

### **The haven is safe: for how long?**

As fears about a Greek default mount; as European banks face funding problems and sharp falls in share values; as global stock markets remain in turmoil; as both the IMF and World Bank chiefs warn of dangers to global economy – and economists of a double dip recession; as uncertainties increase; two factors are unaffected. The dollar remains the safe haven (it has risen 7% against the euro in just two weeks); as do U.S. treasuries (yields have fallen after the downgrade!). Will the U.S.'s and dollar's status as safe havens continue?

According to the neoconservative agenda, this century (the 21<sup>st</sup>) was also supposed to be The American Century: the 20<sup>th</sup> was so proclaimed by TIME, 70 years back! At the end of the first decade, this is looking increasingly unlikely, as growth slows; unemployment remains stubbornly high; the President's call for a fiscal stimulus of \$ 450 bn evokes no response; as monetary policy is increasingly helpless in a debt-ridden society – and Congress is in an ideological gridlock.

On the geopolitical front, things look equally bad. After spending \$ 4 trn and inflicting a huge human cost on itself and on the peoples of Iraq and Afghanistan what is there to show? A very dubious kind of “democracy” in Iraq; and leaving Afghanistan, handing power effectively back to the Taliban! The Americans are welcoming the revolutions in Tunisia, Egypt and Libya. Chances are however that the democratic governments will resist the U.S.'s Israeli policies far more strongly than the pliant dictators they replace.

The \$ 4 trn spent in fruitless wars clearly have an opportunity cost in terms of needed investments in the real economy, growth and jobs. Add to this the costs of the financial market crisis of 2008 and trillions of fiscal and monetary resources pumped in the economy to rescue the banks – and stimulate the economy. Kishore Mahbubani in a recent article in the Financial Times (September 5) argued that the

fiscal stimulus did not work because “most of it was absorbed by special interests”. Wall Street and other special interests appoint highly paid lobbyists to bend the arcane details in laws and regulations, making them convenient for their paymasters, and too complex for others. The best and highest paid brains in society are engaged in such activities, rather than in making “*two blades of grass grow where only one grew before*”.

During the Asian crisis in the second half of the 1990s, it was fashionable in the West to blame crony capitalism and weak financial systems in the affected countries. A decade later, it is obvious that crony capitalism in the Anglo Saxon economies is far stronger than it ever was in the East! The way Wall Street had captured the regulatory apparatus, the way it had persuaded regulators that complex financial instruments represented effective tools of risk management, in the efficiency of markets in determining prices – all of which (and not Asian savings) were the root causes of the 2008 financial crisis.

One result of the crony capitalism is that, as real wages have stagnated, inequality has grown. In the U.S., the share of the top 5% in income has gone up from 21% in 1983 to 34% by 2008, even as the remaining 95% have taken on ever greater debt to maintain consumption. This is perhaps also the result of the primacy given to the financial economy over the real economy, where capital gains have lower tax than earned income; where a hedge fund manager pays lower taxes than his secretary!

When the biggest moneys are “earned” by bank traders and hedge fund managers, does it distort the societal value system? In his *Devil Take the Hindmost: A History of Financial Speculation* Edward Chancellor argues that “*By offering reward without effort, the speculative mania had violated the Calvinist work ethic. As Waermondts asked in the Dialogues: ‘what need is there for merchants to have any style, or to risk their goods overseas, for the children to learn a trade, for peasants to sow and to work so hard on the soil, for the skipper to sail on the terrible and dangerous seas, for the soldier to risk his life for so little gain, if one can make profits of this sort?’*”. Or

was Karl Marx right in arguing that” *globalization, financial intermediation run amok, and redistribution of income and wealth from labour to capital could lead capitalism to self-destruct.*” (Nouriel Roubini, Mint August 19, 2011) Chances are that in a decade or two, a Beijing Consensus of state capitalism may well replace the Washington Consensus in the global economy.

Perhaps there is an even more fundamental problem with capitalistic democracies. They need leaders like John Kennedy who, in his inaugural address, called upon people to ask what they can do for America rather than asking America what it would do for them. But then, will we elect such leaders over those who buy our votes through creating ever more “entitlements” and offer us subsidized goodies?

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