

## Read the big four to know capital's fate

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US presidents, in confronting crises, have often let it be known that they are serious students of history and biography. George W. Bush, an unusually voracious late-night reader, devours books on the lives of Great Men, including his hero Winston Churchill, (who in turn liked to read about his illustrious ancestor, Marlborough). Barack Obama looks to biographies of Abraham Lincoln for inspiration.

Given the enormity of the banking, credit and trade crisis, might it be worth suggesting to Mr Obama and his fellow leaders that they study the writings of the greatest of the world's political economists, instead? After all, we may be in such a grim economic condition that the clever direction of budgets is a greater attribute of leadership than the stout direction of battleships.

Since today's leaders cannot possibly read all the major works of political economy, let us help them by selecting four of the greatest names from Robert Heilbroner's classic collection *The Worldly Philosophers: The Lives, Times, and Ideas of the Great Economic Thinkers*: Adam Smith, the virtual founder of the discipline and early apostle of free trade; Karl Marx, that penetrating critic of the foibles of capitalism, and less reliable predictor of its "inevit-able" collapse; Joseph Schumpeter, the brilliant and unorthodox Austrian who was certainly no foe of the capitalist system but warned of its inherent volatilities (its "perennial gale of creative destruction"); and that great brain, John Maynard Keynes, who spent the second half of his astonishing career seeking to find policies to rescue the same temperamental free-market order from crashing to the ground.

Perhaps the supremely gifted playwright Tom Stoppard could put those four savants on stage and offer an imaginary weekend-long quadrilateral discourse among them about the future of capitalism. Failing such a creative work, what might we imagine the four great political economists would say about our present economic crisis?

Smith, one imagines, would claim that he had never advocated total laissez faire, was appalled at how sub-prime loans to fiscally insecure people contradicted his devotion to moral economy, and was concerned at the deficit spending proposed by many governments. Marx would still be badly bruised by learning of Lenin and Stalin's perversion of his communistic theories, and by the post-1989 withering-away of most of the world's socialist economies; yet he might still feel pleasure at modern financial capitalism foundering on its contradictions. The austere Schumpeter, by contrast, might be lecturing us to swallow another decade of serious depression before a newer, leaner form of capitalism emerged again, though with lots of evidence of severe gale-damage (the end of the US car industry, the decline of the City of London, perhaps) in its wake.

And Keynes? My own guess is that he would not be very happy at today's state of affairs. He might (only might) regard it as fine that he was quoted or misquoted millions of times in today's media, but one suspects that he would be uneasy at parts of Mr Obama's deficit-spending scheme: at the US Treasury's proposal to allocate more money to buying bad debts and rescuing bad banks than investing in job creation; at a Washington spending spree that seems unco-ordinated with those of Britain, Japan, China and the rest; and, most unsettling of all, at

the fact that no one is asking who will purchase the \$1,750bn of US Treasuries to be offered to the market this year – will it be the east Asian quartet, China, Japan, Taiwan and South Korea (all with their own catastrophic collapses in production), the uneasy Arab states (yes, but to perhaps one-tenth of what is needed), or the near-bankrupt European and South American states? Good luck! If that colossal amount of paper is bought this year, who will have ready funds to purchase the Treasury flotations of 2010, then 2011, as the US plunges into levels of indebtedness that could make Philip II of Spain's record seem austere by comparison?

In the larger sense, of course, all four of our philosophers would be correct. Capitalism – our ability to buy and sell, move money around as we wish, and to turn a profit by doing so – is in deep trouble. No doubt Smith, as he watches the collapse of Iceland and the Irish travails, is reconsidering his aphorism that little else is needed to create a prosperous state than “peace, easy taxes and tolerable administration of justice” – that did not work this time. By contrast, rumbles of satisfaction might be heard coming from Marx's grave in Highgate cemetery, causing excitement for the still-considerable numbers of Chinese visitors. Meanwhile, Schumpeter will have due cause to mutter: “This is not a surprise, really.” As for Keynes, we might imagine him sipping tea with Wittgenstein at Grantchester meadows, pursing his lips at the incapacity of merely normal human beings to get things right: at our tendency to excessive optimism, our blindness to the signs of economic over-heating, our proneness to panic – and our need, every so often, to turn to clever men like himself to put the shattered Humpty-Dumpty of international capitalism back together again.

All these political economists instinctively recognised that the triumph of free-market forces – with the consequent elimination of older social contracts, the downgrading of the state over the individual, the end of restraints upon usury – would not only bring greater wealth to many but could also produce significant, possibly unintended consequences that would ripple through entire societies. Laissez faire, laissez aller was not only a call to those chafing under medieval, hierarchical constraints; it was also a call to unbind Prometheus. Logically, it both freed you from the chains of a pre-market age, and freed you to the risks of financial and social disaster. In the place of Augustinian rules came Bernie Madoff opportunities.

By the same instinctive reasoning, most sensible governments since Smith's time have taken precautions against citizens' totally unrestricted pursuit of private advantage. States have invoked the needs of national security (therefore you must protect certain industries, even if that is uneconomic), the desire for social stability (therefore do not allow 1 per cent of the population to own 99 per cent of its wealth and thus provoke civil riot), and the common sense of spending upon public goods (therefore invest in highways, schools and fire-brigades). In fact, with the exception of the few absurdly communist states such as North Korea, all of today's many political economies lie along a recognisable spectrum of more-free-market versus less-free-market arrangements.

But what has happened over the past decade or more is that many governments let down their guard and allowed nimble, profit-seeking individuals, banks, insurance companies and hedge funds much greater scope to create new investment schemes, leverage more and more capital on the basis of increasingly thin real resources and widen dramatically the pool of gullible victims (silly, under-earning individuals, hopeful not-for-profits, Jewish charities, friends of a friend of an investment manager, the list is long), thereby creating our own era's spectacular equivalent of the South Sea Bubble. As in all such gigantic credit “busts”, many millions more people – the innocent as well as the foolish – will be hurt than the snake-oil salesmen and loan managers who perpetrated these so-called “wealth creation” schemes.

What, then, is capitalism's future? Our current, damaged system is not, despite Marx's hopes, to be replaced by a totally egalitarian, communist society (such arrangements might be there in life after death). Our future political economy will probably not be one in which Smith or his present-day disciples could find much comfort: there will be a higher-than-welcome degree of government interference in “the market”, somewhat larger taxes and heavy public disapprobation of the profit principle in general. Schumpeter and Keynes, one suspects, will feel rather more at home with our new post-excess neocapitalist political economy. It will be a system where the animal spirits of the market will be closely watched (and tamed) by a variety of national and international zookeepers – a taming of which the great bulk of the spectators will heartily approve – but there will be no ritual murder of the free-enterprise principle, even if we have to plunge further into depression for the next years. *Homo Economicus* will take a horrible beating. But capitalism, in modified form, will not disappear. Like democracy, it has serious flaws – but, just as one finds faults with democracy, the critics of capitalism will discover that all other systems are worse. Political economy tells us so.

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