

Viewpoints: Where now for capitalism?

Does the turmoil in the financial markets mean the end of capitalism?

Some of the world's leading economists give their views.

Noam Chomsky is a philosopher, political theorist and professor of linguistics at the Massachusetts Institute of Technology.

Markets have inherent and well-known inefficiencies. One factor is failure to calculate the costs to those who do not participate in transactions. These "externalities" can be huge. That is particularly true for financial institutions.

Their task is to take risks, calculating potential costs for themselves. But they do not take into account the consequences of their losses for the economy as a whole.

Hence the financial market "underprices risk" and is "systematically inefficient," as John Eatwell and Lance Taylor wrote a decade ago, warning of the extreme dangers of financial liberalization and reviewing the substantial costs already incurred - and also proposing solutions, which have been ignored.

The threat became more severe when the Clinton administration repealed the Glass-Steagall act of 1933, thus freeing financial institutions "to innovate in the new economy," in Clinton's words - and also "to self-destruct, taking down with them the general economy and international confidence in the US banking system," financial analyst Nomi Prins adds.

The unprecedented intervention of the Fed may be justified or not in narrow terms, but it reveals, once again, the profoundly undemocratic character of state capitalist institutions, designed in large measure to socialise cost and risk and privatize profit, without a public voice.

That is, of course, not limited to financial markets. The advanced economy as a whole relies heavily on the dynamic state sector, with much the same consequences with regard to risk, cost, profit, and decisions, crucial features of the economy and political system.

Tony Benn is a former Labour member of parliament and cabinet minister

This economic crisis is a global crisis. It is more serious than the crisis in 1929.

In this climate, people get very frightened and, when they are frightened, their fear can be exploited just like Hitler did in the 1930s to get to power.

It's the end of an era when we were told to borrow and spend and keep government out.

This 'crisis' is not a glitch or a mishap. It is exactly what modern capitalism does and how it works

Rob Brownell , Colchester, UK

Many people will now lose their jobs, lose their houses, lose their livelihoods.

They will say there seems to be plenty of money for war. We are bombing in Iraq and we are bombing in Afghanistan and, if we can do that, why don't we have enough money to meet our own need?

There will be a big demand for a major policy change. This is a failure of a system where we relied on the markets and excluded government. And the markets failed.

Peter Jay is an economist, Bank of England non-executive director and former BBC economics editor

Outside New Delhi, in India, stands a piece of wasteland, frequented by mangy dogs and feral urchins, in which are to be found the collected statuary of the British Raj - derelict kings, queens and viceroys staring sightlessly into the surrounding scrub.

No better metaphor could quickly be found for the apparent fate of modern-day finance capitalism on the morrow of the great crash of 2008.

Like the poet Shelley's Ozymandias, king of kings, it shrieks: "Look on my works, ye Mighty, and despair". As the greatest names on Wall Street crash to the ground, destroyed by their own arrogance and folly as well as by the most hostile financial environment in almost 80 years, we must ask: Why are we so amazed? We who were supposed to be such experts? And why did we not predict it? At least not with urgency and conviction?

The truth is uncomfortable.

We had grown cynical of Marxist talk of the contradictions of capitalism because Marxism itself had, by the 1970s, so conspicuously failed - while capitalism thrived - that its acolytes were discredited.

Those of an older generation truly believed that some combination of Walter Bagehot and J M Keynes had made it impossible for the financial system to fail and for the macro-economy to plunge into depression.

Central banks would never again allow that to happen.

I remember in the 1950s arguing this vehemently with my friend, the late Paul Foot. I want now to say to his ghost I am no longer so sure; and I'm sorry for my dogmatism half a century ago.

For the younger generation, the 1930s seem a long time ago and crises since have all ended non-catastrophically. Complacency is the price of success.

But now we must face the real possibility that the mood swings of financial markets cannot, forever, be biased to optimism; that the higher they climb, the harder they will eventually fall and that this flaw in capitalism cannot be fixed - even by Alan Greenspan - because it is embedded in unchanging human psychology.

Prof Patrick Minford is an economist at Cardiff University, and was an informal adviser to Margaret Thatcher

In all the current financial train-wreck, voices are already being raised to demand huge increases in regulation and the "curbing of capitalist excess".

It needs to be remembered firstly that, already, massive regulation is in place across banking practices under the Basle Agreements.

The trouble has been that the banks avoided them by using "special investment vehicles" away from their balance sheets.

One necessary adjustment would be to simply ensure that, in future, this avoidance is prevented. Secondly, investment banks - such as Lehman Brothers - are virtually not regulated at all and are certainly outside Basle.

However, these animals have had a blood-bath and are unlikely to behave similarly ever again.

We must not try to stop their successors finding a new business model within normal business rules.

Capitalism has a good record of dramatically raising the world's living standards over long periods of time.

Regulation of banking, which enjoys the privilege of access to "lender of last resort" support from the taxpayer, is necessary to protect the taxpayer from abuse.

But we need a vigorous and competitive banking and financial system - this is vital for growth and the availability of financial flexibility across all parts of society. Any adjustments to the existing regulatory framework must keep this firmly in mind.

Dr Jon Danielsson is a member of the London School of Economics' Financial Markets Group

We hear that the wave of mergers, nationalizations and bankruptcies in the financial world represents the failure of the old way of doing business, that the future of finance is a heavily regulated, 1950s type world. Nothing could be farther from the truth. The costs of preventing crises mean an economy like Cuba and North Korea.

While some banks, with the acquiescence of banking regulators, and often with the full support of governments did get into serious trouble, it is the reaction to the crisis that really matters. The financial system has so far passed that test.

While we can debate individual decisions, liquidity provisions and the rapid putting down of sick institutions is exactly the right way.

We will come out of this crisis, having learned that it is important for banks not to make assets so complicated that neither they nor anybody else understands them.

Liquidity will have a central place in both banking and the regulations of banks. We can fine-tune the existing regulatory structure and the nature of banking to deal with this.

The real tragedy would be if the official reaction to this crisis were ill thought, politically motivated, overbearing regulations. A freewheeling financial system is essential for future prosperity. Please policymakers, don't return us to 1929 or even to the 1950s.

Richard Lambert is the former editor of the Financial Times and head of the CBI

It is sad to see HBOS lose its independence in this way but we needed a good market-driven solution to deal with these speculative attacks on the bank.

This looks like the right outcome. Lloyds TSB is a strong well capitalised institution and the new entity will be well placed to withstand the current turbulence.

The government and the financial authorities also deserve credit for making it possible in a timely way.

It also good for the broader economy. The last thing we want is a sharp contraction of bank balance sheets because of the impact it would have on the availability of credit.

We must not lose sight of the fact that the British banking system is well capitalised and regulated, perhaps it is time for us all to draw breath and calm down a little.

Brendon Barber is the secretary general of the Trades Union Congress (TUC)

This is not the final crisis of capitalism, but it ought to be the end of the road for a particular version of it.

The truth is that there is no single economic model of capitalism.

There has always been a considerable difference between Europe's social market and the Anglo-Saxon version in the US - not to mention the wild-west excesses of post-communist Russia or the strange hybrid that now operates in China.

What we have seen in the last few days should rather be the last gasp of the belief that the way to secure prosperity is to let free markets rip and tear up any regulation that gets in the way of short-term profit.

Already the view that the state has no role to play has gone with the nationalisation of Freddie, Fannie and AIG in the US and Northern Rock in the UK.

The lessons that we need to draw are that we have given far too much importance to the City and neglected other sectors - not just traditional manufacturing, but new environmental jobs and the creative sector, to give just a few examples. This should be neo-liberalism RIP.

But the paradox that has yet to work its way through is what this means for politics.

Voters are shifting to the right in their voting intention, but shifting to the left in many policy preferences as they expect government to tax the rich more, regulate the energy sector and restore sensible regulatory structures in the City.