, customary obligations of the feudal world. Such a transformation had already begun in the seventeenth century in those regions – notably England and the Netherlands – where the growing power of the emergent bourgeoisie, based mainly on the expansion of commerce, gave rise to an ideological rationalisation of the values associated with moneyed wealth. This new doctrine, particularly associated with the tenets of Calvinist religion and of the philosopher Locke – the arch-prophet of private property rights – was to have still greater resonance in the eighteenth and nineteenth centuries. Thus it at once helped the founding fathers of the United States to reconcile their belief in political freedom with their ownership of slaves and enabled the new industrial magnates of England (as well as those who legally expropriated common land through 'enclosure' acts to take advantage of the technical innovations of the agricultural revolution) to rationalise their own vast wealth amidst the degradation of millions of their countrymen.

Yet whatever the moral ambiguities evident in the rise of capitalism, few of its later chroniclers have doubted its inevitability. Indeed even its most famous detractors, Marx and Engels, insisted on the necessity and desirability of capitalistic production displacing inefficient cottage industries as a step along the road of material and social progress, while yet viewing it as merely a precursor to an equally inevitable proletarian revolution. In contrast its supporters, following Adam Smith, tended to suggest that the morally questionable consequences of permitting market forces to operate free of the restraint of medieval taboos should be regarded as the necessary price to be paid for enhancing the prosperity of society as a whole. Indeed this tendency may be seen as linked to the elevation of political economy in the late eighteenth century as a worthy field of study, with the important and quite novel implication that the 'wealth of nations' was at least as great a matter of public concern as the moral and material well-being of individuals, let alone the material well-being of particular disadvantaged groups.

Such considerations also played a part in prompting important changes to the legal framework governing the world of commerce and business. In order to mobilise capital through investment in joint-stock companies on the increasingly huge scale demanded by the new manufacturing industries, as well as the even larger scale of infrastructural enterprises such as railways, it was found necessary to offer investors some protection against the risk of total ruin which they might easily face in the traditionally uncontrolled financial markets. Hence laws were enacted to strengthen the accountability of companies to their shareholders and, more importantly, establishing the right to create companies where the liability of shareholders was limited to the value of the total equity they had between them subscribed.[2] This privilege of limited liability was fundamental to the subsequent development of capitalism and it is perhaps surprising that the justification for it has never seriously been challenged – even though Adam Smith himself had objected strongly to the idea of separating control of an enterprise from its ownership as required in a joint-stock company.[3] In fact such reservations, as well as doubts as to the propriety of giving shareholders, through their executive boards, the untrammelled right to deploy corporate assets in their own interests, were to raise increasing concern in the late twentieth century as companies grew ever larger and more global in their scope – and thus moved beyond the power of any governments (or even the vast majority of shareholders) to control them.[4]

Naturally resistance to the advance of this self-serving ideology of private property based purely on moneyed wealth was strong – and was not confined to the still disenfranchised masses who suffered its worst consequences. It was further deepened by the appearance of a phenomenon hardly foreseen by Adam Smith – the trade cycle – which precipitated periodic deep recessions in capitalist economies. Such phenomena were not unknown in the pre-capitalist era; yet their effect in terms of lost wealth and livelihoods had been generally less severe under a system based on customary obligation than under one where profit maximisation was paramount, and the remorseless demands of shareholders and banks had to be enforced without sentiment.

After first appearing in Britain, the undisputed pioneer of full-blooded industrial capitalism, the cyclical depressions induced by the new *laissez-faire* climate became progressively more widespread and alarming in their intensity. That which coincided with, and was largely precipitated by the end of, the Napoleonic wars in 1815 induced such intense social misery and unrest in both urban and rural areas of Britain that the government of the day felt constrained to introduce ever more savagely repressive laws to counter the supposed threat of revolution. These events may be said to have prompted the efforts of the great classical economists of that era, Malthus and Ricardo, to analyse the causes of such cyclical disasters. However, their conclusion, which amounted to the view that the recurrence of such calamities must be accepted as more or less inevitable, was simply another facile recourse to the Invisible Hand (the favoured metaphysical device of Adam Smith). As such it satisfied few outside the ranks of the ruling oligarchy and the still unreformed parliament through which it ruled, and did nothing to silence the voices of protest, including most leading intellectuals of the early nineteenth century.[5]

Yet these dissidents tended to follow William Cobbett, the great journalist and pamphleteer, in harking back to some kind of pre-industrial Arcadia instead of looking to ways of taming and harnessing the capitalist monster within an industrial economy. With the advent of recurrent economic depression in the 1830s and 1840s, this time affecting the Continent as well as Britain, more radical ideas began to be voiced. The resulting agitation produced a succession of revolutionary uprisings from the July Revolution in France in 1830 to the insurrections of 1848 in Paris and several other continental capitals. It was by no means a coincidence that Marx and Engels published their *Communist Manifesto* at the same time as the latter upheavals. Although it had no impact on the political convulsions of 1848, this polemic was to be profoundly significant in spreading awareness of the inherent threat to social peace and the political order arising from the spread of industrial capitalism.

Following the defeat of these revolutions, however, the danger of further conflict was lifted by the relative prosperity enjoyed for a generation after 1848, notwithstanding periodic sharp downturns in activity. During this time the Industrial Revolution was consolidated and vastly expanded to cover the whole of Europe and the United States, inevitably bringing with it the essential features of the capitalist system. In fact the main basis of this sustained expansion was the propagation of the technologies which had been first developed and applied in Britain to those parts of the world where they had not yet spread, and where it was seen by the European (mainly British) interests dominating the world's capital markets as both advantageous and feasible to extend them. These did not yet include those vast areas outside Europe which were under European imperial domination (or about to become so), and hence treated as the monopolistic preserve of metropolitan suppliers, with whom local manufacturers were still not allowed to compete. Likewise still excluded were China and Japan, which were effectively closed to investment from outside, but which Western powers were starting to force to trade with them.

This period of relatively sustained boom was brought to an end by the stock-market crash of 1873, which was followed by what was later referred to as the 'Great Depression', lasting over twenty years. Perhaps the most plausible explanation for the collapse of the boom