Re: Capitalism

The myth of

By Saad Rasool Sehole

THE usual hubris of the western media, over the past year, has been drowned by a certain raucous clatter. This is the sound of the crashing of global financial markets that has demolished the myth of western capitalism.

Capitalism, briefly, is an economic philosophy that thrives on the touchstone of the free will of individual market players, in a distinct contrast from governmental intervention. Capitalism argues that all goods and services should be owned, operated and managed by private enterprises, for the sole purpose of profit maximisation.

The investment, production, distribution and pricing of all products are determined through market forces alone, without central planning. As a result, the regulations and laws – in a purely capitalistic system – are designed to serve one purpose alone: to protect the private control of resources and business enterprise within the system. In other words, the government's job is limited to ensuring that war-gangs do not roam in the streets and that the traffic signals continue to operate.

For the longest time, the West has used this idea of capitalism (along with the softer pretext of democracy) to oppose political systems and countries across the globe. It has been used as a tool of economic discrimination to ostracise and isolate nations from global commerce.

Only in the last one hundred years, first it was the Japanese empire that had a central governing philosophy averse to the western mode of thinking. Then it was Russia, and its lack of private economic enterprise followed closely by Cuba, Vietnam, India and China.

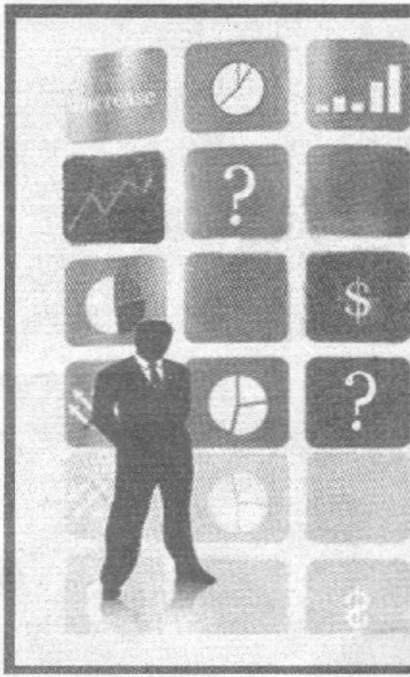
In fact, it was not till (some of) these nations opened their borders to American corporations and the western style of 'capitalism' that they become acceptable in the modern polity of nations. Thereafter, some of these nations (India and China in particular) have become instrumental cogs in the global economic infrastructure.

The American policy makers, in particular the neo-conservatives, heralded the fall of Soviet Union and the subsequent financial success of the 1990s as proof that capitalism works. And from the shadows of this presumption, Wall Street and the American corporate empires rose to unprecedented heights. So much so, that this illusion of infallibility led American policy makers, such as Thomas Friedman, to come up with the 'Golden Arches Theory' – that no two nations that have McDonalds (read: American corporate enterprise) in them, have ever gone to war with each other.

But just as the economic progress, trade expansion, and GDP growth of the last few decades was scripting the success of capitalism, the entire paradigm has collapsed over the past 18 months, putting to question the virtue of a purely capitalistic philosophy.

And it is pertinent now, as the ship of financial markets is being 'bailed-out' out of the storm of a global credit crunch, to unearth the spirit of Ayn Rand and critically assess the merits of unadulterated capitalism. If capitalism really encapsulates the idea of self-correction of the market (for better or worse), why tinker with it now, via 'bail-out packages' when market correction is most needed?

First of all, it must be noted that even in the most capitalistic of societies – the United States of America –



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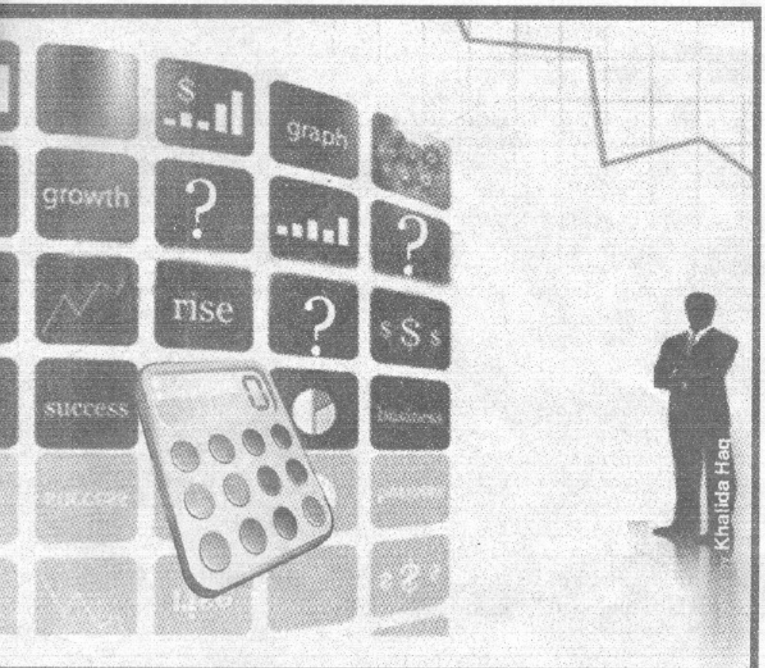
parts of the political economy have always been manifestly non-capitalistic. These include the federally funded Social Security system (which accounts for approximately one-third of the federal budget of the United States), the public healthcare system and the subsidised state education sector. Clearly, heavy governmental involvement and influence in these sectors, in the interest of "equity", is an acceptance of the fact that capitalism has its limits.

But barring these 'politically sensitive' spheres, the American economy has been considered largely capitalistic. In particular, the financial and corporate industry – the Wall Street – has been touted as the flagship of capitalism and a testament to the genius of free market economy.

Accepted. But then such claims should be backed with the spine to follow capitalism to its natural end – that of allowing the market to correct itself, instead of correction via government involvement. Contrary to this philosophy, the bailout packages (primarily designed to rescue the housing and banking sector) being announced in all major economies across the globe have shown that capitalism is only acceptable to the vainglorious West as long as the going is good. When waves get rough, these citadels of capitalism quickly paddle to the shallow end of economic socialism.



An analysis of the actual numbers across the globe sheds light at the astounding reality. In the United Kingdom, for example, the government has allocated £500 billion ($850 billion) to 'provide crutches' to the economy. Similarly, the Chinese government introduced a RMB¥ 4 trillion ($586 billion) stimulus package in 2008 alone, along with an interest rate cut for the first time since 2002, to 'bailout' the financial markets from a collapse. Following suit, the Australian government injected over $7 billion into the banking system– all in the name of 'injecting' confidence in the international financial structure.

In the United States, surprisingly, the shunning of capitalism and the cry for governmental help has been the strongest. As a starting point, the government announced a $700 billion bailout package for "troubled mortgage-related assets". The Treasury has also announced a new $50 billion programme to insure money market fund investments (which are integral to the ongoing financing of the corporate sector). Technicalities aside, collectively this forms the largest governmental interference with market forces in all of recorded history.

Three cheers for the mascots of capitalism, please. Hip hip Hurray!

The aim of this discourse is in no way to advocate in favour of socialism or, worse yet, a communistic economic system. These too have been tried, and at great economic, social and human cost, failed miserably. Some diluted form of capitalism, resembling the Scandinavian model perhaps, is probably a better approach. But all that is not my point here.

I am sure that generations of world-class economists will study the reasons behind, and lessons emanating from the prevalent financial crisis. What needs to be impressed immediately is a humble acceptance of the fact that Milton Friendman brand of capitalism – as sexy as it may appear on paper – lacks a certain human element. And that this 'human element' is integral for the working of even the most modern and developed economies. Such compassionate form of economic influence can only be introduced by a measure of governmental intervention to protect the economically weak and to pacify the singular lust of self-interest.

While there may be no clear and present alternatives to capitalism at the moment, we all (including the West) must have the humility to accept this reality that capitalism, in its puritanical form, simply does not work. And in the same breath, we must muster our collective wisdom and ingenuity to think of alternatives that might.

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