Das Kapital, global crisis, and leadership

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COMMENTARY

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According to the 5,000-year-old Chinese Book of Changes (Yi Jing), the world is forever changing. And sometimes bewildering, strange, and unexpected things can happen. No wonder even economists are utterly at a loss to explain what is happening in today’s markets. Hardly two decades ago, we witnessed the collapse of the USSR, and capitalism seemed to have triumphed over communism[1]. With “Obamanomics” now raging in the USA, capitalism – at least in its purest form – is in danger of being buried.

The root cause of the US subprime crisis is well explained via the emerging discipline of neuroeconomics: blatant and excessive human greed. Despite grossing millions of dollars, the Wall Street CEOs’ appetites for capital remained insatiable. For a lecture to the City University of New York alumni last Fall, I chose to explore the other “Capital”: Das Kapital. How did I chance upon this work? (For despite its title, this work by Karl Marx is the very antithesis of capitalism.) Believing that the October 2008 global collapse of stock markets could be explained only in terms of primal fear, I went to the library to look up Jason Zweig’s highly readable book, Your Money and Your Brain. There I found Das Kapital on an open shelf, and in Section 2 encountered “The Greed for Surplus-labor [… ]”. Clearly, greed is a key aspect of the human psyche for researchers to build upon in neuroeconomics. Marx had anticipated this more than 200 years earlier in writing his “Capital”.

I want to explore what insights may be gained through a process of dialectical thinking. A key principle of dialectics that is easily grasped is the interdependence of opposites. For example, Can black exist if there is no white? Then there is the interpenetration of opposites and even its unity. In politics, there are also two major opposing forces: Marxist communism and American capitalism[2]. Later in this paper, I will explore what relevance, if any, the nineteenth century’s Das Kapital has for understanding the US subprime crisis.

One example of the interpenetration of opposites: as China transforms herself from Maoist-revolutionary, chaotic communism to ever-purer forms of laisseez-faire capitalism, the USA is headed in the opposite direction. Borrowing from Deng Xiaoping’s favored characterization, it may be approaching “socialism with American characteristics”[3].

For an example of the concept of unity, simply look at China. She remains officially a Communist state despite the presence of indisputably fiercely competitive, even
cutthroat, markets. Similarly, the USA with bottom-up “Obamanomics” may as a
country be embracing the ideals of capitalism, yet at the same time be implementing
egalitarian policies.

Turning back to Das Kapital, one of the most widely quoted Marxist sayings is:

From each according to his abilities, to each according to his needs.

Unbelievable as it seems now, the subprime mortgage was hailed as a major banking
innovation. The problem lies in the unscrupulous marketing of mortgages to less than
prime borrowers. It thus ran foul of Marx’ prescription – if interpreted with a twist. The
buyer, due to his or her poor financial situation, does not need such a subprime mortgage,
for it is a property he or she can ill afford. This matching of the real needs of a customer
as is to a specific financial product should clearly be a necessary prerequisite.

Widening our documentary lenses, however, we see the lower-income house buyers
to be complicit in these transactions. Whether it is Tom, Peter, or Mary, he or she is
hustling for a home. Moreover, these purchases of risky mortgages are often eased
through lubrication provided via subsidy through federal policies. For a more
balanced, metaphorical portrayal, consider that: “It takes two – banker and customer –
to tango to the alluring background of federal music.”

Then there is another piece of Marxist writing:

Sell a man a fish, he eats for a day; teach a man how to fish, you ruin a wonderful business
opportunity.

How can this be relevant? In Singapore, many investors are upset that their
investments in “mini bonds” are now of little or no value. One lesson learned from an
earlier analysis of the US subprime market (Foo, 2008) is this: “Banks to Stay
Respectable as Banks.” With this painful experience, investors are less likely to be
keen in the future to buy into packaged investment products. Possibly, the
better-educated investors may prefer to be more “hands-on”. Such preferences should
translate into investment-coaching opportunities as investors are likely to seek to learn
the tools, techniques, and skills of investing. Consequently, banks may lose out in the
future on business opportunities in selling structured financial products.

Another saying of Karl Marx seems to bear on the development of the US economy:

The more the division of labor and the application of machinery extend, the more does
competition extend among the workers, the more do their wages shrink together.

According to one report:

[… ] most families are making less, after accounting for inflation, than they were in 2000 […]
(International Herald Tribune, August 22, 2008).

If so, then under President Bush’s leadership middle-class Americans did not benefit
from economic growth. This is disappointing since American corporations are the
world’s most creative and productive and lead in applying cutting-edge knowledge,
skills, and techniques. Is it a case of too little trickling down from Wall Street
corporations to Main Street? For the American worker, real wages shrank under
President George W. Bush’s economic leadership.

Will the USA be transformed within the first quarter of the twenty-first century? Let
us attempt to capture the spirit of the period 2000-2017 – the zeitgeist, as the Germans
say – with one comprehensive term. What is it to be? How about “Obama”? Why?
Since the incident of September 11, 2001, the Bush administration seemed fixated on locating just one man: Osama bin Laden. Despite all his efforts, President Bush was never able to achieve this goal. Still, Bush had relentlessly pursued this singular objective. In Latin, there is a word for it, the extremis. Future historians will cite this as the major explanation for the debt-infested US economy.

Now the task of transforming the US economy lies with newly elected President Barack Obama. Presumably, by the time of the next presidential election, President Obama’s brand of economics – “Obamanomics” – should bring some tangible results. Along with an improved economy, rising real incomes for American families, and withdrawals of US forces from Afghanistan and Iraq, President Obama seems (at time of writing) very likely to be reelected. If so, we may properly call this period the era of “Osabama”.

Yes, it may seem strange that the fate of a superpower, the world’s most powerful nation, may be summarized as the story of just these two men. Both are non-whites, one lives outside the USA in the wilderness while the other is cozy inside the White House. Speaking dialectically, they ought to be seen as opposing forces. It was the hot pursuit of Osama that triggered the USA to be mired so deeply in an ocean of debt. If Obama is posited dialectically as the opposite force, then as president he is there to reverse the situation. For any reader of history, the first quarter of the twenty-first century must be one of the most intriguing. Whatever it is, Obama has to effect a turnaround of this crisis situation – as much as President Putin has already achieved in Russia.

Thinking dialectically, United Russia (UR), the core remnant of America’s cold-war rival, the USSR, may be said to be dialectically the opposite of the USA. Now, what will the first quarter of twenty-first century of UR be like? At least for the first decade (2000-2010), under the very able leadership of Vladimir Putin, the people of UR enjoyed – in what is diametrically opposite to the situation in the USA – substantial improvements in wages. Some estimates put the increase as high as 150 percent in real terms. Ultimately, it is results that matter. With Putin continuing on as Prime Minister, we may see the emergence of a new school: “Putinomics”.

Putting it all together, it is time for us globally to put ideology behind us. No “isms” – be they Marxism, socialism, communism, the free-market mechanism, or laissez-faire capitalism – alone can rescue General Motors. What is required is a strong American can-do spirit that is coupled with a timely, well-conceived turnaround strategy. The USA, still the only superpower, should be able to chart a course out of the present turmoil and lead globally towards more sustainable, greener economic growth. Most importantly, the American citizens deserve just as much reward for having given their support, hard work, and trust in the institution of the White House.

Deng Xiaoping, Time Magazine’s 1978 “Man of the Year” and the architect of turning around China from the ashes of Mao’s revolutionary chaos to phoenix-like economic growth, once summed up his dialectical insights:

[...] Socialism and market economics are not incompatible [...] 

Deng’s bottom-up approach succeeded whereas the USSR’s top-down perestroika failed miserably. To sum it all up, perhaps it is still worth reminding ourselves of Deng’s most oft-quoted remark, which reflects his pragmatic thinking:

I don’t care if a cat is black or white, so long as it catches mice.
In the most recent US Presidential Election, American voters had the choice between two possible leaders, one black and one white. Wanting to see substantial improvements in their own economic wellbeing, they voted for the leader they believed would deliver the results.

Notes
1. Communism, as we use the term, is a political ideology that espouses both egalitarianism and classlessness where the means of production and property are commonly owned.
2. Marxism may be understood as any political theory or practice derivable from the works of Karl Marx and/or Friedrich Engels.
3. For our purposes, socialism is taken to be a political movement by the working class in which social organizing leads to more egalitarianism with ever-widening state administration of the production of goods and services.

Reference

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