Chapter Two

From Berlin Wall to Wall Street[a]

As a result of the experiences gained in the Great Depression, and the need to reorganize the economy to meet the new challenges arising from World War II, the USA and other western economies introduced many regulations. They were useful then. But over time a number of them proved to be a burden. In the 1970s, there was a chorus of demands from the business world to roll back the regulation and to swing back to laissez faire policies. A tireless and brilliantly effective voice was Nobel laureate of economics Milton Friedman who contributed an intellectual dimension to the campaign.[1]

Since 1976, in the background of manufacturing overcapacity and declining profits, such neoliberal ideas of economics were gaining wider acceptance.[2] An important political milestone was reached when Mrs. Margaret Thatcher came to power in 1979. She worked tirelessly to clip the wings of the British trade unions, to privatize key industries under state control, and to introduce a series of pro-business policies. In the USA, she had her counterpart and admirer in the person of Mr. Roland Reagan,

[a]A shorter version of the first part of this chapter appeared under the same title in *The Straits Times*, Singapore, on 26 June 2009.

who entered the White House in 1980. Both of them fervently believed in "small government, big market," and used the power of office to realize their ideals. Though Reagan was known as the champion of deregulation in the USA, in reality the deregulation movement began with the administration of his predecessors. President Gerald Ford and President Jimmy Carter both introduced deregulations in transport, communications, pipelines, savings banks and utilities. Deregulation of the financial market began even earlier in the 1960s and was continued by them.[3] As doing away with rigid regulations resulted in better economic performance, policy makers believed that the less regulations, the better. Eventually, they started to believe that self-regulation by the financial system was best; but that means no regulation for a substantial part of the financial sector.[4]

To Thatcher and Reagan, governments and the public sectors were the problem; market and business were the solution. By emancipating business from troublesome shackles of rigid regulations, both of them gained much popularity as a result of their success in promoting economic growth. The reform had its social costs in the form of job losses, and they had to deal with opposition from trade unions and the left. At the same time, they encountered strong resistance in rolling back the state. They had to contend with the reality of well-run and prosperous social democratic countries in Western Europe, the success story of Japan, and the rapidly growing economies of the Little Dragons and Tigers of East Asia. In these countries, the states played a big role.[5] More importantly, there was the Soviet Union with its allies. For nearly a century, the Soviet Union provided an alternative model.

Its emergence from a serf economy into an industrial powerhouse within a few short decades fascinated many. No one with a good sense and knowledge of history, including staunch anti-communists, can deny the crucial role of the Soviet Union in defeating Nazism in Europe. Its achievements served as a powerful source of inspiration for the newly independent countries like India.[6] Until the end of the Cold War, the Soviet Union was not seen to be far inferior to the USA. In fact, it was the only challenger to America for global hegemony. "There was a general belief that even though the Soviet Union and its allies were laggards economically, they were catching up to the wasteful market economies of the West."[7]

From the viewpoint of contest of ideas, this tug-of-war was a healthy state of affairs. However, the balance was tilted in favor of the USA with the fall of the Berlin Wall in November 1989.

The Collapse of the Berlin Wall

There are so few moments in contemporary politics that are so unhappily soaked in history and symbols as the Berlin Wall.[8] The building of the Wall was an important episode in the Cold War. It was a primary expression of the *de facto* division of the European continent between the two superpowers. To the Germans, it symbolized the division of their beloved country.

Given its background, it comes as no surprise that the spontaneous breaching of the Berlin Wall on 9 November 1989 carries so much meaning with it. The demolition of the Wall represents a potent symbol of the demise of the Soviet Union and its allies. It symbolizes that the defeat of what they embodied in terms of ideology, institutions and practices. The demise of the Berlin Wall marked the end of the Cold War and the beginning of a period of geopolitical optimism. The Soviet empire disintegrated, Germany was unified, and Europe began its movement towards a common currency.[9]

It has also tilted the economic and ideological debate between free market economy and centrally planned economy in favor of the former. In such an intellectual climate, the Anglo-American variant of free market capitalism came to gradually dominate the modus operandi of western financial markets, banks and financial firms.

Alan Greenspan observes, "The defining moment for the world's economies was the fall of the Berlin Wall in 1989, revealing a state of economic ruin behind the iron curtain far beyond the expectations of the most knowledgeable Western economists. Central planning was exposed as an unredeemable failure; coupled with and supported by the growing disillusionment over the interventionist economic policies of the Western democracies, market capitalism began quietly to displace those policies in much of the world. Central planning was no longer a subject for debate."[10]

That is fine and good. But it has gone too far to pave the way for the unchallenged march of the Anglo-American brand of free market economy. It marks the beginning of unreflective triumph of market fundamentalism, the demoralization of social democracy, the retreat of the state and the dominance of the Washington Consensus. To quote the words of George Soros: "But just because something is imperfect, the opposite is not perfect. So because of the failures of socialism, communism, we have come to believe in market fundamentalism, that markets are perfect; everything will be taken care of by markets."[11]

The results are mixed, and the world is now experiencing some of the worst consequences. In the midst of numerous newspaper reports and commentaries on the financial crisis, one article with the title *Anglo-American Capitalism on Trial* in *The New York Times* stands out. It informs us that among some of those who worked through the boom years in the City of London, the moment when matters began to get out of hand can be dated to the collapse of the Soviet Union. "One result, these people now say, was an American triumphalism that translated, in the financial world, to the kind of free-for-all."[12]

Perhaps, we can paraphrase the prescient words of the Duke of Wellington (1769–1852) after his defeat of Napoleon in the Battle of Waterloo: Next to a battle lost, the greatest danger is a battle gained.[13]

For most people, this is after-the-fact type of wisdom. Those people who were in possession of such insight two decades ago were in the minority. The neoliberal or laissez faire ideology was gradually taking deep roots in the corridors of power in various corners of the world.

Japan's Bubble, Internet Boom and Asian Crisis

To have a more complete story of the ascent of the neoliberal thinking, we have the additional stories of the Japanese bubble, the Asian financial crisis and the dotcom boom. These happened soon after the collapse of the

Berlin Wall. Between them, they enhance the American version of free market economic model.

First is the collapse of the Japanese stock and property market in 1990. From the end of the Second World War until 1990, Japan's economy was growing at a rapid rate. Given its size and growth rate, Japan was *the rising star* in the global economic scene and there was talk of Japan becoming number one, and poised to overtake America. When this would happen was only a matter of time. However, the long recession that followed the collapse of the bubble changed the whole picture drastically. It exposed grave macroeconomic blunders and structural problems. There was no more mention of the Japanese challenge. Following the Soviet Union, another contender to American dominance disappeared from the world stage.

Second is the Asian financial crisis which broke out in 1997. Before the crisis, the ASEAN group of countries was enjoying economic boom; their macroeconomic record was way above the rest of the world. In fact, their performance was the basis for the World Bank to publish the volume *The East Asian Miracle: Economic Growth and Public Policy* in 1993. Like Japan, the ASEAN countries followed a state-led model of economic development. Though it is not a Soviet style model of central planning, it is not the Anglo-American model of laissez faire economy either. To explain the role of the State in economic life and the nature of their political systems, some ASEAN countries advanced the idea of Asian Values. The idea emerged as a plausible alternative to market fundamentalism in the post Cold War period. But the Asian financial crisis put an end to the Asian Values thesis and the US variant of capitalism emerged triumphant. For the

Third World countries, the economic performance of the ASEAN countries would offer an attractive alternative to the American model. This model received a bitter beating as a result of the crisis.

Third, at the time when Japan was mired in its "lost decade," America was enjoying a decade-long economic boom led by information technology innovations. Microsoft and Intel became giant concerns. New corporate players like Yahoo!, eBay, Amazon, Cisco, Dell and Red Hat appeared. They deployed the Internet and the web technology to create new business models. A McKinsey study found that three sectors that contributed most to American productivity growth between 2000 and 2003 were retailing, wholesaling and administrative and support services.[14] These are sectors where IT had been deployed for decades, therefore accumulating much valuable experience. Wal-Mart is a well-known example in the retail sector. They possessed some key features of Schumpeterian creative destruction. Together, they remade the economic landscape. They demonstrated the vigor and vitality of American business culture and entrepreneurial spirit.

What was interesting was that the boom occurred without the expected inflationary pressure. Cheap imports, workers' hesitation to demand higher wages, and use of IT to increase productivity are often cited to explain the phenomenon. A new term was coined — borrowed from the fairy tale — the Goldilocks economy; it is not cold and not hot, just right. Another new term is "The Great Moderation."

Another contributing factor to the prosperity comes from the peace dividends. The end of the Cold War contributed to the prosperity in the 1990s in a fundamental and structural way — in the form of peace dividend. Defense spending as a share of the nation's GDP dropped by 2.6 percent. This bonanza allowed private consumption to grow rapidly and helped the Clinton administration to balance the nation's books.[15]

This series of events were perceived as manifestations of the political and economic superiority of free market ideology. Either out of cynical self interests or missionary zeal reminiscent of Kipling's "the white man's burden," the USA made use of every opportunity to spread the gospel of Washington Consensus.

By the turn of the century, a large number of influential people have been converted to the neoliberal economic thinking. "It is a change in the intellectual climate that this happened — a remarkable transformation of the conventional wisdom."[16] By any measure — protectionism versus free trade; regulation versus deregulation; wages set by collective bargaining and government minimum wages versus wages set by the market — the world has moved a long way in the direction advocated by neoliberal economists like Milton Friedman.[17]

Inroads Made by Neoliberal Thinking in Russia and China

After the fall of the Berlin Wall, Wall Street began to connect with Soviet reform circles. Russian president Boris Yeltsin was welcomed to New York and was invited by New York Fed to speak at a dinner of some 50 bankers, financiers, and corporate chiefs.[18]

The subsequent reform instituted by Moscow was very much in line with the recommendations originating from the USA and the whole world can testify to how disastrous the results are.

Luckily, China was more cautious and it declined to take the route chosen by the Russian leadership. Though China obviously made its own choice, it too drew ideological inspiration from neoliberal thinking which climbed to commanding heights after November 1989. Anglo-Saxon neoliberal thinking came into vogue in China's academia in 1992.[19] This was in the aftermath of the famous inspection tour by China's de facto leader Deng Xiaoping in the coastal free trade zones in the south. Impressed by what he saw, he urged the Chinese people to follow the example of the free trade zones, to embrace market economy and to get rich. The call is a well considered response to the problems facing the leadership after the Tiananmen Square protests in June 1989. China must speed up the economic reform in order to enlarge the economic cake and to provide employment to preempt future social unrest. "The central task is to develop the economy and the rest will take care itself." This creed is very much in line with neoliberal thinking. Chinese neoliberal scholars and policymakers are on the same wavelength with their peers in the Western world, especially the United States. They stress the economic benefits of unfettered markets, privatization of state enterprises, and a minimalist state role. Neoliberals have enthusiastically embraced China's integration with the world economy, especially after its accession to the World Trade Organization in

2001. Keith Joseph and Enoch Powell and liberal economists such as Friedrich Hayek and Milton Friedman have a large following among Chinese intellectuals and policy makers.

Retreat of the States and Ageing Population

What Mr Reagan and Mrs Thatcher failed to do in rolling back the states was accomplished for them by the Berlin Wall collapse. From that fateful day on 9 November 1989, pressure was building up for governments in many parts of the world to embark on tax reduction, deregulation, privatization and cutting back of traditional roles of governments. Private firms are allowed to operate healthcare services like hospitals, to set up schools and universities, and to run prisons.

All these were taking place in the midst of demographic change. With an ageing population, the demand for pension funds to provide for the old people grew. With retreat of the state, governments have fewer roles to play and they cut back taxes. With less sources of government revenue, governments slashed public borrowings, greatly reducing the amount of government bonds. Pension funds were either handled over to independent agencies or privatized. Other investment funds stepped in to offer pension fund services. As the quantity of government bonds shrunk, pension funds and other investment funds began to increase their portfolio in other forms of securities. They dabbled first in corporate stocks and bonds, and gradually moved into more risky investment categories like hedge funds and derivatives.

There is an increasing domination of economic life by professional fund managers whose sole purpose is to maximize profits over a short period, thus encouraging herd behavior, as pointed out by George Soros.[20] This trend represents a new source of instability in the explosive growth, especially in the United States, of share ownership through mutual funds, which have largely replaced personal savings.

With huge amount of money under their control, these funds exert tremendous pressure on business firms to perform and increase return on equity. There are only a few ways for firms to increase their profits. A time-honored practice during boom time is to raise capital and expand productive capacity. But the process takes time and involves great efforts while financial transactions are much easier and can be executed instantaneously. In short, the easiest way to increase return-on-equity is through leverage, and the best place is in the financial sector.

Institutional Setup, Social Attitudes and Power

For significant societal change to take place, it is not enough to have the appropriate institutional setup. This point is well brought out by countries with democratic institutions but with feudal values and social attitudes. The result is that people get far less than what they deserve.

Institutions cannot operate in a social vacuum. In other words, they operate in concrete societal contexts and are therefore affected by values, social attitudes, and concrete historical circumstances. But having institutions in place and supportive attitudes prevailing in society are still not enough, we need to have skillful people embodying the social attitudes to occupy the key positions to do the job. In short, we need a combination of institutions, social attitudes, and the right people in powerful positions.

Institutions, prevalent social attitudes in line with the values underpinning the institutions, and skillful social actors holding such attitude in key positions can combine to effect deep and far reaching consequences in society. We see this in the light regulatory institutional setups of American financial systems, prevalent neoliberal ideas and Mr Alan Greenspan and his team in position of power and influence.

The deregulation of the US financial system which began in the late 1950s to early 1960s was more or less completed in the late 1980s. In the UK, the most significant change was the Big Bang deregulation of the financial sector in 1986, sweeping away the traditions of centuries and turning the City of London into, in style and substance, Wall Street of Europe. By the early 1990s, the regulatory system has largely disappeared. It is either abandoned through the formal repeal of laws or by means of getting around it with clever innovations exploiting the legal framework.

Greenspan, who epitomizes the laissez faire economic philosophy, was chairman of the US Federal Reserve Board from August 1987 until his retirement in January 2006. From that very strategic position, he and his team of like-minded central bankers implemented a consistently easy money policy that many see as a crucial factor in the current crisis. Though not many people come to his defense now, it is important to note that his supporters and admirers far outnumbered his detractors during his terms of office. He served four presidents — Messrs Reagan, Bush senior, Clinton and Bush junior. It says something about the consensual support he enjoyed from both the Republicans and the Democrats. This brings us back to the nature of the intellectual climate and social attitudes following the fall of the Berlin Wall.

The victory in the battle of economic and political systems gives the winner a big boost which it used to its advantage in the battle of ideas. The most subtle yet pernicious impact is in the realm of culture and social behavior.

Whereas Marx talked about class struggle as the locomotive of history, the neo-liberal free marketers praise self-interest as the motor of economic progress. Every man for himself and the sum total is well being for all. From here, we are a very small step to condoning selfish behavior. It is instructive to read the following passage:

> People who are told there is no need to apologize for selfish behaviour tend to behave selfishly. Perhaps Ivan Boesky[b] went too far in proclaiming that greed

[b]Ivan Frederick Boesky was the icon of Wall Street excesses in mid-1980s. He was on the cover of Time magazine of 1 December 1986. He is a predecessor of Bernard Madoff of today. He is an American businessman who was sentenced to three and a half years jail and fined $100 million for insider trading in Wall Street in the mid-1980s. Based on tips received from corporate insiders, he placed bets on corporate takeovers and made a fortune of over $200 million. Source: http://en.wikipedia.org/wiki/Ivan_Boesky [accessed on 14 September 2009].

> was good — or so the courts though[t] when they sent him to jail — but he captured the spirit of an age. Senior executives justify their large salaries and generous stock options by reference to fairness and market forces: which mean no more than that everyone else is doing it. Thirty years ago, such behaviour was constrained by unwritten codes of behaviour, and corporate managers were no more expected to use their positions to help themselves to the money which passed through their hands than were judges or policemen. Thirty years ago, high levels of unemployment, or homeless people sleeping in the streets, were assumed to be politically unacceptable. Today these things are not only politically acceptable but politically accepted.[21]

The passage is not lifted out of the pamphlets of social activists, haters of globalization, or left-wing sociologists. It is from the writings of John Kay, a mainstream management scholar.[22]

Example of a New Zeitgeist: One Dimensional Organization

It is a sign that times are changing and we have a new zeitgeist to express the mood and culture. Business firms have morphed from being multi-dimensional organizations into one-dimensional organizations.

Business firms perform several functions in society. They are supplier of useful products and services. They provide jobs for the working population, keeping them usefully busy. The workplace is for the employees a kind of community, where they socialize, learn, acquire a sense of identify and dignity. These features of employment are just as important as a source of income. Management of innovative firm wants the employees to enjoy working with the firm while making a contribution to the firm and society, and you see this idea being practiced in forward-looking and innovative firms like Nokia and Google.[23] In other words, business firms perform useful social roles as units of society, create value for the economy and enrich the lives of their employees. However, under immense pressure to "perform," business firms have atrophied to become more and more like money printing machines. The *stakeholder* view of business firms has given way to the *shareholder* view. Business school professors tend to embrace the idea that the only responsibility of business is to maximize profits. They have taught their students that as managers, their sole mission should be increasing shareholder value.[24]

The problem is not with profitability as a necessary condition for running a business in a market economy. The problem lies with profitability as the main or exclusive criterion. What has turned out to be harmful is not the care taken to assure that companies are profitable, but the belief that if they are profitable, then everything else must be all right.[25] Profit is being equated with success. Nothing succeeds like success, and success generates its own justification. Profitable companies must have done something right and virtuous. High income earners must be fine and admirable people too; their ways are to be emulated by others. If it may be put rather strongly, profit has become religion and money has become god.

Writing in the early 1970s about the very successful British retailer Marks & Spencer, Peter Drucker (known as the guru of management gurus) asks in what way profit features as an objective in the retailer.[26]

> The answer is that there has never been one. Profit goals have been anathema at Marks & Spencer. Obviously the company is highly profitable and highly profit conscious. But it sees profit not as an objective but as a requirement of business, that is, not as a goal but as a need. Profit, in the Marks & Spencer view, is the *result* of doing things right rather than the purpose of business activity. It is, above all, determined by what is necessary to attain company objectives. Profitability is a measurement of how well the business discharges its functions in serving market and customer.

Being solely focused on profit maximization can lead a firm down the slippery slope of cooking the book, neglecting the central role of adding value to customers, forgetting its core business, and even resorting to reckless risk-taking. Indeed, strategically speaking, profit maximization by itself can lead to disaster and is self-defeating in the long haul.

Students, Patients and Citizens Become Customers

What is even more disturbing is that such zeitgeist has exerted a profound impact on non-business organizations. Business organization has become the model for other organizations. Non-business organizations like hospitals and universities, and even NGOs have adopted the modus operandi of the corporate world. Schools adopt the language of business management, with various mission statements splashed over the walls. Students, patients and citizens become customers; universities begin to advertise themselves just like cars and jeans in the mass media, websites and buses. It is a cultural shift in society where the language of business firms has crept into the running of non-business and non-profit organizations.

If a good business cannot and should not be measured by a single criterion of success, this applies all the more so to non-business organizations like schools and hospitals. It is true that there are some objectives that can be measured by quantitative indicators such as mortality, number of patients treated or examination scores. However, organizations have other attributes that cannot be simply captured by numbers. Indeed, quantitative indicators would tend to limit or even distort their social goals.

Market was seen not only as the primary mechanism of producing economic wealth but was also being gradually accepted as the primary means of delivering public goods. As the political philosopher Michael Sandel puts it, "… we have to think through the moral limits of markets. We need to recognize that there are some things that money can't buy and other things that money can buy but shouldn't. Looking back over three decades of market triumphalism, the most fateful change was not an increase in the incidence of greed. It was the expansion of markets and of market values into spheres of life traditionally governed by non-market norms. We've seen, for example, the proliferation of for-profit schools, hospitals and prisons; the outsourcing of war to private military contractors. We've seen the eclipse of public police forces by private security firms, especially in the US and the UK where the number of private guards is more than twice the number of public police officers. Or consider the aggressive marketing of prescription drugs to consumers in the United States. […] without quite realizing it, without ever deciding to do so, we drifted from having a market economy to being a market society."[27]

Such addiction to market displays a lack of understanding of the evolution of market economy. This was pointed out years ago by Karl Polanyi[28] and recently by Amartya Sen:[29]

> All affluent countries in the world … have, for quite some time now, depended partly on transactions and other payments that occur largely outside markets. These include unemployment benefits, public pensions, other features of social security, and the provision of education, health care, and a variety of other services distributed through nonmarket arrangements. The economic entitlements connected with such services are not based on private ownership and property rights.
>
> Also, the market economy has depended for its own working not only on maximizing profits but also on many other activities, such as maintaining public security and supplying public services — some of which have taken people well beyond an economy driven only by profit. The creditable performance of the so-called capitalist system, when things moved forward, drew on a combination of

> institutions — publicly funded education, medical care, and mass transportation are just a few of many — that went much beyond relying only on a profit-maximizing market economy and on personal entitlements confined to private ownership.

Even though Adam Smith explained the positive contributions of market capitalism, he was aware of the huge limitations of relying entirely on the market economy and profit motive. "Indeed, early advocates of the use of markets, including Smith, did not take the pure market mechanism to be a freestanding performer of excellence, nor did they take the profit motive to be all that is needed."[30]

Social Costs

The laissez faire economic system is supposed to be both efficient and fair. Compared to the planned economy of the Soviet Union, it is certainly more efficient. But is it fair? Let us look at the following facts about income disparity, healthcare and imprisonment as indicators of social conditions.

Income Disparities

The period since the late 1980s has seen a steady increase in profits and stock prices. This should be sound business and economic reason for companies to reward their workers for their contributions and to provide them with job security. In the face of changes in social attitudes, and pressures from the capital market, they have chosen not to do so.[31]

Wealth disparity in the USA and Britain reached levels not seen since the 1920s. The gains from recent economic growth flowed disproportionately to the wealthy. According to one study by Robert Gordon of Northwestern University and Ian Dew-Becker of Harvard, the top 10 percent of earners received the lion share of the benefits of the "productivity miracle" of 1996–2005. Another international study revealed that only Mexico and Russia had more unequal income distributions than the USA.[32]

The ascent of neoliberal thinking in the USA produced a departure from previous trend of low social disparity. Consider the real income of American families during the 58-year stretch from 1947 to 2005. During the first half of the period from 1947 to 1976, the economy delivered dramatic improvements in the standard of living of most Americans: median real income more than doubled. In contrast, during the period from 1976 to 2005, median real income registered an increase of 23 percent.[33]

Healthcare

Health statistics also tell another aspect of the story. The gap between the life expectancy of the top 10 percent and the bottom 10 percent was 2.8 years in 1980; that gap increased to 4.5 in 2000.[34]

Within the rich world, people in countries with lower Gini coefficient live longer, have lower rates of obesity, delinquency, depression and teenage pregnancy than those in countries with higher Gini coefficient.[35]

In 2005, only 14 percent of American workers were union members, compared with 27 percent in 1979. The decline may also help to explain the political acceptance of low tax and low regulation regime. Political parties are no longer as dependent as before on union donations. A study in the late 1990s of congressional elections of the US found that 81 percent of political donation givers earned more than $100,000 a year and only 5 percent earned less than $50,000.[36]

Prison Conditions

America seems addicted to using its prison system to solve its social problems, even though the results have not been encouraging. America has less than 5 percent of the world's people but almost 25 percent of its prisoners. It imprisons 756 people per 100,000 residents, a rate nearly five times the world average. About one in every 31 adults is either in prison or on parole. Black men have a one-in-three chance of being imprisoned at some point in their lives.[37]

Prison conditions do not speak in Uncle Sam's favor either. More than 20 percent of inmates report that they have been sexually assaulted by guards or fellow inmates. Federal prisons are operating at more than 130 percent of capacity. One-sixth of prisoners suffer from mental illness of one sort or another. There are four times as many mentally ill people in prison as in mental hospitals.

As well as being brutal, prisons are ineffective. They may keep offenders off the streets, but they fail to discourage them from offending. Two-thirds of ex-prisoners are re-arrested within three years of being released. The punishment extends to prisoners' families, too. America has 1.7m "prison orphans" and they are six times more likely than their peers to end up in prison themselves. The punishment is also not limited to imprisonment. America is one of the few countries that bar prisoners from voting, and in some states that ban is lifelong: 2 percent of American adults and 14 percent of black men are disenfranchised because of criminal convictions. It is indeed sad to know that this is the practice of a great nation founded on the ideals and principles of the European Enlightenment.

Looking at the USA, one is often reminded by an observation of the Belgian statistician Adolphe Quetelet: "Society prepares the crime, and the guilty person is only the instrument."[38]

The war on drugs also contributes its fair share. The number of people locked up for drugs abuse has increased from 41,000 in 1980 to 500,000 in 2009, or 55 percent of the population of federal prisons and 21 percent of those in state prisons. An astonishing three-quarters of prisoners locked up on drug-related charges are black.[39]

Just like in the USA, all is not well in Great Britain as a result of the wave of deregulation and laissez faire economy. "British society polarized: the relative prosperity of the new 'enterprise culture' was matched by the decay of inner cities and their despairing underclass, by falling standards in education, and by juvenile crime."[40]

One can argue that it is too simplistic to associate the above social problems with the ascent of market fundamentalism. However, one needs only to compare the social conditions among the rich countries which run market economy. The Nordic countries, Germany, the Low Countries and Japan have retained a significant role of the state in social welfare and their citizens have suffered less social ills than their counterparts in the

USA. In the case of Great Britain, the sad story of shift can be found in the pages of John Kay.[41]

Moral Values in Economic Life

One good thing the crisis has brought to the world is that political leaders are openly acknowledging the role of moral values in economic life. Speaking to the European Parliament in March 2009, British Prime Minister Gordon Brown suggested that the moral contagion that has afflicted market economies ran counter to a common European belief that "liberty, economic progress and social justice advance together, or not at all." Europe, he went on to say, had learned the truth that "riches are of value only when they enrich not just some communities, but all." He added: "As we have discovered to our cost, the problem of unbridled free markets in an unsupervised marketplace is that they can reduce all relationships to transactions, all motivations to self-interest, all sense of value to consumer choice and all sense of worth to a price tag."[42]

In a way, it is strange as well as refreshing to listen to Mr Gordon Brown. On his watch as the British chancellor of exchequer, the City of London enjoyed the "light touch" regulation and American banks and investment houses flocked to build up their London operations. He appeared to have accepted a Faustian deal under which the unbridled excesses of the City were tolerated because they generated windfall tax revenues for the Labour government to splurge on public sector spending.[43]

Writing in the September 2009 issue of the monthly Japanese journal *Voice* just before the general election, Yukio Hatoyama, head of the Democratic Party of Japan and the current prime minister, says:[44]

> In the post-Cold War period, Japan has been continually buffeted by the winds of market fundamentalism in a US-led movement that is more usually called globalization. In the fundamentalist pursuit of capitalism people are treated not as an end but as a means. Consequently, human dignity is lost.
>
> How can we put an end to unrestrained market fundamentalism and financial capitalism, that are void of morals or moderation, in order to protect the finances and livelihoods of our citizens? That is the issue we are now facing.
>
> In these times, we must return to the idea of fraternity — as in the French slogan "*liberté, égalité, fraternité*" — as a force for moderating the danger inherent within freedom. Fraternity as I mean it can be described as a principle that aims to adjust to the excesses of the current globalized brand of capitalism and accommodate the local economic practices that have been fostered through our traditions. [...] Under the principle of fraternity, we would not implement policies that leave areas relating to human lives and safety — such as agriculture, the environment and medicine — to the mercy of globalism.
>
> Our responsibility as politicians is to refocus our attention on those non-economic values that have been thrown aside by the march of globalism. We must work on policies that regenerate the ties that bring people together, that take greater account of

nature and the environment, that rebuild welfare and medical systems, that provide better education and child-rearing support, and that address wealth disparities.…

Endnotes

1. Paul Krugman (2007). Who was Milton Friedman? *The New York Review of Books*, 54(2).
2. *Ibid*
3. Franklin Allen and Douglas Gale (2007). *Understanding Financial Crisis*. Oxford: Oxford University Press;
   Gary Dymski and Robert Pollin (1994). *New Perspectives in Monetary Macroeconomics: Explorations in the Tradition of Hyman P. Minsky*. Ann Arbor: University of Michigan Press;
   Alan Greenspan (2007). *The Age of Turbulence*, New York: The Penguin Press.
4. Bill Bradley, Niall Ferguson, Paul Krugman, Nourie Roubini, George Soros, Robin Wells (2009). The crisis and how to deal with it. New York Review of Books, 56(10); Paul Krugman (2009). *The Return of Depression Economics and the Crisis of 2008*. New York: WW Norton.
5. The Four Little Dragons refer to Hong Kong, Singapore, South Korea, and Taiwan. The Tigers refer to Indonesia, Malaysia and Thailand.
6. Jawaharlal Nehru (1934–35). *Glimpses of World History*. Republished in 2004. New Delhi: Penguin.
7. Alan Greenspan (2007), pp. 130–131.
8. Walls seem to carry deep symbolic meaning. The Great Wall is a cultural symbol of China and there are Great

Wall restaurants and shops all over the world. Even the word *Wall* has powerful symbolic attribute, as in Wall Street.

9. Willaim D Nordhaus (2004). The story of a bubble. *The New York Review of Books*, 51(1);
   JM Roberts (1996). *A History of Europe*. Oxford: Helicon.
10. Alan Greenspan (2007). p. 12.
11. George Soros and Judy Woodruff (2008). The financial crisis: An interview with George Soros, *The New York Review of Books*, 15 May 2008.
12. John F. Burns and Landon Thomas Jr (2009). Anglo-American Capitalism on trial. *The New York Times*, 28 March 2009. http://www.nytimes.com/2009/03/29/weekinreview/29burns.html [accessed on 1 June 2009].
13. The original quote is: "Next to a battle lost, the greatest misery is a battle gained." Angela Partington, (ed.) (1992). The Oxford Dictionary of Quotation, 4th Ed. Oxford: Oxford University Press.
14. Robert Guest (2009). Red tape and scissors. *The Economist*, 30 May 2009.
15. Willaim D Nordhaus (2004).
16. Paul Krugman (2007).
17. *Ibid*
18. Alan Greenspan (2007).
19. Bo Zhiyue and Chen Gang (2009). Financial crisis enhances stand of China's New Left. *EAI Bulletin*, 11(1).
20. Robert Skidelsky (2001). The world on a string. *The New York Review of Books*, 48(4).
21. John Kay (1996). *The Business of Economics*. Oxford: Oxford University Press, p. 147. p. 138.
22. He contributes columns to *The Financial Times*, radio and TV broadcasts, is Visiting Professor of London School of

Economics, and the director of several public companies, and has been advisor and consultant to both parliamentary select committees and governments.

23. John Roberts (2004). *The Modern Firms*. Oxford: Oxford University Press.
    David Vise and Mark Malseed (2005). The Google Story. New York: Delacorte Press.
24. Foreswearing greed, *The Economist*, 6 June 2009.
25. Charles Hampden-Turner and Alfons Trompenaars (1993). *The Seven Cultures of Capitalism*. New York: Doubleday, p. 44.
26. Peter Drucker (1973). *Management: Tasks, Responsibilities, Practices*. New York: Harper Business, pp. 98–99.
27. Michael J Sandel (2009). *Justice: What's the Right Thing to Do?* Farrar, Straus and Giroux;
    Michael J Sandel (2009). 2009 BBC Reith Lectures — A New Citizenship http://www.bbc.co.uk/programmes/b00729d9 [accessed on 20 August 2009].
28. Karl Polanyi (1975). *The Great Transformation*. New York: Octagon Books.
29. Amartya Sen (2009). Capitalism Beyond the Crisis. *New York Review of Books*. Volume 56 number 5.
30. *Ibid*
31. John Kay (1996).
32. Philip Coggan (2009). Easier for a camel. *The Economist*, 4 April 2009.
33. Noam Chomsky (2009). Crisis and hope — Theirs and ours. *Boston Review*, September/October http://bostonreview.net/BR34.5/chomsky.php [accessed on 28 August 2009];
    Paul Krugman (2007).
34. Philip Coggan (2009). More or less equal? *The Economist*, 4 April 2009.

35. Always with us? *The Economist*, 28 February 2009.
Gini coefficient is a measure of income disparity. The higher the Gini coefficient, the greater the disparity.
36. Philip Coggan (2009). More or less equal? *The Economist*, 4 April 2009.
37. A nation of jailbirds, *The Economist*, 4 April 2009.
38. Always with us? *The Economist*, 28 February 2009.
39. A nation of jailbirds, *The Economist*, 4 April 2009.
40. Norman Davies (1996). *Europe*. Oxford: Oxford University Press p. 1075.
41. John Kay (1996).
42. John F Burns and Landon Thomas Jr (2009).
43. John F Burns and Landon Thomas Jr (2009).
44. Yukio Hatoyama (2009). A new path for Japan, *The New York Times*, 26 August 2009. http://www.nytimes.com/2009/08/27/opinion/27iht-edhatoyama.html [accessed on 9 September 2009].