
International Commentaries

Recognition grows that crisis is looming

While the majority of the international financial press maintains the myth that booming stock markets mean that the economy is doing just fine, incisive comments by some European analysts dispel that illusion. We excerpt here from a report carried in the Swiss business daily Neue Zürcher Zeitung, warning that “classic inflation” lies ahead, and from a pamphlet by French Prime Minister Lionel Jospin, repudiating the “Third Way” ideology of Britain’s Tony Blair.

Neue Zürcher Zeitung, Nov. 15:

While most stock market participants are still claiming that ever-rising asset prices—due to the “new economy” achievements of globalization, liberalization, and computerization—have no inflationary effects, several financial experts, and particularly central bankers, are now expressing different views, the newspaper reports. They fear “that the stock market boom of recent years could have laid the foundation for a strong inflationary push in the future. It’s only a matter of time, until the high stock market prices and the prices of other assets, such as real estate, will materialize into a rise of the overall price level.”

As a consequence of central bank monetary policies and of a series of IMF bailouts, which in 1997 and 1998 alone created \$181 billion of additional liquidity, we are now experiencing a “classic inflation process.” That is, a rapidly growing volume of liquidity is meeting a limited amount of stocks and real estate. And there are “powerful transmission mechanisms” at work, which will sooner or later lead to general price inflation. With the same amount of stocks, you now can buy much more goods and services than a few years ago. The U.S. consumer boom and the rapidly growing U.S. trade deficit, already requiring \$1 billion of external financing every single day, are alarming signs in this respect.

French Prime Minister Lionel Jospin, *Modern Socialism*, pamphlet published by the British Fabian Society, reported in the London Guardian on Nov. 16.

Jospin situates “globalization” in the context of British historical policy: “Great Britain has always been more ‘globalized’ than France. It is a country that invented free trade and gave it life—while at the same time knowing how to manipulate imperial preferences when this was in its interest.

The Thatcher revolution was deeply hostile to values that are still held dear in France.”

Jospin says he is not sure what Tony Blair’s so-called Third Way is: “If it lies between capitalism and communism, it is merely a new name peculiar to the British.”

“Capitalism is a force that moves,” he writes, “but it does not know where it is going. The simultaneous domination of the economy by global finance and the coming of the information revolution make this feature of capitalism now even more pronounced. Indeed, there is now a disjunction between the movements of finance and the development of production and society. The former seems to move at the speed of light. The latter moves at the speed of sound. . . . In finance there is absolute fluidity and everything is instantaneous. . . . Financial movements are too rapid for the pace of the real economy. That is why financial movements must be regulated, so that meaning is restored to these transactions. The production of wealth must be geared to human aims.

“The financial crises of 1997 and 1998 in Asia and Russia had at least one positive effect. They shattered the claims of neo-liberalism. The first claim, made by optimistic neo-liberals, was that giving market forces free rein, particularly in financial markets, was the best way of making the world economy work. The second, made by pessimistic neo-liberals, was that globalization had to be accepted and that there was no hope of controlling it.” The crisis “brought to center stage the need to regulate global capitalism in such a way as to ensure that the system is not swept away by its so-called ‘natural’ mechanisms.”

Jospin underscores the responsibility of the state in managing the economy, in opposition to the free-market ideology of neo-liberalism.

“This need to take control in adapting to reality places a special responsibility on the state. The state is in a position to provide the necessary direction, without taking the place of other actors in society. Often it is the only agent that can clear away or navigate around the archaic forces standing in the way of changes that society wants. In France, we call this approach *volontarisme*. . . .

“The concept of *volontarisme*, or an active state, is a key part of our approach to modernization. It is particularly necessary in the conduct of economic policy.”

In a speech at the Socialist International meeting in France on Nov. 8-10, Jospin also emphasized the need for state regulation of the economy, but—incredibly!—plugged the role of the International Monetary Fund in this context:

“The international financial crisis of last year,” he said, “reminded everyone of this teaching of history: Capitalism must be always mastered and regulated. This is why we must re-enforce the role and the political legitimacy of the IMF; we must fight drug trafficking and international financial crime, and create a common juridical space.”