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He specializes in research on basic theories in Marxian political economy, history of economic theories, and contemporary Japanese and global economies. He has published 24 books, of which 6 are in English, and 5 are translated and published in Chinese.

His books which were translated and published in Chinese are; *Value and Crisis*, *Japan in the World Economy*, *Contemporary Socialism*, *Market Economy and Socialism*, and *Political Economy of Money and Finance*. His papers ‘Theoretical Possibilities of Socialist Market Economy and the Chinese Road’, ‘The New Interpretation and the Value of Money’ and ‘Assessing Neoliberalism in Japan’ were also translated and appeared in Chinese on *Economics Study of Shanghai School* vol.5, 9 and 11, 2004.

Neo-Liberalism and Globalization of Contemporary Capitalism

Makoto Itoh

1 Liberalism and Globalization as a Basic Ideology and Tendency for Capitalism

Globalization is a conspicuous characteristic of the contemporary capitalist economy. More and more firms, products, services, financial assets, and workers are being drawn into the global whirlpool of competitive markets.

Repeated economic crises since 1973 have prompted the restructuring of capitalist economies by inducing such a tendency for globalization. Neo-liberalism which believes in the harmonious efficiency of freely competitive market has prevailed as a representative ideology for globalizing capitalist orders. It is widely believed that the globalization of capitalism involves the extension of a self-regulating, rational and efficient economic order.

Yet we have a world actually with economic instability and polarized wealth and income. Therefore, neo-liberal triumphalism is already causing a sense of disillusionment among people.

Ironically, even several neo-liberals have acknowledged that Marx was the prophet of capitalist globalization. The authors of the *Communist Manifesto* had pointed out that the growth of bourgeois society had ‘given a cosmopolitan character to production and consumption in every country’. They also emphasized that growth of capitalist economy created both polarization of society and self-destructive commercial crises.

Indeed, globalization and liberal belief in the workings of competitive market are not totally new. They are rather basic tendency and ideology through capitalist development from its very early stages. Just as Wallerstein argued, modern capitalism appeared through ‘the long 16th century’ as a new type of world system, by replacing the preceding world empires.

Such a characteristic of capitalism stems from the origin of forms of market economy such as commodity, money and (merchant and usurer) capital. They sprang and grew, as Marx pointed out, as inter-social economic relations. When a communal society came into contact with another society, there were basically two options; either it could conquer by force, or it could perform trade by treating products as commodities. Trading of commodities was liberated from coercive or customary orders within societies.

Modern capitalism developed the market economy as both inter-social and intra-social economic order. Beginning from Western Europe, at the heart of capitalism, labour-power became a commodity and generalised market societies emerged; commodities became produced more and more thoroughly by means of commodities. Unlike pre-modern societies, capitalism could utilize the inter-social world market as an economic order which was qualitatively same as its basic intra-social economic order. Thus, development of capitalism naturally tended to expand trade both domestically and internationally, by more and more reducing old restrictions on the market economy. As the market economy originated from inter-social trading which was independent from the intra-social political and communal social orders, the capitalist development of market societies liberated general people from the bondage of old status societies and communal social regulations. Consequently, in relation to formal individual right to perform transactions in the market, liberal ideological notions of individual freedom, of private property rights, as well as of equal human rights, tended to prevail. The idea sprang up of a free, competitive, market economy, as if it were the only natural means to the realization of an efficient and harmonious economic life. Such assertions permeate the social sciences, from classical political economy to neo-classical economics. Neo-liberalism has its strength in the historical restoration and succession of such fundamental ideologies for the capitalist market economy.

2 Spiral Return to Neo-liberalism and Globalization

The evolution of capitalism is like a spiral. It did not proceed straightaway from its birth toward a free competitive world market with neo-liberalism in our age. At its

initial stage of mercantilism, the nation States were formed and rivalled in the world market to protect merchants of their own countries with military power and colonialism. As capitalism established itself through the industrial revolution, the stage of liberalism with Pax-Britannica clearly reduced protectionism and showed a trend to realize more and more free competitive market order until the beginning of 1870s. It realized classical liberalism as a prevailing economic policy stance and ideology in the capitalist world. However, for about a century from the late 19th century, the capitalist world system took a spiral course and reversed the trend. Free market competition was restricted in the following ways.

(1) With the development of heavy industries, giant joint-stock companies grew larger and larger. They tended to form monopolistic organizations so as to avoid competition.

(2) In heavy industries, experienced male workers with muscles were essential and were employed together in large workplaces. Trade unions could easily grow among them. They restricted free competition in the labour market. Based upon them, socialist movements could also grow.

(3) In accord with these trends the economic roles of nation States became greatly reintensified. Imperialist colonial and tariff policies were restrengthened to suit the economic interests of monopolistic firms. New social policies to cope with labour and agricultural problems emerged against socialism. Two imperialist World Wars required large-scale State intervention in the market economy. Subsequently, in the Cold War period, Keynesianism and social democratic welfare state policies were promoted. The ideology of liberalism was rejected in one way or the other along with these trends.

In the meanwhile, Soviet-type socialism, without free markets, emerged, and then spread after the Second World War. At its height it covered about 30 percent of the land area on Earth and 35 percent of the global population. The capitalist world market system seemed seriously challenged by the remarkable growth of this contrasting politico-economic order.

Through the phases of crisis and depression after 1973, however, the historical

trend was spirally reversed. Capitalism revitalized globalization of competitive market economy with neo-liberalism. The following five points are relevant in this regard:

(1) By restructuring and introducing microelectronic-based automation systems, in both factories and offices, capitalist firms have raised efficiency and flexibility in supplying products and services. Flexible production has made possible the manufacture, by the same automated production line, of multiple versions of cars, electric appliances, clothing, and so on, tailored to an individualistic consumer market. Market competition is not confined to price but extends to model type and quality. Information technologies have also increased the flexibility to relocate manufacturing and business sites, and thus restrengthened global competition across borders. Accordingly, regional economic development has become more uneven, as the most rapidly growing tertiary sectors - such as finance, trading, and other services - tend to concentrate their activities in big business centres.

(2) As microelectronic-based automation spread in factories, offices and shops, capitalist firms have been able to dispense with many skilled and experienced workers, and have increased flexible irregular employment such as homeworkers, part-timers, seasonal workers and temporary workers sometimes subcontracted from other companies. Some areas have witnessed the increasing employment of cheap and sometimes illegal foreign workers. The increasing international mobility of labour-force is one of key features of the recent globalization of the market economy.

Largely as a result of these trends, trade unions have suffered from a decline of their organization rate and influence among workers. The labour market has become more competitive and flexible. Capitalist firms are able flexibly to choose different types of workers in combination so as to economize operational costs. Many workers have suffered a decline in real wages. The inequality of income distribution has widened.

(3) In reaction to the failure of Keynesianism in solving prolonged stagflation and cumulative fiscal crises, the economic role of the State has been reduced. Since

the beginning of 1980s, neo-liberalism has become the dominant policy stance in the capitalist world. Accordingly, privatization, deregulation and freer market competition have been promoted globally. Neo-liberalism stands against trade unionism, social democracy and socialism. State expenditures on welfare, education and medical services have suffered in many countries. Neo-liberal privatization of public enterprises gave serious damage to the traditionally militant wing of trade unions in the public sector, and effectively deteriorated the social basis for social democracy and socialism.

(4) Corresponding to these changes, the globalization of the capitalist market economy has increased. Capitalism is restoring its vitality by coming back to its original mother sea of the world market. Globalization of contemporary capitalism involves the use of microelectronic-based information technologies, the multinationalization of capitalist firms and increased speculative flows of money and finance throughout the world. National states have increasingly become unable to regulate the flow of multinational capital.

(5) While the capitalist economies reacted to the economic crises with new policies, the Soviet-type economies, with their ossified State and party bureaucracies, could not manage to change either their industrial technologies or their economic structures in the face of economic stagnation. This impasse led finally to the dissolution of these regimes in Eastern Europe and the USSR. In the 1990s the countries of the former Soviet Bloc set out to establish a capitalist market economy. In contrast, China has maintained Communist Party leadership. It is experimenting with a socialist market economy, and has achieved a high rate of economic growth since 1978. Vietnam and Cuba are following this experiment. Their markets, however, have gradually been opened up to multinational capital. In sum, these changes in the former centrally planned economies have clearly re-extended the global space for multinational capitalist firms to invest and trade, and added to the current trend of globalization of the capitalist market economy.

The strong tide of contemporary capitalist globalization - with its heightened competition and neo-liberal ideology - thus signifies a spiral-like historical reversal,

after a century with various attempts to regulate the competitive market, alongside the socialist bid to construct planned economies without a free market. Arising from the depth of its historical crisis, capitalism is restoring the competitive vitality of the global market economy. Correspondingly, individualism and market freedom - rather than a concern for economic equality and social cohesion for mass of working people - have become the dominant ideology in the world.

3 Problems in the Current World Order and Possibilities for the Future

Along with the recent turn in capitalist evolution for neo-liberalism and globalization, contemporary world economies are not promising for the future of general people, but rather generate disappointments together with certain anxieties.

First, the former belief in the ability of capitalist nation States to improve economic life of the people has largely disappeared. Keynesianism has failed to prevent depression and unemployment since 1973. The increased multinational activity of capital has undermined the ability of national States to manage their economies. Deepening fiscal crises of many States commonly signify their weakened capability.

Second, the post-1973 crisis of capitalist economies did not serve to benefit socialism as an alternative path for the future. Since the Soviet Union was widely regarded as a representative model of socialism, its collapse in 1991 spread disillusion for socialism. Despite its economic success, the Chinese model is not yet challenging against the economic life in the advanced capitalist countries. As capitalist firms can now easily trade with and invest into China. In addition, the idea and theoretical ground for Chinese socialism to counter capitalist market economy are not yet clearly established. Accordingly it becomes widely believed that Chinese economy is transforming itself into capitalism.

Third, neo-liberalism also could not avoid its own problems. The revitalized competitive capitalist world market is far from realizing an efficient, rational and fair economic order. On the contrary, it is rather widening the economic inequality. It has also deepened the global ecological crisis, as well as the absolute poverty problem in

the South, and has increased wasteful speculative instability in world market.

Inconsistently with its belief in market principles, neo-liberalism is combined with neo-imperialism especially led by the US unilateralist military actions, wars and invasion such as to Iraq without sufficiently fare legitimacy.

All this risks serious damage to the social fabric and morale. While the gains of speculators in modern casino-capitalism are praised by neo-liberal ideology, the wealth created from industry and labour is undervalued. In this climate of speculative individualism, moneymaking criminals permeate both businesses and governments, all over the world.

We are thus witnessing multi-layered uncertainties and disillusion in the ideologies of Keynesianism, social democracy, Soviet socialism, and even neo-liberalism.

In the face of these problems, what possibilities are there for historical progress? We can sketch out the following incomplete agenda among others.

First is the possibility of arms reduction or disarmament. The old pretexts for maintaining military forces so as to keep colonial territories or as a defence against Communism have now gone. In 1980, the Brand Report estimated that the total cost for a 10 year aid program for supplying necessary minimum foods and sanitation to developing countries was less than half the world military expenditure in a single year. In this context, anti-war movements such as demanding withdrawal of troops from Iraq are highly estimated. In Japan, as the government parties plan to revise the pacifist article 9 in the Constitutional Law, people's movements to defend the current Constitution has been newly initiated and gaining political importance.

Second on the agenda is the possibility of a restructuring of the world political and economic order. Will the globalization of capitalist economies be followed by a homogenisation and integration of political power, or create more room for a variety of political power structures? The possibility for an enhanced role for the United Nations and other international cooperative organizations emerges. However, the idea to form a unified world government still seems unrealistic in a world full of diverse cultures and countries.

The historic experiment of regional integration within the European Union is likely to proceed, although with uneven success and some resultant dissatisfaction among people in member countries. By contrast, in North America, NAFTA is much less likely to follow this road. Economic and political integration in Asia, South America and Africa faces even greater difficulties. Despite some initial steps in this direction, including discussions concerning a Common Market in East Asia, substantial integration in these regions is unlikely to be achieved in the foreseeable future. While economic globalization is undermining the power of the national State, a viable strong alternative political structure of integration has not yet emerged clearly on a world scale.

The capitalist market economy can be combined with a variety of forms of government and units of political power. If the US model of liberal democratic state, alongside competitive markets, is regarded as the destined natural order for every country in the contemporary capitalist world system, it must be too narrow and restricted view to be actual and true. Economic globalization thus may not homogenize but rather may maintain a diversity of politico-economic orders in the world.

Thirdly, another key issue for the 21st century is how to stabilize the international monetary system. The introduction of floating exchange rates in 1973 was in accord with neo-liberal belief in the rational efficiency of the competitive free market. The outcome has been greatly to increase the instability of economic life. The destructive monetary and financial instability, repeatedly causing bubbles and their burst, must be marked down as a serious failure for neo-liberalism.

What are the alternatives? Regional monetary integration, such as within the EU, is one of realistic feasible programmes. It would help to stabilize international monetary issues at least within the region. Another idea is 'Tobin tax', which has attracted international attention as a possible policy to limit speculative trading in foreign currencies. It involves the setting up of a low rate of tax on each purchase of a foreign currency. This would not substantially hamper real needs for transactions or travel, but would establish prohibitively heavy costs for frequent speculative trading

in currencies. Furthermore, the revenue of Tobin tax which is collected by international cooperation could potentially be utilized for an international cooperative project such as solution of the poverty problem in the South.

Thus, an effect of neo-liberalism in causing financial instability has helped to revive international and cooperative proposals for the control of money.

A fourth issue concerns the future of socialism as a potential alternative to the capitalist market economy. Capitalism can only survive by incorporating and regenerating, as it has long done, various communal human relations at several social levels. Most of counter-systemic social movements, such as trade unions, cooperatives, feminism, ecologism, dissident political groups and parties, rest more or less on such communal human cooperation relatively independent from the individualistic market order. These movements provide the basis for the continuous rebirth of new ideas and movements for socialism, by turning the evolutionary tide from deregulation to social need of reregulation.

In order to expect such revival of socialism including Marxism, we should theoretically admit that there remain many different potential models of socialism for the future outside of the failed Soviet model. A centrally planned economy under democratic political system, as the Russian Communist party now proposes, may remain as a possible model which has not yet been socially experimented. There are a variety of theoretical models of market socialism. Chinese attempt to construct a socialist market economy is adding rich actual experiences to them.

Socialist movements must also surely be strengthened in the third world countries, being enforced by the hard economic conditions among people under the current globalization of capitalism with neo-liberalism. Already through transnational anti-globalization movements, and other anti-establishment (such as against WTO) movements, as well as struggles against US imperialism in various third world countries, socialism has clearly now more and more opportunities to regain. Actually, in a series of Latin American countries, anti-capitalist governments are emerging.

The evolutionary spiral of capitalism will thus proceed with these possibilities in

the 21st century. The problems in the current capitalist world system suggest that the current turn towards neo-liberalism with globalization can be reversed. The evolutionary spiral may turn yet again.

In such a perspective, the role of international cooperation among Marxist political economists is certainly increasing in order to understand the historical nature of neo-liberalism and globalization of contemporary capitalism and to secure broader options for working people to choose.