

Questioning the Current Economic Crisis.

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The return of Marx?

Certainly not. Despite the current turmoil, the basic foundations of capitalism – private ownership and accumulation of capital as a mean of economic growth – will continue sound. The Marxist economic experience under the form of Communism resulted catastrophic as proved by the Berlin's Wall fall and by the collapse of the USSR. The current crisis, which is not merely economic, will reinforce the meaning of Hegel's dialectic, but will not end in the ultimate destruction of capitalism as a result of internal convulsions, as predicted by Marx (1848, 1867 ed.). Indeed, while capitalism faced several crises and prevailed, the lifetime of Communism was considerably short in historical terms, only seven decades. Marx will remain buried, while Lenin will probably be hoping to continue to rest in peace in the everlasting and fashionable Red Square mausoleum, as many capitalism-converted Russians keep arguing that the leader of the Russian revolution should be simply buried, ending any kind of morbid worship.

The return of Keynes?

Hopefully not. At least in a radical fashion. Digging holes or building holes as a mean to contain unemployment is not certainly the best policy to stimulate a sustainable economy. Resources are scarce and the human activity effects on the planet are becoming increasingly problematic. Nevertheless, socialism is not dead and Roosevelt's New Deal was critical in the 1930's to save the USA from the Great Depression, in a time when unemployment reached unimaginable levels. Keynesianism became the economic paradigm of social welfare, but failed to ensure sustainability, as proved by the 1970's turbulence. Indeed, the increasing role of the government in the economy resulted in significant inefficiencies, which became more visible with the 1973 oil crisis and the subsequent inflationary process.

Neo-Liberalism: scapegoat for the current economic crisis?

Neo-Liberalism has its routes in early optimistic economic theories, such as in Adam Smith's classical Invisible Hand, although the *laissez faire laissez passer* origins can be traced even earlier. In opposition to Keynesians, neoliberals argue that governments underperform the private sector when running businesses, with governmental intervention being regarded as undesirable, since it is believed that private activity is more efficient in its absence. As theorised by Friedman and his disciples, monetary policy, i.e. the control of money supply, should be used in order to balance the economic activity with the economic cycles; a view in opposition to Keynesianism which relies primarily in the budgetary policy, namely in the use of governmental deficits to tackle economic downturns and in the use of taxes to ensure social welfare.

The current financial crisis revealed the consequences of the lack of adequate regulation, proving the inability of economic agents and markets to self-regulate (is not self-regulation an utopia anyway?). Market participants are regarded as *homo*

economicus, but their essence can never be something other than the one of a typical human being. This means that under specific circumstances the market's rationality is likely to be overruled by basic extreme emotions, such as panic or euphoria. Under a severe crisis, even a sophisticated economic agent can be found lost as a child in the forest looking for protection, provided there is a deep involvement in the business.

Therefore, recent events suggest that liberalism failed also, as the private sector did not perform as well as expected, and the benefits from the Invisible Hand to individual societies in Western Countries seemed to be suddenly diluted by several factors, such as the delocalisation incentivised by globalization. The current actions to tackle the crisis also suggest a return to socialism. However, they are diffuse as they intend to stop the bleeding, and not to cure the patient. Indeed, the governmental interventions on the financial system, which included nationalisations, capital purchases and other bailout schemes, were simply critical measures to avoid the collapse of the financial system, due to systemic risk. In fact, the whole system was on the edge of collapsing in September. Following Freddie Mac, Fannie Mae, and AIG's bailouts, the bankruptcy of Lehman Brothers was a milestone for the credit markets. It was the biggest ever bankruptcy in the USA, more than \$600 billion in assets, ten times Enron's size. Credit, the blood of the system, simply stopped to flow.

The actions taken so far can be labelled as *socialism for the wealthiest*, as they will benefit society indirectly only. However, due to extremely low confidence in the financial industry, credit continues to defrost very slowly and such *benefits* are still to be felt. No substantial changes in the status quo are therefore foreseen. It is simply a question of capital conservation, by the means of limitation of wealth losses, with the purpose to maintain capitalism alive, with little impact on the *real* economy.

If the banking industry and neoliberal views played a major role in the occurrence of this crisis it is therefore appropriate to make them the ultimate scapegoats? Certainly so, particularly for politicians. It is important to recall that the current financial crisis - made in the USA, just like the Great Depression - was preceded by the subprime crisis, which is still to be fixed, and by massive governmental budget deficits, often resulting from substantially failed policies, namely the ones related to international affairs. But there are other reasons, including globalization itself. It is true that the banking industry was conceivably one of the most powerful lobbies in recent years, influencing politicians in charge, which commonly lack economic education. Easy and cheap credit favoured nominal profits to financial institutions, but enhanced also the wellbeing of families providing incentives to buy more houses, and new cars, even if they could not afford to. This has benefited politicians, since easing monetary policy meant a faster recovery from the early 2000's economic crisis and a faster economic growth afterwards, resulting in more income, more taxes and additional governmental spending possibilities, i.e. more happy voters, and additional *bonus* to politicians, CEO's and partners. The result: an

almost complete collapse of a model and a huge bill that needs to be partially paid immediately, for the sake of future generations which are already so much in debt.

As politicians and bankers become deeply linked, the question of the scapegoat could be regarded as a Columbus' egg. However, if we remember that the president of the US Federal Reserve and the Secretary of the Treasury are nominated by the Administration, perhaps some conclusions can be drawn. Similarly for the allegations of deficient supervision and insufficient regulation: the Administration can replace the SEC president anytime, and the regulatory process is responsibility of the Congress.

Who to blame after all? Politicians' propaganda, or business advertising and dreams financiers? And what about individuals' responsibility? Is economic illiteracy so high that even families have lost the ability to prepare some basic household budget for expenses? Obviously, individuals are the weakest link in the equation, but if everybody lives in society, then probably everybody has their individual share of responsibility in this crisis. Even if unaware. Even if victims. Indeed, the current crisis is not only economic, but it is also a crisis of values, of the political system, and even of the society, which became more sophisticated, but also very much materialistic-dependent, unsustainable. Socialism is not an almighty solution, and liberalism is not the source of all evil. A new US Administration is about to take charge suggesting the beginning of a new era of charismatic leadership. However, the challenges posed by the economic depression and by several global issues, from climate changes to foreign policy, cast some doubts about the effectiveness of a *New Deal*, which is needed for the economy and for the international community. Hopefully, the current economic crisis will bring substantial changes far beyond a witch hunt, far beyond the simple consequence of the fact that "men will sooner forget the death of their father than the loss of their patrimony" (Machiavelli, 1513).

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