

THE VIEWS OF SOME ECONOMIC THEORIES ON THE ECONOMIC CRISIS OF CAPITALISM AND SOME LESSONS FOR VIETNAM

Pham Van Duc and Tran Tuan Phong



Pham Van Duc, Associate Professor, Doctor of Philosophy, Director of the Institute of Philosophy, Editor in Chief of *Philosophy* journal, Vice-Rector of Graduate Academy of Social Sciences, Vietnam Academy of Social Sciences. Email: ducphilosophy@yahoo.com



Tran Tuan Phong, MA (Philosophy), Deputy Head of the Department of Political Philosophy, the Institute of Philosophy, Vietnam Academy of Social Sciences. Email: ttphong59@yahoo.com.au

Abstract: After a brief analysis of the views presented in the economic theories of neo-liberalism, Keynes and Marx on the economic crisis of capitalism the authors of this article point out some methodological recommendations for the development of socialistic-oriented market economy in Vietnam. The experience of dealing with the crisis shows the importance of upholding the advantages of socialist regime: the leadership of the Communist Party in appropriate policy-guidelines, the role of the Government in its consistent implementation of its policies, the role of the state's economic sector in sustaining the stability of the whole economy as well as in economic recovery, the contribution and support by the people for the common cause of development of Vietnam.

Key words: neo-liberalism; Keynes; Marx; economic theory; economic crisis; socialistic-oriented market economy; socialist regime

The recent world economic crisis, which is widely recognized as the worst economic downturn since the 1930s and one of the greatest assaults on global economic stability, is making people think again about the mechanism of capitalistic market economy in particular and the nature of capitalism and its legitimacy in general. Neo-liberalism as an ideology based on economic liberalism has been seriously challenged. People are questioning the real nature of capitalism, whether the project of global capitalism is realistic, and whether capitalism is the only system (model) of sustainable development. In order to address those questions, in this article we

would like to focus on the brief analysis of the views presented in the economic theories of neo-liberalism, Keynes and Marx on the economic crisis of capitalism, as well as the solutions suggested by those theories. We also would like to point out some methodological recommendations for the development of socialistic-oriented market economy in Vietnam.

Neo-liberalism, Keynes and Marx on the Economic Crisis of Capitalism

We know that neo-liberalism is a school of thought closely related to the ideas of economic liberalism. Using neo-classical theories of economics, neo-liberalists advocate economic policies that intend to minimize the role of the state and maximize the private business sector. And consequently, government activity will be replaced by market forces in order to give more freedom to individuals to pursue their self-interests and all income distribution mediated through the free market should be regarded as natural and just. Neo-liberal economic philosophy can be tracked back to the theories of Hayek and von Mises, who believed that society should be characterized by the “spontaneous order” which emerges when individuals pursue their own ends within a framework set by law and tradition.

According to the logic of the unrestrained free market advocated by neo-liberalism, economic crisis and failures—including high rate of inflation and economic low growth and stagnation—are exclusively the result of excessive government intervention in the market. As the market manages to rational self-adjustment, all deviations from market efficiency must be attributable to external causes only: economic and financial bubbles and other disruptions are caused by governments and other “imperfections,” not by markets themselves. Thus, in the 1980s, governments in the USA and Britain showed strong support for neo-liberal movements of anti-tax, de-regulation and other conservative measures to reduce government interference in the market. All those kinds of policies and measures are implemented in order to give maximal freedom and maximal space to the private market in the economy. In the form of a minimal state or night watchman state, the government’s duty is only to enforce contracts and protect the allocation of property rights. All other economic functions should be left to what Ronald Reagan called the “magic of the marketplace.” Hayek referred to the market as “a game,” “a contest played according to the rules and decided by superior skill, strength or good fortune.”¹ In Hayek’s order, “the game” is the only proper determinant of the allocation of resources.

While neo-liberalism tries to prove that the causes of economic crisis and failure of market economy are external or due to the interference of governments and other non-market forces, Keynes see the causes of crisis within the mechanism of the capitalistic free market. Keynes argues that, although capitalist economies contain forces that are capable of restoring full employment, these forces (sometimes) are

too weak or do not always react in time to changes in the market. Moreover, private sector decisions sometimes lead to inefficient macroeconomic outcomes. As a result, market-based economies can suffer from a persistent lack of demand, consigning millions of people to unnecessary unemployment and misery.

Thus, to some extent, Keynesian policy is a reversal of the prevalent orthodoxy of neo-liberalism in the last few decades, which held that efforts to use fiscal policy to manage the economy and mitigate downturns were doomed to failure. With the emphasis on the government's role in the economy, Keynes argues for the mixed economy, in which government could play a positive role through the use of monetary and fiscal policy to control levels of aggregate demand, which is the sum of consumption, investment and government spending, and hence the level of employment during the time of economic and financial crisis. It is Keynes who points out that the government plays an important role in providing direct stimulus to economies that have suffered a collapse in private demand, in rescuing the private financial system from collapse, as well as in designing a regulatory regime for the whole capitalistic system.²

Despite his critique of neo-liberalism, Keynes remains a faithful advocate of the free market system of capitalism: "There is no objection to be raised against the classical analysis of the manner in which private self-interest will determine what in particular is produced, in what proportions the factors of production will be combined to produce it, and how the value of the final product will be distributed between them."³ Keynes believed that once full employment had been achieved by fiscal policy measures, the market mechanism could then operate freely. "Thus," continued Keynes, "apart from the necessity of central controls to bring about an adjustment between the propensity to consume and the inducement to invest, there is no more reason to socialize economic life than there was before."⁴

While neo-liberalism and Keynes think that economic crisis is related to the business cycle and not to long-term factors and, therefore, is temporary and to be followed by a period of economic recovery and growth, Marx believes firmly that cyclical crises are characteristic of capitalism. One of the central concerns of Marx, in his study of the capitalist mode of production, was to identify and understand its inherent contradictions, the source of the historic crisis which would eventually create conditions for its overthrow and replacement by a more humane and rational system of production.

Capitalism is a regime in permanent crisis, because capitalism engages in a process of constant transformation of the labor process and revolution of the relations of production, driven by the irresolvable contradiction between capital and labor. Or, to put it another way, capitalism is unsustainable development by its very nature. The only concern of capitalists is profit, and the capitalist system could be characterized by E. M. Wood as "the sacrifice of people and nature to profit."⁵

Capital in its essence is self-expanding value, driven incessantly to ever larger levels of accumulation—more profit without any bound. As Marx writes:

Capital is the endless and limitless drive to go beyond its limiting barrier. Every boundary is and has to be a barrier for it. Else it would cease to be capital—money as self-reproductive. If capital ever perceived a certain boundary not as a barrier, but became comfortable within it as a boundary, it would have declined from exchange value to use value... Capital is the constant movement to create more of the same.⁶

For this reason any effort to control capital without uprooting the basis of value production is ultimately self-defeating. So long as value and surplus value persist, capital will strive to self-expand; any external boundaries established for it, whether by state intervention or regulation, can and will eventually be overcome. Consequently, capitalism can be seen as a self-destructive system: the run for profit through the excessive exploitation of both the nature and workers (labors), the very resources and people it depends on for its profits, can bring about fatal outcomes.

Thus, we can see that Marx and Keynes approached and applied the concept of crisis in distinct and opposite ways: while Keynes attempted to stay strictly with the economic sphere and tried to fix economic crisis in order to preserve the existing social order, Marx, on the other hand, sees economic crisis as part of the larger crisis of the social order he wishes to supplant. The fundamental contradiction of capitalism, as Marx sees it, is the contradiction between the ever-growing social character of the production process and the form of capitalistic private ownership. Without an elimination of the fetter of private ownership of the means of production human society is unable to achieve further development.

Thus, both Marx and Keynes addressed certain aspects of the capitalistic market economy but both could not suggest some kind of comprehensive solution to overcome crises and guarantee sustainable development for humanity. Moreover, in the context of today's globalization and scientific and technological revolution, many recently-raised issues of market economy have not yet been addressed in the above-mentioned theories.

The Economic Crisis and Some Lessons for Vietnam

The global economic crisis brings some serious impacts to the economic development of Vietnam. However, under the timely intervention of its government Vietnam has been able to reduce the negative effects of the crisis and recover its economy. From dealing with the crisis we are trying to find the best way to combine market economy with socialism to achieve a crisis-free and sustainable development.

While developing a socialist-oriented market economy we, the Vietnamese, are well aware of the great strengths of open, competitive markets. But we also try to

avoid the extreme capitalism and unrestrained greed that have perverted so much of the global financial system in recent times. The development of socialist-oriented market economy aims to create a kind of balance and harmony between the private and the public, profit and wages, the market and the state.

We realize fully that the economic theory of Marx is still theoretically and methodologically valuable. Marx's theory plays a fundamental and guiding role in economic thinking in the present context of globalization. What we must do is to rethink and develop further Marx's ideas as well as to acquire critically the quintessence of other traditions and schools of thoughts in order to work out a viable theory of development for Vietnam.

We understand that the economic cycle is an inherent feature of market economy. Thus, the socialist-oriented market economy we are developing in Vietnam is also subject to that law. Therefore, in the context of globalization and expanding international integration, Vietnam should improve its reserve capacity, be ready to react effectively to all kinds of crisis situations as well as minimize the negative impacts of economic cycles. All this could be done with the support of the whole political system, all our people. The experience of dealing with the crisis shows the importance of upholding the advantages of the socialist regime: the leadership of the Communist Party manifested appropriate policy-guidelines, the role of the Government in its consistent implementation of its policies, the role of the state's economic sector in sustaining the stability of the whole economy as well as in economic recovery, the contribution and support of common people for the common cause of the development of Vietnam.

Notes

1. F. Hayek, *Law, Legislation and Liberty: Vol. 2, The Mirage of Social Justice* (Chicago: University of Chicago Press, 1976), p. 115.
2. Many world leaders use Keynesian economics to justify government stimulus packages for their economies. The new Keynesian consensus was set out in the communiqué issued by the Group of 20 leading industrialized and emerging economies in November 2008, in which they vowed to "use fiscal measures to stimulate domestic demand to rapid effect" within a policy framework "conducive to fiscal sustainability." However, the move towards using fiscal policy as a means of boosting advanced economies still has limits and can only be a kind of temporary relief, and unsustainable fiscal positions may destroy confidence.
3. J. M. Keynes, *The General Theory of Employment, Interest and Money* (1936). Reprinted in J. M. Keynes, *Collected Writings*, vol. 7 (London: Macmillan; St Martin's Press for the Royal Economic Society, 1971–89), pp. 378–397.
4. *Ibid.*, p. 379.
5. Interview with Ellen Meiksins Wood, "Democracy & Capitalism: Friends or Foes?" *New Socialist Magazine*, January 1996, www.newsocialist.org/magazine/01/article08.html
6. K. Marx, *Grundrisse* (London: Penguin, 1973), p. 334.