

False Dawn: The Delusions of Global Capitalism

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The natural counterpart of a free market economy is a politics of insecurity. If 'capitalism' means 'the free market,' then no view is more deluded than the belief that the future lies with 'democratic capitalism'.... the free market cannot last in an age in which economic security for the majority of people is being reduced by the world economy ... a reform of the world economy is needed that accepts a diversity of cultures, regimes and market economies as a permanent reality.

No one would blame the reader of the above paragraph from jumping to the conclusion that they were reading the words of a defunct socialist critique or even of a ranting leader of some East Asian nation devastated by the current financial crisis. Criticism does not necessarily have to come from without. The fact that Western economic thought has within its fold a spectrum of views and schools of thought should make us realize that self-criticism also has been a very important factor in the evolution of Western economics. In this very timely book, John Gray, Professor of Politics at Oxford University and a former insider to the (now subsiding) current wave of the New Right, presents the following central thesis: the dynamics involved in the process of globalization, which is technolog-

ically driven, creates and nurtures new forms of indigenous capitalisms that, in turn, interact with other forms to create new variations in a never-ending process of change.

To his credit, Gray does not fall into the category of the prophets of doom and gloom who only seem to see the international economic system's negative effects. His book highlights an important fact in relationships: they are two-way processes. In the eight roughly equal chapters that make up the book, Gray convincingly argues the case for a reformed mind-set, particularly of the Anglo-Saxon, American-led proponents of global free markets (not excluding socialist critics and leaders of East Asian nations), to accept the reality that the future ushers in a pluralist view of markets and economic systems.

The existence of social markets in both Europe and Asia, and the way they have interacted with the Anglo-Saxon model of free markets—being influenced and influencing institutions and policies throughout the world—are presented effectively to support his central thesis. His book also is relevant because it appears at a time when the Asian miracle is being seriously redebated as the currencies and economies of many East and Southeast Asian countries, once praised for their apparent inability to make mistakes in economic growth and development, are now in the middle of what seems to be a rather long decline. On the surface, it seems that these events merely support propagators of global free markets. However, on closer analysis, Gray's thesis sheds new light on how these events can and should be seen. Moreover, he provides a very different future scenario for the global economic order.

He sets the foundations of his thesis in Chapter One by referring to Polanyi's "Great Transformation" of mid-nineteenth century England, which led to the creation of the free market. He argues convincingly that these events were and remain an "Anglo-Saxon singularity." A combination of events consisting of political, legal, and social change, together with the intellectual climate of England for at least the preceding three centuries, engendered the free market economy with all of its very localized assumptions about humanity and society, as opposed to the social market economy, which was and still is found in much of Europe and, with some variation, in Asia. While the latter placed market exchange as part of social life and hence, was socially embedded, the former viewed markets not only as a separate and distinct sphere of social life but as one that conditions and dominates the whole of society. Unlike conventional wisdom, Gray views regulated markets as natural, while free markets are seen as a creation of state power and are a product of artifice, design, and political coercion. Hence, they are centrally planned.

In Chapter Two, "Engineering Free Markets," he presents three examples in contemporary society where free-market engineering experiments were put into practice: Thatcherite Britain, Labourite New Zealand, and President de Gortari's Mexico. While admitting their partial success, Gray deplors the resulting tremendous social costs. Contrary to popular belief, the state's role actually became greater in the periods concerned. State-led reforms and changes ironically led to a weakening of the state by destroying many intermediary social institutions and informal social control mechanisms of community life.

Being an insider to the Thatcher experiment in Britain, Gray presents his lengthy interpretation of the ideas, events, and policies that became features of Conservative Britain. A critic of Gray would point to his apparent oversight of the successes of Thatcher's policies. This is probably true, but one does not see the blatant ideological biases that can be found in many other available writings. His point, and this is argued factually, is that—through state coercion and power, as well as changes to employment laws and the welfare system—family life was uprooted; income inequalities widened; crime rates increased; and health and education provisions, and hence the quality of life, were affected severely. These, in turn, created an inherent instability within the

Conservative government structure, leading to its humiliating defeat in 1997 and demonstrating the dynamics at work between *laissez-faire* economics and sociopolitical stability.

Similar examples of the destruction of social cohesion could be seen in the neoliberal policies of Labourite New Zealand (1984-90), which, according to Gray, created a social underclass. To counter right-wing arguments that universal welfare systems create laziness and dependency syndromes, Gray convincingly points to the fact that this underclass is not so easily found in such countries as Austria, Norway, Canada, and even in the "old" New Zealand. He clarifies that it is the dependency attitude, and *not* the welfare system, that creates the underclass. In the case of Mexico, Gray argues that the reforms and bail-out pushed by the United States were undertaken to protect its interests and to spare it from the social and economic problems that certainly would have spread to its shores if aid were not forthcoming. Also, the bail-out packages were provided to ensure the success of the neoliberal experiment and the political project of free markets, while simultaneously ensuring American domination of the Mexican economy. Similar arguments are made with reference to the bail-out package given to South Korea and why it was not so "urgent" to secure similar aid for Indonesia.

Having discussed some of the fallacies surrounding global free markets in Chapter Three, "What Globalization is Not," Gray seeks to show the link with globalization. He provides possible definitions of globalization, starting by seeing it as the "world-wide spread of modern technologies of industrial production and communication of all kinds across frontiers—in trade, capital, production and information." Globalization also implies the international networking of economies, making societies more linked with and dependent upon world markets. According to Gray, the underlying idea in all these meanings is that of *delocalization*—in other words, what you know and how you live is affected by and affects other nations and peoples. This last point, Gray argues, negates the simple view that globalization is a trend leading to homogeneity. Global markets and the benefits derived from them are dependent on differences between economies and nations. The evolutionary outcome of interaction via globalization is to engender novel types of capitalism, rather than to have one type dominate the global system.

He takes the skeptics of globalization to task for failing to appreciate the differences in today's global economy as compared to the pre-1914 era, and for their futile attempts to resuscitate an outdated European social democracy based on an unworkable "continental Keynesianism." He criticizes promoters of globalization for seeing global markets, represented by transnational corporations, as "akin to perfect competition" and all the unrealistic assumptions that go with it. The nation-state and transnational corporations, both important players in the game today, must act in a globalized world of "anarchic capitalism," where all options are uncertain, a situation leading to a very unstable system with insecure societies. How his main thesis of accepting a variety of capitalisms as a reality would make the system any less volatile could have been elaborated further, as this would at least have made his position clearer when compared with those of the skeptics and the boosters.

In Chapter Four, "How Global Markets Favour the Worst Kinds of Capitalism: A New Gresham's Law?," Gray posits that in global free markets, designed after the American model, other types of markets, including the social markets of Europe and Asia, will be at a systematic disadvantage. This causes him to modify Gresham's law of bad money tending to drive out good money to "bad capitalism tends to drive out the good." In this drama of good vs. bad, world markets, especially the international mobility of financial capital, would lead to a competitive downgrading of regulatory and welfare systems by sovereign states in order to stay competitive. American free markets, according

to him, have an advantage in that they no longer bear the burden of social costs, unlike European social market economies. In the long-run, social markets may be as productive as free markets, but in the short-run they cannot be cost-competitive unless they modernize and reform to stay in the global market.

This is not to say that social markets are any less rational than free markets, just that they are more costly to maintain due to their internalization of many social costs that are not even counted in the free market or, at most, are treated as externalities. Thus Gray views social democracy as incompatible with global free markets, giving the 1994 demise of Sweden's social markets and the case of contemporary Germany as examples of social market economies that are fast reforming in order to compete successfully within the global free market. In any society where markets are a manifestation of core institutions, such as those emphasizing local community and the democratic state and hence seen as subservient to society, that particular society will be at a disadvantage in the global free market. However, while social markets are made unviable, free-market economies also will be transformed during their interaction within the global economy due to the inherent instabilities created by the system itself.

Chapter Five, "The US and the Utopia of Global Capitalism," and Chapter Six, "Anarcho-Capitalism in Post-Communist Russia," look critically at two Enlightenment ideologies: liberalism (as promoted by the United States) and Soviet Marxism. Rather than West vs. East, Gray sees the Cold War as a family quarrel between two Western Enlightenment ideologies, which resulted in the former's triumph over the latter. To Gray, the project of a single global market is the United States' universal mission and, in the neoconservative mold of the 1980s, has established itself as the unofficial American civil religion. He rightly points out that the *laissez-faire* philosophy that seems to be at the base of the American-led global free market agenda is an irony, for American history is replete with examples of state dominance.

In addition, trying to represent the United States as a country with a history of minimum government requires "considerable imagination," and he cites numerous instances in American history where the state not only intervened in economic activity (e.g., the opening of the western frontier) but also in personal liberty, as seen in the imposition of Prohibition during the early twentieth century. Even Reaganism is shown to be a species of state-led capitalism. Despite these historical facts, American-style free markets are not only seen as merely one way of wealth creation, but as the only way that represents the universal value of human freedom. Gray immediately points to the fallacy of this view by referring to the performance of Asia's newly industrializing countries (NICs) where, according to him, attempts at modernization were and still are being carried out, but not necessarily according to the mold of American free markets.

While efficiency and productivity criteria were given prominence in the United States during the 1980s, these criteria also created a breakdown in society and social values. All of the adverse effects experienced in Thatcherite Britain could be found, but in even greater magnitude. When social cohesion breaks down and when social costs are high, the resulting social unrest renders unworkable a rights-based society, one in which law and order are the only social institutions in society. Gray emphatically argues that law and order alone cannot substitute for the social institutions destroyed by free markets, such as the family and employment security. Fukuyama's thesis is criticized for overlooking that, prior to 1920, history and wars were not based on the two strands of Enlightenment ideology. The fact that anyone would try to explain world and human history in the above context demonstrates arrogance and disrespect for other cultures and civilizations. Huntington's thesis also is taken to task for its unmistakable, albeit slightly less, Americocentric bias. While his definition and categorization of civilization is problemat-

ic, Huntington is still guilty of representing "the West vs. the rest" view, where, as in Hollywood movies, the West is always the good guy.

Even the term *the West* is problematic, and Gray demolishes the myth of its universality and uniqueness. Using demographic facts, Gray posits the view that the United States (and countries in western Europe) will soon be a post-Western nation due to significant changes in its population structure. As for religion, Gray states that whereas most western European countries can be categorized as post-Christian, religion and even religious fundamentalism still thrive in the United States. He concludes that just as other nations will have to transform themselves in the era of globalization, the United States, despite its dominance, will have to accept the reality of change and undergo change or risk being marginalized. Such a view, he mentions, will be hard to understand for those who view power as dominance.

The second Western Enlightenment utopia is found in Russia. Gray discusses both of the failed experiments in twentieth-century Russia. Both Bolshevism in 1918, which tried to abolish capitalism and the peasant community, and American-style free market shock therapy in 1991 leading to what Gray calls a "Mafia-dominated anarcho-capitalism," failed miserably. Both experiments had tremendous social and human costs: millions perished from famines and repression in the communist era, and around 45 million people have fallen into poverty since the 1991 reforms. Nevertheless, Gray is optimistic concerning Russian attempts to develop indigenous capitalism since 1994. Despite the extremes of the two experiments, he maintains that social cohesion in Russia is still strong due to its rich natural and human resources as well as its cultural and traditional values. He sees the future of a non-Western Eurasian Russia as a very positive event that will enrich the plurality of nations in the world, and as one that does not necessarily have to have an anti-Western economy.

Having built his conceptual framework and then analyzing some of the different varieties of Western capitalism, Gray turns to Asia in Chapter Seven's "Occidental Twilight and the Rise of Asia's Capitalisms." To support his optimistic assessment of the rise of Asia, Gray contrasts the 1850 episode of imperial Britain forcing Greece to meet the demands of a wronged British national in Greece, to the 1994 incident where the Singapore court snubbed attempts by the American administration to influence its decision to cane Michael Fay, an American student convicted of writing graffiti in a public place. While this example shows the inability of any one nation in today's world to dominate all countries and affairs, it may be a little premature to generalize and conclude that the powerful nations (including, and especially, the United States), is unable and unwilling to be the policeman of the world. There have been numerous counterexamples to show that unilateral action and pressure has been applied successfully, although the mechanism is more "talk and economic sanctions" than military action.

It is quite apparent that Japan is seen very favorably by Gray. Japan exemplifies a case where *modernization* was not taken to mean *Westernization*. Both Marxist and neo-classical economic theories are said to have only a very limited relevance when it comes to explaining economic life and behavior in Japan, which, according to Gray, has succeeded in building its capitalist economic system on its own social order, traditions, institutions, and values. Even the fact that the Japanese economy has experienced almost no growth since 1990 is seen positively as a sign of a nation defying the conventional view that there can be no development and progress without growth. In this, Gray points to the very interesting concept of the "stationary state" of the classical economists, especially John Mill, who viewed it as an opportunity to "raise the quality of life without unending economic growth." How Japan responds to its present problems and whether it will be able to maintain its Japanese identity is something that will certainly support or disprove the above proposition.

While Japan is praised, China under Mao's Cultural Revolution is seen as a failure because it implicitly tried to Westernize via the Soviet model, instead of trying to build an indigenous Chinese capitalism. While Mao's period is seen as having great social and human costs, the post-1979 modernization efforts under Deng Xiaoping, and now Jiang Zemin, are seen as indigenous attempts to find solutions based on Chinese traditions and history and centered around the all-important family institution. Gray sees Singapore's (and Taiwan's) models of guided capitalism as the best examples to follow, and concludes that American-style liberal democracy will have no place in China.

Just as there is no one unique Western capitalism, there is no one unique Asian capitalism. According to Gray, "Indian capitalism is different from that of countries whose principal religious inheritance is Confucian, Buddhist or Muslim." He also sees no reason to assume that liberal democracy and free markets are necessary conditions for economic development. What is needed is the ability to control risk, security from crime and corruption, good public service, and common institutions that give a sense of membership and participation. All of these are readily found in every Asian society. Gray thinks it may be possible for Asian nations to have the benefits of economic progress without suffering the breakdown of social institutions, for Asian societies tend to adopt a relatively institutional view of seeing markets as no more than means to wealth creation and social cohesion.

This praise for the Asian miracle is being seriously challenged by the present financial crisis. Krugman's hypothesis seems, on the surface, to be gaining ground (except for Krugman himself, who now is looking more sympathetically at the economies he once criticized). The whole issue of Asian values, originally propounded by Singapore's Lee Kuan Yew, as superior to Western values and supported by the success stories of the Asian NICs, is now being blamed for causing Asia's downfall. An article in *The Economist* (25 July 1998) discusses how, in light of the crisis, the Asian value of strong family ties is equated with nepotism, the importance of social ties and friendship with cronyism, and consensual management decision making all leading to corruption and wastage. Despite putting a blanket over Gray's over-optimistic assessment of Asia—to his credit—his central thesis of economies constantly having to reform, which also will have to happen in Asian economies, thus actually supports his views.

In Chapter Eight, "The Ends of Laissez-Faire," Gray reiterates his proposition that technological advancement is creating a truly global economy and, in the process, constantly mutating varieties of capitalism compete with each other. These then evolve into new (and possibly) more unstable and alienating forms of capitalism, which seemingly are unable to avoid what Schumpeter called the "wave of creative destruction." The rise of Asian capitalisms disproves the Enlightenment prediction of the prominence and dominance of Western free-market capitalism. One reason for the failure of *laissez-faire* market philosophy is its inability to recognize and acknowledge the importance of social values and culture as factors that determine market interactions. If in the past imperial Britain was able to force its system on others and thus maintain the status quo, today's global economy does not allow the United States to do the same. In addition, the United States seems more reluctant to assume this imperial role.

According to Gray, the creation of new varieties of capitalism will force the present regime of free markets to fracture and fragment into new forms of capitalism or risk marginalization. He further stresses that global *laissez-faire*, which only has been in vogue for the last two decades, must be seen as a moment in the history of the emerging world economy, not as its end-point. Technology-led globalization will force all players, whether nations or transnational corporations, to accept and depict the diversity of a more plural world. Similarly, if the rules of the global free market are not reformed to match the needs

of emerging economic powers, they will be flouted constantly, which only engenders greater tension and instability in the global market.

Gray agrees with many Western and Eastern scholars and leaders that there is an urgent need to provide a reformed framework for the global regulation of currencies, capital movements, trade, and environmental conservation if there is to be any hope of survival and meaningful interaction. Rather than the misnomer of "deregulation," proper regulation (or regulation that takes into account the diversity of existing cultures and values) is required.

However, Gray is correct in his statement that such a development would require American support and commitment, which does not seem to be forthcoming. While even the World Bank in its 1997 Development Report acknowledges the role and importance of an effective state in achieving sustainable economic and social development, other players (i.e., the International Monetary Fund and the United States) have not been as forthcoming in this regard. It is not too difficult to see why there is resistance to calls for "enlightened" reforms, as such undertakings would cause a deterioration of the present system's power structures. This, however, is the paradoxical nature of the situation. Failure to accept the reality of diversity, interaction, and change will lead to greater efforts to establish free markets. In turn, these efforts will feed on the player's instability and ultimately lead to change. Where technology is the master of nations, including the dominant powers of today, the market's freedom from social and political control have not advanced human freedom. Gray concludes, rather pessimistically, that unless reforms are undertaken and diversity is accepted, the age of globalization will be remembered as another turn in the history of servitude rather than as one promoting human development, which it has the potential to do provided that all countries accept the propositions of diversity, plurality, equality, and mutual respect.

Despite, or maybe in spite of, the publication of this book at a time when the global free-market ideology seems to have been given a new lease of life, *False Dawn* is certainly recommended reading. Well documented and referenced, the book also provides Muslim scholars and Islamic economists a way to involve themselves in the current debate on globalization, global markets, and the Muslim world. While globalization in its present form and leadership still can be considered a manifestation of domination by the rich and powerful—as well as a process of secularization having at its core the ideology of secularism—Muslim scholars should use the book as a reference source of contemporary Western writing in their efforts to promote Islamization.

Mohamed Aslam Haneef
Department of Economics
International Islamic University Malaysia
Selangor, Darul Ehsan, Malaysia