

THE CRISIS OF WESTERN CAPITALISM by Christopher Schaefer Ph.D

It is now clear that the global economy is facing the worst crisis since the Great Depression. Unemployment is rising rapidly in all countries with effective unemployment and underemployment in the U.S. reaching 12 percent. The United States, the engine of global economic expansion during the last decade, has been in recession since the last quarter of 2007 with both Europe and Asia feeling the effect of declining exports. The magnitude and the duration of the economic crisis is still uncertain but the size of the projected deficit for 2009 is expected to exceed 1 trillion while the total bailout and economic stimulus package has been estimated to be over 7 trillion, \$25,000. for every person in the United States today This enormous effort to breathe life into a failing economy, while heroic, is also a burden to future generations and promises to create conditions of austerity for many Americans for years to come.

The immediate cause of the crisis is understood to be the failure of the sub-prime mortgage market and the related drop in home prices, but the true causes go much deeper : the deregulation of the financial markets beginning with Ronald Reagan, the easy money and low interest rate policies of the Federal Reserve under Alan Greenspan and his successors, the reckless and corrupt behavior of financial institutions and Wall Street firms, and most importantly, the increase in private, corporate and governmental debt during the last 8 years of the Bush Administration. Total outstanding U.S.debt, private and public, had grown from 2 trillion in 1974 to over 44 trillion in 2006 and has increased markedly since then.

While there is considerable discussion of the economic and financial crisis there is yet scant recognition that we are witnessing a crisis of Western capitalism and of the way in which American society is organized and functions. With the fall of the communist regime in Russia and Eastern Europe in 1989-90, there were many self congratulatory statements in the American press about the triumph of market capitalism and of the American way of life, as well as much disparagement of the social democracies of Western Europe . Now it is our turn to undergo critical scrutiny as the rest of the world rightly sees that the excesses of our financial markets have caused the global economic crisis, as they did during the Great Depression.

John Maynard Keynes, the great British economist, remarked on a number of occasions that economic and social ideas matter for they determine the realities we create. He also stated, "soon or late, it is ideas, not vested interests which are dangerous for good or evil ". So let us look at the ideas which lie at the heart of the free market ideology , triumphant both in economics and more generally in the social sciences since the time of Ronald Reagen. Building on the classical economic theories of Adam Smith and the invisible hand doctrine, free market economists such as Milton Friedman and his students at the University of Chicago have elaborated the "efficient market hypothesis ", arguing that stock, bond and other prices most accurately reflect what is known and knowable about the fundamentals of the economy and that effecient markets unfettered by government control will do the best job of allocating jobs and financial resources to promote economic growth. Combined with the libertarian ideas of limited government , the pro-business orientation of the Republican party and the political ideals of the Neo-Conservative movement these ideas represented a powerful ideology for shrinking government, reducing taxes, privatizing services, deregulating markets and globalizing economic activity. The principles behind this

ideology were succinctly summarized by David Korten :

- " sustained economic growth as measured by the gross domestic product, is the path to human progress.
- free markets, unrestrained by government, generally result in the most efficient and socially optimal allocation of resources.
- economic globalization, achieved by removing barriers to the free flow of goods and money anywhere in the world, spurs competition, increases economic efficiency, creates jobs, lowers consumer prices, increases consumer choice, increases economic growth and is generally beneficial to almost everyone.
- privatization, which moves functions and assets from government to the private sector, improves efficiency.
- the primary responsibility of government is to provide the infrastructure necessary to advance commerce and enforce the rule of law with respect to property rights and contracts.

These principles rest on a set of assumption which when articulated reveal their one-sidedness:

- 1) People are motivated by self interest, expressed through the quest for financial gain.
- 2) The actions taken by individual and groups to maximize their financial gain brings the greatest benefit to society.
- 3) Social and economic life is characterized by competition rather than cooperation and society is best organized around this principle.
- 4) Human progress is best measured by the consumption and production of goods and services as expressed in the Gross Domestic Product, (GDP).
- 5) Economic activity is the primary purpose of society.

Before turning to a set of recommendations for renewing the social contract in the United States, for modifying the excesses of a financially driven and financially controlled society I will comment briefly on some of the principles and assumptions of the free market ideology. The first and most important reservation is that human beings are not only engaged in work and economic acquisition, that society contains cultural meaning and life; plays, novels, concerts and museums, which has nothing to do with maximizing our economic advantage, and also a political and social life, of relationships and associations, of voting and exercising our rights as citizens . A second limitation of the free market ideology is that its perspective on markets is myopic. While markets do many things well ; without government regulation, capital and labor markets produce severe distortions as Robert Kuttner has shown in Everything for Sale: The Virtues and Limitations of Markets and as the present financial crisis demonstrates. Another significant issue to consider is the inappropriateness of the Gross Domestic Product (GDP) as a way of measuring societal health and progress. While the United States is considered to be the wealthiest country in the world it is ranked behind many other advanced industrial societies in terms of quality of life and social health. Then there is the question of competition, of organizing society around competition and selfishness as the primary motive of action. Rudolf Steiner, the Austrian philosopher writer and spiritual teacher suggested that such societies would be characterized by suffering, poverty and want and would spread those qualities globally because of the exploitative nature of the individual and societal consciousness produced. Already at the end of the 19th century Prince Kropotkin's classic study Mutual Aid showed how cooperation both in the natural and human world produces the healthiest communities and societies.

To restore American society to the promise of its founders and to renew the social contract between government and its citizens it is essential to limit the power of financial

and business interests. Otherwise we will continue to have the "best democracy money can buy ". A recent article in the ATLANTIC, by Simon Johnson, previously the chief economist at the IMF, persuasively argues that the U.S., like Russia under Putin, or like many developing societies, has developed a form of "crony capitalism" in which the financial sector has undue influence so that it can shield itself from the consequences of its own reckless behavior by receiving a very favorable bailout at the taxpayer's expense. The public financing of elections and the barring of private or group donations to political parties and campaigns

is the most important step which can be taken to avoid the plutocracy we now have where one dollar/one vote is replacing the principle of one person/one vote. Secondly the national and international regulation of financial markets, banking and the credit card and insurance industries is necessary to avoid the speculation, corruption and undue influence of the financial sector. If the public bails them out government has to right to regulate and to prohibit financial instruments such as derivatives or activities such as short selling, which do not contribute to healthy economic growth. Research and rethinking is required in financial markets in order to distinguish between what Kevin Phillips calls "bad money" which is speculative in nature and "good money" which fosters the balanced and sustainable production of goods and services.

As the most important decision-maker of the economic system in the United States is the Federal Reserve, it needs to be made more democratically accountable than it has been since its founding in 1913. As an institution and a Board which represents the twelve federal reserve banks it serves the needs of capital and the financial markets first and those of ordinary citizens second, as William Greider showed so eloquently in his study, Secrets of the Temple. A further step in balancing the excessive power of corporations and finance is to consider corporate charter reform so that the right of person-hood, granted to corporations by the states, is not permanent, but is reviewed every ten years using the criteria of the triple bottom line; profit, environmental sustainability and community responsibility.

If the present financial crisis leads to asking fundamental questions of how American society can become more democratic, can indeed become a society of "liberty and justice for all" than the crisis will have been used well and will lead to a society in which an activist government serves the public good and promotes cultural freedom and diversity, equality in all aspects of political and social life and an economy which serves human needs in an environmentally sustainable way.

Source Notes :

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Kevin Phillips, Bad Money, Reckless Finance, Failed Politics and the Global Crisis of American Capitalism, Viking

Katrina vanden Heuvel, Meltdown : How Greed and Corruption Shattered our Financial System and How We Can Recover, Nation Books

Simon Johnson, " The Quiet Coup " The Atlantic, May 2009