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Capitalism and its critics

Rage against the machine. People are right to be angry. But it is also right to be worried about where populism could take politics

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FROM Seattle to Sydney, protesters have taken to the streets. Whether they are inspired by the Occupy Wall Street movement in New York or by the indignados in Madrid, they burn with dissatisfaction about the state of the economy, about the unfair way that the poor are paying for the sins of rich bankers, and in some cases about capitalism itself.

In the past it was easy for Western politicians and economic liberals to dismiss such outpourings of fury as a misguided fringe. In Seattle, for instance, the last big protests (against the World Trade Organisation, in 1999) looked mindless. If they had a goal, it was selfish—an attempt to impoverish the emerging world through protectionism. This time too, some things are familiar: the odd bit of violence, a lot of incoherent ranting and plenty of inconsistency (see article (<http://www.economist.com/node/21533377>) (<http://www.economist.com/node/21533376>)).

The protesters have different aims in different countries. Higher taxes for the rich and a loathing of financiers is the closest thing to a common denominator, though in America polls show that popular rage against government eclipses that against Wall Street. Yet even if the protests are small and muddled, it is dangerous to dismiss the broader rage that exists across the West. There are legitimate deep-seated grievances. Young people—and not just those on the streets—are likely to face higher taxes, less generous benefits and longer working lives than their parents. More immediately, houses are expensive, credit hard to get and jobs scarce—not just in old

manufacturing industries but in the ritzier services that attract increasingly debt-laden graduates. In America 17.1% of those below 25 are out of work. Across the European Union, youth unemployment averages 20.9%. In Spain it is a staggering 46.2%. Only in Germany, the Netherlands and Austria is the rate in single digits. It is not just the young who feel squeezed. The middle-aged face falling real wages and diminished pension rights. And the elderly are seeing inflation eat away the value of their savings; in Britain prices are rising by 5.2% but bank deposits yield less than 1%. In the meantime, bankers are back to huge bonuses. History, misery and protest To the man-in-the-street, all this smacks of a system that has failed. Neither of the main Western models has much political credit at the moment. European social democracy promised voters benefits that societies can no longer afford.

The Anglo-Saxon model claimed that free markets would create prosperity; many voters feel instead that they got a series of debt-fuelled asset bubbles and an economy that was rigged in favour of a financial elite, who took all the proceeds in the good times and then left everybody else with no alternative other than to bail them out. To use one of the protesters' better slogans, the 1% have gained at the expense of the 99%. If the grievances are more legitimate and broader than previous rages against the machine, then the dangers are also greater. Populist anger, especially if it has no coherent agenda, can go anywhere in times of want.

The 1930s provided the most terrifying example. A more recent (and less frightening) case study is the tea party. The justified fury of America's striving middle classes against a cumbersome state has in practice translated into a form of obstructive nihilism: nothing to do with taxes can get through Washington, including tax reform. Worryingly, politicians are already in something of a funk. The Republicans first denounced the occupiers of Wall Street, then cuddled up to them. Across Europe social democratic parties have tended to lose elections if they move too far from the centre ground, but leaders, like Ed Miliband in Britain and François Hollande in France (see article (<http://www.economist.com/node/21533416>)), still find the anti-banker rhetoric enticing. Why not opt for a gesture—tariffs, a supertax on the rich—that may only make matters worse? A struggling Barack Obama, who has already flirted with class warfare and business-bashing, might well consider dragging China and its currency into the fray. And it will get worse: austerity and protest have always gone together.

Tackle the causes, not the symptoms Braver politicians would focus on two things. The first is tackling the causes of the rage speedily. Above all that means doing more to get their economies moving again. A credible solution to the euro crisis would be a huge start. More generally, focus on policies that boost economic growth: trade less austerity in the short term for medium-term adjustments, such as a higher retirement age. Make sure the rich pay their share, but in a way that makes economic sense: you can boost the tax take from the wealthy by eliminating loopholes while simultaneously lowering marginal rates. Reform finance vigorously. "Move to Basel 3 and higher capital requirements" is not a catchy slogan, but it would do far more to shrink bonuses on Wall Street than most of the ideas echoing across from Zuccotti Park.

The second is telling the truth—especially about what went wrong. The biggest danger is that legitimate criticisms of the excesses of finance risk turning into an unwarranted assault on the whole of globalisation. It is worth remembering that the epicentre of the 2008 disaster was American property, hardly a free market undistorted by government. For all the financiers' faults

(“too big to fail”, the excessive use of derivatives and the rest of it), the huge hole in most governments’ finances stems less from bank bail-outs than from politicians spending too much in the boom and making promises to do with pensions and health care they never could keep. Look behind much of the current misery—from high food prices to the lack of jobs for young Spaniards—and it has less to do with the rise of the emerging world than with state interference.

Global integration has its costs. It will put ever more pressure on Westerners, skilled as well as unskilled. But by any measure the benefits enormously outweigh those costs, and virtually all the ways to create jobs come from opening up economies, not following the protesters’ instincts. Western governments have failed their citizens once; building more barriers to stop goods, ideas, capital and people crossing borders would be a far greater mistake. To the extent that the protests are the first blast in a much longer, broader battle, this newspaper is firmly on the side of openness and freedom.