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Where now for capitalism?

Noam Chomsky

September 19, 2008

Markets have inherent and well-known inefficiencies. One factor is failure to calculate the costs to those who do not participate in transactions. These “externalities” can be huge. That is particularly true for financial institutions.

Their task is to take risks, calculating potential costs for themselves. But they do not take into account the consequences of their losses for the economy as a whole.

Hence the financial market “underprices risk” and is “systematically inefficient,” as John Eatwell and Lance Taylor wrote a decade ago, warning of the extreme dangers of financial liberalization and reviewing the substantial costs already incurred — and also proposing solutions, which have been ignored.

The threat became more severe when the Clinton administration repealed the Glass-Steagall act of 1933, thus freeing financial institutions “to innovate in the new economy,” in Clinton’s words — and also “to self-destruct, taking down with them the general economy and international confidence in the US banking system,” financial analyst Nomi Prins adds.

The unprecedented intervention of the Fed may be justified or not in narrow terms, but it reveals, once again, the profoundly undemocratic character of state capitalist institutions,

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designed in large measure to socialise cost and risk and privatize profit, without a public voice.

That is, of course, not limited to financial markets. The advanced economy as a whole relies heavily on the dynamic state sector, with much the same consequences with regard to risk, cost, profit, and decisions, crucial features of the economy and political system.