

Socialism's dead, Capitalism in the ICU, so what's next?

Globally, we are all determined to come out of the recession closet. The question is who should pull us out of the markets or governments?

When the question is ideologically rephrased, it becomes: Who should take care of us, capitalism or socialism?

Socialism died a slow death between 1980 and 1990. Capitalism crashed radically in 2007-2008, a comparatively painful demise.

At present, capitalism resides in the Intensive Care Unit, awaiting medication and resuscitation. After recovery, capitalism will never be the same again.

In the recent global financial crisis and economic meltdown, we saw both markets and governments join hands to save the world from economic catastrophe.

Are such market-government partnerships economically sustainable and viable in the long-term? In an economic crisis, we seem to either embrace capitalism with a socialist face or socialism with a capitalist face.

The bailing out of banks might be a socially good activity compared to bankruptcy, but it is economically an imperfect activity because it interferes with the equilibrium of supply and demand in the market place.

Likewise, the manipulating of corporate accounts could improve share prices of a firm in the stock markets of a capitalist system where greed is acceptable, but the act is a socially unfair practice and fundamentally criminal in democratic societies.

In recent years of capitalist rule, greed and injustice in markets have become the acceptable norm of business practice.



Letter from Pretoria/

WITH MICHAEL OGEMBO KACHIENG'A

The bailouts of the banks saved them from bankruptcy, but the process never saved either the savings or jobs of their customers.

They were socially just to some and unjust to others. The social calculus of the bailout philosophy is fundamentally a zero sum game. This amounts to giving the banks the fish, rather than teaching them how to fish.

FILE FOR BANKRUPTCY

Whenever there is a crisis in the financial industry, the customers lose not the banks.

In free capitalism, a firm that is insolvent should be encouraged to file for bankruptcy and rid the market of an institution that is using resources which could be better utilised by productive firms.

In our heart of hearts, we have a puritan belief that the bankers should have been left alone to face a painful death for abusing our collective social trust.

For years, the banks have been telling the world that they are the masters of the financial universe. We have only discovered their inadequate knowledge of financial mechanics when they clandestinely started negotiating with governments for bailouts.

Bankers are suffering from osmotic intellectualism of thinking that they are experts in the financial industry because they have made millions from poor clients. The problem with the bailout strat-

CREDIBILITY OF ECONOMIC SYSTEMS

The history of the past economic crises shows that in their wake, countries have conducted aggressive economic reforms to bring greater credibility to their economic systems to attract new capital to jump-start growth.

For the moment, owing to practical reasons such as globalisation, we seem to be stuck with capitalism as the preferred system for global development and poverty reduction.

The western governments, especially the US and UK, contaminated the purity of capitalism with dosages of socialist medicine. Sick capitalism should be treated with capitalist medicine or be left to die a natural death.

Like true dinosaurs, these financial dinosaurs should have been left to a trek into extinction. Banks took risks they should not have taken.

egy is the assumption that the banking system is fundamentally sound and that bankers know what they are doing.

That is far from the truth. If the bankers were the experts of global financial operations, we should not have had a global financial crisis in the first place.

The bailout theory can be likened to romancing the beauty of pushing a button to solve problems in science fiction books. It does not create viable businesses to bail out insolvent enterprises. There is no incentive for banks to be prudent in managing other people's money.

FINANCIAL TERMS

The truth is bankers and other moneylenders have never conceptually understood financial terms like toxic assets, credit swaps, collateralised debt obligation (CDO), derivatives or balloon payments.

But to look intellectually good and sophisticated at global politico-financial conferences like G8 or G20 or global economic forums, the moneymen have pretended to know the dynamics of the financial industry at our peril.

They have failed to master the intricacies of the global monetary system as well as that of the banking world. When you are good you tell people, but when you are great people tell you. One of the greatest problems facing the banks right now is how to dispose

the toxic assets in their books on the aftermath of the global credit crunch.

In addition, the recent history of the banking industry has shown us that incentives for bank executives were skewed toward reckless risk-taking with other people's money. Too much trust shown by financial regulators and governments made banks behave like money bazaars or casinos rather than prudent lending financial institutions. Banking executives are free to visit casinos gambling their own money, not that of other people.

Capitalism is the common denominator in the global economy today. In pursuit of growth and higher standards of living, countries will continue using free markets and free trade to power their economic growth.

In order to jumpstart growth after the present economic recession, many governments will be forced to open up their economies, rather than nationalise these in part to stimulate growth.

The worst crime the bankers have committed within the global economy was to be educated in banking, but remain ignorant of the mechanics of financial industry.

It is the ignorance of bankers concerning the mechanics of the money industry that has caused the financial crises which have subsequently graduated into the present economic predicament. Bailing out banks is no solution to global financial crisis.

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Germany, Russia talk economy and human rights

SOCHI, Russia,

global crisis

Germany and Russia should work closer together to beat the downturn, Russia's president told his German counterpart on Friday at the start of talks, which will focus on the economy and human rights.

President Dmitry Medvedev welcomed German Chancellor Angela Merkel to his official vacation residence at the Black Sea resort of Sochi for their third meeting this year, in a gesture that showed close ties between Berlin and Moscow.

"We shall think how by strengthening our bilateral eco-

nomonic strategic ties we could help our economies and people overcome the consequences of this heavy crisis and come out of it even stronger," Medvedev told Merkel.

A senior Russian official told reporters ahead of the talks that the leaders would discuss a bid by Canadian carmaker Magna and Russia's Sberbank to buy a stake in Opel, the European unit of General Motors, and a number of other investment projects.

Trade between Russia and Germany, Russia's biggest trad-

ing partner in Europe, reached a record \$67.2 billion last year. That figure has been cut by more than half in the first five months of this year, the official said, without giving a precise number.

Merkel has backed the Magna-Sberbank bid over a competing offer from Belgian private equity firm RHJ International and Russia hopes she will reiterate that support during the talks, a senior official in the Russian delegation said.

On Thursday, a senior Magna executive said agreement in prin-

ciple had been reached with General Motors to buy the stake. But a GM official later said the race was not over.

"We view (the Magna-Sberbank bid's) chances highly, they have become much stronger."

STRUGGLING FIRMS

Medvedev and Merkel will also discuss finding Russian investors for struggling firms like Dresden chipmaker Qimonda and Germany's fifth biggest shipbuilder, Wadan, he said.

Kommersant daily reported on Friday that Russian services conglomerate Sistema was seeking

to take a stake in Infineon, which holds a 77.5 per cent in insolvent Qimonda.

Wadan is owned by Russian investor Andrey Burlakov, who is looking for ways to save the insolvent shipyard.

"Given proper social and economic reasons and commercial guarantees, such projects can become springboards for strategic alliances between Russian and German hi-tech companies in car making, shipbuilding and electronics," the Kremlin official said.

"This will complement the existing and emerging alliances in the energy sector." —Reuters