POLITICAL ECONOMY SHOULD BE THE NAME OF THE GAME

Margaret Legum

Too many aspects of economic life have been insulated from political control.

It is time we consigned to history the idea that economics is an arcane, highly complicated discipline, understandable only by brilliant minds who have engaged in long years of study. A huge confidence trick has been perpetrated upon the people of all countries. We are expected to believe that political issues may be decided only within esoteric economic constraints to which only the educated few have access. Margaret Thatcher encapsulated that belief as TINA (There Is No Alternative).

This ideology accounts for the decline in democracy - growing voter apathy, cynicism about politicians and politics, desperate street protest and a culture of hopelessness. What is the point of joining a political party and voting if you cannot thereby influence people's access to the fruits of the economy? Why bother if employment, the rate of interest, the burden of debt, the price of your currency, investment in schools, clinics and utilities - who gets what for doing what - are all beyond the reach of politics? These are all the stuff of economics. And they all involve decisions made in the political arena on the basis of political values.

So what happened? Why has politics given way to a particular kind of economics that creates the same kind of society worldwide? Why do elected governments everywhere pursue much the same economic policies, regardless of the political policies they promised before elections? Tony Blair's Labour Party was swept to power on an unprecedented wave of revulsion against the previous governments' promotion of huge inequality and the decimation of the British industrial base. The basic thrust of economic policy has continued under Blair.

The same applies all over Europe, Asia, Africa and the Americas. Democratic elections in Eastern Europe produced policies creating obscene wealth for the few, alongside mass poverty, destitution and 'ethnic' fighting over scarce resources between people who had lived peacefully together before.

In South Africa, the ANC, with its roots deep in egalitarian political values, was joyfully elected to promote redistributive development. It promised an economics that would match the political miracle to benefit everyone. Today we have even more people living in helpless destitution; redistribution of access to utilities is undermined by poverty; utilities are privatised to foreign companies; and at the top galactic incomes are earned. Street protests multiply.

Why? I am not cynical enough to believe that ANC leaders – and left leaders everywhere - have been seduced by sticking their own noses into the top trough. The answer is that the Thatcher government did something that does, indeed, tie the hands of all governments, so that politics has become subject to a particular version of economics. That was the way to give political inevitability to an economic system that favours a particular sector of society. It was a political act, justified by an untruth – that economics can be removed from politics

That something was innocently named 'the deregulation of capital'. It meant that accumulated money – capital – was allowed to roam the world in search of the most profitable way to accumulate more. It follows that all governments – all politicians – are now required to woo capital or lose it.

The way you do that is to keep wages low and limit the activities of trade unions, so as to attract footloose entrepreneurs. You maintain a low tax base – rich people do not like taxes – so government revenue falls. You keep inflation low and interest rates high, regardless of the effect on growth. You lose employment by opening your markets to cheap foreign goods. You limit government activity, including subsidised government services; and you make your own assets available to the international private sector. Above all, you do not control capital coming in and going out, allowing the exchange rate to fluctuate and speculators to speculate – creating thereby difficulties for your own importers and exporters. You allow your own capital to be listed on stock markets overseas.

You do all this not because it helps to develop your own employment, markets, growth and wealth base – far from it – but because if you did not you would be in worse trouble. The Big Boys, as they say, can pull the plug on your economy while capital is unregulated.

This really has to stop. One terrifying aspect of capital deregulation is the potential for catastrophic financial implosion. Over 90% of currency transactions are purely speculative. The amount of debt world-wide – international, national and domestic – is over three times the value of goods and services everywhere. The last time footloose capital ruled the world was the 1920s; and it ended in the hideous depression of the 1930s, followed by a world war.

Perhaps, frighteningly, that crash has to happen before capital can be brought to heel by elected governments. Then democratic political dissent, based upon political economy, will become the basis of a revived democracy.

But understanding of the current dynamic is now widespread within civil society internationally. The 'Battle of Seattle' began the international process of uniting in opposition to the current world economic order. Anarchists apart, civil society everywhere has adopted the idea that governments must be put back in charge. Democracy cannot happen if unaccountable people and forces -like 'the markets' - in practice make policy.

The question is how this is to be done. There are governments that have defied the capital markets to assert control over their own economies. Notably, the government of Malaysia brought itself out of free fall in 1998 by closing its capital markets, setting its own currency price and stimulating its own economy – in the teeth of opposition by the international financial institutions. China – and to some extent India – keep some control over their exchanges; and in different ways so have Chile, Singapore and Peru.

But more vulnerable and poorer countries, especially in Africa, have felt unable to follow suit. Their governments have, rightly or wrongly, been less courageous. There is no doubt that an internationally-supportive mechanism would enable more governments to take charge.

International capital domination would be reduced by reform of the Bretton Woods financial institutions, now wholly controlled by the richer countries in whose interests footloose capital operates. Their reform would allow international agreement on the control of capital, leaving defiant countries less exposed.

More radical and long-term is the idea of an international clearing agency that would manage transactions between countries in their own currencies. This is based upon the proposal by the British economist J.M. Keynes at the original Bretton Woods conference. He also proposed that both creditor and debtor countries should pay into his Clearing Union a penalty – like a rate of interest. That would provide an incentive for all countries to preserve equilibrium in their balance of payments.

Keynes wrote at the time: 'In my view the whole management of the domestic economy depends upon being free to have the appropriate rate of interest without reference to the rates prevailing elsewhere in the world. Capital control is a corollary to this.'

Margaret Legum helped found, and is a key figure in, SANE, the South African New Economics Foundation. She studied economics at Rhodes University and Cambridge. She and her late husband, Colin, were banned from their home country, South Africa, in 1962 after Margaret had launched the call for international sanctions against the apartheid regime. She now lives in the fishing viillage of Kalk Bay outside Cape Town and works as a lecturer and journalist.