

The Crisis of Capitalism And The Future of the World Order

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When Mr. Paul Volker, the leader of President Obama's economic team was asked about the administration's plans to deal with the financial crisis, he said, "We are trying to save the system." In light of this honest answer, we need to ask if the system can be saved as is, and if it deserves to be saved. The simple answer to both questions is NO. I do not believe that the old system based on the free market economy concept can be saved; and therefore no efforts should be wasted to try to save a system that cannot and does not deserve to be saved. However, the spirit of the system that calls for economic freedom and free choice can and should be saved. But to do so, the system needs to be restructured in ways that make it less vulnerable to crises and more fair and inclusive and sensitive to global transformations. This paper will try to explain why the system cannot be saved and how to restructure it and make it fair and enduring.

Experience dealing with past economic, social, cultural, and political problems is a good thing to have; nevertheless, every experience is a product of its own times and circumstances, causing its applicability beyond its times and place to be limited. If we were living in older times or in a traditional society in certain parts of Africa, Asia, or the Middle East, past experience would be all that a traditional leader needs to manage challenges his community may face. Since life conditions in such societies remain stable for longer periods of time or tend to change very little over time, old experience and inherited knowledge continue to play their traditional roles. But in a world that is changing every second, experience rooted in the past is more of a liability than an asset. "Experts" tend to think that the future is an extension of the past and therefore, they tend to remain hostage to old ways of thinking and problem solving models. Since we never lived in a world as interdependent, integrated, and interlinked as the one we live in today; measures used successfully in the past to arrest national economic decline and deal with financial problems have become largely outdated; thus using the same old economic and financial policies to deal with the economic tsunami that hit the world in 2008 is more likely to fail and waste valuable time and resources. Global challenges require global answers. Putting the "experts" in charge and giving them the power to deal with the current crisis is an exercise in futility; it is an exercise to recycle unrecyclable human trash and trashy ideas.

The current economic crisis has proven that the free market system is unfair and inefficient; systems that are unfair and inefficient are unable to survive the test of time; they will have to be restructured or replaced sooner or later. In fact, every system regardless of its nature and functions that is unfair is inefficient; every system that is inefficient is unfair.

Inefficient systems misallocate scarce natural and human resources and waste rare opportunities. Unfair systems concentrate wealth and power in the hands of the few, and impoverish the overwhelming majority of people, leaving the poor and powerless in distress. The free market system had proven its inefficiency and unfairness by causing this tragic recession; it stripped the middle classes of the incomes and opportunities to improve the quality of their lives and deepened poverty everywhere. And while banks in many countries were happy to fill the gap between income and desire by providing credit to finance exuberant consumption and facilitate the purchasing of houses and cars most people could not afford; the media was happy to promote the products and ideas of whoever paid for their services without posing for a moment to think about the effects of their actions on people's lives, the fairness of the system, or even the future of their own industry. As a consequence, most people were encouraged, at times driven by envy and jealousy to spend beyond their means, leading to the current global recession. Consumer debt in the United States, for example, was estimated in 2008 to have reached \$13 trillion, almost as large as the size of the American GNP.

Greed, mismanagement and lack of ethics, and the absence of governmental oversight have created wealth and perpetuated poverty everywhere in the world. In the United States, the richest 1% of the population gets more than 20% of the income, while the poorest 20% gets less than 1%. In Germany, the top 10% of the population own more than 60% of the nation's assets, while the 70% of the population at the lower end of the wealth ladder own less than 9% of the assets. As for the world at large, the richest 10% of the world's population own today more than 85% of the world's assets, while the poorest 50% own less than 1%. Such a distribution of income and wealth is neither fair nor sustainable; it makes the world's poor feel poorer and prevents global markets from growing fast enough to accommodate the increase in production capacity. As a consequence, the world's wealthy and powerful, instead of competing for relatively shrinking markets, they resorted to mergers to consolidate production and marketing operations, creating monopolies that control most major industries and markets worldwide. For example, CITI GROUP, Bank of America, MorganChase and Wells Fargo control 40% of all deposits in America, issue two thirds of all credit cards and more than half of all mortgages.

Unfairness leads to inefficiency; inefficiency breeds unfairness; and failure to stop both leads them to reinforce one another and produce disastrous consequences like the ones we are witnessing today and having to endure. For example, Merrill Lynch gave its employees \$3.6 billion in bonuses in 2008, while reporting a loss of \$27 billion; several other companies did the same. Giving bonuses when companies are losing amounts to allowing management to steal a portion of the capital of companies they are entrusted to manage. This might be shameful and irresponsible, but it has become the norm rather than the exception. Executives of American companies have for years defended their outrageous compensation packages, saying it's important as an incentive scheme. So people who are supposed to be penalized for leading their companies to incur substantial losses are being rewarded for failure; they steal billions of dollars to further enrich themselves and rub shareholders of their money and oftentimes their future as well. Rush Limbaugh, for example, signed an 8 year contract for \$400 million to defend the system and mislead the public.

Recessions usually occur when the economy has a large and growing production capacity, while aggregate demand is stagnant or declining. Inflation, in contrast, occurs when demand is expanding while production is constrained or lagging behind. Since consumer spending represents about 70% of the American GNP, a strong US recovery is not possible without increased consumer spending. Since such spending is increasing slowly, the US economy is expected to have a hard time getting back to where it used to be few years ago; the government needs to spend more to stimulate the economy. Meanwhile, Germany has a growing production capacity while demand is being restrained, which means that inflation does not have a chance to come back a threat. As a consequence, Germany should adopt a policy to expand consumption, not to restrain it. In fact, I argued ten years ago that inflation that the world's capacity to produce is growing faster than its capacity to consume and that inflation in all developed countries is dead as long as free trade continues and protectionism is not revived.

Decades ago when most economies were largely national in structure and scope, national stimulus plans tended to work fairly well; increased government spending was able to create new jobs at home and cause disposable incomes to rise, and thus increase domestic demand for all kinds of goods and services. And this in turn, encouraged, at times compelled producers to expand domestic production by hiring more people and investing in tools and production facilities; causing employment opportunities to multiply and incomes and domestic demand to increase further. However, in a globalized economy, government spending to create jobs at home is no longer able to have the same effects on demand or employment or investment; a good portion of the increase in spending goes to buy goods from other countries and thus to benefit workers and producers operating in the exporting rather than the importing states. Therefore, national programs to create jobs and fight economic recessions and financial crises are less likely to succeed in this age, making success in fighting the current economic and financial crisis a function of the degree of global coordination and collaboration in launching and implementing national and international reform and development program.

In times of social and political stress and economic uncertainty most people become disillusioned, losing their sense of direction. As a consequence, they begin to reconsider the value systems that got them in trouble and to modify their attitudes and lifestyles according to a new mental model characterized by "**diminishing expectations**." People everywhere, being aware of the tragic conditions of the world's poor, become more conservative, spending less and saving more. Meanwhile, their sense of where the economy is going leads them to expect less in the future, and to be content with the less that is expected to come. Such a phase will cause the recovery to be slower than usual. **Diminishing expectations** could be defined as "a historical era characterized by a general human presentiment that the future does not promise as much as the past did, and a resigned acceptance of the less that is expected to come." Therefore, all economic measures and stimulus plans should take this fact into consideration. Nevertheless, eras of diminishing expectations do not present problems only; they present opportunities as well; however, problems are usually easy to see and feel, while opportunities are hard to find and understand.

During eras of rising expectations people tend to concentrate on opportunities that exist, and largely ignore vulnerabilities that keep emerging; this is what had happened during the Bush years. Measures needed to reduce the vulnerabilities and foster fairness and efficiency are usually met with stiff resistance because they tend to dampen the euphoria of popular expectations and limit the chances of the rich and powerful to cheat the system and accumulate more wealth. Due to this unsubstantiated fear, people in charge tend to avoid making the necessary corrections causing the situation to deteriorate further until taken by a crisis. In contrast, during eras of diminishing expectations, people tend to acknowledge the magnitude of existing vulnerabilities but overlook the potentialities of emerging opportunities. Consequently, measures and sacrifices needed to address pressing vulnerabilities, regardless of how bitter the pill may be, are often viewed as necessary and even healthy. Opportunities, meanwhile, are more likely to be ignored as risky endeavors and unwelcome change.

All challenges that may face nations do not represent problems and obstacles only; they also provide opportunities. However, to take advantage of the opportunities, leaders need to be bold, creative and imaginative, moving away from outdated ways of thinking and into the realm of imagination. As for the Europeans, the global nature of the recession gives them a historic opportunity to free themselves from the ghost of inflation and get out of their prolonged structural unemployment and relative economic stagnation. Third world leaders need to do more to develop their economies and work together and lessen their dependence of the big economic powers. The US, despite its severe economic and social problems at home, and complicated military engagements and security challenges abroad, must take the initiative and lead the world in a concerted effort to revitalize the global economy and transform capitalism, giving it a human face. The old model of economic management advocated by the Reagan and Thatcher administrations in the 1980s and backed by conservative economists on both sides of the Atlantic has collapsed and no longer enjoys the trust of people; it may had been good for the pre-globalization age when business ethics were rather strong, and the common interest, not self-interest, was the overriding objective of corporations and most executives and business managers. The current crisis and what it has revealed strongly suggest that the old model is corrupt, inefficient and unfair; it made money the gold standard by which everything is judged, and according to which the value of almost every individual is measured.

If capitalism were to survive and become an engine of sustainable economic development and a wealth generating machine, it must be made more equitable and just and socially responsible, which seems at this time a remote possibility. A financial and corporate system based on trusting that people will continue to trust the greedy, while the greedy trusts that people will continue to be naïve enough to trust them no matter what they do, cannot work in the long run. People running the financial system and the institutions that controlled money and credit and insurance had acted on the assumption that the public will trust them regardless of their actions and intentions, and that they could deceive the poor and ignorant, manipulate the weak and vulnerable, and enrich themselves by exploiting everyone with impunity. Weak national and international laws and regulations that allowed the greedy and the socially irresponsible to steal, avoid paying taxes, and relocate industrial operations and

service centers where the cost of labor is cheap and workers can be easily exploited have impoverished the many and enriched the very few. Therefore, to change this system and mindset to become fair and efficient and responsible requires changing the business culture and the politics that regulate business and govern state budgets; it requires transforming the predominant culture wherever these problems exist.

According to University of California economist Brad Delong, it took the US labor market about 9 months to recover after the 1981-82 recession; and about 29 months to recover after the 1990-91 recession; and 55 months after the 2001 recession. Based on this analysis and the depth of the 2007-09, it should take the American labor market 80 months or more to recover from the current recession, which means that the US economy is unlikely to have more people working than it had at the end of 2007 until 2015 at the earliest. The US has lost its production edge, making it hard to create good paying jobs for the millions who lost their jobs in the industrial sector. For example, the US balance of payments deficit in manufacturing had reached \$600 billion in 2007. Moreover, the United States is in the process of losing its technological edge, not because of lack of ingenuity or productivity, but due to higher labor cost and more restrictions in research in certain areas as compared with China and India. To restore some balance to the balance of payments between the United States as a deficit nation and China and Germany and Japan as surplus nations, there is need for the US to produce more of what it consumes and for China and Germany and Japan to consume more of what they produce. Such action helps the US to recover some of its lost productive capacity and create more jobs, and helps the peoples of the surplus nations to improve the quality of their lives.

If the old capitalistic system based on self-regulating free markets and personal and corporate greed is dead as many economists and social thinkers believe, so must the assumptions upon which its major institutions are based. As mentioned earlier, Mr. Paul Volcker said, "We are trying to save the system." Since the system he meant to save has proven itself to be inefficient and unfair and corrupt, it should not be saved; it needs to be restructured or replaced. People who served as captains of the defunct system can only be saved and their interests preserved at the cost of furthering inequality and inefficiency and deepening corruption and recurring economic crises.

More than fifty years ago, President Eisenhower warned from what he called the "military industrial complex". But the alliance that was at the time being formed to tie the military to the military industry has expanded to become much more complicated, tying all centers of power in America together. What we have today is a complex made up of the military, the military industrial community, the intelligence community, the Congress, the money and banking sector, the media and the millions of retired soldiers living on welfare from the armed forces. In addition, there are millions of people who live on the hope of getting a job with the military and thousands of small communities fighting hard to keep military facilities stationed in their communities. Many universities and think tanks have joined this unholy alliance, appointing former intelligence officers and army generals to prestigious positions, enabling them to dominate security studies and international relations. Thus, even universities thought to be the last bastions of liberalism that could be counted on to defend the poor and

argue against war have fallen into the trap; they have largely become promoters of security and supporters of war. Members of Congress for example are willing to fight to increase military budgets and fund military bases but are hesitant to appropriate few billions of dollars to help the homeless and the unemployed. Meanwhile, money paid by the military industries and the banks helps finance the reelection campaigns of congress. The media is no longer free and thus is no longer able to provide unbiased reporting and tell the truth; it is more likely to falsify the truth that to report it.

The US military budget has reached \$700 billion in 2010, the largest in the world; it equals the total of all military budgets allocated by all other nations. However, if other spending on security related activities is added, such as spending on the wars in Iraq and Afghanistan and Pakistan, and the budgets of the 16 intelligence agencies, and the military aid America provides its allies and client states such as Israel, Egypt, Pakistan and Colombia, the total would exceed a trillion dollars annually. Despite this huge military spending and conducting military and security operations in more than 75 countries, the American people have never been as insecure as they are today. War does not bring peace and supporting corrupt regimes and rulers does not guarantee security; only peace and development can stop wars and bring peace and security. It in fact seems that the more the United States spends on the military, the more insecure Americans become; money and machines and armies and corrupt rulers do not provide security; only peace and peaceful coexistence do. America seems unwilling to learn its lessons; military power has its limits and such limits are contraction, not expanding; military power is no longer able to achieve strategic objectives. This was proven in Vietnam in the 1970s and was proven by the Russians in Afghanistan in the 1980s, and again by the Israelis in Lebanon in the 1980s and 1990s, and is being repeated in Iraq, Afghanistan and Pakistan today.

What makes the entire exercise of supporting the armed forces so unrealistic and vastly hypocritical is that the congress and the media and the majority of the American people consider supporting the young men and women fighting wars overseas so patriotic and nationalistic they are unwilling to accept anything less than total backing; yet when such people return to American with particular diseases and psychological problems that leads many of the them to become handicapped, homeless and poor, no one seems to care. Supporting soldiers to go to war and fight, kill and get killed is considered nationalistic and patriotic; supporting soldiers' rights to come home, live a normal life with their families, is neither nationalistic nor patriotic. People who oppose war are considered unpatriotic, sometimes traitors supporting the enemy. Thus, nationalism and patriotism serves only the interests of the unholy complex at the expense of everyone else.

As nations consider an alternative to naked capitalism, they will be looking more and more to China for inspiration, and to the experience of other states such as South Korea, Japan, Chile and Brazil. China for example has 1.3 billion people, 60% of which live in rural areas, and the 2nd largest economy in the world. However, per capita income in China is low because the size of its population is large. In fact, China's GNP today is as large as that of Germany; yet per capita income in Germany, which has a population of 82 million, is about 15 times the Chinese one. Nevertheless, China has made tremendous progress over the last 30 years. For example,

life expectancy in 1949 was 35 years, today it is 73 years; infant mortality rate was 20%; today it is 1.5%; illiteracy rate was 80%, today it is 5% only. As Mr. G. H. Tung says, "At no point in history has so much improvement been made for so many people in such a short period."

How did China accomplish so much progress in the life time of just one generation? The answer is simple: quality education, learning from the experience of other nations in the West and the East, building a strong yet pragmatic central government, eliminating corruption and nepotism, reinterpreting traditional cultural values to suit the times, and an enlightened leadership. And above all, following an ideology that put the people at the heart of change. While making material progress for the benefit of all people, it made sure that the gap between rich and poor remains small. Nevertheless, China still has a long way to go. Poverty is still widespread, rural population still in need of many of the services that city dwellers enjoys; the percentage of older people is rising while the percentage of younger people is declining or holding steady; and problems related to minority rights are deepening; China has 56 minorities. With the spread of education and rising standards of living, people usually become more demanding, asking for freedom of speech, a free press, democracy and political participation and cultural rights; all of which are causes for unrest and complains that feed an increasingly restless population.

American media;

29% of people say that news organizations get the news right, while 63% think that news stories are often incorrect; 60% say that reporting is politically biased. In fact, news have become more entertainment and less news.

The US has adopted and promoted democracy, globalization, free trade, free markets, deregulations, lower taxes for the rich, and pursued what is called the "national interest" and "national security" without redefining such issues and reevaluating their requirements and meaning in the new age of post cold war.

US has placed itself on a solid path toward self-destruction; we may be able to reverse the trend, but is unlikely to do so until taken by a profound crisis; it is more likely that the US will become a laughing stock for the rest of the world in 15 to 20 years if not before; next crisis will make the collapse unavoidable; all that is needed today is to stop accepting the dollar. For America to recover and regain its economic strength, it had to recover its manufacturing sector which never recover as long as products are available at cheaper prices from china and India/

Failing to address the dire economic and political and social needs of the world's poor is a good recipe for more violence, intensified ethnic conflict, heightened radicalism and terrorism, large waves of economic migrants, and more wasteful spending on wars and armament that hurts everyone and benefits no one; except the super greedy of the super rich and powerful who lack moral responsibility and do not mind benefiting from the destruction of human life.

The "**survival of the fittest**" had been the savage law that governed the evolution of species on earth; it managed to reduce their numbers from about 50 billion to less than 5 billion today. Over the last three decades, the "**survival of the fattest**" has been the brutal law that governed our socioeconomic and sociopolitical transformation; it managed to impoverish at least a thousand for each individual it managed to enrich. We can neither economically afford nor morally accept this tragic situation to continue any longer.