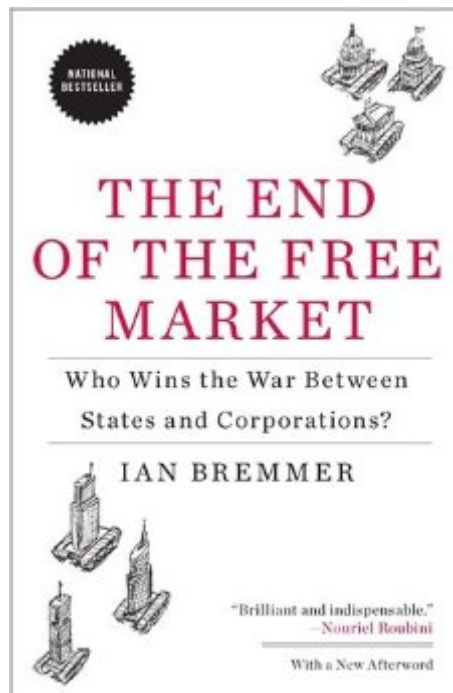


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# The End Of The Free Market: Who Wins The War Between States And Corporations?



## Synopsis

A number of authoritarian governments, drawn to the economic power of capitalism but wary of uncontrolled free markets, have invented something new: state capitalism. In this system, governments use markets to create wealth that can be directed as political officials see fit. As an expert on the intersection between economics and politics, Ian Bremmer is uniquely qualified to illustrate the rise of state capitalism and its long-term threat to the global economy. The main characters in this story are the men who rule China, Russia, and the Arab monarchies of the Persian Gulf, but their successes are attracting imitators across much of the developing world. This guide to the next big trend includes useful insights for investors, business leaders, policymakers, and anyone else who wants to understand major emerging changes in international politics and the global economy.

## Book Information

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## Customer Reviews

**Nouriel Roubini and Ian Bremmer: Author One-to-One** In this exclusive, we brought together authors Nouriel Roubini and Ian Bremmer and asked them to interview each other. Nouriel Roubini is a professor of economics at New York University's Stern School of Business. He has extensive senior policy experience in the federal government, having served from 1998 to 2000 in the White House and the U.S. Treasury. He is the founder and chairman of RGE Monitor ([rgemonitor.com](http://rgemonitor.com)), an economic and financial consulting firm, regularly attends and presents his views at the World Economic Forum at Davos and other international forums, and is an adviser to

central bankers around the world. He is the author of *Crisis Economics and Bailouts or Bail-Ins*. Read on to see Nouriel Roubini's questions for Ian Bremmer, or turn the tables to see what Bremmer asked Roubini.

Roubini: Your book [*The End of the Free Market: Who Wins the War Between States and Corporations?*] suggests that an old trend, what you call state capitalism, has become much more important. What happened to change things?

Bremmer: Over the past 18 months, the Western financial crisis and the global recession have accelerated the inevitable transition from a G7 to a G20 world. That's not just a matter of more states at the bargaining table. It's not just about having to herd more cats to get things done on the international stage. It's about herding cats together with other animals that don't really like cats. And that's not really herding. The G7 world was one where everyone that mattered for growth in the global economy accepted the assumption that prosperity depended on rule of law, independent courts, transparency and a free media—and in the value of free market capitalism. In that world, multinational corporations are the principle economic heavyweights. This consensus has provided the engine driving globalization for the past 40 years. The sun has set on that world. The country that has emerged strongest and fastest from the global slowdown is one that does not accept the idea that a regulated free market economy is crucial for sustainable economic growth. China's success has persuaded authoritarians around the world that they really can have explosive growth without undermining their monopoly hold on domestic political power. China has enjoyed double-digit growth for thirty years without freedom of speech, without well-established economic rules of the road, without judges that can ignore political pressure, without credible property rights—without democracy. And the events of the past 18 months have made China more important than ever for the future of global economic growth. This is a big change with enormous implications that we had better start thinking through.

Roubini: The term state capitalism means different things to different people. How do you explain it today?

Bremmer: I'm writing about a system in which the state uses the power of markets primarily for political gain. A country's political leaders know that command economies will eventually fail, but they're afraid that if they allow space for markets that are truly free, they'll lose control of how wealth is generated. They could end up empowering others who will use markets to generate revenue that can then be used to challenge the government's authority to dominate the country's political life. So they use national oil companies, other state-owned enterprises, privately owned but politically loyal national champion companies, and sovereign wealth funds to exercise as much control as possible over the creation of wealth within the country's borders. And they send these companies and investment funds abroad to secure deals that increase the state's political and geopolitical leverage in a variety of

ways. This system is fundamentally incompatible with a free market system. Roubini: Creating friction between the state capitalists and other governments. To say nothing of privately owned companies. Bremmer: Exactly, yes. In a free market system, multinational corporations are looking to maximize profits. In markets that are not intelligently regulated, and we've seen this in the United States, they're looking to maximize short-term gains at the expense of sustainable, long-term growth for their shareholders or for their own compensation. The past two years have reminded us of the sometime excesses of free market capitalism. In a state capitalist system-- the principle economic actors are looking first to achieve political goals. Profits are subordinate to that goal. In other words, if profits serve the state's interests, they'll pursue profits. But if the state needs a state-owned oil company to pay through the nose to lock up long-term supplies to the oil, gas, metals and minerals needed to secure the long-term growth that keeps workers in their jobs, off the streets, and the political leaders in power, profits and efficiency can become political liabilities and these companies will pay whatever it takes to get what their political patrons want. But the state-owned companies are competing with multinationals that won't overpay, that can't overpay. Here, the injection of politics into market activity distorts the outcome--in this case by raising the price that we all pay for energy and other commodities. Roubini: When you mention the state capitalist countries, which ones do you specifically have in mind? Bremmer: We find state capitalist powers among the Arab monarchies of the Persian Gulf-- Saudi Arabia and the United Arab Emirates are the most important. You see this trend, of course, in Putin's Russia. There are other examples of countries that mix free market with state capitalist policies. But we wouldn't be talking about state capitalism as game-changer for international politics and the global economy if it weren't for China, now the world's second largest economy and its fastest growing major marketplace. Roubini: The End of the Free Market is a provocative title. Are you trying to out-Doom me? Bremmer: You know I wouldn't do that. But you have to admit, it's not an exaggeration. It's not that I think the United States is going to throw away its free market principles. It's not about President Obama being some kind of socialist. Washington will tighten the regulation of financial markets in coming months, and some people won't like that. Americans will not lose their faith in the power of free market capitalism to generate prosperity. But that can't be said for the rest of the world. The global economic system is no longer driven by consensus around these values. There are now competing forms of capitalism. You used the word friction. That's exactly the right word. Friction, competition, even conflict. There will be winners and losers, and the world's political and business leaders better begin to try to sort out who those winners and losers will be. Roubini: Do you mean that state capitalists will be winners and

those who bank on free markets will lose? Bremmer: Not necessarily. Weâ™re going to see governments around the world that no longer feel bound to follow the Western rulebook of decades past. Weâ™ll see multinational corporations struggling to adapt, because foreign investment will become much less predictable and much more complicated. And the backing they get from their home governments wonâ™t carry as much weight. Yet, some of them will be more successful than others at learning to compete on a playing field that isnâ™t level. There are very good reasons to doubt that the state capitalists will have staying power. But for now, they have lots of new clout and plenty of advantages. Over the next five, ten, twenty years, state capitalist governments and the companies and institutions they empower will be a seriousâ™and global--force to be reckoned with. The threat for Americans is that all this is happening at a moment when people are struggling, and their elected leaders have every incentive to respond to that fear and anger with promises to throw up walls meant to protect them from all these changes. Americans have always prided themselves on tearing down walls, not building them. State capitalism and American populism will put that faith to the test. Roubini: Were you tempted to call your book *The End of Globalization*? Bremmer: No, this isnâ™t the end of globalization. It is the end of globalizationâ™s singular, overriding power to shape our lives and the future of the global economy. Globalization depends on access to global consumer markets, capital markets, and labor markets. State capitalism compromises all three. Globalization still matters, and it will continue to matter for the foreseeable future. But it is no longer the fundamental driver of growth in a global economy that looks increasingly toward China for the next expansion. (Photo of Nouriel Roubini Â© RGE Monitor) --This text refers to the Hardcover edition.

The power of the state is back, announces Bremmer (*The Fat Tail*), president of the Eurasia Group, in this sobering examination of the threat the emerging powers of China, Russia, and Saudi Arabia pose to the free market. The book presents a whirlwind history of capitalism from mercantilism through the end of the cold war to the ascendancy of state capitalism, a political and economic arrangement in which states exert their influence over markets and big business to serve their own interests. Bremmer provides informative case studies of economies with varying degrees of state control: Algeria's authoritarian regime, Mexico's relatively open and democratic system, and China, the leading practitioner of state capitalism, in which Beijing has assumed only more economic power in the wake of the financial crisis. He weighs how free market economies can compete and concludes on a hopeful note, laying out a powerful case for the superiority of regulated free markets above state capitalism and a clear prescription for how the U.S. can defend its competitive

advantage in the future. (May) Copyright © Reed Business Information, a division of Reed Elsevier Inc. All rights reserved. --This text refers to the Hardcover edition.

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