Neoliberalism as the new Mercantilism

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Like all good capitalists, in the face of the possibility that workers may get above their position, the CBI is calling on the state to bolster its power. By raising interest rates, they hope to drive weaker firms to the wall and, consequently, increase unemployment and so scare the remaining workers into keeping their heads down and work harder for longer.

At the end of February, the CBI prompted fresh speculation in the City about a spring increase in interest rates. It did so by reporting that strong demand for labour was adding to inflationary pressures in the economy. As its members were struggling to fill vacancies, the bosses' organisation said it expected borrowing costs to rise this year. Its chief economist said that *"the economic outlook for 2005 and 2006 remains healthy, but the economy is now having to learn to live with full employment, and the risks of a pick-up in core inflation are rising."*

You would think that full employment would be a good thing, being (of course) the equilibrium position of the labour market. And as anyone who studies economics is told, equilibrium is what the market is constantly approaching. So why the CBI's concern? Simple. What capitalist economics ignores is power (some pro-free market economists even argue that economic power does not exist!). As unemployment falls, workers' bargaining power increases and, consequently, they start to claw back some of the (surplus) value they produce from the capitalists who appropriate it. This is done via increased pay, better terms and conditions and simply relaxing at work as the anxiety and fear of unemployment loosens. In other words, "labour" (no matter how much capitalists wish or try to turn it into) is not a commodity. It is people. And when subject to oppression and exploitation, people resist and full employment helps this.

Little wonder the CBI is concerned. And, like all good capitalists, in the face of the possibility that workers may get above their position, it is calling on the state to bolster its power. By raising interest rates, they hope to drive weaker firms to the wall and, consequently, increase unemployment and so scare the remaining workers into keeping their heads down and work harder for longer (particularly to pay off the higher mortgages and debt repayments required to live under this system).

There is even a theory about this. It is called the "non-accelerating inflation rate of unemployment," or NAIRU. This is a clumsy term, but it simply means the unemployment rate below which the inflation rate begins to rise. The basic idea goes back to Milton Friedman. In 1967 he argued that low rates of unemployment would lead to accelerating inflation. He called this the *"natural rate of unemployment theory"* yet he made it clear there was nothing natural about it, emphasising that by using the term *"natural"* rate of unemployment, he did *"not mean to suggest that it is immutable and unchangeable. On the contrary, many of the market characteristics that determine its level are man-made and policy-made. In the United States, for example, legal minimum wage rates … and the strength of labor unions all make the natural rate of unemployment higher than it would otherwise be."*

It is this idea that was subsequently developed by macroeconomists into the term NAIRU. That there was no way of knowing what the NAIRU was and how it changed over time did not stop it driving government policy across the world.

So, since the 1970s, government policy has been based in guessing where a moving, invisible value which may, or may not, exist is. Friedman's quote shows why. What he termed the *"natural rate"* was simply a code word for the bargaining strength of working class people, as shown through their ability to organise themselves protect their pay and conditions and establish a livable wages. The raising of interest rates is, in other words, state action which skews the labour market in favour of the bosses.

Unsurprisingly, the 1960s and 1970s were a time of labor militancy, relatively strong unions, a relatively high minimum wage and a marked increase in labor's share in national income. The 1980s and1990s have been a time of relatively weak unions, a relatively low minimum wage and a decline in labor's income share.

Which shows why neo-liberalism is better called neo-mercentalism. Mercentalism was the system which created capitalism in the first place. State action was an essential feature of it, used to bolster the ruling elite by pursuing policies which increased their power on the market. Domestic manufacturers were given privileges and patents. Duties were levied on imports in order to protect local industry and provide revenue for the government. The state exercised much control over economic life, chiefly through corporations and trading companies. And, of course, it created the modern working class by enforcing capitalist property rights and enclosing common lands as well as banning unions and such like.

This system came to an end when the rising bourgeoisie grew tried of the limitations mercantilism placed on their actions. Liberating themselves from the old state required revolutions to create their own, just as centralised states. These would have the task of aiding the elite in a more "hands-off" way, such as maintaining and protecting capitalist property rights and skewing the labour market in favour of the bourgeoisie. This policy of limited state action was termed "laissez-faire."

In the 1970s, a similar process occurred. The bourgeoisie turned against post-war social Keynesianism because, as with mercantilism, it was limiting their actions and they embraced the ideas of Friedman. State action remained, but very much in the background skewing the market in favour of the wealthy. With the (predictable and predicted) massive economic collapse that resulted in applying Friedman's Monetarist ideas, unemployment rose and, as a result, the power of workers fell. Inflation fell with it and profits and inequality rose. Social Keynesianism was replaced as the de facto state religion by neo-liberalism, a combination of "laissez-faire" and military Keynesianism. The poor, in effect, were replaced on the welfare rolls by corporations.

The NAIRU was used to justify economic policies designed to weaken the power of labour and strengthen that of the bosses. Inflation, in this schema, is the fault of the workers who refuse to take the pay and conditions their employees would like them to have. So much for the market always being right! Of course workers do not actually raise prices. When they sold their liberty to their bosses, they also sold the product of their labour. It is up to the bosses whether to raise prices or reduce profit margins. Unsurprisingly, they pick the former (and blame the workers for their own actions). So inflation need not rise if workers were simply allowed to take the larger share in the national income they produce, but do not own, that the market indicates.

Yet this solution is poison to capitalism (and will never be achieved this side of a revolution). Which means, as the CBI shows, even if capitalists benefit from full employment, they will not support it. Full employment threatens their control over the workplace, the pace and direction of economic activity, and even political institutions. Hence the importance of unemployment to capitalism and the need for state action to achieve it. It is a key instrument to maintain capitalist power and profits and stop developments towards genuine economic liberty, workers' self-management.

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