America: a social and economic model to be rejected?

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ABSTRACT: The first part of the paper will consider the interdependence – and crucially the power ratio – between the USA and the rest of the world as the largest possible established–outsider relationship. The second part will take its inspiration from Talcott Parsons's observation that no social system can take economic rationality as its supreme value, because that corrodes and corrupts all other values. It will also critically examine Norbert Elias's confidence in functional democratisation and pressures towards increasing foresight as dominant trends in the modern world. It will be argued that we are witnessing a fairly long-term dominant trend towards functional de-democratisation and diminishing foresight. The argument will be illustrated by reference to the world financial crisis of 2008–9.

An autobiographical introduction

I am delighted to be speaking in my hometown. I think it is the first time I have done so in an academic capacity. But I blush to recall that it isn't the first time I have made a speech here: in my days as a sixth-former at Huddersfield New College, I was very active in Huddersfield Labour Party, and we used to harangue the populace through a loudspeaker on the market cross! Ah, chronicles of wasted time!

The title of my talk today may suggest that I have at last reverted to my Bolshie youth. But if at times I may sound like Lenin, let me stress that I'm really just a social democrat in the Scandinavian mould. In fact I eventually left the Labour Party and stood as an SDP candidate in the 1983 General Election. In the meantime, however, the world has moved so far to the right that even the SDP looks far to the left of the current political spectrum, and of course the American Right always had trouble distinguishing between social democrats and out-and out-commies!

One last autobiographical point: my first degree was in economics, earned in the 1960s in the world capital of Keynesianism, Cambridge. But I then went to America and transformed myself into a sociologist. It's only in recent years, since the economic crash of 2007–8, that I have begun to look back, as a sociologist, on my former discipline of economics. I'm especially interested in what economists knew in the 1960s but had contrived to forget by the beginning of the twenty-first century. That included more or less all of economic history. But before I return to that, let me make a very crab-wise approach to the position of the United States in the world today.

USA and RoW – the biggest established–outsider relationship

Around 1959–60, my intellectual mentor Norbert Elias and his MA student John Scotson conducted a study of a small industrial settlement on the periphery of Leicester.[1] Briefly, it contained two working-class groups (*white* working-class, one should perhaps say now – it was before the advent in Leicester of large numbers of South Asian migrants). The two groups worked in the same factories, and by ordinary sociological classifications based on their occupations they were indistinguishable. The main difference, though, was that one group lived in the 'Village', an area of housing dating from the 1880s, where many of the families were old-established and had intermarried over the generations. They also occupied all the main centres of local power – in the churches, clubs, pubs and so on. The other group, living in the 'Estate', built on the eve of the Second World War, were relative newcomers, many of them relocated with their employers from London during the war. The essential point is that the 'established' Villagers contrived to despise the extremely similar 'outsiders' in the Estate. One of Elias's most interesting insights was into the role played by *gossip*. The Villagers gossiped among each other about themselves, in terms of a 'minority of the best'. That is, they constructed a we-image – a kind of stereotype – based on the most upright and worthy members of their group. That was 'praise gossip'. But there was 'blame gossip' as well. They gossiped about the people of the Estate, in terms of a 'minority of the worst', constructing another stereotype, a 'they-image' of the Estate based on the behaviour of just two or three families who were violent and drunk and promiscuous and whose kids were in

[1] Norbert Elias and John L. Scotson, *The Established and the Outsiders* (Dublin: UCD Press, 2008 [Collected Works, vol. 5]), 1st edn. 1965.

danger of becoming 'juvenile delinquents'. Most people in the Estate were not like that. But they could not retaliate with a wave of counter-gossip, because their social networks and their positions of power were not so well developed as those exploited by the 'Villagers'. Still more significantly, Elias and Scotson found that the people of the Estate had tended to absorb the Villagers' adverse image of them into their own we-image – they had begun to think of themselves as in some ways 'not as good' as the Villagers.

To this we need to add that Elias and many other sociologists have studied the way in which groups lower down a social hierarchy tend to emulate those above them, to adopt and imitate their ways – sometimes only semi-consciously.

Today, I want to suggest that we can view the relationship between America and the rest of the world as the largest-scale, global established–outsider relationship. The Americans in effect base their view of themselves on a 'minority of the best', and often perceive the rest of the world in terms of a 'minority of the worst'. And the rest of the world often seems to accept the Americans at their own self-estimate – albeit often with ambivalence.

In developing this point, I am going to focus especially on the relationship between the USA and the UK. In some ways, that is ironic, because of course Britain is a much older-established state and the USA the relative newcomer. But the power ratio between the two has been shifting so far and so fast for decades that the British are now very much the relatively powerless and subordinate outsider group. Some of you will remember Harold Macmillan's conceit about the British being the Greeks to the Americans' Romans, the Greeks who taught and civilised their new masters. It now sounds a laughable ambition.

Let me now advance two further general propositions, which have special relevance to understanding the position of the USA today:

1 Power distorts perception

Power is always a relationship, a balance or a ratio, not an absolute measurable *thing*. What we can say, though, is that if a power ratio is very highly unequal, it distorts the perception of each party with the other.

For the weaker party, this *may* (but does not always) take the form of uncritical admiration and emulation of the more powerful party. Europeans, especially the British, still tend to see the USA as essentially European in character, what Louis Hartz called a European 'fragment society' and by extension that Americans are 'people like us'.[2] Yes, the USA did begin as a fragment of Europe that broke away politically a couple of centuries ago. But so did the countries that we now call 'Latin America', and we still tend to think of them as distinctly unEuropean in overall character. Charles Jones has drawn attention to this anomaly in his book *American Civilization*,[3] arguing in effect that the USA is a lot more like Latin America and a lot less like Western Europe than we are accustomed to think. The very distinction between 'Latin' and 'Anglo' America dates only from the latter half of the nineteenth century. To simplify a complex argument, Jones suggests that the USA and its hemispheric neighbours to the south share a number of historical experiences that give their societies certain common features and set them to some extent apart from Western Europe. These include:

- the legacy of conquest and of slavery (both of which have contributed to race and racism as salient traits)
- marked religiosity,
- high rates of violence,
- and a rapacious attitude to natural resources, born of the abundance that confronted settlers.

We tend to give undue weight in our perceptions to New England and the seaboard states north of the Mason-Dixon line. To focus more on the South and the West helps one to see the force of Jones's argument.

But more important is the distorting effect on the more powerful party's perception: specifically, they generally have a limited identification with and inaccurate perception of the weaker party. One could derive this principle from Hegel's famous discussion of the master–slave relationship. But it actually came to my attention via study carried out thirty years ago by two Dutch friends, of women in a refuge for battered wives in Amsterdam.[4] They found that when they asked the women to describe their men, they could give a nuanced and detailed account of his character and foibles. But when they asked the men to describe their

[2] Louis Hartz, *The Founding of New Societies* (New York: Harcourt, Brace and World, 1964).

[3] Charles A. Jones, *American Civilization* (London: Institute for the Study of the Americas, 2007).

[4] Bram van Stolk and Cas Wouters, *Vrouwen in tweestrijd* (Deventer: Van Loghum Slaterus, 1987); and, by the same authors, 'Power changes and self-respect: a comparison of two cases of established-outsiders relations', *Theory, Culture and Society* 4: 2–3 (1987), pp. 477–88.

women, they could only answer in terms of stereotypes: 'the little woman' and so on. Much the same seems to apply to America versus the rest of the world. We know a vast amount about America, including their politics, culture and social arrangements. But a large proportion of Americans – not all, obviously – cannot see out at all clearly, and tend to think about the rest of the world in terms of crude cowboys-and-Indians caricatures. I have described this as the one-way-mirror effect – we can see them, but they can't see us. Of course, much the same applied to Britain, when we were top nation and the British Empire was at its most extensive. It has been said that Britain acquired its empire in a fit of absent-mindedness, and Andrew Alexander of the *Daily Mail* (of all things!) has written a book entitled *America and the Imperialism of Ignorance*,[5] about how the USA acquired its empire after the Second World War: the cowboys-and-Indians, baddies-and-goodies, 'shoot first' perception of the world played a central part in that.

But the same principle also applies *within* countries as well as between them. We know that the majority of the rich in Victorian Britain had little insight into the plight of the poor. More recently, Polly Toynbee and David Walker interviewed a sample of highly-paid people in the City of London, and found that when asked what was the average salary in the UK the respondents gave wild overestimates.[6] In the USA, Paul Krugman recently reported a telling story:

> Extreme inequality, it turns out, creates a class of people who are alarmingly detached from reality – and simultaneously gives these people great power.
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> The example many are buzzing about right now is the billionaire investor Tom Perkins, a founding member of the venture capital firm Kleiner Perkins Caufield & Byers. In a letter to the editor of *The Wall Street Journal*, Mr. Perkins lamented public criticism of the 'one percent' – and compared such criticism to Nazi attacks on the Jews, suggesting that we are on the road to another *Kristallnacht*.
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> You may say that this is just one crazy guy and wonder why *The [Wall Street] Journal* would publish such a thing. But Mr. Perkins isn't that much of an outlier. He isn't even the first finance titan to compare advocates of progressive taxation to Nazis. Back in 2010 Stephen Schwarzman, the

[5] Andrew Alexander, *America and the Imperialism of Ignorance* (London: Biteback, 2012).

[6] Polly Toynbee and David Walker, *Unjust Rewards: Ending the Greed that is Bankrupting Britain* (London|: Granta, 2009).

> chairman and chief executive of the Blackstone Group, declared that proposals to eliminate tax loopholes for hedge fund and private-equity managers were 'like when Hitler invaded Poland in 1939'.[7]

Back in 2000, another Dutch friend and sociological colleague, Nico Wilterdink spotted another implication the increase in economic inequality evident since about 1980.[8] It was, he suggested, connected to the strengthening of *international* interdependencies and a corresponding weakening of the ties of interdependence *within* nation states. Back in the era when wars happened between industrial states, and involved the whole population, elites in most countries came to recognise the necessity of *internal* social solidarity within a state. Bismarck – hardly a lefwinger! – recognised that in initiating the beginnings of a welfare state in Germany, and other Western countries followed suit (though America to a lesser degree).[9] Now that such wars are inconceivable – because of globalisation in general and regional groupings like the European Union in particular, the same exigency does not apply. There is evidence of what we may '*diminishing* mutual identification' between the people within a country, and *increasing* mutual identification with each other among the very rich and powerful across the world. More concretely, the rich increasingly see the need neither to pay their taxes nor to compare their remuneration with that of their fellow countrymen. The degree of socio-economic inequality may have implications for social cohesion within nation states, and even eventually for the viability of the tenacious American Dream.

This links up with a second general point:

2 Increasing distrust of the state and collective action has wide and unforeseen consequences

For most of the twentieth century, distrust of the state was a predominantly American theme. Most European countries – certainly after the Second World War, and mostly before that – looked to the state to ameliorate social conditions, and to protect the poorer and less powerful parts of the population. That was common both to centre-left Social Democrats and centre-

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[7] Paul Krugman, 'Paranoia of the plutocrats', *New York Times*, 27 January 2014.

[8] Nico Wilterdink, 'The internationalization of capital and trends in income inequality in western societies', in Don Kalb, *et al.*, eds. *The Ends of Globalization* (Lanham, MD: Rowman & Littlefield, 2000), pp. 187–200.

[9] Abram de Swaan, *In Care of the State* (Cambridge: Polity, 1984).

right Christian Democrats, and was largely true even of the British Conservative Party until 1979. In America, in contrast, a deeply-rooted rugged individualism extended right back to Founding Fathers – notably to Jefferson – and state intervention was widely viewed with suspicion. John Kenneth Galbraith remarked that 'while eighteenth-century Americans objected to taxation without representation, they objected equally to taxation *with* representation'. Of course, there were counter currents: Justice Oliver Wendell Holmes Jr remarked that 'Taxation is the price we pay for civilisation'.[10] A more topical version might be that 'Taxation is the price we pay for not being flooded out of our homes', as the Dutch have known for many centuries. But the idea that taxation for collective objectives is illegitimate is spreading way beyond America now.

Neo-liberal economics as an American ideology

I want to spend most of the rest of my lecture in arguing that neoliberal economics – what became the orthodox mainstream of economic thinking from about the late 1970s until the current financial crisis – is an ideology serving the interests of plutocrats in general and of the USA in particular.

Now don't get me wrong. In calling it an ideology, I do not mean that it is *entirely* a figment of right-wing political values. All ideologies are a mixture of factual, empirical content and value-judgements. In the case of economics, it contains a *very* large proportion of valid, factual content. Nevertheless, the intellectual corpus as a whole is constructed in such a way as to offer apparently strong arguments against any involvement of government in the economy, and a justification of increasingly extreme inequality. My old teacher Talcott Parsons, who in the 1950s and 1960s was the world's dominant sociological theorist, used to remark that no social system can take economic rationality as its supreme value, because that corrodes and corrupts all other values – and it seems to me that the Anglo-Saxon model of capitalism (UK as well as USA) has increasingly done just that over recent decades.

As Paul Krugman has often remarked, the current crisis is not just an economic crisis but also a crisis of economics. In the 1970s, 1980s, 1990s and into the 2000s, the discipline came to focus on the supposed 'rational choices' of individuals and on the theory of firms and markets, building fancy *micro*economic mathematical models further and further distant from

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[10] This remark gave Jeffrey Sachs the title for his book *The Price of Civilisation: Economics and Ethics after the Fall* (London: The Bodley Head, 2011).

the real world and increasingly worthy of Dr Pangloss.[11] I want to focus on *three* specific aspects of this collapse into abstract individualism.

1 *The 'greed is good' syndrome*. The financial crisis that began in 2007–8 served as a loud wake-up call for economists. Galbraith's *The Great Crash: 1929* suddenly became once more a best seller.[12] People – sociologists perhaps more than economists – began to re-read and discuss Karl Polanyi's *The Great Transformation,* with its thesis about the 'embeddedness' of economies in wider social arrangements.[13] Some economists began to pay more attention to Hyman Minsky's hitherto heterodox theory of the instability of financial markets.[14] Nouriel Roubini, unlike those earlier authors, was a member of the current generation of economists who could enjoy seeing the vindication of his prescient forecasts that the property price bubble would burst with disastrous international consequences.[15]

Yet it will take a lot more than a mere world economic crisis to reform economics and economists. I would argue that their aura of 'science' – their seeming 'detachment' – in fact allowed their 'market fundamentalism' to be co-opted as a part of American National Ideology. The right-wing followers of Milton Friedman triumphed. It was above all Friedman who provided ideological justification for 'shareholder value' as sole goal of businesses.[16]

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[11] The pursuit of this kind of scientific abstraction puts one in mind of Elias's reference to the Greek myth of Hercules fighting the giant Antaeus (in Elias and Dunning, *Quest for Excitement* (Dublin: UCD Press, 2008 [Collected Works, vol.7]), p. 77, n. 5; see Robert Graves, *Greek Myths* (London: Cassell, 1955), p. 509.) Hercules kept knocking Antaeus to the ground, but the giant always sprang up again with renewed strength. Finally, Hercules lifted Antaeus' feet clear of the ground and held him aloft until the giant's strength drained away; by analogy, theories only retain strength if they remain in contact with the real world.

[12] John Kenneth Galbraith, *The Great Crash, 1929* (London: Hamish Hamilton, 1955).

[13] Karl Polanyi, *Origins of our Time: The Great Transformation* (London: Gollancz, 1945); in later editions the title and subtitle were reversed. This book was on the reading lists when I was an undergraduate in Cambridge in the 1960s, as it had been in Amsterdam in the early 1950s when Johan Goudsblom was a student. Neither of us in fact read it then, because its thesis seemed too obvious to need stating in the age of Keynesian economics and the welfare state. With the internationally widespread reversion to pre-1929 austerity economics as a supposed cure for the Great Recession starting in 2007–8, Polanyi suddenly seemed highly relevant.

[14] Hyman Minsky, *Can 'It' Happen Again: Essays on Instability and Finance* (Armonk, NY: M. E. Sharpe, 1982), *Stabilizing an Unstable Economy* (New Haven, CT: Yale University Press, 1986).

[15] Nouriel Roubini and Stephen Mihm, *Crisis Economics* (London: Allen Lane, 2010).

[16] Johan Heilbron, Jochem Verheul and Sander Quak, 'Aandeelhouders eerst!: De opkomst en verspreiding van

Gone were the discussions of the 1950s and 1960s about the social responsibilities of businesses – their divided responsibilities not just to their shareholders but also to their employees and to the wider society. That was not just the assumption of Social Democrats but also especially of Christian Democrats in Europe; it was the assumption underlying company law in Germany, for example. Instead, Friedman and his followers – the dominant viewpoint in economics in the 1980s, 1990s and 2000s – offered an ideological justification of 'Greed is Good'.[17] Indeed, in my view, when American express their pride in 'individualism', they fundamentally mean the pursuit of self-interest with no concern for the public good, which they assume can be left to take care of itself.

Central to this creed is the invocation of idea of the 'invisible hand', usually attributed to Adam Smith, though anticipated six decades earlier by Mandeville.[18] Although Smith actually used the term only three times, and in a relatively cautious way, it has become generalised into a dogma: that by trying to maximise their own gains in a free market, individuals through their pursuit of their own advantage inevitably benefit society, *even if they have no benevolent intentions*. This idea, central to Chicago School economics, absolves people from wider moral considerations of the public good and the need consciously to pursue it. As the American historian Thomas Haskell pointed out, if it really were true that the laws of supply and demand automatically transmute each individual's self-interest into the greater good of the greater number,

> no one need be concerned with the public interest. Once this lesson with its time-bomb of anti-traditional implications was incorporated into commonsense, the very possibility of moral obligation [would be] put in doubt; the burden of proof henceforth [would rest] on those who wished to deny that 'everything is permitted'.[19]

"aandeelhouderswaarde" in de Verenigde Staten' [Shareholders first! The rise and diffusion of 'shareholder value' in the US], *Sociologie*, 7:1 (2011), pp. 21–42.

[17] The phrase entered popular discourse from Oliver Stone's 1987 film *Wall Street*, in which it was uttered by the anti-hero Gordon Gekko.

[18] Bernard Mandeville, *The Fable of the Bees, Or, Private Vices, Public Benefits* (London: J. Roberts, 1714).

[19] Thomas R. Haskell, (1985) 'Capitalism and the origins of humanitarian sensibility', *American Historical Review*, 90: 2–3 (1985): 339–61, 547–66, at p. 549.

At the beginning of the twenty-first century, the time-bomb appears to have exploded. The capacity of markets to enforce standards even of basic honesty seemed to be called in question by a series of scandals involving major American corporations, such as Andersen, Worldcom, Enron, Xerox, the semi-state mortgage company Fanny Mae – the Federal National Mortgage Association – and many smaller corporations.[20] That was even before the implosion of the financial system as a result of irresponsible mortgage lending, absurd 'derivatives',[21] and the collapse of Lehmann Brothers.

Overall, the powerful thrust of mainstream microeconomics[22] towards providing an ideological justification for greed was accompanied by the vast growth of economic and social inequality, most notably in the USA and Britain, but to a lesser extent in many other countries too.[23] In their now famous book *The Spirit Level,* Richard Wilkinson and Kate Pickett demonstrated with a wealth of empirical evidence 'why more equal societies almost always do better'.[24] It is no accident that the book provoked hysterical fury from the American right wing. Robert Reich, the former US Secretary of Labour, has also linked growing economic inequality to the extreme and bitter polarisation of American politics.[25]

This is directly relevant to the now much-discussed problem of the stupefying greed of bankers and other financiers, with their multi-billion (dollar or pound) 'bonuses'. The 'free market' justification for this looting of public companies is that there is an 'international market' for the best banking brains. What the justification amounts to is that the American political system is totally incapable of bringing these people to heel, and that others – mainly in the City of London – feel it imperative to emulate Wall Street. More generally, evidence is

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[20] See Gretchen Morgenson and Joshua Rosner, *Reckless Endangerment* (New York: Henry Holt, 2011).

[21] For a brilliantly clear exposition of derivatives by an expert layman, the novelist John Lanchester, see his essay 'Cityphilia', *London Review of Books*, vol. 30, no. 1, 3 January 2008.

[22] There is an alternative microeconomics – associated with names such as Samuel Bowles, Herbert Gintis and Amartya Sen – but it is not central to the standard syllabus in economics.

[23] See A. B. Atkinson and Thomas Piketty (2007) *Top Incomes Over the Twentieth Century: A Contrast Between English-speaking and European Countries* (Oxford: Oxford University Press, 2007).

[24] Richard Wilkinson and Kate Pickett, *The Spirit Level: Why more equal societies almost always do better* (London: Allen Lane, 2009).

[25] Robert Reich, 'American Bile', *New York Times*, 21 September 2013, and *Beyond Outrage: What Has Gone Wrong With Our Economy, Our Democracy, And How To Fix It* (New York: Vintage, 2012).

emerging that at the very top of the tier, the ‘greed is good’ syndrome is to a great extent driven by personal rivalry between the top plutocrats.[26]

2 *Economists have become blind to power relationships*. Neo-liberal economists generally make the mistaken assumption that the existence of a ‘market-clearing price’ means that the power of buyers and sellers is equal – it must be, because they have reached agreement! Classical economics had a rather undifferentiated image of competition between small traders. This image came to be embodied in the model of ‘perfect competition’ or a ‘perfect market’. A perfect market is one in which – among many other technical conditions – there are many buyers and sellers, all of them well informed (with ‘perfect knowledge’), none conspicuously more powerful than the others, so there is no possibility of collusion and no single trader can exert much influence over price. The model of perfect competition has great emotional appeal, because it is the economic counterpart of the classical political model of liberal democracy, in which equal and well-informed individuals form their political opinions independently of anyone’s power to manipulate them. Both models have diminishing reality-adequacy in the modern world. The assumption that free markets ensure that the pursuit of self-interest will be transformed into the greater public good might broadly hold true in cases where there were many buyers and sellers – the first and most essential condition for there being *real* competition. But that is only a necessary, not sufficient, condition for market forces to have generally beneficent outcomes. It is also necessary that there be full information on both sides of a market; that was always recognised in the old models of perfect competition, but subsequent research, notably that of Joseph Stiglitz, has demonstrated that in a modern technological economy the requirement of ‘full information’ is enormously complex and practically unattainable:

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[26] The extraordinary – or all-too-ordinary – remuneration of top bankers in the City of London has been much criticised. It has reached as much as £20m in a year for CEOs of some of the clearing banks. No doubt this is modest compared with some of the excesses found on Wall Street. There is evidence that models are being set for other sectors too: the CEO of the (British) Nationwide Building Society – a *mutual* society! – is paid £2.3m, and his four executive directors each receive more than £1m; other mutuals such as the Liverpool Victoria pay their CEOs more than £1m. There are now more than 10,000 people in employment in the UK with salaries higher than those of the Prime Minister and the Head of the Civil Service. (I am grateful to Cyril Leach for supplying this information.) Why should bright young people go into teaching, healthcare or similar professions when they can get salaries five or ten times greater in less challenging jobs? In other words the knock-on effects of ultra-high pay may spread widely.

> whenever information is imperfect, in particular where there are information asymmetries – where some individuals know something that others do not (in other words, *always*) – the reason that the invisible hand seems invisible is that it is not there. Without appropriate government regulation and intervention, markets do not lead to economic efficiency.[27]

The only other model of power in markets available in the classical period of economics, apart from that of perfect competition, was that of monopoly. Denunciation of monopolies awarded by kings to their followers was one of the principal targets of the pioneers of economics – Adam Smith, David Ricardo *et al*. But it was that great classical economist Karl Marx who paid most attention to the *process* of monopoly formation.

Still, neither perfect competition nor full-blown monopoly seemed a good description of most markets in the modern world, and between the wars this static polarity was gradually broken down into a continuum of models or ideal-types, representing various degrees of unequal power ratios in the economy. The crucial step was the work of Joan Robinson and Edward Chamberlin developing (independently, on either side of the Atlantic), the model of 'imperfect' or 'monopolistic' competition.[28] A little later, the Marxist economist Paul Sweezy and others added the model of 'oligopoly', representing markets that involved a very small number of competitors – Sweezy's famous 'kinked oligopolistic demand curve' represents the game-playing dilemmas that businesses face in such circumstances.[29] It also pointed to the risk of collusion or cartel-formation – which had indeed been the target of American federal legislation as early as the 1890s, though only Theodore Roosevelt bothered to enforce it, and it was certainly a problem in Europe between the wars (for example the case of AG Farben). As Adam Smith remarked 'People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in

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[27] Joseph E. Stiglitz, *Making Globalisation Work* (London: W. W. Norton, 2006), p. xiv.

[28] Joan Robinson, *The Economics of Imperfect Competition* (London: Macmillan, 1933); Edward H. Chamberlin, *The Theory of Monopolistic Competition* (Cambridge, MA: Harvard University Press, 1935).

[29] Paul Sweezy, 'Demand Under Conditions of Oligopoly', *Journal of Political Economy*, 4 (1939), pp. 568-573.

some contrivance to raise prices'.[30] Again, in an age when great financial interests openly articulate their common interests and appear generally to have co-opted governments and their agencies in their cause, mainstream economists appear to have forgotten that Smith continued: 'It is impossible indeed to prevent such meetings, by any law which either could be executed, or would be consistent with liberty or justice. But though the law cannot hinder people of the same trade from sometimes assembling together, it ought to do nothing to facilitate such assemblies; much less to render them necessary.'[31]

In short, economists developed a continuum of models of power ratios in markets, from the equal balances of perfect competition through to the gross imbalance of oligopoly, monopolies and cartels. If at one level they still know about that continuum, a large proportion of mainstream economists no longer seem to give it much thought; one reason seems to be the faith that even if the ordinary *product* markets about which Adam Smith wrote are subject to 'conspiracy against the public', the perfection of *financial* markets will impose strict discipline to 'keep them honest'. That is something the general public can scarcely believe since the financial services 'industry' wrecked the world economy in 2008.

The broader point at issue here, however, is that to be the more powerful player in a very unequal economic power ratio entails being able to ignore externalities. The economists' concept of externalities is closely connected to the sociologists' notion of unintended or unforeseen consequences of social action. But externalities may be neither unforeseen nor unintended – all that is necessary is that an organisation can get away with not meeting the cost.[32] The actions and reactions of powerful governments (not all governments are relatively very powerful) or powerful commercial rivals do have to be taken into account, but weaker players – such as small suppliers (perhaps in other countries) – as well as wider consequences such as pollution and environmental degradation can safely be ignored. 'Power', as Karl Deutsch remarked, is 'the ability to talk instead of listen [and] the ability to afford not to learn'.[33] More recently, Joseph Stiglitz has explained why externalities are ubiquitous, as follows:

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[30] *The Wealth of Nations*, Book I, Chapter X, Part II.

[31] Ibid.

[32] See Stephen Mennell, *The American Civilising Process* (Cambridge: Polity |Press, 2007), pp. 116–17.

[33] Karl W. Deutsch, *The Nerves of Government: Models of Political Communication and Control* (New York: Free Press, 1962), p. 111.

> Whenever there are ‘externalities’ – where the actions of an individual have impacts on others for which they do not pay or for which they are not compensated – markets will not work well. Some of the important instances have been long understood – environmental externalities. Markets, by themselves, will produce too much pollution. Markets, by themselves, will also produce too little basic research. (Remember, the government was responsible for financing most of the important scientific breakthroughs, including the internet and the first telegraph line, and most of the advances in bio-tech.) But recent research has shown that these externalities are pervasive, whenever there is imperfect information or imperfect risk markets – that is, always. Government plays an important role in banking and securities regulation, and a host of other areas: some regulation is required to make markets work.[34]

But not only does mainstream Chicago economics see little or no legitimate role for government or regulation, the mainstream of American National Ideology appears not to acknowledge any moral imperative for businesses to take account of foreseeable externalities or wider social consequences. It thus gives cover to asset-strippers (such as the Republican nominee in the 2012 presidential election), to the activities of private equity funds in taking hitherto public companies out of the reach of stock market evaluation or indeed of proper accounting, and it can all be justified by appeal to Joseph Schumpeter’s notion of ‘creative destruction’.[35]

One further reflection within economic theory of the anti-state bias found in the ‘Washington consensus’ is the relative eclipse of the central Keynesian idea of the fiscal multiplier – a measure of how much a country’s GDP is increased by a given increase in government spending. Some economists, such as Robert Barro, discount such multiplier effects altogether, arguing that for every dollar the government borrows and spends, spending

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[34] *The International Herald Tribune*, 11 October, 2006.

[35] Joseph A. Schumpeter, *Capitalism, Socialism and Democracy* (London: George Allen & Unwin, 1943), pp. 81–6; ironically, Schumpeter derived the idea from his reading of Marx.

elsewhere in the economy falls by the same amount.[36] This argument was deployed in opposition to the Obama administration's mildly Keynesian fiscal stimulus in response to the world economic crisis, and the same principle has been invoked by the Cameron coalition government in justifying a prolonged period of austerity and cuts in government spending. If it were true that fiscal stimuli have no effect, macroeconomic theory would in effect revert to pre-Keynesian, pre-1929 principles, in which macroeconomic adjustment to slumps was to be achieved mainly through the reduction in business costs – that is, through falling living standards for the bulk of the population, and growing inequality. Many distinguished economists, notably Paul Krugman, produce substantial evidence to contradict Barro's thesis. I myself cannot claim the necessary technical expertise; as a sociologist, I merely note the congruence between Barro's thesis and the interests of the American economic elite and political right.

One final point about neo-liberal economists' blindness to power relationships is the view – increasingly articulated by the right in Britain as well as in the USA – that even membership of a trade unions is an illegitimate impediment to the idea working of free markets. Back to Tolpuddle? – on that I shall say no more.

3 *The myth of virtue and deserved prosperity*. One specific illustration of the distorting effects of the dominant ideology of individualism is the comforting belief (again especially in the USA) that prosperity and high standards of living are largely due to the hard work and motivation of individual people, now and in the past. That is probably one reason why Max Weber's Protestant ethic thesis has been so influential among American sociologists.[37] Essentially ploughing a similar furrow, and still influential among a wider circle of intellectuals, is Walt Rostow's *The Stages of Economic Growth*,[38] a Cold War product subtitled 'A Non-Communist Manifesto'. Rostow regarded the 'age of high mass-consumption' as the mature stage of economic development, one attained first (oddly, during the Great Depression, according to Rostow[39]) by the United States, and then by a small number of other industrialised countries. It was the stage to which the countries of the Third

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[36] Robert J. Barro, 'Stimulus Spending Doesn't Work', *Wall Street Journal*, 1 October, 2009.

[37] Max Weber, *The Protestant Ethic and the Spirit of Capitalism* (London: Allen & Unwin, 1930 [1904–5]).

[38] W. W. Rostow, *The Stages of Economic Growth* (Cambridge: Cambridge University Press, 1960).

[39] Ibid. p. xii.

World should aspire. The usefulness of this sort of model for a we-image of the ‘minority of the best’ was matched by its utility in forming a ‘minority of the worst’ they-image of the fecklessness of much of the rest of the world.

But the standard of living enjoyed by Americans for the last half-century or more is not to be understood solely through any pervasive work ethic. It owes most to the USA’s overwhelming power position in relation to the rest of the world at the end of the Second World War, and how it used that power in shaping the post-war economic settlement. At the Bretton Woods conference in 1944, the British representative, Lord Keynes, proposed the creation of an International Clearing Union (ICU), involving financial arrangements that would have necessitated that creditor nations as well as debtor nations made adjustments when trade imbalances arose. His concern – which seems extremely prescient in the financial crisis that began in 2007–8 – was that countries with a trade deficit would be unable to climb out of it, paying ever more interest to service their ever greater debt, and therefore stifling global growth. However, America was then by far the world’s dominant creditor nation, and its representative, Harry Dexter White, rejected the ICU outright. He proposed instead what became the International Monetary Fund (IMF), which has always operated policies that place the burden of maintaining the balance of trade on the deficit nations, and impose no limit on the surplus that rich countries can accumulate.[40] This settlement played a large part in creating the problem of Third World debt.[41] It is ironic, of course, that the USA – from having been the world’s great creditor – is now the world’s great debtor nation, with a vast amount of its national debt owned by China.

Conclusion

1 De-democratisation: I think we need to question Norbert Elias’s assumption that the

[40] For more technical details, see Benn Steil, *The Battle of Bretton Woods: John Maynard Keynes, Harry Dexter White and the making of a New World Order* (Princeton: NJ: Princeton University Press, 2013) and Michael Rowbotham, *Goodbye America: Globalisation, Debt and the Dollar Empire* (Charlbury, Oxon.: Jon Carpenter, 2000). The heyday of the Bretton Woods arrangements arguably lasted only 12 years, from 1959 when the European currencies became fully convertible, to 1971 when President Nixon broke the link between the US dollar and gold (at the fixed rate of $35 per ounce) and when the system of fixed but adjustable exchange rates broke down. The IMF and its policy orthodoxies, however, have been a fixture over a much longer period.

[41] Corrupt relations between big business and politicians in Third World countries also played their part, but in that respect – as we shall see in a moment – such relations are not unfamiliar within the USA.

dominant long-term trend in human society will be towards ‘functional democratisation’, involving ‘pressures to increasing foresight’. His argument is that increasing complexity, and lengthening chains of interdependence, will force more people more often to pay more attention to more other people. That is certainly one trend, but it seems to run in counterpoint with its inversion – functional *de*-democratisation and *diminishing* pressures towards foresight. It may be that climate change will force people to recognise their interdependence, just as living below sea level forced it upon the Dutch centuries ago. But don’t hold your breath. And, if that *does* come about, I suspect it will happen under a regime in world affairs that resembles the Chinese model more than the American.

2 And conclusions for Britain? If my arguments are anywhere near right, they serve to undermine the fatuous anti-Europeanism that seems increasingly influential here. Sovereignty was always relative, a matter of *power*. Britain didn’t notice that, when it was top dog in the nineteenth century, and US hasn’t notice it while it has been top dog. But no country has *absolute* sovereignty in globalised world. Britain’s membership of the WTO, together with its subservience to the USA, limits its sovereignty far more than does its membership of the EU. In the EU, at least we have pooled sovereignty, and we have some influence in collective policies. No one seems able to give any example of British influence over the USA – except when Ed Miliband precipitated a rejection of bombing Syria, an almost unprecedented example of Britain, when told to jump by the USA, not simply asking ‘how high’. A Conservative minister is reported to have bemoaned the vote on intervention in Syria because it was ‘letting down America’.

Can we reject the American model, however? The power of ‘the markets’ makes it very difficult. Globalisation exerts over Britain – and most other countries – what Elias calls ‘compelling forces’ that limit each one’s scope for independent action. Indeed, states are now often far less powerful than are global corporations. All countries except the very most powerful ones seem to me to be in a position resembling that of parishes under the old Poor Law: if they make generous arrangements for their workers, they risk driving away businesses who don’t wish to pay taxes to support them, and perhaps of attracting people to take advantage of generous provision (this being the current moral panic in Britain).

Perhaps the BRICs may reject American hegemony in time. Following revelations about the National Security Agency’s spying on internet communications worldwide, Brazil is discussing making its communications independent of American control. Britain will not, however, reject American hegemony in the foreseeable future. It has lived too long under

American captivity to break the habit. To use the nineteenth-century political term, Britain has been ‘mediatised’ – like a small German principality, it has been subordinated to a larger power, while being allowed to retain some of the ceremonial trappings of an independent state. It has been a long process. The American historian Allen Nevins, in a study of British travellers’ reports on America since the eighteenth century, described how feelings of superiority towards America in the early nineteenth century gradually gave way to a more level and equal viewpoint towards the end of that century, and then, during the twentieth were replaced by feelings of deference towards America and all it stood for.[42] Deference to American models now seems to be quite unconsciously accepted by most British people. Britain has learned to love its captors: it is suffering from Stockholm syndrome.

[42] Allan Nevins, *America through British Eyes* (New York: Oxford University Press, 1948).