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Cover Story Obama and Rescuing Capitalism Left Margin

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Back in December, when it was obvious that the economy was in bad shape and before we knew how precarious it could get, Fareed Zakaria, editor of *Newsweek International* and columnist for *Newsweek* and the *Washington Post*, wrote, "For Obama to be remembered as a great president, he has to do nothing less than rescue capitalism." When I first read those words my first thought was: that's a lot of weight to put on a brother. I suppose Zakaria has had second thoughts about this as it is becoming increasingly obvious that in either the medium or the long term, it will take a lot more than the President to rescue the system. Set aside for the moment the question of the possibility or even desirability of saving capitalism; right now, most people are entrusting the President to do something about the present catastrophe.

The fact is, capitalism is bankrupt. It's run out of capital. "I think we just have to admit we're broke," says House Minority Leader John A. Boehner. A system that is supposed to be self-perpetuating - albeit with ups and downs - has come up short. It's not that the banks are just stubborn about lending out money. It will soon become clear that many of their vaults are stuffed with near worthless paper. And so to keep going, the system must turn to the public. Funds collected through taxation to "protect the general welfare" of the country are being siphoned off into the tanks of banks, financial speculation operations and insurance companies. The government is propping them up by buying up their assets. Regrettably, the Feds are not acquiring much control over how the injected funds are used.

But it's not just the banks that have run out of capital. The bigger crisis is in the core of the "real economy." "The destructive global power of the financial crisis became clear last year," *The Economist* said in an editorial last month. "The immensity of the manufacturing crisis is still sinking in, largely because it is seen in national terms - indeed, often nationalistic ones. In fact manufacturing is also caught up in a global whirlwind. Having bailed out the financial system, governments are now being called on to save industry, too. Next to scheming bankers, factory workers look positively deserving. Manufacturing is still a big employer and it tends to be a very visible one, concentrated in places like Detroit, Stuttgart and Guangzhou. The failure of a famous manufacturer like General Motors (GM) would be a severe blow to people's faith in their own prospects when a lack of confidence is already dragging down the economy. So surely it is right to give industry special support?"

The magazine went on to argue against bailing out individual sectors or industries. But that doesn't mean it won't happen. Although some influential voices in the world of capital are for allowing the auto industry to go quickly into bankruptcy, the likelihood is that more public funds will start pouring in to prop up GM, Chrysler and Ford just as Japan, Canada, Germany, Italy and France pour public funds into the coffers of their local car and truck manufactories. And as things stand now there is no reason to believe the assistance will be limited to a single industry. Here too the government will be buying up assets and doling out guaranteed loans. Here too, the Feds are unlikely to demand much control over how the injected funds are used.

Last Sunday, in a CNN discussion with the Canadian Prime Minister, Zakaria opined, "We don't have to reinvent capitalism." Perhaps not. But clearly there is going to have to be some reconfiguration. Without some structural changes in the way the system operates worldwide, things could easily go from the current bad to worse.

"It would be fairly easy to dismiss the gleeful boast by President Nicolas Sarkozy of France that American-style capitalism is over, to file it with French critiques of fast food and American pop culture, the *New York Times* said editorially back in October, before the election. "Except that the United States government now owns stakes in the nation's biggest banks. It controls one of the biggest insurance companies in the world. It guarantees more than half the mortgages in the country. Finance - the lifeblood of capitalism - has to a substantial degree been taken over by the state. Yet much more will be needed than just putting the bridle back on American banks," said the paper.

"The question is what new direction capitalism should take," said the *Times*. "In a globally interconnected world, the United States cannot simply march back to the gray flannel capitalism of the 1950s and 1960s when regulations were tough and coddled monopolies dominated the corporate world. Still, the next president will have a chance, not to be missed, to re-evaluate some tenets of the freewheeling, deregulated version of a market economy that has dominated America since the Reagan administration."

"The next government must re-establish some notion of equity of opportunity," said the *Times*. "Investment is desperately needed in health care, education, infrastructure. The social contract and the government's role in it should be examined anew. Addressing these challenges will be an enormous task - especially amid the bitter recession that most economists expect over the next year or so. But they must be faced. Fixing

finance is merely the start."

If that is indeed the case, imagine where we would be if Obama had lost the election. Can you imagine John McCain even admitted the existence of a "social contract"? And keep that in mind next time you hear mention of Governor Bobby Jindal.

A few weeks ago I made the suggestion here that the government simply acquire the sinking auto companies, run them and reorient them toward "green" production of high speed rail cars, wind turbines and implements needed for the massive infrastructure projects now contemplated. I used the dreaded "n" word (nationalization) and drew some negative responses. Some argued for new public-private enterprises with partial worker ownership and voting power. Sounds good to me as long as public funds are used for public good and the objective is socially useful and ecologically sound production.

There are a lot of useful things that we can begin now that would not require funneling taxpayer money through the near-comatose banking system and would stave off ghastly rising unemployment. The government could simply set up shop and start building things we need and providing needed services. As with the eventual nationalization of the banks - now an almost a foregone conclusion - the people in Washington could pledge to return the new facility assets to private enterprise as soon as they become going concerns. That way they could avoid being tagged with the "s" word (socialism) which some people consider a bad thing. Of course, along the way we just might decide democratically that an only-marginally profitable enterprise serving a public need well might just as well stay in public hands.

While not all would agree with assigning Obama the responsibility for saving capitalism, few observers shrink from asserting that what his administration is able to accomplish amid this crisis will affect the entire world. Neanderthal Russ Limbaugh and the screaming meanies might hope Obama fails, but most of the rest of the planet seems to be praying he does not.

"Pity President Barack Obama," wrote Martin Wolf, associate editor and chief economics commentator at the *Financial Times* as the year began. "He won power partly because of the global economic crisis. He himself, most of his fellow citizens and much of the rest of the world agree that the US broke the world economy and now has the duty to fix it. Unhappily, this consensus is false. The crisis is a product of the global economy. It cannot be cured by the US alone."

"Happily, Mr. Obama has the authority needed to lead the world towards a resolution: his hands are clean, and his lack of desire to exculpate his country is evident," Wolf continued. "It is also in the interest of his country and the world that the world economy be put on a sounder footing. Should this effort fail, I fear a resurgence of protectionism will be the outcome."

"Now think what will happen if, after two or more years of monstrous fiscal deficits, the US is still mired in unemployment and slow growth," Wolf continued. "People will ask why the country is exporting so much of its demand to sustain jobs abroad. They will want their demand back. The last time this sort of thing happened - in the 1930s - the outcome was a devastating round of beggar-my-neighbor devaluations, plus

protectionism. Can we be confident we can avoid such dangers? On the contrary, the danger is extreme. Once the integration of the world economy starts to reverse and unemployment soars, the demons of our past - above all, nationalism - will return. Achievements of decades may collapse almost overnight.

"...Welcome to 2009. This is a year in which the fate of the world economy will be determined, maybe for generations. Some entertain hopes that we can restore the globally unbalanced economic growth of the middle years of this decade. They are wrong. Our choice is only over what will replace it. It is between a better balanced world economy and disintegration. That choice cannot be postponed. It must be made this year."

When people in the business and financial media rue the possibility of "protectionism" - which they do with increased frequency and shrillness these days - they mean something quite specific.

"Let us be clear about what is at stake," writes Wolf. "It is essential to clean up the huge current mess. But it is also evident that an open world economy will be unsustainable if it remains dependent on bubbles. Collapse of globalization is now no small risk."

Well, there's globalization and then there's globalization. The transnational capitalists may want to keep it going but much of the planet recognizes that the neo-liberal policies global capitalism has fostered have resulted to gross inequities and are partly responsible for the current crisis.

There are many indications that the world economic situation is a lot worse than we're being told. It's probably enough to note that billionaire Warren Buffett says the U.S. economy is in "shambles" and will remain so for at least the rest of this year. "The crisis today is spreading even faster (than the Great Depression) and affects more countries at the same time," Pascal Lamy, the head of the World Trade Organization (WTO) said recently.

The current situation is what German Chancellor Angela Merkel calls terms an "extraordinary international crisis." As the *Financial Times* put it last week, "All of Europe is heading towards its worst economic crisis since the 1930s." On Sunday *The Independent* (UK) said editorially, "Collapsing global demand has hammered the exports of the emerging economies of Central and Eastern Europe. Investors are frantically pulling out their money, pushing down the value of national currencies. Almost all of these former darlings of global capitalism are likely to see their economies contract sharply in 2009. The quicker you rise the harder you can fall, and these former Soviet satellites are falling hard indeed. Unemployment is rising and borrowers are being cruelly squeezed." The Japanese economy is in a tailspin. Industrial collapse is driving millions of Chinese workers back into rural poverty.

One government change is worth noticing, The Central Intelligence Agency now gives the President daily briefing on the world economic situation and its implications for international security.

British Prime Minister Gordon Brown is in Washington this week where he says he and President Obama will discuss "a global new deal" the impact of which "can stretch from

the villages of Africa to reforming the financial institutions of London and New York – and giving security to the hard-working families in every country.”

“I see this global new deal as an agreement that every continent injects resources into its economy,” says Brown. “I believe that central to this new investment is that every country backs a green recovery for the future, that every country that wishes to participate in the international financial system agrees common principles for financial regulation, coordinated internationally, and changes to their own banking system that will bring us shared prosperity once again. And that, together, we must agree to reform the mandate and governance of global institutions to recognize the changing shape of the world economy and the emergence of new players.”

That’s a tall order. Assuming it’s possible, it won’t be accomplished by the “special relationship” between Washington and London. It will require the collaboration of the nations of the European Union (the governments of which Brown is at frequent loggerheads) and the Chinese, the Russians, and the Brazilians, and the South Africans and others. The problem is that capitalism as it currently operates is an impediment to such international cooperation - just as it is to dealing with climate change, AIDs, and world hunger.


“Mr. Obama is present at the re-creation of the global economic system.” writes Wolf of the *Financial Times*. “It is a challenge he has to take up,” Like I said, that’s a lot of weight.

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