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Cover Story
Capitalism Reaches a Crossroads
Left Margin
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"Even now, someone somewhere is penning a book with a snappy title *The End of Capitalism*," columnist Philip Stephens, associate editor of the *Financial Times* wrote recently. Not to worry, he continued, that's not about to happen. However, eight days earlier Martin Wolf, associate editor and chief economics commentator at the same paper observed that what was "until recently, the brave new financial system is melting away before our eyes." On the night of September 18 members of Congress were summoned to a Capitol Hill conference room where they were told that if they did not act quickly to approve a radical revamp of how the government deals with the economy, capitalism might indeed collapse. That's before President George W. Bush said, "If money isn't loosened up, this sucker could go down."

Not to worry, cautioned the editor of the conservative German newspaper *Die Welt*. "These are all trials and crises, but they will not spell the end of America's distinctiveness."

"The country will never convert to socialism, nor will it become a mega-state. Faced with similar circumstances, that might be the response of the pessimistic Europeans. America's culture of optimism - which all too often gets on the Europeans' nerves because they consider it to be naïve and superficial - also has the power to identify a setback as exactly that and not the end of the world," the paper editorialized. That was a few days before the U.S. Treasury took responsibility for the well-being of distressed financial institutions all over the world.

No, the U.S. is not about to become socialist any time too soon. That alternative has not been placed before the public in a way that could be considered preferable to what

we've got. Besides, a system ceases to be when it is replaced by something else. But with each passing day, as the crisis has deepened, it has become more and more obvious that "unfettered" capitalism and "market fundamentalism" and the neo-liberal policies they produce are discredited. Indeed, most of the world had rejected them before the current crisis began.

"The globalization agenda has been closely linked with the market fundamentalists - the ideology of free markets and financial liberalization," economist Joseph Stiglitz told Nathan Gardels on the *Huffington Post* recently. "In this crisis, we see the most market-oriented institutions in the most market-oriented economy failing and running to the government for help." Everyone in the world will say now that this is the end of market fundamentalism.

"In this sense, the fall of Wall Street is for market fundamentalism what the fall of the Berlin Wall was for communism - it tells the world that this way of economic organization turns out not to be sustainable," said Stiglitz. "In the end, everyone says, that model doesn't work. This moment is a marker that the claims of financial market liberalization were bogus."

Conservative commentator and political operative, Newt Gingrich, has come up with the terms "crony capitalism" and "bureaucratic capitalism," both of which he says will be the outcome of the Bush Administration's bailout scheme. The former will mean "a welfare state for rich investors," he says, the latter "salary caps and other government regulatory requirements which would drive the 'private' out of 'private enterprise'."

There's a lot of talk out there about the bailout being "socialism for the rich." That's all so much seemingly clever rhetoric designed to make a political point, but of no substance. Nothing the Bush Administration is pushing (with the help of a Democratic Congress) bears any resemblance to anything that could remotely be called socialism. In fact, it looks far more like Italy under Mussolini than the USSR under Brezhnev. As *truthdig.com* columnist Robert Sheer noted last week, "what is proposed is not the nationalization of private corporations but rather a corporate takeover of government. The marriage of highly concentrated corporate power with an authoritarian state that services the politico-economic elite at the expense of the people is more accurately referred to as 'financial fascism'."

The new Treasury Department fund "will share many characteristics of the expanding government-sponsored pools known as sovereign funds," wrote Landon Thomas, Jr. in the *New York Times* September 23.

"The new fund, assuming it is approved by Congress, could pull the United States deeper into a form of capitalism in which the most powerful financial entities are not risk-happy investment banks, but more cautious state-sponsored entities," wrote Thomas. "While not necessarily a third economic way, this general approach presumes that the government - in addition to the private sector - plays a crucial role in deciding how best to deploy a nation's investment capital."

"This gets to the point of state capitalism and defining what the role of the government is in a free-market economy," Douglas Rediker, a former investment banker at the New America Foundation in Washington, told Thomas.

"The result of the bailout would be that the government would virtually control many of the largest financial institutions in the country," wrote Dan La Botz in *Monthly Review* online. "The U.S. government and the banks of the country would suddenly be fused - or perhaps entangled would be a better word - into one extremely powerful political-economic entity. While the proposal does not envision state control of the economy as a long-term proposition, merely long enough to save the bankers, still the impact of the current proposals now being debated in Congress will be far-reaching. The American government and the people have suddenly found themselves at a turning point which was not foreseen and for which no one was prepared."

"If you wanted to devise a name for this approach, you might pick the phrase economist Arnold Kling has used: Progressive Corporatism.," wrote *Times* columnist David Brooks the same day. "We're not entering a phase in which government stands back and lets the chips fall. We're not entering an era when the government pounds the powerful on behalf of the people. We're entering an era of the educated establishment, in which government acts to create a stable - and often oligarchic - framework for capitalist endeavor."

"After a liberal era and then a conservative era, we're getting a glimpse of what comes next," wrote Brooks

I can hardly wait.

An inevitable consequence of globalization is that many of the critical problems facing the planet today can only be solved through international cooperation and coordination. These include: climate change and other threats to the biosphere, aids and other infectious diseases, human migration and international finance.

The current economic crisis is an international one yet the recourse chosen by Washington to deal with it globally is to "press" other countries to adopt measures similar to those adopted in the U.S. Under such circumstances the chance of a collective effort to restructure world capitalism would seem remote, if possible. But the demand for such is out there and how our country responds will go a long way in determining the contours of international affairs for decades to come. One has only to grasp the nature of the remarks at the recent opening of the United National General Assembly to appreciate the seriousness of the challenge.

Last week in New York, one after another, heads-of-state rose to the Assembly rostrum to drive home the message: the "credit crunch" in the U.S. is much more than a crisis in U.S. banking; it reflects a problem threatening economic devastation across the globe. It requires an international cooperative effort in which [diktat](#), posing as "leadership", cannot be tolerated. Don't even think about handing the problem to the World Bank or the International Monetary Fund. The UN itself should be the arena for countries to discuss a solution for the global financial crisis, said Brazil's President, Luiz Inacio Lula da Silva: "The global nature of this crisis means that the solutions we adopt must also be global, and decided upon within legitimate, trusted multilateral forum, with no impositions."

Arguably some of the strongest remarks to the UN came from the leaders of Latin American countries but the most fundamental challenges came from traditional U.S.

allies such as France and Germany. These are capitalist countries and for the foreseeable future will remain so. But they have a strikingly different view of how the international economy should function.

German chancellor, Angela Merkel, even revealed that an attempt had been made to enlist Washington in a collective effort to head off the crisis. At last year's meeting of the major industrial powers, she said, she had - in the world of the *New York Times* - "strongly urged both the United States and Britain to be more rigorous in supervising financial activities, and even offered specific proposals to be applied to banks and other institutions." But the U.S. was unresponsive, she said, while seeming "to express a certain exasperation that the United States was now asking Europe for help, after inflicting damage on the rest of the world that could have been avoided."

"At the moment, I don't think Japan needs to launch a program similar to that of the United States," Japanese Vice Finance Minister Kazuyuki Sugimoto told reporters in Tokyo, while the European Union let it be known that its members would not be putting up money to rescue banks. "This crisis originated in the US and is mainly hitting the US," German Finance Minister Steinbeck said last week. In Europe and Germany, such a package would be "neither sensible nor necessary."

The U.S. "has not only turned away from decades of rhetoric about the virtues of the free market and the dangers of government intervention, but it has also probably undercut future American efforts to promote such policies abroad," wrote the *New York Times'* Nelson Schwartz from Paris September 18. And most of the other governments are none too happy about it. Japanese commentators were quick to note that the Treasury bailout is precisely what Washington told them not to try when that country faced an economic crisis only a few years ago. (A condition of help for South Korea when it faced an economic crisis in the 90s was that Seoul not bail out banks and other failing enterprises.)

Last Friday, editors of the center-right German newspaper *Allgemeine Zeitung* compared the U.S. financial crisis to 9/11 saying "this time, the attack on all-American doctrines is not the work of some foreign enemy. It comes from within, from the depths of the system. Largely unobstructed by its own state controls, American capitalism has created its own suicide bomber whose explosives - derivatives - have had an even greater effect than the flying bombs of the jihadists. The whole world - and not just New York - has a new ground zero now - Wall Street."

French political leaders immediately seized on the latest bailout moves to trumpet their own version of "economic patriotism." "We're not going to accept to pay for the broken dishes of a failed regulation" and a "corruption of capitalism," said French Prime Minister Francois Fillon. Nicolas Sarkozy has called for a world to "learn the lessons of the worst financial crisis since the 1930s." He proposed to "moralize" capitalism, freeing it from speculators whom he labeled "the new terrorists." Last week, as President Bush went on television to admit the crisis is grave, Sarkozy stoutly defended capitalism but observed that "A certain idea of globalization is drawing to a close with the end of a financial capitalism that had imposed its logic on the whole economy and contributed to perverting it."

"The crisis is not a crisis of capitalism," said Sarkozy. "It is the crisis of a system that is

far from the values of capitalism and betrayed capitalism.”

In 2006, long before there was any acknowledgement of the chaos to come (I put it that way because working people in the U.S. were already facing home foreclosures), when the world's elite gathered at Davos, Switzerland, chancellor Merkel had observed that “What we have is a completely new balance of power in the world today.”

That too was evident in the General Assembly debate. In prior years no one would have expected Latin American governments to openly challenge Washington and Wall Street's conduct in the international economy. However, over a brief recent period, left-leaning political forces have taken power electorally in a number of countries, having in common a rejection of the exploitative policies of the World Bank and IMF, and the influence of the same “market fundamentalists” that the Asians are repulsing and who have led the U.S., itself, into the present economic cul-de-sac.

No one was surprised that Cuban first vice-president Jose Ramon Machado Ventura would tell the UN that the drive for profits was increasing poverty and that the current crisis threatened the “existence of mankind.” “Fabulous fortunes cannot be wasted while millions are starving and dying of curable diseases,” he said. “For a large part of the non-aligned nations, the situation is becoming unsustainable. Our nations have paid and will continue to pay the cost and consequences of the irrationality, wastefulness and speculation of a few countries in the...north.”

“The prevailing world order, unjust and uncontained, must be replaced,” Machado Ventura said.

“We don't want to conceive of the idea that the rescue of the dignity of the world's poor does not have the same priority or the same urgency of saving the institutions that operate the most powerful financial centre in the world,” said Dominican Republic president Leonel Fernandez. “We need an international financial plan that is as urgent and as bold as the one to save Freddie Mac, Fannie Mae, Bear Stearns, Merrill Lynch and American International Group.” Fernandez added that while \$700 billion is being set aside to rescue U.S. financial institutions, for something like \$50 billion millions around the world could be spared a miserable existence.

“We're not going to accept to pay for the broken dishes of a failed regulation” and a “corruption of capitalism,” said French Prime Minister Francois Fillon. Sarkozy called for a world to “learn the lessons of the worst financial crisis since the 1930s.” “Let's create a regulated capitalism,” he said.

On September 24 in Berlin, German Finance Steinbrueck repeated Merkel's charge that Washington had, last year, resisted specific calls for regulations in the financial marketplace. “Crisis management alone will not rebuild the lost confidence,” he said. “We must civilize financial markets, and not just through moral appeals against excess and speculation. Self-regulation is no longer sufficient.” The US belief in “laissez-faire capitalism; the notion that markets should be as free as possible from regulation; these arguments were wrong and dangerous,” he said. “This largely under-regulated system is collapsing today.”

Steinbeck went on to propose new regulations and said that amid the current economic

crisis the US is poised to lose its role as a global financial "superpower." The new world will become "multipolar" with the emergence of stronger, better capitalized centers in Asia and Europe, he said.

Meanwhile, Oskar Lafontaine, leader of Germany's fast growing and increasingly influential Left Party, said the world is confronted with more than a banking or economic crisis and – in the words of *Der Spiegel* – "but rather one of the entire intellectual and moral direction of Western society." "We no longer have a social market economy because of the regimes of the international financial markets," Lafontaine said the consequence of which is increased privatization of the social services and a threat to the retirement security of millions of people. Lafontaine said the Left party wants the re-creation of a Bretton Woods-style system of foreign exchange controls with fixed trading bands, controls on international capital flows and on financial products.

"We believe that financial products should be forced to get official stamps of approval just like pharmaceutical products," Lafontaine, the former head of the country's Social Democratic Party, said. "Because the bitter truth is that many extremely greedy bankers don't even understand themselves what they've done. These are people who started something without knowing what they were doing and it's ended in disaster."

"When enough banks have been nationalized or gone bust, when the last reputations have been properly shredded, and when prices of Fifth Avenue apartments and Mayfair town houses have fallen finally to earth, politicians are going to have to think hard about the lessons of the financial crash of 2008," wrote Stephens of the *Financial Times*. "Even now, someone somewhere is penning *The End of Capitalism*. Experience tells us snappy book titles should be treated with caution. The global financial system will never be the same again. But just as history survived the collapse of communism, so the market economy will weather the demise of Bear Stearns, Lehman, Merrill Lynch and HBOS."

"The credit crunch and the financial firestorm have also provided a neat metaphor for the big shift in economic power in the world," writes Stephens. He goes on to endorse the call for "more global governance: credible international rules."

"Capitalism will survive these financial shocks," said Stephens. Probably it will; in any case it's good to have faith.

On Monday, the House of Representatives voted down the final draft of the bailout plan hurriedly crafted by the Administration and Congressional leaders from the two major parties. This set the stage for what was certain to be desperate attempts to put together a compromise that could win legislative approval. This takes place against a backdrop of widespread public opposition to the original plan and ever greater turmoil in the foreign money markets and on Wall Street.

Meanwhile, the dangers and challenges over the next few weeks and months are enormous. On the world scene, the U.S. could join in an international – and more democratic – effort at reconstructing capitalism in an effort to save it, or the White House – whoever lives there – and the Congress could lead us along a path of international isolation in which the rest of the world goes about its business, leaving us in economic mire. On the home front, the policymakers could enshrine a new form of

corporate and more authoritarian capitalism or enact policies bent toward greater equality, solidarity and social and economic justice (things real socialists have never ceased advocating). The latter is what we should be insisting.

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