

## Reflections on the (Unplanned) Death of an Ideology

*By Peter Zerner and Joel Wendland*

**T**he financial meltdown on Wall Street has provoked a severe ideological crisis. Capitalism itself is under scrutiny. In the corporate media, one can now find regular discussions of Marxism, capitalism and socialism – not always positively presented to be sure, but at times the discussion has been thoughtful.

Even former Federal Reserve Board Chair Alan Greenspan, long an outspoken champion of free-market fundamentalism, told Congress in late October that he was in the midst of “an existential crisis.” Greenspan confessed that he had “made a mistake in presuming that the self-interests of organizations, specifically banks and others, were such that they were best capable of protecting their own shareholders and their equity in the firms.”

Another example of this trend is the recent Reuters analysis by Bernd Debusmann who writes that “Capitalism as we used to know it is on its deathbed. And those who predicted that the old brand, the unfettered, American-promoted system, was a danger to the world, are being vindicated. They include Karl Marx, whose thinking on banks seems oddly contemporary these days.”

On the other end of the spectrum, consider the confused display of logic in this op-ed from the Washington Post in October: “Is this the end of American capitalism?” The answer is that “we are not witnessing a crisis of the free market but a crisis of distorted markets.” In the Post’s opinion, the collapse of the current system is not a



capitalist crisis, because we are not living under “true capitalism.” The Post’s editors, however, seemed unable to elaborate a vision of true capitalism.

Former World Bank chief economist Joseph E. Stiglitz has offered more thoughtful observations. In a recent article in *Vanity Fair* entitled “Reversal of Fortune,”

Stiglitz lists the chief characteristics of the ideology of free-market capitalism as practiced in the US: "special interest pressure, populist politics, bad economics, and sheer incompetence," characteristics which he views in turn as the root causes of the current crisis.

Stiglitz hammers away at the anti-government ideology behind right-wing economic policy. "[This] ideology proclaimed that markets were always good and government always bad.... [but] the fact is that key problems facing our society cannot be addressed without effective government." In his criticism of neoliberalism, Stiglitz displays an independent streak and goes much further than most orthodox American economists dare.

Like their counterparts among the nation's CEOs, most US economists have long abandoned any pretense of practicing objective science. Instead, for the past three decades they have preferred to view the American economy through rose-colored glasses. Why shouldn't they? When things go wrong, there is no price for their academic mistakes. This is perhaps the most distinctive feature of today's no-fault capitalism. On the one hand "robbing with a fountain pen" often goes unpunished; on the other, acting as academic cheerleaders for neoliberalism carries no risk for today's practitioners of the "dismal science." Among those who prophesy about the future of the American economy, there are always far more Pollyannas than Cassandras.

Joseph Stiglitz is different. Having seen at close hand the damage wrought by the IMF and its neoliberal policies, especially among the world's poorer nations, Stiglitz listened to his conscience and resigned his position as chief IMF economist in 1999. Since then he has criticized the neoliberal dogma of free-trade, an ideology which has served as a convenient fig leaf to

conceal the multitude of crimes perpetrated by unregulated corporate greed operating on a global scale.

In *Vanity Fair*, Stiglitz points to the unspoken secret of US capitalism. "Our economy," he wrote, "rests on public investments in technology, such as the Internet." Advances in modern technology, he noted, have been the driving force behind the modern American economy and will continue to be so in the future. All these revolutionary developments – for example, information technology, alternative energy and space technology – have resulted from publicly-financed cooperative efforts between the US government and university and corporate research centers.

Such advances, in turn, are transformed, for good or for ill, into lucrative sources of profit for US corporations and are exported throughout the world. All of these technological breakthroughs, however, resulted from carefully planned, government-backed efforts which harnessed the scientific and managerial talents of large numbers of individuals working together to achieve a common goal. The future of the American economy and the achievement of economic security for the American people lie in precisely this kind of planning and problem-solving.

Markets, by themselves, have been decisively proven to be extremely inefficient regulators of economic life. As Stiglitz says, "We learned from the Depression that markets are not self-adjusting," adding that sporadic government interventions in the economy such as interest rate adjustments, are insufficient to prevent recurring economic crises. We are now faced with a wide range of interconnected economic problems, foremost among them the housing and financial crisis. But today's economic crises are so systemic and widespread that

they cannot be solved by simply adjusting interest rates.

Because markets aren't self-adjusting and because a healthy, dynamic economy requires public financing and governmental regulation of the financial markets, it is obvious that the US is in dire need of a form of economic therapy far different from the free-market quackery practiced by the Bush administration.

In his article, Stiglitz not only rejects the cult of free-market fundamentalism, but he also criticizes more orthodox proponents of limited government intervention by the Federal Reserve Board, as well as sporadic emergency bailouts like the Wall Street rescue package proposed by Bernanke and Paulson. As Stiglitz notes, the so-called "free market" comes with an enormous hidden price tag, which the American people are now being forced to pay. Part of the reason the costs are so high is that Washington lobbyists and special interests have bought access to the halls of Congress and the regulatory bodies that were originally designed to keep an eye on the criminal activities those who hire the lobbyists and buy the votes in Congress actually engage. They have essentially gamed the system and have, in Stiglitz's words, "bent the rules to benefit themselves."

This unfettered free-market system ran rampant during the Reagan-era and Republican one-party rule under George W. Bush. Under Bush, the corporate components of Bush's true base, Halliburton, Blackwater USA, Big Oil, and the insurance and pharmaceutical companies have all lined up at the trough for no-bid government contracts, huge tax breaks, exemption from government oversight and a shooting spree in Iraq. It was during this new golden age of political corruption that Donald Diamond, the Arizona real estate tycoon, paid for John McCain's help in

acquiring a lucrative stretch of public land on the California coast, so he could erect McMansions on it. In the 1980s another Arizonan, Charles Keating, received special Senate favors from his "till-death-do-us-part" friend John McCain, along with four other US senators, enticing them by means of lavish campaign contributions to look the other way as his Lincoln Savings and Loan engaged in massive fraudulent activity.

### **People before profits: An idea whose time has come**

**T**he economic crisis we face is the direct result of the anarchy of a financial system guided purely by self-interest and profit.

But if the self-interested quest for profits of the corporations and the wealthiest Americans has been proven to be responsible for the current financial chaos, what kinds of policies are needed in its place? Stiglitz calls for carefully-planned government intervention, reinforced oversight of the financial markets, massive investments in basic infrastructure, and new programs and regulations that allow homeowners who are faced with foreclosure to pay off their debts in a reasonable fashion and stay in their homes.

Another respected economist, James K. Galbraith of the University of Texas (son of John Kenneth Galbraith, the prominent progressive economist of the Kennedy-Johnson years) recently addressed the crisis of capitalism in an article in Harper's Magazine simply titled "Plan." In it he advocates just that – a planned economy. Galbraith viewed the present system as a "mixed economy." As it now exists, corporate interests dominate this mixed economy. With the rise of free market fundamentalism, corporate interests have totally overwhelmed a formally vital public component of the economy that has lain

essentially dormant for decades since the time of FDR (with a brief attempt at resuscitation during the years of LBJ's Great Society program).

Galbraith seems to agree with Stiglitz that rigid adherence to policies based entirely on free market fundamentalism comes with a great price. In his view, those who have wielded power for so many years in US political and economic circles, fervently believe in using "the government to build monopolies, to control resources, to block regulation, to crush unions, [and] to divert as much as possible from taxpayers into private pockets."

Obviously the solution to the present economic crisis is not a retreat to some more "authentic" or "original" form of capitalism, like the Washington Post op-ed writer dreams about. Nor does it lie in simply beefing up regulation and oversight of the financial markets and banks. Galbraith emphasizes that planning is the best solution. For him, the role of government should be to provide continuous oversight of the American economy and the inevitable excesses of capitalism.

Only a democratically-based government that is responsive to the needs of the American people can provide the necessary planning and monetary resources to adequately address the problems that inevitably arise in a capitalist economy. Some of the negative consequences of unrestrained capitalism we are currently seeing are millions of home foreclosures, rising unemployment, plant shutdowns, market chaos, and a dwindling supply of natural resources like oil and water. Government planners, with the interests of the American public, not profits, at heart, should be at work providing real-time solutions to the nation's economic problems. Galbraith highlights the environmental crisis we face and points to the direct impact of

global warming and dependence on foreign oil on the faltering economy.

Systematic planning can address the many problems we face as a nation – social problems such as the lack of good-paying jobs and secure financial futures, environmental problems like global warming and a rotting infrastructure, the abysmal state of our health care system, and the problems of racial, ethnic and sexual discrimination. Each of these problems has grown steadily worse during the past eight years of the Bush administration, which has exhibited a total lack of strategic planning (Iraq/Katrina/the subprime mess) and a haughty disdain for contemplating the needs of any sector of American society apart from the extremely wealthy. And for those who do not subscribe to the official dogma of unfettered free market capitalism, any input into the formulation of economic policy has been effectively blocked.

Galbraith also stresses that we need a government where the voices of working people are heard and programs implemented that offer viable ways to revive the American economy. Such new approaches could be harnessed to end our long reliance on non-renewable fossil fuel and provide for massive investment in renewable energy alternatives. The direct result of this planning process would be to strengthen environmentally-friendly industries and create new jobs. Intellectual foresight and planning is also needed to create a universal health care system that ensures equal and complete access to medical care for all the American people.

The money we need to revive our economy should come from rescinding the tax breaks to the wealthiest two percent of taxpayers, while at the same time providing tax cuts and stimulus packages for the rest of us. We can also free up more federal dollars for domestic needs by ending the war in Iraq, which has become an Augean stable of

graft and corruption that is costs \$10 billion a month.

Preserving the environment, preventing wars, finding ways to reduce the bloated military budget and creating jobs are the intellectual and moral challenges of the 21st century that require more than what the so-called experts have to offer. The task at hand also demands the direct, grassroots input of millions of “ordinary” Americans, who have first-hand knowledge of the problems we face.

A new economy can only be built if it is based on hard work, democracy and careful planning. It can never arise out of a self-interested desire for the acquisition of enormous personal wealth – the hallmark of free-market capitalism. But planning for American’s economic future should not be the exclusive domain of government bureaucrats or university professors, a 21st century version of Plato’s philosopher kings.

Effective planning requires the leadership and active participation of America’s working people. Leadership for a new economy should come particularly from the organized labor movement, whose leaders and rank-and-file members have direct experience with the problems working families face. These dedicated working-class leaders are ready, willing and able to work

together with government and business to find ways to protect the economic interests of the essential core of democracy, the American people.

To engage and defeat this many-headed economic monster demands a boldly different, multifaceted approach. Succeeding in this Herculean task requires a concerted national effort and careful economic planning. Essential to its success is the adoption of a grassroots strategy, working from the bottom up, a massive effort akin to the mobilization sparked by the Obama campaign, relying on the input of the American people to tell us what our national priorities ought to be. Such an effort will obviously require a massive injection of federal dollars, rationally allocated and carefully planned.

There has never been a better or more urgent time to re-evaluate the economic system we live in. With Barack Obama in the White House and the Democrats firmly in control of Congress, now is the time for us to make the basic changes in the economy that will put an end to the reign of no-fault, free-market capitalism we have suffered under for the last eight chaotic years – and finally put the interests of the American people before corporate profits.

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