A spectre is haunting the world – the spectre of *global* capitalism

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**Abstract.** Individual property rights are fruitful for economic development because they civilise self-interest by forcing it to serve the common good. The history of previous property rights “cycles,” however, shows that their ability to do this deteriorates over time because the laws of property fall under the control of those whom property is meant to discipline. Irresponsible ownership then intensifies inequality until a breaking point is reached. The present cycle is no exception, but its breaking point has been postponed by the growth of the democratically-inspired welfare state.

Globalisation is now eroding the financial basis of this, because mobile capital can escape taxation, leaving labour to carry the burden. The main thrust of this movement is now found in the World Trade Organisation, whose control of intellectual property and commitment to free trade in money as well as goods, can only increase inequality between countries as well as within them. It represents individual property rights which are out of any form of social control, since there is no *global* mechanism for civilising self-interest. Schumpeter’s sense of the impending demise of capitalism, if not of its replacement by socialism, may yet be vindicated.

**Key words:** Property rights – Globalisation – World Trade Organisation – Schumpeter

**JEL-classification:** A13, F02, K00, P10

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1 Introduction – Schumpeter’s wrong prediction

Exactly a century and a half ago as we meet, Marx and Engels published the Communist Manifesto, announcing that “A Spectre is haunting Europe – the spectre of Communism.” In 1942, in his “Capitalism, Socialism and Democracy,” Schumpeter forecast a less apocalyptic future for property-owners by claiming that capitalism would inevitably be replaced by socialism. Social scientists like to think that for them, as in hard science, the test of sound theory is the power to predict, and by this criterion, Schumpeter’s theory seems to have been a poor one. The opposite of what he forecast has occurred, even to the extent of the evidence of collectivism’s inferiority being hailed as “The End of History” (Fukuyama, 1992). The spectre of Communism appears to have been finally exorcised.

However, social science suffers from the disability of not being able to conduct experiments in the ways hard science can, so predictions in it may depend heavily upon the time scale within which hypotheses are considered to be vindicated or disproved. In the case of the prediction which has done Schumpeter’s reputation so much damage, there are now a number of indications that the time-scale of at least part of the “experiment” may have been too short. This is not an issue where the jury is still out, therefore, so much as one in which they may have come back from the jury-room with a verdict too hastily.

2 Capitalism in a property rights context

Capitalism is the modern variant of the systems of individual property rights which made the Western world uniquely rich, because they enable individual human creativity to be directed into economic channels (see Roscobel and Birdzell, 1986). By definition, *Homo economicus* looks only to his own interest, but individual property rights force him to serve social ends in doing so. The tragedy of the commons, whereby freedom of access to a resource held in common results in ruin to all (Hardin, 1968) is avoided. Civil society (including democracy) can emerge from the social space and opportunity which individual property rights provide (cf. Berger, 1993, p. 6). The unique value of such rights, therefore, is that they can civilise self-interest. Schumpeter even saw part of the definition of the State in terms of this function:

It is part of its nature that it opposes individual egoism as a representative of a common purpose. Only then is it a separate, distinguishable social entity ([1918] 1991, p. 110).

Individual property rights first emerged fully in Classical times, articulated philosophically by Aristotle, and were characteristically absolute, even to the extent of applying to wives and slaves. It was these which made industry and widespread trade possible in Roman times, and it was the same absolute property rights which subsequently underwrote the remarkable fusion of monastic agricultural and technological innovation over several later centuries (cf. Evans, 1996–1997). In fact, Randall Collins has argued most persuasively that Max Weber was wrong to locate the source of modern capitalism in the ethics of the Reformation. Instead, the rise of medieval Christendom was the main Weberian revolution, creating the institutional forms within which capitalism could emerge. And there are earlier examples (both in early Christian monasticism and in Chinese Buddhism) where we see the same kind of “Protestant ethic” connection between religiously motivated asceticism and economic productivity, but under quite different theological outlooks (1986, p. 76).

More recently, Lutz Kaalber (1998) has elaborated the same theme.

The medieval period also saw the emergence of a new type of property rights, which were qualified instead of being absolute, and these can take credit for much of the growth of urban society, with the wealth and world-wide exploration associated with it, which followed. But after the wars of religion, and justified by the philosophy of the Enlightenment, absolute property rights reasserted the primacy which they had lost. As Lynn White Jr. observed:

The feudal sense that the enjoyment of wealth is inseparable from public responsibility chiefly distinguishes medieval ideas of ownership from both classical and modern. The vassal class created by the mutation of the eighth century became the ruling element of European society, but throughout all subsequent chaos and despite abuses, it never lost completely its sense of *noblesse oblige*, even when a new and rival class ofburghers revived the Roman notion of the unconditional and socially irresponsible possession of property (1964, p. 31, 1968, p. 65).

2.1 Absolute ownership and bourgeois achievement

The revived “Roman notion of the unconditional and socially irresponsible possession of property” is the institutional basis of the economic system which we call capitalism, as Max Weber has correctly shown ([1923] 1961, Part IV; [1904–5] 1976). It was this which made the industrial revolutions possible, in the hands of the “new class of burghers” that Schumpeter saw as the dynamic element in the modern economic world. He noted, too, that “a panegyric upon bourgeois achievement that has no equal in economic literature” is to be found in, of all places, that Communist Manifesto, and concerning this famous document, he urges us to observe, in particular, the emphasis upon the creative role of the business class. Never, I repeat, and in particular by no modern defender of the Bourgeois civilisation, never has a brief been composed on behalf of the business class from so profound and so wide a comprehension of what its achievement is and what it means to humanity (1949, p. 209).

Indeed, one of the ideas for which Schumpeter himself is best remembered, that of “creative destruction” as the driving force of capitalist economic life, is foreshadowed in Marx and Engels’s claim in the Manifesto that...
2.2 Property rights and market power

All this comes about because property rights make markets possible, and the concept of freedom is often benignly associated with the word "market." When owners of property praise the free market, however, they almost always mean freedom from having to subordinate the use of property to external values. This is the source of the "irresponsible" ownership to which Lynn White Jr. referred. In what follows, "socially non-responsible" will be used instead of "irresponsible" to identify this, in case the word "irresponsible" might be taken to indicate that property-owners were altogether predatory in its use. Some of them are, but the more usual objective in using property is the more moderate one of extending its autonomy. At the same time, it is rare for this not to include an element of seeking to escape from co-operating in the social purpose for which the property laws ostensibly exist.

The ethical justification of laws which confer rights of individual property is that the exercise of these rights in a self-interested way is forced into channels which also serve the public good. "Socially non-responsible" is used here simply to indicate that this requirement is absent from the rights in question, so that they can be exercised without seeking or needing justification outside the maximisation of their own value. If this exercise is in any sense unethical, then, blame is rather to be attributed to those who make the laws of property, than to owners of the resulting property rights. As will be seen below, however, part of the problem raised by contemporary property rights is that those who own property are increasingly tending to be the effective law-makers also.

So much for what property-owners mean by the free market. Its alternative - "economists" - meaning, which is a market with few or no barriers to entry, describes a situation where prices are under constant downwards pressure. This can never be what property-owners want. If profits or rents are to be earned, there must be means of escaping from a market's freedom of entry condition, and all such means of escape amount to market power. Paradoxically, then, market power is not the power to make a market (since this implies freedom of entry) but to unmake it, to find ways of escaping the constraints - especially in terms of price - which market forces seek to impose. Simple concepts of property have been greatly extended so that modern property rights now provide a sophisticated range of such escape means. These can be assembled into a market power paradigm (which is a dictionary of terms which will be used subsequently in this paper) along the following lines (Kingston, 1984).

2.3 A market power paradigm

Without exception, all market power can be traced to an identifiable source in positive law, and such sources, which are always laws of property, fall under three headings. The most obvious is Specific market power, where the barriers to entry are immediately identifiable laws or ordinances. Examples are all types of industrial protection, licences and, of course, intellectual property.

Next is the market power of Capability, obtained through investment in productive assets. This largely depends upon the laws which provide for joint stock companies and limited liability. Without these, the large-scale funding which corporations require would not be obtainable, and neither would professional management have evolved, since this depended in its origin on being separated from ownership.

Investment in psychological assets ("reputation") similarly results in Persuasive market power, primarily through developing Brands (granted true monopoly status by Trade Mark registration law) and advertising (protected by copyright law). The exclusive right in the registered trade mark allows massive investment to be made in marketing, especially in advertising, to build up knowledge of, interest in and preference for branded products to levels where only a few oligopolistic firms will survive in any product market. It can even be argued that such firms may benefit from massive rents through being members of a virtual cartel (Kingston, 1984, p. 66).

An illustration of the economic importance of brands to-day is that when a large firm in a branded goods industry is bought over, the price paid is typically at least 10 times its book value. The difference is the worth of the firm's intangible assets, mainly its brands, whose market power is built upon the legal monopoly of their associated registered trade marks. Nor is it by any means only the industries which are characterised by branded products, particularly those of fast-moving consumer goods, that depend almost wholly for their existence on trade mark registration law. The range of services which these products require, amount to large industries in themselves, and these would simply collapse if there were no brands in the modern sense, that is, those which depend upon having a legally-granted trade mark monopoly. Franchised businesses, from hotels to hamburgers, also depend completely on trade mark registration law. For them, it is essential that ownership of a brand can be legally separate from ownership of the associated physical assets. To-day, too, the media obtain most of their revenue from advertising, and professional sport is so largely financed by sponsorship that it also would be impossible without brands developed on the basis of legal trademark monopoly.

2.4 Earlier property rights "cycles"

All individual property rights give an economic dimension to natural differences in ambitions and aptitudes between persons, and absolute property rights of course intensify the resulting inequalities. This intensification
becomes still greater because of what seems to be an inevitable tendency for those who possess property, also to gain control of the institutions and laws which confer and enforce it. Consequently, although individual property rights can civilise self-interest, they need not do so. In fact, they can only be effective in this way to the extent that they are not themselves the expression of self-interest. Because self-interest invariably seeks to capture the forces which can discipline it, the result, as John Stuart Mill (1848, Book II) pointed out, has been that "the laws of property have never yet conformed to the principles upon which the institution of private property rests." In at least three previous historical periods (which might even be designated as property rights "cycles") individual property rights began by underwriting prosperity but ended with power concentrated in relatively few hands, not responsible to anyone nor to any criterion other than its own preservation and expansion.

In the days of its strength, for example, "[T]he Greco-Roman world was essentially...one of private ownership...a world of private trade, private manufacture" (Finley, 1973, p. 29). But Gibbon ([1776–1778], 1963, Chs. I–III) observed that by the third century A.D., when the Roman Empire was waging under the attacks of the barbarians, property ownership had become highly concentrated in the hands of those who would not fight to preserve it, because at heart they did not believe that they deserved to have it.

Likewise, the remarkable technical and economic dynamism of the medieval monasteries (especially in their Cistercian mode) was eventually corrupted into privilege and luxury on the basis of their absolute ownership of vast tracts of land and of their involvement in finance, especially in mortgages. (Kingston, 1996; Kaelber, 1998). This lost them popular support and left them fatally vulnerable to predatory kings and nobles. In a still later property rights "cycle," the French revolution set off a widespread reaction to extreme inequalities, similarly caused by individual property rights which were held and used without responsibility.

It seems clear, therefore, that the dynamic energy in individual property rights, which is their ability to civilise self-interest, inevitably deteriorates over time in a way which fits well into Georgescu-Roegen's (1971) description of the growth of entropy in the economic process. The result is growth in parallel of non-responsibility and inequality. Almost any degree of inequality appears to be tolerable, as long as responsibility is present: if the alternative for a medieval peasant is to be expropriated by a predatory warlord, for example, his contribution to the great wealth, power and prestige of his liege lord, who is able and willing to protect him, is a price that will be paid, however grudgingly.

It is equally a matter of common observation that non-responsible behaviour of many different kinds, as long as it does not affect ourselves personally, is quite widely tolerated. But it is the combination of the two conditions which seems to be potentially fatal for individual property rights. As an example, for the Soviet expert, Richard Pipes, this explains why Russian serfs, who had borne the burdens of servitude for so long, found them intolerable after 1762 when the Crown freed the gentry from compulsory service and transformed them into a leisure class (1998).

3 Democracy and welfare transfers

The French revolution, and the later revolutions which took their inspiration from it, were reactions to such a combination in the form of the ancien régime. Where the inequality and irresponsibility were greatest, as in Russia, such property rights as existed were all but wiped out completely, in the spirit of Proudhon ("Property is theft") and on the basis of Marx's economics. However, in some areas, correlated with the survival of some residual element of Lynn White Jr.'s "feudal sense that the enjoyment of wealth is inseparable from public responsibility," democracy gradually emerged (cf. Huntington, 1991, pp. 72–73, 98). Schumpeter defined democracy in terms of rivalrous competition in the market for votes ([1942] 1950, p. 269). Since every market depends on the existence of property, the vote can consequently be seen as a new type of individual property right, capable of acting as a counterbalance to property of traditional types by giving political power to numbers simply as numbers.

The practical result of this counterbalance has been the welfare state, mitigating the effects of ever-stronger, more concentrated and less "responsible" property rights by correspondingly bigger transfers to those of no or little property. It was such transfers, more than anything else, which falsified Schumpeter's forecast of the replacement of capitalism by socialism. The economic success of the countries which were characterised by them has been in marked contrast to the failure of the countries which tried to operate command economies. By the early 1990s, final economic victory, it appeared, had gone to a system which combines absolute property rights for the production of wealth, with welfare transfers, raised by taxation as a result of democratic pressures, to temper the inevitable resulting inequalities.

3.1 The Welfare State in trouble

More recently, however, Schumpeter's pessimism (because his own preference was for a capitalist system) has begun to be echoed by a new wave of writers, whose concerns are summed up by the theme of Lester Thurow's "The Future of Capitalism":

The eternal verities of capitalism – growth, full employment, financial stability, rising real wages – seem to be vanishing just as the enemies of capitalism vanish... in two decades capitalism lost 60% of its momentum (1996, p. 3).

The philosopher, John Gray (1995, 1998) sees what is happening as the collapse of what he calls "the Enlightenment Project." This hoped to create a single, worldwide civilisation, the economic aspect of which was "the inexorable advance of a singular type of western capitalism, the American free market." These two writers share awareness with many others of the emergence of the phenomenon which has been observed towards the end of earlier property rights "cycles," viz. the combination of socially non-responsible ownership with an unacceptable level of inequality.
There are three main reasons why property has become less “socially responsible” in recent years. Firstly, making the laws which confer property rights has come progressively more under the control of those who benefit from these rights. This trend was noted particularly by Buchanan and Tullock as long ago as 1962:

We may observe a notable expansion in the range and extent of collective activity over the last half-century – especially in that category of activity appropriately classified as differential or discriminatory legislation. During the same period we have witnessed also a great increase in investment in organized interest-group efforts designed specifically to secure political advantage (1962, p. 289).

Since they wrote, the expenses of politics have grown at what looks like an exponential rate in every democratic country. In particular, the coming of television has escalated the costs of getting elected, making politicians correspondingly vulnerable to those who will underwrite those costs. Hence the size and dynamism of the contemporary lobbying industry, and the quite new kinds of property that have been brought into being through its efforts. Many of these extend the value of ownership of shares in corporations or limited partnerships (cf. Korten, 1995, Ch. 10).

Secondly, the growth of branding, based on trademarks, has increased at least as much. Persuasive market power has shown itself to be a particularly effective way of escaping from the discipline of market forces without appearing to do so. Thirdly, and closely associated with both of these developments, has been globalisation of economic activity. This enables property owners to escape from taxation and other controls, since these can only be imposed at the national level. The capacity of states even to maintain their existing levels of welfare transfers, not to speak of increasing them to try to deal with growing inequality, is correspondingly reduced.

3.2 Escalating inequality

The relative gains made by the owners of property in recent years have brought inequalities within sight of pre-French revolution levels. In asking “How far can the system go before it cracks?” Thurow includes the following in his list of indicators from the United States:

Among males, the group most sharply affected, earnings inequalities doubled in two decades. In the decade of the 1980s, all of the gains in male earnings went to the top 20% of the workforce and an amazing 64% went to the top 1%. If incomes rather than earnings are examined, the top 1% gets even more – 90% of total income gains. The pay of the average Fortune 500 CEO goes from 35 to 157 times that of the average production worker... By the early 1990s the share of wealth held by the top 1 per cent of the population (more than 40%) was essentially double what it had been in the 1970s and was back to where it had been in the late 1920s before the introduction of progressive taxation... (1996, pp. 1, 25, 22).

There is evidence, too, that even though there is no longer any possibility that welfare transfers could compensate for growth in the relative advantage of ownership, the rate at which the burden of these transfers is growing is altogether unsustainable. Thurow has calculated that in combination with interest charges they would reach 100% of tax revenues in the US within only 15 years if current laws remain unchanged (1996, p. 98). It is interesting to note that in “The Crisis of the Tax State,” which contains the germs of several important ideas in “Capitalism, Socialism and Democracy,” Schumpeter wrote that in the long run, States would not be able to survive “the will of the people to demand higher and higher public expenditures” ([1918] 1991, p. 97).

At the same time as social welfare demands on tax revenues are increasing, globalisation means that national tax bases are being eroded, as firms and individuals take advantage of opportunities to move their activities and their funds to places where they will pay little tax or none at all. Since labour is so much less mobile, it is consequently being forced to carry an increasing share of the burden of taxation. Of all the factors which cause growth in inequality, therefore, globalisation is here the most powerful. This is because even if national laws (including tax laws) can only be partially effective in making property rights “socially responsible,” no force at all exists to discipline these rights at the world level. There is no global mechanism for civilising self-interest.

4 Globalisation – Rodrik’s evidence

Hirst and Thompson argue in relation to globalisation that the more extreme descriptions and forebodings are no more than a myth, and they are hopeful that regional arrangements could be developed which “would build up a financial sector dedicated to industrial finance and governed by public policy” (1996, p. 150). A more realistic view, however, is that of Dani Rodrik, who has recently written “Has Globalisation Gone Too Far?” (1997) for the Institute of International Economics in Washington, DC, a commission which testifies to unease even in one of the citadels of “free trade” thinking. His conclusions can bring the Institute no reassurance, because his meticulous econometric analyses confirm that globalisation

- can indeed involve an international “race to the bottom” in terms of wages and workers’ standards (p. 19);
- makes it more difficult to tax capital (p. 54);
- consequently reduces the ability of governments to spend money on social programs (p. 55); and
- inevitably forces labour to bear a higher share of the total tax burden, including welfare transfers (p. 63).

The importance of these conclusions arises from the clear positive correlation which Rodrik identifies between openness to international trade and government spending, which is so largely made up of welfare transfers, either direct (payments) or indirect (public employment) (Ch. 4). This is a most valuable insight, and it goes a long way towards explaining the growth of big government, especially during the last half-century.
Its impact is further reinforced by a remarkable difference which he notes between the 19 OECD countries and the total of 109 countries for which he was able to obtain data (for 1985–89). The independent variables in his analysis are Openness, Instability in terms of trade, and Exposure to external risk. These together account for 75% of the variation in social security and welfare spending in OECD countries, but have no explanatory power for these countries’ government consumption (after excluding income transfers and public investment). In the larger group of countries, however, Rodrik comments that these variables do much worse in the regression on social security and welfare spending than they do in the one on government consumption. I attribute this to the fact that social security and welfare spending is rather a mixed bag in lower-income countries, and that most such countries do not have the capacity to run adequate welfare systems. It is plausible that some of the same insurance functions are provided in these countries through government employment and government purchases of goods and services (as captured in government consumption) (1997, p. 60).

4.1 Unemployment aspects

Rodrik’s research also allows us to infer why in OECD countries other than the United States, the effect of globalisation has been visible in more unemployment rather than more income inequality. This seems to depend upon the size of the public sector. Employment in this does not carry the stock options and similar devices which differentially boost the earnings of top management so much in privately-owned firms. This inhibits the growth of earnings inequality in the public sector. On the other hand, working for the State or for a State-owned Company, not only carries an explicit or implicit guarantee of a job for life, but also of automatic sharing in economic growth. All the adjustment as a result of globalisation consequently falls on the unsheltered sector of the economy, and when this burden is added to the existing cost of supporting a large public sector, it is hardly surprising that the unsheltered sector shrinks and jobs are lost in it. The social and political consequences of large-scale and prolonged unemployment may be even more serious than greater earnings inequality.

An aspect of the welfare state is that specialised labour as well as worker combinations have “derived market power,” which enables them divert rents to themselves out of the primary rents of property-owners (Kingston, 1984, pp. 40–42). For several decades these, together with the welfare transfers which governments were able to make from taxing those same rents, were enough to defuse serious questioning of how the growth in primary market power was being used. To-day, as Rodrik notes (1997, pp. 23–25) to the extent that globalisation enables the primary rents to escape both from derived market power and from taxation, there is every reason for the consensus to break down. In fact, Rodrik reads the sum of his econometric evidence as pointing towards a tension between the consequences of globalisation and the requirements of maintaining the social legitimacy of free trade. Globalisation is not occurring in a vacuum. It is part of a broader trend that we may call marketisation. Receding government, deregulation, and the shrinking of social obligations are the domestic counterparts of the intertwining of national economies. Globalisation could not have come this far without these complementary forces (1997, p. 85).

Rodrik’s use of the terms “free trade” and “marketisation” unfortunately clouds the issue, through failure to distinguish between the two meanings of market freedom discussed earlier. What is really at stake in globalisation is market power, and the rents which accrue to it. As already pointed out, the primary “freedom” of markets which depend upon specific legislation to generate and distribute property rights, increasingly consists of the power of the owners of these rights to use them without social responsibility. Freedom of entry to such markets is very restricted indeed. The word which Rodrik has coined for the trend he has identified, “marketisation,” gives the impression of market forces becoming more widespread. This is the very opposite of what is actually happening, which is the generation of more market power and new forms of it. As the power to escape from market forces, its objective is actually to prevent market forces from operating.

4.2 Inequality between countries

Increased inequality within countries is paralleled by growing imbalance between the richer and poorer countries of the world, and for similar reasons, the most important of which is differential levels of market power. International aid programmes ostensibly attempt to redress this imbalance between possessors of market power (predominantly firms in Western countries) and primary producers, on whom market forces bear most heavily. These programmes parallel national welfare transfers, but are even less successful. One reason for this is a widening technology gap between advanced and poor countries. Another is that foreign aid amounts are relatively far smaller in relation to internationally-held property than welfare transfers are in relation to national property. A third is that so much aid is “tied” to purchases from the aid-giving country that it is very largely aid to that country’s own firms rather than to the ostensible recipient.

Fourthly, the vulnerability of poorer countries to international flows of speculative funds denies them independence in developing their economies. Estimates of the scale of these mobile funds in the international exchanges vary widely, but none of them place it at less than one hundred times what is needed to finance all international merchandise trade. The surplus is available for raids on currencies. As an illustration, James Tobin recently called attention to how Mexico has been “suffering cruel and painful punishments for crimes of fiscal and monetary policy it did not commit” (uL Haq et al., 1996, p. xiii). A fifth factor, of course, is that the “compensatory” transfers are given to governments, so that they are largely dissipated in uneconomic projects, not to speak of through corruption (Krause, 1997, Ch. V).
5 Institutions for globalisation (1)

5.1 The International Conventions

Just as market power exists at the national level because of clearly identifiable laws, its existence internationally can only be understood in terms of institutional arrangements to spread property rights world-wide. Historically, most Persuasive and Specific market power was internationalised before that of Capability. This was achieved through international Conventions, which were brought into being to replace a large number of bilateral agreements which already existed. The earliest of these, the Paris Convention (1883) covered Trademarks and Patents, and that of Berne (1886) dealt with copyright. The latter was originally intended to cover only literary and artistic works, but it then became much more commercially important as a means of protecting films, advertising and, still more recently, computer programs.

The characteristic method of operation of these Conventions is “National Treatment.” This means that while no country is bound to have the same intellectual property regime as others, it agrees to treat citizens of any other Convention country in exactly the same way as its own citizens under any Patent, Trade Mark or Copyright laws it may enact. Later Conventions such as those covering plant variety protection, ornamental designs, photographic recordings and computer chip mask works, operate in the same way.

As it has developed, the world intellectual property system is strongly associated with concentrated industries, and even within those industries, with relatively few firms. Numerous surveys, such as the Community Innovation Survey in Europe, show that patents are used most by firms with over 1,000 employees. The patent system is used to a disproportionate extent by the chemical industry, which in itself is highly concentrated (Arundel and Kabla, 1998; European Patent Office, 1994).

Patent use also tends to be concentrated by country, notably in the US, Japan and Germany. German patentable invention, for example, is no less than 42 times that of the four poorest EU countries combined. The fast moving consumer goods industries, which are built on the indispensable basis of Trade Marks, are highly concentrated. Copyright has been a most important factor in the world-wide dominance of a single firm, Microsoft, in computer software, to the extent of making that company into the prime target of US anti-trust authorities. Multinational firms are by far the most important users of plant variety protection, and so on.

5.2 Capturing the Conventions’ rules

The history of intellectual property provides much evidence of the way in which those who hold property come to gain power over the laws which generate property rights, so as to extend these rights and make them stronger. The principle of “national treatment” on which the Conventions are based, does not require uniformity of intellectual property laws among member countries. However, firms in the more advanced countries, through

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their governments and with the active cooperation of the Conventions’ Secretariat in Geneva, progressively succeeded in developing a standard world system, which contains numerous provisions which are to such firms’ advantage.

In the case of patents, the first major change was to remove the requirement to manufacture a product in a particular country in order to maintain a patent there. This made patents into a reinforcement of the market power of capability, because foreign markets could then be supplied by exports from the home market’s production units, enabling these to capture economies of scale and scope. Also, it was originally enough that something was new in the country where a patent was being sought, even if it was already known elsewhere, but this was replaced by a criterion of “new in the world,” to the obvious benefit of the larger and more advanced firms. A further requirement, for what is known as an “inventive step,” reinforced this discrimination.

In many countries, Patents will not be granted for any invention that is “against public policy,” but Article 7 of the Paris Convention provides in contrast that “the nature of the goods to which a trademark is to be applied shall in no case form an obstacle to the registration of a mark.” This prevents member countries from refusing to register trademarks for products which have been proved to be damaging to health, such as cigarettes. Without trademark monopoly, no tobacco firm could invest in building up a brand, and without the resulting sales promotion, consumption would be greatly reduced. In the case of plants, there is no difficulty at all in identifying whose market power a change is intended to boost. Under the 1991 revision of the International Convention for the Protection of New Varieties of Plants, national governments actually have to legislate for explicit exemption to allow farmers who use protected varieties to continue the practice of millennia by saving seed from one year’s harvest for their own planting the following Spring.

5.3 Value of diverse property rights

When intellectual property becomes a reinforcement of the market power of capability and of persuasion of the largest firms, its function is the exact opposite of what is needed to keep a property rights system healthy. It should instead provide some degree of countervailing market power to smaller firms, since by definition these lack strength in the other two types. Similarly, appropriate specific market power can give poorer countries their best chance of catching up with richer ones. It is therefore in the interest of such countries to develop intellectual property arrangements – as indeed all their laws of property – to suit their own requirements.

Only two countries have done this. One was India, which did not join the Paris Convention because it wanted to develop an indigenous pharmaceutical industry. It judged that it could not do this if the multinational chemical firms could obtain Indian patents. This policy was so successful that its best producers of generic drugs reached the stage of pressing their government to join the Paris Convention, so that they could obtain patent
protection abroad for their inventions. The other country was Japan, which did join the Paris Convention as early as 1899, but which regularly changed its patent law (as much as 18 times in the 40 years after World War 2) to suit its own firms. This policy was part of a package to encourage invention and innovation by Japanese firms which has been amazingly successful, as indicated by the fact that no fewer than 7 of the top 10 firms receiving most patents in the United States in 1997 were Japanese.

6 Institutions for Globalisation (2)

6.1 The General Agreement on Tariffs and Trade (GATT)

There was no institutional arrangement for internationalising Capability market power until 1947, and when it did come into existence it was as a result of strong effort by a single country, the United States, rather than through cooperation between a number of countries, as the Paris and Berne Conventions had been. During the nineteenth century, Britain, as the workshop of the world, favoured free trade, but other countries, notably Germany and the United States, were building up their industries behind tariff barriers. However, the US emerged from World War II with unrivalled productive capability, and naturally wanted access to world-wide markets for this. Consequently, it took the initiative within the newly-established United Nations Organisation, of bringing about the General Agreement on Tariffs and Trade (GATT) in 1947. Its primary objective was to eliminate tariffs and import quotas, thus globalising the market power of capability in the same way as the Conventions had earlier globalised specific and persuasive market power.

The GATT’s objective of preventing any revival of the world-wide protectionism which had been characteristic of the pre-World war II era, was triumphantly achieved. In its first “round,” in 1947, it dealt with 23 countries and freed up trade worth $10 million; in the “Kennedy round,” (1962) it was 48 countries and $40 billion; and in the 1973 “Tokyo round,” the totals were 99 countries and $155 billion.

6.2 The Conventions and GATT contrasted

The two approaches to internationalising market power differed in several ways. All the Conventions were Europe-driven in origin and allow countries to make their own rules. They are “gentleman’s agreements,” with no compulsion to join, no substantial commonly agreed minimum level of intellectual property protection, and no effective sanctions for breaching. In contrast, the GATT was US-driven, focussed on achieving world-wide free trade in products, with dispute resolution means and strong sanctions against offenders.

From the 1960s, however, the degree of freedom in world-wide access to national markets which had been achieved was undermined through massive growth in non-tariff barriers to trade (notoriously in Japan). As well as this, international business spread well beyond trade in physical products, branded goods and publishing, to include services (notably financial) and recorded entertainment. More R & D in firms meant more information in products, and quite new information products per se, such as databases, diskettes and C-D ROMS, became commonplace.

In these developments, the United States lost the position of leadership in the production of goods which it had immediately after the war, and which had caused it to take the initiative in establishing the GATT. In the growth of world-wide copying and piracy of information products, US firms were also the main losers. Not surprisingly, this widespread loss of market power caused the US authorities to take a hard look at the institutions by which market power is globalised. What they saw was that GATT’s coverage of the fields where US firms wanted to extend their capability market power was very incomplete. It was also clear to them that the Conventions were failing to protect US producers of information, and that the major reason for this was because they had no sanctions against defaulters (as GATT had).

The US had plenty of proof, for example, that the protection its firms obtained in Japan under “national treatment” by no means matched what Japanese firms obtained in the US (for a striking illustration, see Spero, 1990). The Japanese procedure of opposition before grant of a patent, which was notoriously effective in delaying grants to foreign applicants until local firms had reverse engineered the invention and improved on it, was only one of many devices which seemed to be unfair. Since there was no worthwhile redress under the Paris Convention, the accumulation of experiences of this kind by US firms stimulated their authorities to get the “Uruguay round” of GATT revision negotiations started, with a Preparatory Committee operating between 1982 and 1986. Protection of intellectual property was to be shifted into the GATT.

6.3 “Aggressive Unilateralism”

In his study, Rodrik observed that because the social welfare state is the flip side of the open economy...as globalisation proceeds, the social consensus required to maintain domestic markets open to international trade is endangered. With domestic political support for trade eroding, a return to old-style protectionism becomes a serious possibility (1997, p. 53).

A revealing indication of such a change in the US approach to international trade can be seen in the Semiconductor Chip Protection Act of 1984. This arose out of a Court case between Apple Computer and a Japanese firm, on which the very survival of Apple had turned. The Act gives copyright protection to computer programs in microchip form, and this protection could have been brought in through an amendment to the US Copyright Act. It was not introduced in this way, however, because it is through the latter Act that the US was a member of the International Copyright Convention. Consequently, under “national treatment,” foreign (especially, of course, Japanese) firms would have to be granted automatic access to the
new kind of protection. By writing the chip protection as a separate Act, it was possible to include a condition that its benefit could only be obtained by citizens of States which passed similar legislation to protect US chip producers. Significantly, Japan complied within a year.

Progress in the Uruguay Round was very slow, and the rapid compliance of Japan with the 1984 Semiconductor Chip Protection Act convinced the US authorities of the value to them of reciprocity provisions, imposed outside of the existing institutional framework of international market power. In the Omnibus Trade and Competitiveness Act of 1988, various “Section 301” provisions overrode GATT complaint and sanction procedures and replaced them by rapid and severe retaliation when US interests were considered to be damaged. This policy was described by Jagdish Bhagwati, a former policy advisor to the Director-General of the GATT, as one of “aggressive unilateralism... quick fixes on the trade front, using American muscle to extract concessions unilaterally and quickly from others” (Bhagwati and Patrick, 1991, p. 6). It was primarily directed at Japan’s erosion of the market power of American firms, and was progressively used more widely by the US until eventually the GATT was reconstituted into the World Trade Organisation (WTO) in 1994. The main difference between the two Institutions is the inclusion of intellectual property (TRIPS) and services (GATS) in the WTO’s terms of reference.

7 The World Trade Organisation (WTO)

7.1 TRIPS – the Trade-related Intellectual Property Section

The Trade-related Intellectual Property Section of the WTO agreement (TRIPS), which emerged from the Uruguay Round, greatly strengthens the market power of the advanced firms of Western countries. “Special 301” provisions of the US 1988 Act had dealt specifically with intellectual property, but TRIPS definitively shifted it from the toothless Conventions into the GATT-WTO regime of powerful sanctions against breach. As described by Reichman,

The momentum of the multinational negotiations during the Uruguay Round carried the developed countries well beyond their initial goal, which was to limit the capacity of firms in developing countries to make and export free-riding copies of high-tech goods produced at great cost in the developed countries. Instead, by...1991, the developed countries’ strategic goal was to impose a comprehensive set of intellectual property standards on the rest of the world (1998, pp. 585–586).

Even the poorest of the 132 WTO signatory countries are now being forced to adopt minimum standards of intellectual property law and to promise its enforcement. Japan also must abandon its protectionist intellectual property policies and procedures. The secondary group of OECD countries have all joined WTO, which involves accepting TRIPS, as a necessary condition of getting inward foreign investment, especially from multinational high-technology firms. India has joined, so that it will now have to grant patents to Western pharmaceutical firms.

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Third World countries have also agreed to accept the obligations of the international intellectual property system, including enforcement provisions, in exchange for promises of better access to the markets of the rich countries for their agricultural produce and for a few traditional manufactures. They and the East European “countries in transition” are given 5 years to comply, and can get longer under certain conditions; the least developed of them have a 10 years’ grace period. TRIPS is therefore clearly a vehicle for increasing world-wide specific and persuasive market power. As will be discussed below, this can only result in still more inequality in technology and wealth.

7.2 GATS (the General Agreement on Trade in Services)

By far the most important element in this part of the WTO relates to financial services, although this aspect of it was not finally agreed until 1997. Before the Mexican peso crisis of 1994–5, the International Monetary Fund was very active in trying to achieve complete convertibility of the currencies of all its members (Eichengreen and Wyplosz, 1996, pp. 15 and 30, Note 2). This thrust towards freeing the movements of capital around the world has now been taken up by the WTO. Eliminating restrictions on convertibility simultaneously reduces the power of national governments to pursue independent economic policies, and strengthens the power of reserve currencies. This can only widen the inequality between the rich North and the poor South which James Tobin (1974) so deplored. This was not the main reason why he proposed a tax on international transfers, “to throw some sand in the wheels of excessively mobile speculative funds,” but experience of the growth of inequality between countries since then certainly explains why that proposal is at last beginning to be taken seriously.

Another almost-lone voice has called attention to how pursuing the cause of international mobility of capital actually destroys the theoretical case for international trade in goods, as this is made by the WTO and similar international bodies. This is because they argue for world trade on Ricardo’s principle of comparative advantage. His two-product, two-country model shows that, irrespective of which country has an absolute advantage in the production of particular goods, both countries will be better off if each of them specialises in producing the goods in which it has a comparative advantage, and trades for the others ([1817] 1971, Ch. VII).

7.3 Herman Daly on free trade

However, as Herman Daly has pointed out,

Economists have been giving Ricardo a standing ovation for this demonstration since 1817, as well they should. But in their enthusiasm for the conclusion, modern economists seem to have forgotten one of the premises. Ricardo was very careful to base his comparative advantage argument for free trade on the explicit premise that capital was immobile
between national communities... Absolute advantage is the rule for maximizing returns to capital when capital is mobile. Comparative advantage is the rule for maximizing returns to capital subject to the constraint that capital stays at home. This remains true in spite of an improvement in the definition of cost from Ricardo's labor cost to the modern concept of opportunity cost. The difficulty about assumed capital immobility remains. Opportunity cost is the correct concept – but the opportunity cost, out of which the opportunity cost (next best alternative) is defined, is the whole world when capital is mobile, and the nation when capital is immobile. When the opportunity set for capital is the whole world, then absolute advantage governs; when it is the nation, then comparative advantage governs... Ricardo would never argue that because comparative advantage shows that free trade in goods is beneficial, one can simply extend the argument to show that free trade in capital must yield even more benefits! To appeal to a principle that is premised upon capital immobility in order to support an argument in favour of capital mobility is too illogical for words (1996, pp. 152, 153, 238).

Elsewhere, Daly (1995) has gone so far as to argue that

the allocative, distributional and scale problems stemming from free trade in to-day's world are sufficient to reverse the traditional default position in its favor. Measures to further integrate national economies should now be treated as a bad idea unless proven otherwise in specific cases. We economists must overcome our habitual devotion to comparative advantage...

Daly's argument has recently received support from Bhagwati on the grounds that instability at the level currently being experienced by the Asian countries threatens the entire world economy, and that the primary cause of this instability is "footloose" money seeking short-term profit. Developing Charles Kindleberger's point that capital mobility has always been associated with financial crises, panics and manias, he notes that

The debt crisis of the 1980s cost South America a decade of growth. The Mexicans, who were vastly over-exposed through short-term inflows, were devastated in 1994. The Asian economies of Thailand, Indonesia and South Korea, all heavily burdened with short-term debt, went into a tailspin nearly a year ago, drastically lowering their growth rates (1998, p. 8).

Any advantage that free capital mobility offers, he argues, is not worth the cost of these crises – and in any event, "most of the payoff can be obtained by direct equity investment." This particular type of mobile capital can make labour more productive, transfer management and related skills, and raise living standards. There is little evidence that a country's ability to attract inward foreign investment is significantly reduced by not having freedom of portfolio capital flows, as demonstrated historically by countries as different as Taiwan and Ireland. Japan grew remarkably quick without capital account convertibility, as mainland China is doing now, and Western Europe's return to prosperity after the war was also achieved without it. Bhagwati's conclusion is therefore that

the weight of evidence and logic point toward restraints on capital flows. It is time to shift the burden of proof from those who oppose to those who favor liberated capital (1998, p. 12).

Economists do not have to abandon their belief in the value of free trade in goods and services, so long as the financial services that are traded internationally are not of a kind which prevents countries from pursuing policies for indigenous development. One of the objectives of GATS, however, is to remove barriers to mobility throughout the world of all kinds of capital. This is incompatible with the WTO's claim to be promoting world trade on the basis of the principle of comparative advantage. If capital is fully mobile, instead of both parties who engage in trade being better off as a result, only the one which is already richer will be, because its absolute advantages will be reinforced. It is hard to imagine more powerful arrangements for widening inequality between countries, in the interest of socially non-responsible property rights. Since in the past it has been the combination of inequality with social non-responsibility which has brought each property rights "cycle" to an end, it is not unreasonable to have a particular fear of the effect on capitalism of the GATS element of the WTO.

7.4 Convergence of GATS and TRIPS

Particular attention should be directed to the parallelism between the GATS and TRIPS components of the WTO. As Daly's argument makes abundantly clear, to the extent that GATS succeeds in bringing about world-wide capital mobility, it replaces comparative advantage by absolute advantage, which is to the benefit of the stronger party in trade, in this case, firms in the rich advanced countries. It is equally clear that to the extent that TRIPS succeeds in establishing high standards of intellectual property protection worldwide, the benefit will be gained by the firms in the advanced countries which are either owners of major Brands or technologically innovative. The extension of market power through TRIPS will keep firms in the poor countries out of both economic areas. This claim needs to be developed further.

8 Institutionalising first-world advantages

8.1 Patents

Making patents more readily available world-wide entrenches the position of firms that are already strong in a particular field of technology. For example, one of several very important managerial innovations of the nineteenth-century German chemical industry was patent "flooding" or "saturation patenting." This was a technique of surrounding an important invention by an impenetrable "thicket" of patents, so that no competitor could provide even a near-substitute for the core, profit-making product. Using it, German firms completely dominated the fine chemical and pharmaceuticals markets of the world until, as a result of the first World War, all
their US and British patents were expropriated. Without this, the industries in those countries would have been condemned to remain at their comparably undeveloped pre-War level, because the German firms would have left no niches unprotected by their patents. In exactly the same way, industries in the poorer countries will have no hope of raising their level of technology in any field where TRIPS will make strong intellectual property protection available to international firms.

8.2 Copying and economic development

A recent thoughtful study of these problems is Yasuke Murakami’s “An Anticlasical Political-Economic Analysis: A Vision for the Next Century.” He argues for free technological transfer because

Technology is knowledge or even thought, more than it is property...[it is] a public good and thus not something optimally allocated through market competition. It is therefore not possible to justify patents or intellectual property rights by the same theory that is applied to market competition in commodities...unless new technology flows in substantial amounts to follower countries, it is highly possible that the basis for the future world system will collapse (1996, p. 250).

Murakami’s case for freer technological transfer is especially relevant to his own country, Japan, since so much from its large foreign aid programme is eventually spent on its own firms’ products. He underrates how necessary intellectual property is for innovation, but he is certainly right in his view that freedom to copy is essential for international economic convergence. No great economic power, and certainly not the United States nor Germany nor Japan, was able to do without copying freely in its industrial beginnings. The root of the prodigious modern capability of Toyota is Sakichi Toyoda’s poor wooden imitation of the fine steel looms from Platt’s of Oldham and Draper’s of Lowell which he saw at the 1880 Tokyo industrial exhibition. If the best Indian pharmaceutical firms can now face competition from the multinationals, this has only become possible as a result of a learning process through many years of copying their inventions. Indeed, a strong case could be made that if those who make policies for international economic development were really serious, they would abandon all foreign aid, and simply replace it with freedom to copy. This might even go so far as using the former aid funds to compensate the advanced firms that might lose as a result, by subsidising their innovation. The WTO, of course, stands for exactly the opposite approach.

8.3 Branded products

As with other kinds of intellectual property, globalisation of brands reinforces already-existing market power. The market for psychological ingredient, which is exploitable by the market power of persuasion, can only expand from countries with more discretionary income to those with less. Firms in countries with larger home markets have an additional advantage from the acquired experience of their managements in large-scale handling of the special kinds of risk that are associated with decisions about advertising and marketing (Kingston 1984, pp. 54–74). Once every country must grant and enforce trade mark registration, international brands are provided with the legal monopoly basis for their persuasive market power even before they put their products on a market. With all their advantages, nothing can then stop such brands from dominating local ones. Any doubt on this point can be easily resolved by a quick mental comparison of the number of European brands that are strong in the United States and vice versa.

8.4 Bhagwati’s “Wall Street-Treasury Complex”

In sum, therefore, the WTO represents the First World acting to trade access to its markets in exchange for world-wide protection for its innovations, and for global free trade in its money. The very existence of this international body testifies to the extent to which the economic policies of Western democratic governments have been captured by those who own and control multinational corporations. A current example is mobilisation of US diplomacy by politicians in the pay of such corporations, to use the WTO to destroy the livelihood of small banana growers in EU former colonies. In coining the phrase, “The Wall Street – Treasury Complex,” Bhagwati claimed that

the idea and the ideology of free trade and its benefits – and this extends to the liberalisation of trade in goods and financial and other services at the World Trade Organisation – have, in effect, been hijacked by...lobbyists...a power elite...a definite networking of like-minded luminaries among the powerful institutions... (1995, p. 11).

In spite of WTO provisos about compensatory transfers and training for poorer countries, the reality is that the outcomes must be very much to the advantage of property owners, wherever they are. Inequality between the workers in the poorer countries and the governing elites in those countries will be reinforced, leading to continual world-wide instability.

8.5 WTO’s misleading statistics

In public statements (for example, Ruggiero, 1998) the WTO tries to give the impression that the poorer countries are benefitting greatly from international merchandise trade, because this has increased 14 times between 1948 and 1997. This is allegedly confirmed by the fact that one-third of the 25 largest trading countries are now developing countries, and that their share of world trade in manufactures has doubled to a fifth of the total in the last 15 years. However, such figures should be read in the context of the reality that the most rapidly growing part of world trade in manufactures is in fact intra-company trade, with components or finished goods moving between subsidiary plants or sales offices of multinational firms. Since this type of trade only exists because of the mobility of the multinationals
capital, it reflects the absolute advantage of the countries where the Home Offices of such firms are located, not Ricardian comparative advantage, as the WTO claims would suggest.

9 “The Manic Logic of Global Capitalism”

This is the sub-title of William Greider’s recent book, “One World, Ready or Not” (1997), which is a very useful complement to the rigour of Rodrik’s econometric studies. It is written with apocalyptic fervour, providing extensive information and reflection, based upon widespread work in the field, on the realities of international business. It also puts flesh on many of Throow’s economic measurements and even pushes many of the latter’s more tentative conclusions from his research to their logical end:

[The global system of finance and commerce is in a reckless froth with history, plunging toward some sort of dreadful reckoning with its own contradictions, pulling everyone else along with it... multinational enterprise is preoccupied with its own imperatives, finance capital consumed by its own search for returns... The destructive pressures building up within the global system are leading towards an unbearable chaos that, even without a dramatic collapse, will likely provoke the harsh, reactionary politics that can shut down the system (p. 316 emphasis added)).

9.1 Loosening societal bonds

Greider’s phrase “multinational business is preoccupied with its own imperatives, finance capital consumed by its own search for returns” is a powerful expression of the concept of non-responsible property rights discussed above. He sees globalisation causing a “new Luddism” in “the gathering masses of younger people – Europeans call them “marginalised youth” – who have never had a job and perhaps never will” (p. 40). It is destroying the cohesion of societies everywhere, Greider claims, and must therefore in the long run undermine the very possibility of international trade. On this point, it is interesting that one of the questions which Dani Rodrik’s investigation had forced him to ask is:

What if, by reducing the civic engagement of internationally mobile groups, globalisation loosens the civic glue that holds societies together and exacerbates social fragmentation?...These developments are afflicting all societies exposed to globalisation, with many developing countries perhaps even more exposed than the advanced industrial countries (Rodrik, 1997, p. 70).

With respect to Indonesia, for example, Greider points cut that the “Suharto Miracle” which brought about so much investment and employment from multinational firms, “relied upon a perverse trade-off between government-suppressed wages and government-administered bribery” (1997, p. 396).

Because of the violent reaction, Indonesia is now one of the least attractive locations in the world for footloose investment, and this is likely to lead to a vicious cycle of increased poverty and still more violence which all the resources of the International Monetary Fund will not be able to halt.

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9.2 Greider’s and Throow’s pessimism

Both Greider and Throow are agreed on what the wider outcome will be. Greider writes that

In various fundamental ways, the United States promotes and props up the global trading system, allowing it to evade many of its gathering contradictions and instabilities. An economic crisis will likely be joined when the United States is no longer able to do this – a climactic moment that is fast approaching... the American market serves as buyer of last resort for the world... [and] with the Government’s blessing, American enterprise facilitates the global adjustments to continuing overcapacity and other market tensions by gradually abandoning elements of its home base of production...

This role cannot continue indefinitely and may soon come to an end. As America’s economic dominance has steadily weakened, the nation takes on an increasing volume of foreign indebtedness through its large and persistent trade deficits... At the same time, the nation’s broad capacity for mass consumption is being slowly eroded by declining wages and the loss of high-income employment, whether from technological reform or the migration of manufacturing sectors. Thus, the nation’s economic resilience is weakening as its debt obligations accumulate (1997, p. 192).

Throow’s comment focusses on the weakness of governments which have been largely captured by property-owners. Indeed, it has an unconscious echo of Gibbon’s observation, quoted earlier, about the inability of the Roman system, when it too had become dominated by socially non-responsible property, to cope with the challenges it faced:

Where and when the financial crisis will come and how big it will be, no one knows. That there will at some unknown point in the future be such a crisis is a complete certainty. The most likely crisis involves a run on the dollar... To depend upon America to stop a run on the dollar is to depend upon a preponderance of domestic political interests that simply is not there. Any belief in American actions to stop a run on the dollar that would involve economic pain is a mirage shimmering in the hot desert air (1996, p. 230).

10 Schumpeter’s prediction in hindsight

In the light of all this, how does Schumpeter’s pessimism about the future of capitalism look today? Clearly, he missed four crucial factors. The first of these was the widespread adoption, outside the United States as well as within it, of the management methods which were developed there during World War 2. These had caused the period from 1941 to 1945 in that country to include the most remarkable concentration of output of physical goods (albeit for destructive purposes) that the world had ever seen. The spread of these methods to the rest of the world transformed its productive capacity. Secondly, and partly as a result of this, fossil energy in the form of oil became extremely cheap, and enabled the new management techniques
to generate wealth of all kinds at a rate never before achieved. The volume and types of employment associated with this wealth-creation were also unprecedented. Above all, the massive growth of social welfare transfers under democratic pressures mitigated inequality, both really and perhaps even more in public perception.

Schumpeter was also wrong about the role that the intelligentsia would play in causing capitalism to be replaced by socialism, and he himself would probably regard this as his greatest mistake, since he considered that the enmity of this “alienated class” would be the most potent factor in this process ([1942] 1950, p. 151). What he did not foresee was the effect of the massive growth of media which are largely dependent on advertising, itself the result of trade mark registration law, as noted earlier. Inevitably, the editorial content of media financed in this way has been favourable to the economic arrangements which made their existence possible, and this largely stifled negative criticism. The lucrative new markets for the skills of journalists and pundits which these advertising-financed media provided also had a tempering effect on opposition to capitalism from what Schumpeter called “that scribbling set.” Highly-paid syndicated columnists, talk-show hosts or panel members are anything but “alienated” from economic arrangements which generate huge demand for their services.

However, on the basic issue of humanity’s eventual reaction to excessive inequality combined with socially irresponsible property rights, both historical precedents and present portents are on Schumpeter’s side. Loss of a moral basis for property rights played an important part in the decline of the Roman Empire, of the medieval monastic economy and of the ancien regime in Europe. Today, David Selbourne (1994) has written most persuasively on how “dutless rights” are at the heart of the dissolution of civil society which he sees in progress. It is hard to imagine rights that are more “dutless” than those which are now attached to property which is deployed in world trade.

Schumpeter saw the replacement of the family firm by the large and anonymous corporation as a move away from duty and responsibility in property rights: “Dematerialised, defunctionalised and absentee ownership does not...call forth moral allegiance as the vital form of property did” ([1942] 1950, p. 142). If this is true in respect of the primarily national corporations which Schumpeter knew, how little “moral allegiance” can be expected for absentee ownership of the “dematerialised and defunctionalised” funds that wash around the international foreign exchanges today? Or for the similarly absentee ownership of the “screwdriver” assembly plants of multinational firms, or of the ideas and information which TRIPS is seeking to bring under the World Trade Organisation’s control throughout the world?

Most important of all, what moral allegiance would there be for democratic governments which have abdicated legislation for property rights in the interest of the public good, in favour of that of the owners of property? Such governments would then really have become what Marx all along claimed they would be: “executive committees of the exploiting class.” A world-wide alienation of electorates is already visible in lower rates of voter participation.

As noted earlier, Schumpeter held that the State can only be a “a separate, distinguishable social entity” as long as it fulfills its function “to oppose individual egoism as a representative of a common purpose.” There are warning signs that States are abandoning this role, playing their part instead in a massive growth of inequality between owners and workers, between resources which are internationally mobile and those which are not, between taxation of capital and taxation of labour, and in the widening gaps between rich and poor countries, and between the poor and the elites everywhere.

The new international cutting edge of these forces is the World Trade Organisation, whose origins, objectives and ethos perfectly illustrate how lawmaking for property rights has been captured by those whom that law is meant to discipline in the public interest. Globalisation has made this capture all the more effective in undermining contemporary economic arrangements, because it reduces the tax base and consequently the ability to make social welfare transfers to defuse resentment against excessive inequality.

If a latter-day Marx was now producing a Manifesto against contemporary ills, therefore, what he would see haunting the world is the spectre of global capitalism. Against such a background, at least that part of Schumpeter’s vision which foresaw an end of the current property rights “cycle,” does not seem nearly as implausible as it did even a decade ago.

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