The Global Economic Recession and Beyond

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The near collapse of the international financial system in September 2008 was a desperate cry for sociopolitical change and socioeconomic transformation; it proved that the old model of economic and financial management based on the philosophy of self-regulating free markets was inefficient, unfair, and largely corrupt. As a consequence, it created a crisis of ethics and morality that undermined its claim on the future. In pursuit of profits, the greedy abandoned their social responsibilities toward their communities, countries and the common good, even toward the companies they were entrusted to manage. And in the absence of governmental regulations and oversight, the greedy were able to confiscate most of the world's wealth and income, leaving the poor and needy and even millions of university graduates worldwide jobless and thus without a secure source of income or much hope. By the end of 2009, it is expected that more than 70 million people worldwide would have lost their jobs; and the extent and depth of the global recession would have become apparent, making it less palatable for supporters of the old model to argue that it is still valid, while encouraging more reformers to call for its replacement.

In this paper, an attempt will made to examine the current crisis focusing on the most important aspects of it, offer some suggestions regarding what to do about it, and finally try to go beyond the crisis to present few ideas to help restructure the system in ways that make it more solid, fair and efficient.

View of the Crisis

Most world leaders and economists seem to acknowledge that the economic and financial crisis we face today is very serious; some even think that it has passed the threshold of being a recession and is inching slowly toward becoming a worldwide depression. However, when the leaders of the industrialized and industrializing G-20 nations met last November in Washington they failed to recognize the seriousness of the global economic tsunami, let alone address it, thinking that it was only a symptom of the financial crisis. While the financial meltdown has somehow receded due to huge bailouts, the problem has not been solved; the collapse of the financial system was just a phase of the larger and deeper economic crisis that continues to unfold. The downward spiral that began months ago has accelerated lately, causing the US, the EU, the British, and Japanese economies, just to name a few, to slip into deep recession, while some East European and central Asian and African economies are teetering on the verge of collapse.

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 that 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 income ladder own less than 9% of the assets. Such a distribution of income and wealth is neither fair nor economically sustainable; it leaves producers competing for relatively shrinking markets because potential consumers do not have the financial means to buy what is being offered. As a consequence, the world's industrial capacity to produce has become more than its capacity to consume, causing the number of failing companies to accelerate. And while banks were happy to fill the gap 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 industry or the world economy. 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, is estimated to have reached $13 trillion, almost as large as the size of the American GNP.

As millions of people reached the limits of their abilities to borrow, and millions more could not keep up with rising mortgage payments, demand collapsed and a serious mortgage crisis ensued. In economic terms, demand is simply defined as the desire and ability to buy; while the desire to acquire more goods and services is still alive to a great extent, the ability to buy has largely vanished. Due to the crisis, Americans have lost as of February 2008, an estimated $14 trillion in the housing and stock market alone. Americans in general do not save but tend to build equity mainly in stocks and houses and other forms of real estate and borrow against such assets. As equity evaporates, so does the ability to borrow and maintain exuberant old consumption habits.

There is no doubt that the declarations made by President Obama and the steps taken by his administration so far reflect a commitment to restructure the old model of economic and financial management. Nonetheless, there is a global need to do more and be clear about strategies, policies, intentions and future plans. The chances of success of the economic stimulus and financial bailout packages are doubtful, while the chances of failure are good. The world's intellectual community therefore needs to push states and political leaders harder to acknowledge that the super greedy and the super rich have amazed fortunes beyond comprehension, and have in the process corrupted the system and denied the poor and the middle classes a fair share of the wealth commensurate with their rights and contributions. While the super rich have left little money for the needy to spend and live a decent life, the super greedy have caused the economic space to shrink, leaving little room for the industrious and honest to fully participate in building their nation's economies and live their dreams. Any attempt that calls for the redistribution of wealth is certain to be resisted and called unfair, though a good portion of the rich's wealth was stolen from struggling workers and members of the middle class through shady methods such as enacting tax laws that favored the rich at the expense of the not-so-rich, and others that allowed big companies to open tax havens overseas and give executives unbelievable salaries and bonuses. For example, Merrill Lynch gave its employees $3.6 billion in bonuses in 2008, while reporting a loss of $27 billion. Americans making $50 million a year in income pay less in taxes than people making $50,000 annually In Jordan, tax laws allow the rich and powerful to own two or more luxury cars without paying import duties, while the poor have to pay exorbitant duties on little cars they badly need to commute to work.

People with experience dealing with past economic recessions and financial liquidity problems think that helping banks become solvent may be enough to arrest the economic decline. Others, being a product of the pre-globalization age and its outdated ways of thinking, believe that a recession might be the right medicine the world economy needs to correct itself and force governments to address trade and consumption imbalances; a recession, some argue, would force weaker banks and inefficient manufacturing operations to restructure, and thus pave the way for a healthier, more vibrant economy to emerge. Nevertheless, more and more people are realizing that the world is facing a global crisis of a magnitude not seen since the great depression of the 1930s and, as consequence, to advocate taking daring measures to revive the global economy. President Bush said as he approved the banks rescue package "TARP" that he had agreed to the $700 billion bailout only after being told that the "American economy could conceivably slip into a depression worse than that of the 1929." There is no doubt that major banks need to be rescued because if banks fail to function, the economy will stop functioning properly. However, the major problem that policymakers have to overcome is loss of confidence in the economy and in the future; a problem that could not be solved by saving banks and reviving credit markets only.

Experience dealing with past economic, social, cultural or political issues is normally a good thing to have; nevertheless, experience is always limited in nature and scope and time; and thus it has its advantages and disadvantages. If we were living in a traditional society in certain parts of Africa, Asia, the Middle East or Latin America, experience would be all that a leader needs to manage challenges his community may face. Since life conditions in such societies tend to remain stable for longer periods of time or change very slowly over time, past experience and inherited knowledge and prestige continue to play their traditional roles. This is why for example the Awakening movement succeeded in Iraq as tribal leaders with little or no education were able to reassert authority and control events within their communities. Tribal as well as traditional leaders do not need to be highly educated or internationally oriented to lead and be respected; they only need experience derived from old age and social status. 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 thus to remain hostage to old ways of thinking and problem solving models. Since we never lived in an economy 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 and models to deal with the current economic tsunami is more likely to fail and waste valuable time and resources. Global challenges require global answers.

Most European leaders, for example, have been very reluctant to acknowledge the extent of economic change and socioeconomic transformation the world has witnessed over the last two decades; as a consequence, most European economies have remained mired in relative stagnation for more than two decades; almost all major Euro zone economies have had to function with traditionally higher unemployment rates and lower growth rates than usual. The modest economic growth that most states have experienced during that period had not been high enough or inclusive enough to reduce unemployment meaningfully, making low economic growth rates and high unemployment rates structural. The expected GNP decline in the German economy in 2009 is more likely to wipe out the gains Germany has made since Angela Merkel took office in 2005. If the decline continues for another year, which I believe will be the case if no coordinated international action is taken, the decline will wipe out what has been accomplished since the fall of the Berlin Wall. However, European states are better equipped to manage the consequences of a prolonged state of economic stagnation without much social unrest; they have strong social networks, good savings traditions, universal healthcare systems, and generous unemployment benefits; therefore they are likely to withstand the storm, but at a cost that will make them lag further behind.

The monetary policy the EU Central Bank has followed since the Euro zone was created has been bad; it was based on misconceived assumptions that had long been invalidated. Fear of inflation is a state of mind that has largely ceased to exist as a state of economic and social affairs in all industrialized western states for years. Globalization has made supply shortages of labor and other services and most goods and raw materials, with the exception of oil, a thing of the past, thus reducing the threat of inflation substantially. In addition, tight EU monetary policy was instrumental in raising the value of the Euro causing most European products to become less competitive in world markets; and as a consequence, it led most industrial conglomerates to relocate some of their production operations to foreign countries where labor cost is cheap and regulations are less restrictive. As a result, the average rate of growth of the EU zone economies remained low causing unemployment rates to remain high. Though the European central bank has recently lowered interest rates substantially, bank policies are still driven by fear of inflation more than by the need to revive the fast declining national economies and deal with a deepening global recession. As for the US, lowering interest rates to near zero has punished savers but failed to encourage consumers and investors.

Dealing with a Global Crisis

About 10 years ago when Fed Chairman Greenspan began to raise interest rates for fear of inflation, I wrote a paper under the title, "The Ghost of Inflation" in which I argued that inflation has become a mere ghost feared only by people who lived through it and witnessed its destructive social ramifications. But like all other ghosts, inflation has vanished with the advent of globalization from the lives of the developed western societies; therefore it no longer threatens national or global economic prosperity. Sudden increases in prices due to food or oil shortages for example do not usually last long and no nation can do much about them regardless of higher interest rates and strict money supply. As a consequence, I argued that monetary policies based on the assumption that inflation still poses a serious threat to economic prosperity are no longer valid. To counter arguments in favor of higher interest rates, and in order to help poorer nations and peoples avoid paying such rates because of someone else's unfounded fears, I outlined a plan to ease restrictions on the migration of talent from Third World states to western states, while managing talent movement in a way that makes the benefits of migration mutual. While the rich nations gain the brain power of the immigrants, the poor nations get a modest share of the income earned by the talent they export to the rich states. Such monies would be invested directly to help develop the immigrants' national economies and societies. Unfortunately, the paper did not get published. Having promoted Mr. Greenspan as the master of monetary policy and economic thought, the national media would not allow anyone to question his questionable wisdom.

The economic and financial crises facing the world today have come in a new, much different age and environment; they therefore require new thinking and creative policies and daring measures. Acknowledging the depth and width and seriousness of the recession, President Obama warned repeatedly that the US is "facing an economic crisis of historic proportions," and said that he expects the recovery to be slow and difficult. The

International Monetary Fund reported in its latest projections that the world economy is expected to shrink by 1.2% in 2009. This should make the global recession longer and deeper than "experts" forecasts, including that of the World Bank. Furthermore, claims that the Chinese and Indian economies are able to serve as new engines of global growth are unrealistic at best. While both economies are slowing down and more people are loosing their jobs especially in China, most Asians have developed a tradition of saving 1/3 or more of their incomes. Therefore, it is highly unlikely that either the Chinese or Indians or rich Arabs increase spending to create an international demand sufficient to revive the global economy. In a turbulent era dominated by rising unemployment, financial chaos, declining exports, and bad economic news, all people are expected to spend less and save more. Thus, the world economy needs a global stimulus package that includes every country and excludes no region and ignores no social class. In fact, no economic recovery package will be complete or fair or sustainable or even long lasting if it fails to help the poor, not only in the West and East but also in most parts of Africa, Asia, the Middle East and Latin America. The recovery package should be designed to enable most poor nations to climb the developmental ladder, while preventing corrupt rulers and regimes from wasting the opportunity and squandering the resources the world will make available to them.

A downward economic spiral has two other negative byproducts: a psychological one that drives almost everyone to spend less on consumption regardless of level of income; and a financial one that drives almost every potential investor to be cautious and less inclined to take risk. As a consequence, neither China nor India should expect to receive the kind of foreign investment capital it has gotten used to in recent years. US citizens have already begun to reconsider their spending habits and values and lifestyles, save more and rediscover the old virtues of saving for a rainy day. Since most of the equity Americans had built in their homes and stock holdings and used as collateral to borrow has vanished, it is expected that consumer spending in the United States will continue to decline until confidence in the economy and in the job market is restored, and to grow slowly thereafter; much slower than most politicians and business people would like to see and hope will happen. Even in the oil rich states of the Gulf, experts tend to forget that more than half of the demand for imports is generated by millions of guest workers coming from poor countries like Egypt, Jordan, Yemen, Pakistan, India and Bangladesh. Guest workers everywhere tend to be very sensitive to economic decline and always fearful of loosing their jobs any time.

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 were 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.

An effective economic recovery package enjoying a good chance of succeeding has to be large, global, comprehensive, futuristic and inclusive. **First**, it has to be large to create new jobs everywhere, not only in one country but in most countries of the world; it must also aim at addressing the needs of the poor and sick and others who lack education and technical training. And while strengthening economic and cultural links across political and cultural divides, the package should try to move the larger world economy toward increasing food and energy production in order to lessen the possibilities of future shortages and possible inflation. **Second**, the plan has to be futuristic to address the need for sustained economic growth and global prosperity by building not only the physical and economic infrastructures of states, but also the social and legal and institutional and peace infrastructures as well, especially in developing countries suffering from political instability and high population growth rates. For example, if the Sudan were to utilize its water resources and arable and pasture land efficiently, it would be able to produce enough food to satisfy the needs of some 15% of the world's population; an outcome that would substantially reduce the likelihood of having to face another global food crisis and an inflation scare in the near future. The Sudan however, has neither the roads to transport the produce and livestock, nor the peace to encourage people to engage in farming and forget fighting. **Third**, the package has to be inclusive to engage the world's poor directly and provide them with the formal and technical education they badly need, and the healthcare they lack, and the economic opportunity to motivate them to get involved in the economic production process. **Fourth**, the global economic and financial crises facing all nations today require a global response; all member states of the G-20 need to act together and coordinate their plans to be truly effective. Lack of international coordination is likely to cause wide swings in exchange rates, encourage competition rather than collaboration, and drive available investment capital to shift fast from one country to another in search of short term profits. And **fifth**, the plan has to be comprehensive in order to avoid helping certain economic sectors or industries at the expense of others, or fail to address the needs of one group of people in the hope that trickle down economics will take care of its dire needs later.

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. As a consequence, producers were compelled 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 either demand or employment or investment as before; a good portion of the increase in spending would go 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 tsunami a function of the comprehensiveness of proposed programs and the extent of global coordination and collaboration in launching and implementing them.

On the other hand, deepening global economic interdependence, and increasing dependence of developing nations and economies on oil dictates that producers agree to cap the price of oil at a reasonable level, say $60 per barrel for 2-3 years. Reaching such an understanding would vastly moderate speculation and manipulation of crude oil prices and reserves, and give producers and consumers and most industries the opportunity to plan ahead, control cost of production to some extent, and enhance efficiency; it would also serve the long term interests of the oil exporting nations by slowing down the process of developing alternative and renewable sources of energy.

An economic stimulus package capable of achieving these five goals needs to be in the neighborhood of 8% of the combined GNP of the G-20 nations. If this were to happen, the size of the proposed package will be about $4.00 trillion, giving national governments the necessary financial resources and flexibility to spend on reviving the world economy and make it more productive, just and humane, and largely inclusive. Helping the poor nations is not only a moral obligation the rich nations ought to fulfill; it is also a self serving economic and security endeavor. While every market of the G-20 is expected to play a role in the recovery, the only markets that are able to provide the required engine of growth are those of the developing world; such markets are in need of every conceivable product. But to harness the potentialities of such markets, about 10% of the global stimulus package or $400 billion need to be allocated to launch a genuine process of societal development capable of placing most nations on the right path toward sociocultural and economic transformation, peace and political stability. This money should cause the GNP of most participating nation to grow by 10% to 15% annually for years to come, and thus create unprecedented demand for all types of products and services from simple needles to satellites, giving all industrialized and industrializing nation the opportunity to sell their products. In fact, there is no way to utilize the excess production capacity the world has built lately without expanding world markets and thus developing the economies of the underdeveloped nations. Such an ambitious and economically indispensible plan would create between 2-3 million jobs for young Americans, Europeans and Asians working overseas to help the poor find their way out of poverty and repression and conflict.

A proposal of this magnitude to help the poor of the world is more likely to be strongly resisted; it may even be called naïve due to heavy financial borrowing and mountains of national debt. If money cannot be found to fund this proposal, we suggest that it should be funded by printing the money needed. And to reduce inflationary threats, the legislative bodies of states providing the funds should make money available with a specific provision that limit spending to helping develop the underdeveloped and assisting the needy only. Furthermore, it is suggested that the envisioned development plan to help poor nations be multifaceted to include not only economic expansion and physical infrastructural projects, but building the political, social, institutional, educational, legal, and peace infrastructures as well. Every G-20 nation with a convertible currency should be invited to participate in funding this plan. Skeptics need to be reminded that central banks do print money all the time to meet the needs of growing economies and counter effects of contracting credit markets. The American, British, European and other central banks have expanded the supply of money between September 2008 and March 2009 by more than $5 trillion. The contraction in global credit due to the current financial crisis has probably reached 20 times the size or the proposed fund, which call for expanding money supply everywhere. If the rich nations fail to design and fund such a plan and provide the financial liquidity to poorer nations and lagging economies, governments of such nations will more likely resort to printing money and thus fuel unusually high or even hyper inflation; a development that could destroy what has been accomplished during the last two decades, and further impoverish the poor and radicalize the sane. This proposal is indispensible to insuring every nation's economic recovery, to enhancing every rich nation's sense of humanity and security, and to fostering American world leadership.

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 cost of helping the poor, even if money were to be borrowed, is less than half the cost of the immoral and unjustified war the Bush administration waged in Iraq. If the rich nations were to ignore this issue or minimize its urgency and importance as usual, the recession will be longer than projected, the recovery slower than desired and expected, and the hoped for prosperity shorter than wished, and the threat of radicalism and terrorism more serious than feared. There is a need to divert the attention of the poor and desperate from conflict and war, hatred and radicalism, and toward economic production, political stability and sociocultural enjoyment.

Several financial bailouts and stimulus packages have already been introduced in Europe, Asia and the United States, but without discernible results; the situation in Britain, France, Germany, Japan and the United States, for example, have worsened instead of improving, and several East and Central European states are teetering on the verge of default and bankruptcy. A piece meal approach to the current global economic and financial tsunami is counterproductive; as the first dose fails to cure the ailment, people begin to lose faith that larger doses will do better, and thus to become less optimistic and willing to resume spending or investing. The Bush administration's $700 billion financial bailout has done nothing to help home owners, ease credit, or create new jobs; in fact, it has facilitated eliminating more jobs due corporate consolidation and mergers the bailout instigated and largely financed. The almost $800 billion economic stimulus package passed by the US Congress is a good start, but is unlikely to do what it promises to do; however, it can do much more if it becomes a component or a global stimulus package.

Based on the dollar estimates of the investment needed to create one job for different countries, a stimulus package of some $4.00 trillion spent wisely over a 3-5 year period is likely to create an estimated 70 to 80 million jobs worldwide, of which an estimated 2-3 million jobs would go to young Americans and Europeans and Asians working for not-for-profit organizations and state sponsored aid programs operating in Third World countries. While working hard to help the poor and the needy get the right healthcare and education and training and empower women, those young men and women would be helping bridge the sociocultural divides that separate the industrialized and industrializing nations from the rest of the world. And while learning from each other and creating professional and social networks, they will be getting the right training to assume future responsibilities of leading a much economically and culturally interlinked world, armed with the cultural understanding and political and economic and scientific knowledge to make our world safer, more prosperous, more equitable, and much more peaceful.

Many Americans on the right and on left continue to debate the wisdom of bailing out banks, the auto industry, American International Group or AIG and mortgage holders. Regardless of the nature of the debate and the seriousness of the problem facing the American economy, the safest and most efficient way to help struggling American and foreign industries is to enact a large and well targeted and coordinated global economic stimulus package that creates jobs, generates new demand worldwide, and helps revitalize the world economy. An economic stimulus of the sort described above is an investment in the future of all states and all peoples, especially the poor and needy who suffered too much for too long. For the western nations in general and the United States in particular, the areas that ought to be given priority, as has already been articulated by President Obama and others, include physical infrastructure, healthcare and education, renewable sources of energy, research and development, and the environment. As for the poor nations, priority should be given to building the physical and institutional and legal and peace infrastructures, providing education, healthcare, rural development, women empowerment, peace and political stability.

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 had been good for the pre-globalization age when business ethics were 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.

Economic globalization and free trade, while helping several nations and export-led economies, did contribute to weakening the free market system and driving it to near collapse; they created imbalances everywhere and in every area of production and finance. Currencies have been subject to wide fluctuations causing interest rates to fluctuate and trade imbalances to intensify; leading some nations to accumulate huge foreign reserves, while causing others to sink under the weight of huge trade deficits and foreign debt. For example, the aggregate trade deficit of the United States during the last decade only has exceeded $6.00 trillion, while the foreign currency reserves of China, Japan and few oil exporting nations have skyrocketed. Imbalances of this nature and magnitude tend to undermine the capacities of all governments to develop long term plans and be in a position to control their destinies. Such a development would give transnational corporations more power and reasons to seek control through mergers that weaken competition and create global monopolies instead of diversifying investments, expanding production, and increasing research and development activities.

If capitalism were to survive and become an engine of sustainable economic development and wealth generating machine, 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 the greedy. 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 week 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 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 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. 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.

Reaching Beyond the Crisis

In looking beyond the current crisis, the paper will discuss few questions made more visible by the crisis and try to deal with them in ways that highlight the need for structural change; it will also try to provide specific ideas meant to help make the system more efficient and fair.

Trade imbalance between China and the United States and other European sates has led many American and European politicians and economists to accuse China of manipulating the value of its currency to keep it low in order to foster exports and discourage imports. Export subsidies, which China and India and a host of other states provide, also contribute to widening the trade imbalances between states and therefore need to be addressed. While the current trade imbalance is neither healthy nor sustainable in the long run, pressuring China to revalue its currency is not the right policy; it could backlash leading to protectionism and the poisoning of US-Chinese relations. There is another way to deal with this problem without increasing tension between China and its trading partners, while raising the living standards of China's workers and making the Chinese economy more dynamic. What is needed to correct the trade imbalance between the United States and China is to make the Chinese people consume more of the things they produce, and make the American people produce more of the things they consume. In so doing neither economy will be hurt; both economies will be induced to grow further.

- On the Chinese side, the proposal calls for raising the wages of workers and enhancing the benefits they receive. If the Chinese government agrees to do so, the disposable incomes of Chinese workers would be increased, enabling them to consume more of what they produce and encourage them to buy more imported products. As a consequence, the Chinese economy would become more dynamic generating more internal demand, and less dependent on exports to sustain further growth. Meanwhile, raising workers wages will increase the prices of Chinese products slightly, allowing American and non-American products to become more competitive in China and elsewhere. However, any possible decline in Chinese exports due to higher prices would be compensated for by rising demand at home. So everyone will benefit; and no one will be adversely affected. What is true for China is also true for India when it comes to export subsidies. The best way to deal with state subsidies everywhere is to raise workers compensations and improve their efficiency through education and technical training. Such an action makes workers more productive, improves the quality of life for the poor, and contributes to making economic growth sustainable, enabling national economies to become less dependent on volatile international markets. The current circumstances provide an ideal opportunity to implement this idea: it will increase demand for Chinese products at home and thus compensate for loss of exports.

- On the American side, the proposal calls for changing the makeup of the compensation American workers receive. It is suggested that workers be paid 75%-80% of what they are paid today in order to reduce the cost of production and enhance the competitiveness of American products worldwide. Lowering the cost of American products will increase demand for such products at home and abroad; and this in turn would encourage investment and induce the economy to expand and grow further. Workers will be compensated for the loss of wages by getting shares in companies they work for. This way, workers become invested in their own companies and more eager to help them succeed; they will also be positioned to make more money and build wealth as the values of their shares appreciate. The current economic recession presents an excellent opportunity to apply this idea because employees have an unusual opportunity to buy shares at vastly reduced prices. Such a proposal will also serve to reestablish the lost connection between ownership of stock and management of companies, making the later answerable to shareholders and more willing to listen to new ideas coming form employees, and more able to gain concessions from them when needed.

Monetary policy has been for decades the primarily tool most western governments have relied upon to stimulate investment and fight inflation. Some economists still think that monetary policy is the most effective instrument to deal with problems caused by recessions and inflation and therefore tend to oppose stimulus spending by governments. Nevertheless, the advent of the age of economic globalization and interdependence has internationalized trade and credit and investment markets; and as a consequence, it has vastly reduced the effectiveness of monetary policy. People today are able to borrow from foreign markets where interest rates are low and thus circumvent national monetary policies. The polish people for example were able to borrow in cheap Swiss Francs to purchase houses in Poland and take advantage of appreciating currency and higher interest rates at home. The monetary policy adopted by Poland, which kept interest rates high and caused the currency to appreciate, had made borrowing in Swiss Francs a real good deal for the people. But when the Polish currency began to depreciate rapidly, a mortgage crisis ensued and a serious recession followed In fact, the record of monetary intervention over the last two decades does not inspire confidence; monetary policy has failed to stabilize interest rates, instigated more than one recession, caused wide fluctuations in currency values, and was unable to control or even gauge the size of the most serious financial bubble the world had to face.

While raising interest rates to fight inflation has become less effective than ever before, lowering interest rates too much have become counterproductive. When central banks reduce interest rates to near zero, they hurt savers, especially older people who rely on interest payments to subsidize their meager incomes, lower interest rates also give the impression that national economies are weakening and thus undermine confidence in the economy, and therefore discourage rather than encourage investment and consumption. Therefore, it is suggested that interest rates be adjusted annually to keep up with the cost of living, and be kept above that level by one percentage point or more. This should encourage people to save while foiling attempts by policymakers to enable business people and large corporations to enrich themselves at the expense of small savers. While relatively high interest rates did not discourage people in times of economic prosperity and security to borrow for consumption and investment purposes, substantially low interest rates have not encouraged people to borrow for either consumption or investment purposes in bad economic times. Keeping interest rates a little bit higher than the annual increase in the general price level is an issue of fairness and economic efficiency; it encourages people to save more without discouraging investment. Moreover, when people save, investment capital and venture capital become more available; enabling investors to rely more on equity and less on borrowed money. And this in turn reduces the cost of money and thus the cost of production, making products more competitive and investment more profitable; it will also reduce the number of companies declaring bankruptcy due to defaults. Such a policy is in the interest of everyone; it enables more people to get rich and feel more secure and become active investors, while making the economy healthier and less susceptible to financial problems and higher interest rates and reduces uncertainty and thus speculation.

The current system of compensating business executives has created a small but powerful class of super rich people, most of whom are also super greedy; they are people who lack social responsibility and concern for community, or regard for business ethics or the common good. The system that separated stock ownership from company's management has contributed to creating this dilemma and allowed executives to give themselves salaries and bonuses beyond comprehension. Since the boom years of the stock market, investors have begun to view buying stock as a means to play the market, not to invest in the market; and therefore to buy and hold for short periods of time and sell whenever shares' values appreciate. As a consequence, ownership was separated from management and managers have become answerable to no one except to themselves and the greed impulse ticking inside them. Thus, executives felt free to do whatever pleased them regardless of the interests of shareholders and the future of the companies they were entrusted to manage. To stop this legal process of stealing people's money and weakening the economy and destroying people' trust in it, tax laws and management systems have to be restructured. Governments and legislative bodies need to assume their responsibilities and enact new laws and regulations to cap executives' compensations and make everyone pay his or her fair share of taxes, and give employees a seat or two on all boards of corporations they work for. It is suggested that executives' compensation be capped at a level not exceeding one million dollars a year, and bonuses be limited to a small percentage of annual profits and be shared by all employee, with a provision allowing no one to receive in bonuses more than 50% of his or her annual salary. Executives and managers who feel that they are worth more money should be encouraged to start their own businesses where they could try to make as much money as they think they are worth. As business owners, all people should be given the opportunity to enrich themselves; but as managers they should not be allowed to spend their valuable time manipulating people and balance sheets to justify unjustifiable salaries and to hide heinous bonuses.

Every economic, financial, educational, or healthcare delivery system that is unfair is also inefficient; every system that is inefficient is also unfair. Inefficient systems tend to misallocate scarce resources and waste rare opportunities. Unfair systems tend to 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 and deepening poverty everywhere; it also stripped the middle classes of the resources and opportunities to find rewarding jobs and improve the quality of their lives. Unfairness leads to inefficiency; and inefficiency breeds unfairness; and failure to stop both leads them to reinforce one another and produce disastrous consequences like the ones we are witnessing and having to endure.

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.

Dr. Rabie is a former professor of international political economy and an author. He lived and studied in four continents, published scores of books, tens of scholarly papers and hundreds of articles. He taught and lectured at more than 40 universities and research institutes and participated in more than 70 conferences throughout the world. His writings, interests and associations reflect deep commitment to peace, freedom, human development, justice, and dialogue among different peoples and cultures.

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