ALTERNATIVES TO THE CURRENT MODE OF CAPITALISM

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Abstract: The recent economic crisis had a complex web of causes and contributing factors at varying levels, all of which call for further investigation. At the same time, the crisis may also be viewed as a “flash” reflection of the contemporary mode of capitalism and the weaknesses of Western-style politics. While taking into account traditional economic explanations, this paper delves into the crisis’s main systemic causes; it argues that it ran deeper than is usually assumed and involved a series of interlocking causes and contradictions in the structure of contemporary financial capitalism. Modern-day capitalism and its appropriators, the monetocracy, has not just become detached from the real economy but is overall mostly parasitic towards it, as the main source of economical decision making had been transferred from the production of surplus value towards the redistribution of profits between the oligopolies, with direct or indirect complicity of the political elites. In its analytical part, the paper draws on the theoretical and historical insights and concludes that the current mode of capitalism, i.e. the out-of-control financial capitalism, exacerbates the basic contradictions inherent to capitalism and makes the system deeply “anti-social”. At the same time, there exists a rational discourse and new institutional options on which real solutions can be built. (Etzioni, 1998; Korten, 1999, Defraigne, 2010)

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“We have, as always, custodians of capital making themselves multimillionaires and multibillionaires, while playing beanbag with money better spent on creating meaningful jobs and training people to fill them, and raising our young and retiring our old in surroundings of respect and safety.”

“Should the nation’s wealth be redistributed? It has been and continues to be redistributed to a few people in a manner strikingly unhelpful.”

(Kurt Vonnegut, Timequake)

Introduction: Causes and Triggers

The current financial and economic crisis began to unravel in summer 2007 as the number of sub-prime mortgage defaults started to dramatically increase. This exposed other risky loans and over-inflated asset prices since the banks had significantly leveraged their exposure to the bad loans. The banks found themselves under pressure to unload these bad investments at fire sale prices to raise capital (to pay out scared investors), which in turn, brought down their value for all other (major) banks.1 The financial sector, as well as other sectors of economic, social and political life found themselves in a protracted turmoil, from which they will be recovering for years to come.
Many competing explanations and perspectives regarding the cause(s) and nature of the crisis emerged since it started to ravage the global economic equilibrium. Apart from superficial or simplistic explanations pointing to the subprime meltdown as the major cause (it was rather a trigger), other causes have been mentioned – some of them will be listed here, without attempting to rank them by importance or type: deregulation / little or too much regulation, securitization, greed and predatory behavior of bankers, severely indebted US economy, exotic financial instruments (like CDS), the U.S. Federal Reserve System, availability of easy credit, fraud and crime in the system, global imbalances, underestimating the logic of boom-and-bust cycles, corrupt politicians, imbalance between the value of the capital and labor, and the failure of the whole capitalist system. Additional culprits have been identified: globalization, the Breton-Woods system, Bilderberg group, Alan Greenspan’s low interest rates, U.S. trade deficit, excessive U.S. consumption, land-use regulation, David X. Li’s Gaussian copula model, as well as general flaws in the human nature, and widespread human ignorance and stupidity.

The deeper (root) causes and their critical mass were well captured by James Petras (2009):

The expansion of the financial sector resulted from the high rates of return, taking advantage of the “liberalized” economy imposed by the power of diversified investment capital in previous decades. The internationalization of capital, its dynamic growth and the enormous growth of trade outran the stagnant wages, declining social payments, the huge surplus labor force. Temporarily, capital sought to bolster its profits via inflated real estate based on expanded credit, highly leveraged debt and outright massive fraudulent “financial instruments” (invisible assets without value). The collapse of the paper economy exposed the overdeveloped financial system and forced its demise. The loss of finance, credit and markets, reverberated to all the export-oriented industrial manufacturing powers.

There is little doubt that major agents of financialization and securitization - banks and the banking system as such - were at the centre of precipitating, if not creating, the whole problem. Taking advantage of the years of deregulation and political connivance, the financial sector consistently engaged in ever riskier transactions often closely associated with highly leveraged speculative operations and irresponsible pyramiding risk taking, and mismanagement. It seemed as if most of the new financial instruments were designed to exploit loopholes in the current regulations (or the lack of these). Their massive use had contributed to creation of completely artificial and toxic products which were regarded as “assets”. As it turned out, any potential benefit of most of these instruments for advancement of real economic growth has been spurious, but their potential for speculation had been used to the maximum. In the process of increased financialization both economic and political power was shifting to the “monetocracy” - the term that better captures the essence of this group than traditional “plutocracy” - concentrated on Wall Street, with its vested interest to milk the system to the utmost. As Nouriel Roubini reasoned,

Combine an opaque and unregulated global financial system where moderate levels of leverage by individual investors pile up into leverage ratios of 100 plus; add to this toxic mix investments in the most uncertain, obscure, misrated, mispriced, complex, esoteric credit derivatives that no investor can properly price; then you have created a financial monster that eventually leads to uncertainty, panic, market seizure, liquidity crunch, credit crunch, systemic risk and economic hard landing. (Schechter, 2009)

For many banks it had ceased to matter whether their loans were sound or junk; all that mattered was making money in a computerized marketplace where most trades last only a few seconds, feeding on the volatility they themselves created. They were helped not just by bad and non-existent regulatory rules but also by the failure of ratings agencies to properly assess the risk of opaque assets, as well as by the widespread “regulatory capture”, the situation when regulators act in the interest of the business rather than the public. The self-perpetuating, self-serving, and
out-of-hand financial “monster” had become part of the hegemonic powers-that-be (in fact, society still does not know how to control it).

Arguably, the role of the U.S. Federal Reserve System (Fed), which is not a government institution but a consortium of private banks, deserves closer attention here. It is a de facto cartel set up to serve its own interests and see that its participating banks are paid back on all investments. As it is, the only way to do that is to inflate the money supply to create new money (i.e. dollars - out of the thin air), in order to cover the missing interest. As a result, the world has become locked into a debt-based financial system, where the only way currency can be entered into circulation is through lending. As one analyst noted, “[It’s] been massive amounts of completely irresponsible lending which have leveraged the bubbles against much smaller amounts of tangible value.” (Cook, 2008)

One can go even further in pilloring the failures of the system. The jury is perhaps still out as to the scale and degree of outright fraud that came to penetrate the system and the responsibility of illegal activities for bringing the system down. However, it is increasingly clear that many more people must have been aware that much of the banking practice was unsustainable and the risks too high; that did not discourage them from taking the opportunity to deliberately manipulate the system towards a disaster in which they had a stake and conflict of interest so they eventually profited from the collapse. For instance, according to D. Schechter (2010), many financial and business activities before, during, and after the crisis can be classified as white collar crime. In his book he identified the main crime's elements, including the awareness of wrongdoing among the key players, as well as the weapons “that have turned free markets into vehicles for mass manipulation and control.” (Lendman, 2009) He lists specific crimes he believes had been committed: “fraud and control frauds, insider trading, theft and conspiracy, misrepresentation, Ponzi schemes, false accounting, embezzling, diverting funds into obscenely high salaries and obscene bonuses, bilking investors, customers and homeowners, conflicts of interest, … manipulating markets, tax frauds, making loans and then arranging that they fail, engineering phony financial products.” Although politicians and the media deflected attention at first from these actors by focusing on their “weapons” like uncontrolled derivatives, sky-high leverage, or a subprime mortgages, it has become increasingly evident that white collar crime and Washington's complicity in it was part and parcel of the whole predicament. (Lendman, 2009) This picture was later confirmed by Financial Crisis Inquiry Commission Chairman Phil Angelides who concluded that several financial industry people appear to have broken the law and referred many cases to state or federal authorities for possible prosecution. (The Financial Crisis, 2011)

The contradictions of capitalism and its current mode

Even before the crisis began, the dynamics of growth of the contemporary capitalism and its imbalances, in part driven by fast technological innovations, resulted in an unequal distribution of benefits of this growth. The level of inequality has been rising in most countries (Kristof, 2010; Stiglitz, 2010b; The Economist, 2011): for instance, in 1980, CEO’s of the largest American companies earned an average of 42 times as much as the average worker, but 531 times as much in 2001. Similarly, as Kristof noted, from 1980 to 2005, more than four-fifths of the total increase in American incomes went to the richest 1 percent. (Kristof, 2010) This happened in the milieu of the optimisms fuelled by the seemingly unlimited growth fostered the neo-liberal ideology of overestimating the self-regulatory mechanism of markets, which increased the self-confidence of the political, economic and financial elites, thereby granting them more power at the expense of the organization of labor (limiting bargaining power of the latter; increasingly, with the growth of world markets, workers were seen merely as “costs of production”). According to Petras,
Cheap labor, the source of profits, investment, trade and export growth on a world scale, could no longer sustain both the pillage by finance capital and provide a market for the dynamic industrial sector. What was erroneously dubbed a financial crisis or even more narrowly a mortgage or housing crisis, was merely the trigger for the collapse of the overdeveloped financial sector. The financial sector, which grew out of the dynamic expansion of "productive" capitalism, later "rebounded" against it. The historic links and global ties between industry and financial capital led inevitably to a systemic capitalist crisis, embedded in the contradiction between impoverished labor and concentrated capital. The current world depression is a product of the over-accumulation process of the capitalist system in which the crash of the financial system was the "detonator" but not the structural determinant. (Petras, 2010)

According to Marx, capitalism suffered from two intractable contradictions: one consisting of its inherent tendency to accumulation of the capital in fewer and fewer hands and the other existed in the structural mismatch between the economic and social dynamics of capitalism. While many implications following from Marx’s contradictions have been moderated since then (for example, the world is not in the hands of few oligopolies and revolutions of the proletariat are no longer considered to be inevitable), one can still identify several irreconcilable tensions (or contradictions) within modern capitalism. To start with a consideration of the notion of (modern) capitalism, understood as a system in which lowest production costs and highest profit are viewed as the key instruments to desirable success, might be helpful. Arguably, in this notion competition is seen as a healthy condition and stimulant for the markets’ ability to deliver quality and relatively low-price goods and services. As Leumer argues,

[C]apitalists who manufacture the same product, such as cars, must compete with one another for customers. If two rivals manufacture products of equal quality but one succeeds in cutting production costs in order to sell the product at a lower price, then customers will gravitate towards this business while shunning the rival. Hence, capitalists are under unrelenting pressure to lower prices, or to increase quality without raising prices, or, if possible, to raise quality while lowering prices, thereby triumphing over the competitors who have failed to score similar improvements. This is a life and death struggle among capitalists -- those who fail go under. (Leumer, 2008)

The unrelenting competition war (seen by some as healthy but as “deadly” by others) leads to another serious consequence. For a producer to survive in the open market, they must lower prices in relation to their competitors (with all other things being equal), with the obvious implications for the workforce:

[I]n order to survive, each capitalist attempts to keep production costs, including labor, to a minimum. Management has developed an arsenal of weapons to accomplish exactly this: full-time workers are replaced by part-time workers with less pay and no benefits; wages and benefits of full-time workers are lowered, as has happened regularly to United Auto Workers in recent years; manufacturing is moved overseas in order to take advantage of much cheaper labor; work is "contracted out" and performed by nonunion workers with lower wages and no benefits; or workers are entirely replaced by machines which require neither wages nor benefits. (Leumer, 2008)

To make up for the falling rate of profits resulting from tightening competition, owners of the capital search for ways to increase their profits in markets which become less transparent as they become more profitable, namely financial markets with their modern-day instruments and ability to skim profits, at least in the short term, from almost everything - thus contributing to unjustifiable and unsustainable social inequalities. As Patnaik noted,

[T]here is something structural to the capitalist system itself, the same system that causes this enormous increase in mankind's capacity to produce goods and services, which also ensures that, notwithstanding this enormous increase, the struggle for subsistence must continue to be as acute as before, or even more acute than before, for the bulk of mankind. (Patnaik, 2010)
Patnaik then rightly argues that to a large degree, the level of wages in the capitalist system depends upon the relative size of the reserve army of labor, and - as the relative size of the reserve army of labor is being kept from shrinking below a certain threshold level, “the wage rate remains tied to the approximate subsistence level despite significant increases in labour productivity.” (Patnaik, 2010)

In the process, the usually influential elite of capitalism, the monetocracy, has become ever more powerful, speculation-driven, and controlling. Based on their ability to “suck up” the capital from productive economy and use it for their own highly speculative and spurrily profitable purpose, the monetocracy has not just become detached from productive economy but overall mostly parasitic on it. The metaphor of a “parasite” applied to the banking sector does not seem to be a far-fetched one here considering that no matter what scenario is being played out in the economy and government, the financial sector has usually a better part of it and outperforms the real-economy sectors, because of its privileged positioning in the money flow. This is also what Samir Amin has in mind when he argues that “the main source of economical decision has been transferred from the production of surplus value in production towards the redistribution of profits between the oligopolies.” He than continues that by definition such a system requires the expansion of financial investments and “is extremely profitable for dominating sectors of the capital. Thus,” Amin concludes, it “should not be qualified ‘market economy’ (which is an empty ideological qualification) but as a capitalism of financialized oligopolies.” (Amin, 2008) Michael Hudson has similarly argued that

[One] can think of the financial sector as being wrapped around the real economy, almost like a parasite…. The financial sector extracts interest from the economy, the property sector extracts economic rent... (Washington’s Blog, 2009)

Especially during crises, the financial system preys on and tends to destroy large parts of available capital by eliminating many vulnerable and indebted enterprises and sectors, in order to “re-concentrate capital and reconstruct the powers of accumulation – political conditions permitting.” (Petras, 2009) This process is a largely speculative and one-way one, with serious consequences. According to Petras,

[Such] re-composition of capital grows out of the pillage of state resources – so-called bailouts and other massive transfers from the public treasury (read “taxpayers”), which results from the savage reduction of social transfers (read “public services”) and the cheapening of labor through firings, massive unemployment, wage, pension and health reductions and the general reduction of living standards in order to increase the rate of profit. (Petras, 2009)

Arguably, the main contradiction of capitalism can be identified as one between the social character of labor and the private ownership of the means of production (and profit). Labor is “social” by definition, and in many different ways. The social character of labor certainly refers to: 1. the fact that in virtually all labor activity, socially-determined organization and cooperation are required, 2. that most work activities are based on a previously achieved level of collective skills and innovations, as well as a socially embedded culture and structures, and 3. that society at large or its segments are and should be an important party to benefit from socially conditioned labor. Focusing on the main problem, this contradiction may also be reformulated as a contrast between the social character of production and private appropriation (of its results and profits).

Several corollaries to the main contradiction can be mentioned. First is the imbalance - or, perhaps, contradiction again - between production and circulation of commodities that leads to overproduction (if only because consumers have also less resources available to buy products since they do not own what has been appropriated). Second, there is an unfortunate effect of
capitalism being endowed with huge creative potential but squandering it in a socially unfocussed way, often to the outright detriment of society at large. Third, as the capital needs to generate constant profits, it needs infinitive growth, which exceeds the boundary of the individual lifespan and the foreseeable future. Capitalism then seeks all possible venues to expand its territory in the future (in fact, to extract from the future, for instance, in the form of installments for past credits or in the form of inflation).

The very fact that capital/capitalism is to a large degree “anti-social” by default, and is not interested in life-support systems means this may eventually lead to its self-destruction. There seems to be enough evidence that the current mode of capitalism, i.e. the financial capitalism, exacerbates the above basic contradiction of capitalism and makes it “anti-life” to the degree that it might not be tolerated any longer by significant societal actors, including large segments of the middle class.

The current economic crisis has exposed as illusory much of the neo-liberal understanding of how self-regulatory markets could be. This points to a specific problem of modern capitalism, especially the extent of its overgrown financialization, that it has proven itself able to defy the standard self-regulatory pressures, resulting in a) the financial sector becoming an autonomous run-away sphere within the capitalist market, and b) the detachment of the financial sector and modern financial capitalism from the real economy. The financial sector, in extracting resources from the real economy without advancing it, has virtually become merely parasitic on it. According to Tremblay (2008), the current crisis is solely a product of “the politico-financial establishment that has pushed to the limits its ideology of deregulation of financial markets and stretched the working of unregulated corporate market capitalism to the breaking point.” As a result, Barber believes, capitalism “ceased to be capitalism - it's financialization; … it's about selling and buying paper, without the essence of industrial capitalism.” (in Lendman, 2009)

Financial capitalism has thus become not only “unjust” but also highly “socially irresponsible,” unleashing processes which it is not able to control and misusing its creative potential and innovative instruments in the interest of the narrow elite(s), at the expense of the wellbeing of society. Also troubling, as many have noted, there seems to be a close and disturbing relationship between financial capital and wars being waged around the globe. There is no doubt that it is where huge profits can be made in the absence of other profitable options. This argument goes beyond the scope of this text; but there is no doubt that wars are for financial capital a legitimate reason to direct its lobbying, and corrupting, efforts in a particular way.8

Some comments on the social psychology behind the crisis are also in place here. Arguably, the crisis has occurred in the socio-psychological and ethical context co-determined by ideologies and myths sustained by the prevailing (and misunderstood) paradigm of the free market. Considering the motivations and behavior of agents likely responsible for the crisis, a distinction should perhaps be made between greed and profit maximizing, both in degree and the socio-economic (a moral) context of the terms. While profit maximizing may be “natural” in the economic sphere following the logic of economic freedom; in its excessive form it might reveal itself as greed for social psychologists. One cannot help being reminded, when confronted with the evidence of excesses of greed of the banking and some managerial elites, what the “classics” say in their discourse on human vanities and follies. In fact, their rudimentary ethical lessons fundamentally disagree with the (mostly) egotistically interpreted U.S. utilitarianism and its subsequent infiltration of U.S. philosophy and business. The Western, especially U.S., business practices have long become disjointed from any prudent and sustainable ethos, ethics, and philosophy. Quite routinely, the happy participants in the boom part of the cycle engaged in the ritual of so called “positive thinking” in which their gurus stated “you deserve success” and “this time is different”, effectively creating a highly narcissistic business culture that had to turn to
deceit to keep things going, when things started to fall apart. This, in fact, is the part of the myth of the “American dream” combined with the attraction of the affluent-class status (keeping up with the Joneses’ and trumping them).9 Even if the lessons of the Kantian deontology are disregarded, it is difficult to find at least some traces of basic human empathy (if not conscience springing from a higher moral order) in the behavior of the financial and banking elites.10

**Conclusion: Are the flaws in the current incarnation of capitalism reparable?**

“To create a world in which life can flourish and prosper we must replace the values and institutions of capitalism with values and institutions that honor life, serve life’s needs, and restore money to its proper role as servant. I believe we are in fact being called to take a step to a new level of species consciousness and function.” (Korten, 1998)

Only a partial analysis of the current incarnation of capitalism as it has manifested itself during the recent economic and financial crisis has been presented here, and only in passim has this paper touched possible solutions. As is the case with any historical event, the recent global economic crisis resulted from a complex web of causes, triggers, and contributing factors, however the crisis may also be viewed as a “flash” reflection of the contemporary mode of capitalism and the weaknesses of democracy. Both capitalism & democracy are rather imperfect in their contemporary embodiments, regardless of people routinely finding solace in the belief that despite them having some flaws, there exists nothing better to guide actions in the (political-economic) public space. On the surface, it appears that nothing has been proven to work any better. There are two arguments that can be made challenging this view: 1. the assumption that there has been nothing better tested does not mean that nothing better exists; 2. there exists a tendency of any flaw, and systemic ones in particular, of becoming more pronounced and more open to exploitation over time (especially if any powerful interests benefit from exploiting them). The latter tendency effectively prevents the flaws from disappearing and leads rather to their temporary legitimation, which can make them even more profitable. It is arguable that the current crisis runs deeper than most people usually assume and had emerged from a series of interlocking causes entrenched in the structure of contemporary financial capitalism. The modern-day financial system has been caught in a debt-based financial vicious circle run by the major banks, with direct or indirect complicity of the political elites. This system and its appropriators, the well-positioned monetocracy, have not just become detached from the real economy but literally became parasites on it, taking from it as much as they can for their own self-interested purposes.

The main source of economical decision-making has been transferred from the production of surplus value towards the redistribution of profits between the oligopolies which, at the same time, used the available resources to corrupt the political system. That would include both politicians taking direct or indirect bribes as well as regulators captured by the very industry they are charged by law to regulate to make the former largely ineffective. The traditional interest tradeoff and collusion between the economic and political elites has metamorphosed into quite an intimate complicity, sometimes an outright fusion, of both elites where political elites are either bribed or blackmailed, through lobbying or regulatory capture, into giving almost a blank check to the financial elites. (Levine & Florence, 1990; Engelen, 2011; Perotti, 2008) In part, this could be explained by the growing cynicism and lack of higher ethical standards of the political elites. Thus, there are few barriers, which would stop the political elite from exploiting their cozy relationship with big business even in democracies, especially where neo-liberalism has a free reign. Some authors have concluded that the process of (political) decision-making is easily captured and subverted by narrow financial interest groups, which are able to skim concentrated
benefits while the cost of these benefits is paid by large groups, usually the population at large, as thinly spread cost in the form of taxation. (Levine & Florence, 1990) This makes the vicious circle of irresponsibility and unaccountability, typical for most actors in this mode of capitalism and politics at all levels, almost unbreakable.

One possible approach to resolving the contradictions of capitalism is to begin with making an analytical distinction between the market economy and its principles on the one hand and the manifestation of capitalism, especially its current mode, on the other. This might offer a way to get around a model in which it is impossible to retain the market economy without giving the self-serving financial system a free hand. In short, is it possible to get rid of the parasitic credit-based system and financial oligopolies and keep the market as the fundamental exchange principle, without “nationalizing everything in sight?” (Braudel, 1992, vol. III, p. 632)

What do classical economists have to say about the proper workings of the market? A closer examination of the original message in the works of the neo-liberal icon Adam Smith, reveals a surprise. Despite the fact that Smith’s notion of the “invisible hand” has been traditionally used to promote the idea that private individuals who seek personal wealth and gain through self-interest will unintentionally aid the interests of all of society, such a hand was mentioned merely once in his famous Wealth of Nations (1776), and has usually been taken out of context by his commentators. It is worth noticing that Smith (1976, 1776) argued in favor of every individual “naturally inclined to employ his capital in the manner in which it is likely to afford the greatest support to domestic industry, and to “give revenue and employment to the greatest number of people of his own country.” (vol.IV, p. 477) Thus, for him, action framed by the economic market has naturally to be also framed by social and ethical considerations. Commenting on Smith, Richard Girard has reasoned:

... any human institution that requires the dehumanization of human beings to function... is by its very nature immoral, even if it is not illegal. To intentionally treat another human being as a thing, as something less than human; to degrade ourselves as human beings by surrendering our conscience, our reason, our dignity, or our self worth for some temporary advantage; are crimes against the inherent value of all members of mankind. (Girard, 2008, p. 1)

In the same vein, George Soros has pointed out that

[Adam Smith] combined a moral philosophy with his economic theory. Beneath the individual preferences that found expression in market behavior, people were guided by a set of moral principles that found expression in behavior outside the scope of the market mechanism. (Soros, 1997)

It perhaps makes little sense to ask financial capitalism itself to become more emphatic, just, and /or responsible for consequences and unwanted effects of processes it unleashes and then is unable to control. Captains of capitalism, given their privileged position in the contemporary power system, may continue to find it easy to push for having costs socialized and profits privatized and will grab that opportunity. Although more regulation of the industry and more self-restraint on its part might help, this will not be enough to solve the problems, let alone to resolve the main contradictions of this mode of capitalism. As Korten’s insight in the motto of this section indicates, it may be a high time to consider steps which could at least tentatively or progressively mitigate the effects of this variant of capitalism and reflect on how markets can be redesigned to serve the human purpose. (See also Table 1.)

In the modern financial and monetary systems, mindless innovations in technology and financialization, combined with the excesses of the credit economy and rigid orthodoxies of modern economic thinking, often overwhelm human ability to understand the implications of the
little regulated banking practices. At the same time, the current crisis has exposed a common misunderstanding of how power, influence, and resources are distributed among the elites and society at large. It increasingly seems that capitalism as a market economy can only survive if there is sufficient strong and uncorrupted political will of the governments, especially of the major developed countries, decoupled as much as possible from the corrupting influence of the financial sphere. Only autonomous, democratic politics and its deliberate political action can address the social and ethical aspects of capitalism’s decay, curb the power of monetocracy that parasites on the genuine, i.e. productive and life-supporting, economic and creative meritocracy.

Another perspective might go even deeper and reflect on some crucial philosophical and social-psychological dichotomies as, for instance, stability vs. rapid (but unstable) growth, prudent vs. risky behavior; or predictability vs. uncertainty. In the Panglossian world – in which everything is always for the best - this perspective does not matter much as things had been devised to work in the best-possible way despite unpleasant glitches and temporary setbacks. Nevertheless, in terms of human value-preferences, one of the key dilemmas appears to be this: Which of the possible worlds would most people prefer - a relatively stable and predictable world, but with a slower but stable growth (slower pace of innovation but of a durable quality), or one carrying more risk and faster growth, but erratically careening in boom-and-bust cycles full of uncertainties, losses, and insecurity? Here one cannot disagree with Etzioni:

As I see it, for ethical as well as political reasons, other societies that seek to enhance their competitiveness by unleashing the market would be well served if they had a grand public dialogue - a megalogue - that would lead to a shared moral understanding, of which social arrangements are to be considered inviolate, which may be weakened but not gutted, and which may be sacrificed on the altar of competitiveness. To put it in the most general terms, the question is how to protect human dignity and a humane society in face of rising global economic pressures. (Etzioni, 1998)

The problem of the contemporary variant of capitalism lies in that that its parameters are set up in a way that they serve a narrow group of people who had acquired access to hyped flows of money and to financial instruments designed to manipulate these flows to the benefit of a narrow group, who contribute little to creation of real wealth and workings of the real economy. Almost forgotten has become the fact that the real value and assets are ultimately created in the process real labour of others, i.e. working people who often end up at mercy of the volatile system which they did not create in the first place. In the name of the “free market” the basic principles of meritocracy and fairness have been systematically violated and the intrinsic meaning of the social character of labour and its results has been suppressed and ridiculed. The resulting problem of rising inequality, which has caused many social ills, including alienation felt in society, has to be addressed in a consistent way and on the global level. The issue of alienation, a notion so crucial to Marxian and existencionalist analysis, should particularly be revisited – as alienation affects our well-being and often translates itself into social and / or psychological pathologies, either apparent or hidden.

Speculative excesses and growing inequality always destroy the foundation for a sustained prosperity, noted Karl Polanyi in his Great Transformation (1944). To keep the market operating effectively, there is no need to resort to any kind of state socialism or overregulate the market and society; what is needed are piecemeal but systemic changes to improve market’s effective working for the benefit of the public at large. In practical terms, it will be desirable to coordinate the efforts in reforming and enhancing world economic governance to address the issues of effective management and corrections of structural imbalances by the global institutions, reconsideration of the dollar as dominant international reserve currency, reasonable regulation of the banking industry, and closing the loopholes which enable the flight of resources from public
to private coffers. (cf. Defraigne, 2010, see also the Appendix below) This would require both the political will and consistent cooperation between major global actors – the US, China and the EU, as well crystallization of public awareness in a meaningful action in the right direction.

**Table I Alternatives to the Current Mode of Capitalism**

The following table compares some of the major differences between the current mode of capitalism and a market economy that could function in a socially optimal and “responsible” way. (Korten, 1999, adjusted by Jiri Melich, 2011)

<table>
<thead>
<tr>
<th>Dominant Attractor</th>
<th>CURRENT CAPITALISM</th>
<th>MINDFUL MARKETS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Defining Purpose</strong></td>
<td>Use money to make money (for those who have money)</td>
<td>Employ available resources to meet basic needs of all people</td>
</tr>
<tr>
<td><strong>Economy</strong></td>
<td>Credit based</td>
<td>Production &amp; savings based</td>
</tr>
<tr>
<td><strong>Labor</strong></td>
<td>Treated as other replaceable resource; little share in economic decision-making</td>
<td>Social character of labor &amp; democratic economic rights given new meaning in praxis…</td>
</tr>
<tr>
<td><strong>Money supply / Federal Reserve</strong></td>
<td>Private cartel</td>
<td>Public</td>
</tr>
<tr>
<td><strong>Government expenditures</strong></td>
<td>Friendly to military-industrial complex</td>
<td>Radically decreased spending on military, wars; investment to life-supporting infrastructure</td>
</tr>
<tr>
<td><strong>Costs</strong></td>
<td>Externalized to the public</td>
<td>Internalized by the user</td>
</tr>
<tr>
<td><strong>Ownership</strong></td>
<td>Absentee owners</td>
<td>Stakeholder owners</td>
</tr>
<tr>
<td><strong>Financial Capital</strong></td>
<td>Misusing different regulation across borders; instruments beyond public control</td>
<td>Harmonized regulation; publicly transparent instruments</td>
</tr>
<tr>
<td><strong>Accounting</strong></td>
<td>Fraud encouraged</td>
<td>Zero tolerance to fraud; whistleblowers encouraged</td>
</tr>
<tr>
<td><strong>Purpose of Investment</strong></td>
<td>Maximize private financial profit</td>
<td>Increase beneficial output</td>
</tr>
<tr>
<td><strong>The Role of Profit</strong></td>
<td>Emphasis on returns to financial</td>
<td>Incentive to invest productively; the profit principle should be moderated</td>
</tr>
</tbody>
</table>


### Capital Efficiency

<table>
<thead>
<tr>
<th>Measure</th>
<th>capital</th>
<th>Emphasis on returns to living capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cooperation</td>
<td>Among competitors to escape the discipline of competition</td>
<td>Among people and communities to advance the common good</td>
</tr>
<tr>
<td>Competition</td>
<td>Eliminates the unfit</td>
<td>Stimulates efficiency &amp; innovation</td>
</tr>
<tr>
<td>Government Role</td>
<td>Protect the interests of property</td>
<td>Advance the human interest &amp; transparency</td>
</tr>
<tr>
<td>Banking</td>
<td>Sucking capital &amp; gambling with it</td>
<td>Put on public-serving basis</td>
</tr>
<tr>
<td>Trade</td>
<td>Rather irrational structure, non-harmonized across borders</td>
<td>Rationalized; harmonized across borders</td>
</tr>
<tr>
<td>Taxes</td>
<td>Mostly increasing</td>
<td>Support income equality based on real meritocracy; limit “undeserved income”</td>
</tr>
<tr>
<td>Inequality</td>
<td>Poorly understood; tolerated</td>
<td>Redefined; eliminated; whistleblowers encouraged</td>
</tr>
<tr>
<td>Corruption</td>
<td>Elitist/democracy of private interest</td>
<td>Participatory democracy of persons / public; decoupled from financial elite</td>
</tr>
<tr>
<td>Political Orientation</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### NOTES:

1 Many celebrated economists had naively believed they had the excesses of economic cycles under control and that the “central problem of depression-prevention has been solved…” (Paul Krugman, 2009) According to Krugman, “they mistook beautiful & impressive-looking mathematics for truth.” Or, they could not see the faults in the system they had helped to create. There had been some exceptions, e.g. Michal Hudson, Hyman Minsky, Nouriel Roubini (aka “Dr. Doom”), Joseph Stiglitz, Peter Schiff, and a few others who had seen the writing on the wall.

2 All Republican administrations starting with Regan were systematically deregulating. The Clinton administration enabled banks to merge with junk mortgage companies. Consequently, important protection legislation that had been built since the 1930’s; e.g. the Glass–Steagall Act (The Banking Act of 1933, designed esp. to control speculation) was repealed in 1999. Deregulated capitalism effectively forces companies to engage in riskier and riskier behavior in order to be competitive - ultimately, however, some of the behavior turns out to have been too risky. (Cf. also Chossudovski, 2010.)
Among the more dubious instruments are: hedge funds (often off-shore based), derivatives, collateralized bond obligations (CBOs), collateralized debt obligations (CDOs, also called structured investment vehicles, SIVs), and credit default swaps (CDS) insurance. The problem of securitization has already been well exposed elsewhere.

Both these new instruments and the underlying obsession with omnipresent credit at all costs have contributed to the banking system working as a “pyramid” scheme. According to Ellen Brown, “The Wall Street Ponzi scheme is built on “fractional reserve” lending, which allows banks to create "credit" (or "debt") with accounting entries. Banks [were] allowed to lend from 10 to 30 times their "reserves," essentially counterfeiting the money they lend. Over 97% of the U.S. money supply has been created by banks in this way.” (Ellen Brown, 2008)

This practice based the U.S. money supply almost entirely on bank lending, including lending to government for its deficits. The Federal Reserve Act gave the banking system the strange privilege of creating money almost out of thin air and charging interest for its use. (Cf. Taibbi, 2009)

According to Schechter, there was “fraud in the origination of the mortgages, fraud in the underwriting, fraud in the ratings agencies.” Ibid. This may be close to what Franklin Roosevelt meant by the term he coined: "banksters". Cf. Michael Hudson, 2008.

Hudson continues: “[the] key thing about parasites, is that it's not simply that they extract nourishment from the host. The parasite takes over the host's brain, to make it think it's part of the economy, to make it think it's part of the host's own body, and, in fact, that it’s almost like a child of the host, to be protected. And that's what the financial sector has done today.” (Washington's Blog, 2009)

For example, according to Chossudovsky, war, as profit driven activity, “financed through the massive worldwide expansion of dollar denominated debt, falls on the responsibility of vested financial interests.” (Chossudovsky, 2008)

Also Veblen’s notion of “conspicuous consumption” comes to mind here. As one former Goldman banker said, [the culture here] is “completely money-obsessed. There’s always room - need - for more. If you are not getting a bigger house or a bigger boat, you’re falling behind. It’s an addiction.” (Dowd, 2009)

One may perhaps speak of the tragic inability of most economic and political elites to reflect critically on rationality and fairness of the system and see the problem in the light of logic and in the context of basic morality.

Contrary to the position of Leibnitz, Alexander Pope, or Voltaire (or, rather, his Candide), a non-Panglossian philosopher might argue that this world is not one of the best possible, if only because it seems that many ordinary and responsible people are paying the price for the fact that a powerful minority are irresponsible gamblers (and not gambling with their own money but that of others).

REFERENCES


