

The Fall of Capitalism

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When Mr. Paul Volker, the chairman of President Obama's economic team was asked about the administration's economic plans to deal with the global economic crisis, he said, "We are trying to save the system." In light of this honest answer we need to ask ourselves if the system can be saved, 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 sensitive to global transformations. This paper will try to explain why the system cannot be saved and how to restructure it and make it workable, fair and enduring.

Experience dealing with past economic, social, cultural, and political problems is a good thing to have; nevertheless, every experience is a special product of its own times and circumstances, causing its applicability 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 leader needs to have to manage challenges that his community may face. Since life conditions in such societies tend to remain stable for longer periods of time or 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 complicated, 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past to arrest national economic decline and deal with financial liquidity problems and inflation have become largely outdated; thus using the same old economic policies to deal with the current economic tsunami is more likely to fail and waste valuable time and resources. Global challenges require global answers.

it also has its advantages and disadvantages

The economic crisis has proven that the system was unfair and inefficient and thus unworkable in the long run, Systems that are unfair are inefficient; and systems that are inefficient are unfair

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 behavioral patterns 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 to come. Such a phase will cause the recovery to be delayed and slower than usual. **Diminishing expectations** could be defined as being "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; opportunities for consumers to become more rational and for governments to take hard decisions and make badly needed but long ignored changes. Back in 1992, I wrote a book, *The New World Order*, in which I explained this phenomenon and provided suggestions to minimize its disadvantages and maximize its advantages; Germany is a classic case where the long term consequences of diminishing expectations could be seen and examined.

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. Due to this unsubstantiated fear, people in charge tend to avoid making the necessary corrections causing the situation to deteriorate further until taken by crisis. In contrast, during eras of diminishing expectations, people tend to acknowledge the magnitude of existing vulnerabilities but overlook the potential 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.

Challenges facing 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 stagnation. The US, despite its severe economic and financial and social problems at home, and complicated military engagements and security

obligations 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 workable or enjoys the trust of people; it may have been good for the pre-globalization age when business ethics were still rather strong, and the common interest rather than self-interest was the overriding objective of corporations, 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 wealth generating machine for all people, it must be made more equitable and just and socially responsible; greed can never serve a noble cause nor provide long term help to anyone, not even to the greedy themselves. 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 continue to 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 overseas where the cost of labor is cheap and workers can be easily exploited have impoverished the many and enriched the very few.

If old capitalism based on self-regulating free markets and personal and corporate greed is dead as many economists and politicians and social thinkers have proclaimed, so is the rationale and wisdom that came with it, and the assumptions upon which its major institutions are based. When Mr. Paul Volcker was interviewed following the outbreak of the financial crisis, he 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 cannot be saved; it in fact 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 recurring economic crises. If President Obama were to follow his instincts and succeed in implementing his ideas and restructure the old capitalist system, he will be credited with leading the greatest peaceful socioeconomic and sociocultural transformation in modern times.

Consumer consumption spending represents about 70% of the American GNP.

Recessions 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.

According to University of California economist Brad DeLong, it took the labor market about 9 months to recover after the 1981-82 recession; and about 29 months after the 1990-91 recession; after the 2001 recession, it took 55 months. Based on this analysis, it should take the American labor market to recover from the current recession, assuming it will end by the end of this year 2009, not less than 80 months, which means that the 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 and is in the process of losing its technology edge, not because of lack of ingenuity or productivity, but due to higher labor cost as compared with China and India; US balance of payments deficit in manufacturing had reached about \$600 billion in 2007.

In 1967 the US had a trade surplus, in 2007, the trade deficit reached \$600 billion. In 1987 manufacturing declined to 30% of GDP; today more than 70% of GDP is generated by consumption.

President Eisenhower warned from what he called the "military industrial complex". What we have today is much more than that; we have a complex made up of the military, the military industrial community, the intelligence community that dominates security studies and international relations in universities and think tanks and thousands of communities living on welfare from the armed forces and in the hope of getting a job with the army and having military facilities stationed in their communities.

Congress members are willing to fight as strong as possible to keep budgets and military bases; the fight with popular support and the baking of the military industrial university complex. Military budget is about 650 billion, the largest in the world; total all that is being spent by all other nations; the more we spend, the more insecure we become. We have never been less secure than we are today; money and machines and armies do not provide security. Limits of military power.

Supporting soldiers as victims of stupid and maligned decisions to go to war, and thus fight, kill and get killed is considered nationalistic and patriotic, but supporting their right to come home, live a normal life, be with their families, meaning opposing war is neither nationalistic nor patriotic.

Nationalism and patriotism serves only the interests of the unholy complex at the expense of everyone else.

CITI GROUP, Bank of America, MorganChase and Wells Fargo control 40% of all deposits, issue two thirds of credit cards and more than half of all mortgages.

China: has 56 minorities; 1.3 billion people, 60% of which live in rural areas, 3rd largest economy in the world; low per capita income because of large population.

In 1949, China had bad economic and social conditions; life expectancy 35 years as compared to 73 today; infant mortality rate 20%; today 1.5%; illiteracy rate 80% today 5% only.

"At no point in history has so much improvement been made for so many people in such a short period." Mr. G. H. Tung

How they did it: education, learning from other nations in West and East; strong, enlightened central government; no corruption, or nepotism; ideology based on making progress for the benefit of all people, yet pragmatic leadership; putting people at the heart of change; reinterpretation of culture; making sure that the gap between rich and poor is small; population control

Still has a long way to go, taking poverty rates, rural population, services, population growth needed, growing percentage of older people, national minorities, with progress and industrialization comes demands for more freedom, for democracy and free press and rights.

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.

Rush Limbaugh signed an 8 year contract for 400 million.

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.

Experience and how it becomes a self limiting process of recycling human trash.

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/

More than 1/4 of all mortgages are in trouble.
Middle class?