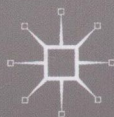


SAVING CAPITALISM AND DEMOCRACY

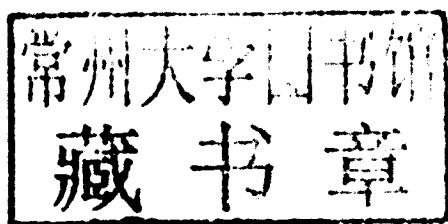


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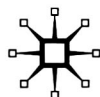


Saving Capitalism and Democracy

Mohamed Rabie



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First published in 2013 by PALGRAVE MACMILLAN® in the United States—a division of St. Martin's Press LLC, 175 Fifth Avenue, New York, NY 10010.

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ISBN: 978-1-137-33041-3

Library of Congress Cataloging-in-Publication Data is available from the Library of Congress.

Rabie, Mohamed, 1940–

Saving capitalism and democracy / Mohamed Rabie.

pages cm

ISBN 978-1-137-33041-3 (alk. paper)

1. Capitalism—Social aspects. 2. Financial crises. 3. Democracy. I. Title.

HB501.R17 2013

330.12'2—dc23

2013000408

A catalogue record of the book is available from the British Library.

Design by Scribe Inc.

First edition: May 2013

Saving Capitalism and Democracy

*To my grandchildren, Laith, Yasmine, and Liberty,
for their love and the new life they have given me.*

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Introduction

In the wake of the 2008 financial crisis, Mr. Paul Volker, former chairman of the Federal Reserve and a close advisor to President Obama, was asked about the administration's plan to deal with the crisis. Volker said, "We are trying to save the system." In light of this honest answer, we need to ask two questions: Can the system be saved as is? Does it deserve to be saved? The answer to both questions is "NO." I do not believe that the free market system can be saved, unless it returns to its capitalist roots and becomes fair and socially responsible.

The near collapse of the international financial system in September 2008, which was preceded by a mortgage bubble a year earlier, was a desperate cry for social, cultural, economic, and political change. The two crises proved that the model of economic and financial management based on the philosophy of self-regulating free markets was inefficient, unfair, and largely corrupt. In pursuit of profits, the captains of the system have abandoned their responsibilities to their workers, communities, countries, and the common good, even to the companies they are entrusted to manage. And due to the absence of effective government regulations and oversight, the managers of the largest banks, corporations, hedge funds, and insurance companies were able to confiscate a large portion of wealth and income, leaving millions of people without jobs, a secure source of income, or much hope.

Since capitalism and democracy have become conjoined twins, making each one dependent on the other, saving either system requires the restructuring of both systems to revive the old spirit of capitalism and the true mission of democracy. To do so, the major institutions through which capitalism and democracy function need to be reconstituted to make them less vulnerable to financial and economic upheavals, and less subject to the influence of money; they must be made fair and inclusive, and more sensitive to ongoing domestic changes and global transformations.

In this book, I shall argue that the current US political and economic systems are no longer able to meet the expectations of people who believe in them, and that drastic changes are needed to restore the credibility of capitalism and the functionality of democracy. However, the globalization of the world's economies and financial and investment markets, as well as trade and culture, has made the restoration of the viability of capitalism and democracy hard to imagine without creating a global environment conducive to sustainable economic growth and societal development.

I shall start my work by briefly describing the major transformations the world society has witnessed throughout history, identifying the major challenges facing the United States and most other nations and placing these challenges in their proper historical contexts. Thereafter, a strategy will be articulated to deal with these challenges; it includes concrete plans and ideas to reindustrialize America, rebuild and empower the American middle class, restructure the international monetary system, eliminate the public debt of rich and poor nations, and create a multitrillion dollar fund to facilitate the development of poor nations and enable them to become full partners in a vibrant and more equitable global economic and financial system.

CHAPTER 1

Historical Background

Since the dawn of history, humans have formed societies with the primary objective of reaching higher levels of security and satisfaction. At the beginning, the pace of change was very slow, making societies largely stagnant; they seemed frozen in time. But as people attained higher levels of physical and food security and developed more advanced technologies, the pace of change accelerated and life became more complex and demanding. Complexity, in turn, presented people with more challenges to face, more issues to deal with, more desires to satisfy, more opportunities to exploit, and more change to endure. As a consequence, more players came to participate in the shaping of societal life, which came to be organized in ways that made people and their social, cultural, economic, political, and communications systems more complex and interdependent.

As societies change, they move from one stage of societal development to another, or from one civilization to another, with each societal stage representing a fluid station on the road to a new phase and a more complex civilization. The major stages of societal development, or civilization, which the world has witnessed so far, are the preagricultural stage, the agricultural stage, the industrial stage, and the now emerging knowledge stage. Civilizations are tied to one another by transitional periods that connect the past to the present and the present to the future. Since each successive stage of societal development represents a more developed and complex society, each transitional period represents a historical discontinuity rather than a smooth link between the past and the future; because of that, transitional periods are usually characterized by chaos and conflict. However, each stage of societal development, regardless of its duration and dynamism, experiences a crisis of its own before

entering a transitional period on the road to a new, more developed and complex stage. But after the transitional period is completed, a new civilization emerges with its own social and economic structures, traditions, and value system, or its own unique society, culture, and economy. The European transition from the agricultural to the industrial age will be reviewed to explain the nature and role of transitional periods in societal transformation.

During transitional periods, certain agents of social, cultural, economic, and technological change become more active than usual, and new agents arise and intervene, causing complexity to increase and the pace of transformation to accelerate and change direction. As a result, the pillars of stability in society, particularly established values, attitudes, traditions, and social and economic structures, are undermined. Stability is replaced by instability, certainty by uncertainty, and confusion and fear of the unknown become prevalent, causing a large segment of society to suffer the pains of change and become, in the process, disoriented and disillusioned. Consequently, people often feel impelled to resist change and struggle to abort the process of social and cultural transformation to restore stability and preserve their traditional way of life.

As societies climb the civilizational ladder, they attain higher levels of security and often satisfaction, accumulate more knowledge and wealth, and enhance their ability to use whatever resources at hand to manage their lives more efficiently and improve their quality. Edward Gibbon was quoted saying that “we may acquiesce in the pleasing conclusion that every age of the world has increased, and still increases, the real wealth, the happiness, the knowledge, and perhaps the virtue of the human race.”¹

But with every new civilization, life conditions get more complex and knowledge more sophisticated and specialized, causing our ability to produce and use knowledge to become more decisive in making further socioeconomic progress, sociopolitical change, and sociocultural transformation.

Knowledge and the skills and wealth associated with it have always been unevenly distributed in society as well as among societies. There exists a knowledge gap between those who know and others who know less, and those who know less are usually less able to compete in an increasingly dynamic and complicated world. Continued change, moreover, has caused this knowledge gap to widen and deepen, and led societies to be divided into classes along conflicting socioeconomic lines as

well as into competing sociocultural groups. In addition, societal development has never been even, comprehensive, or equal; some areas, economic sectors, social classes, and ethnic and cultural minorities usually develop fast and get more wealth and power, while others develop slowly and get much less.

As the influence of knowledge increases in society, the complexity of institutions through which knowledge is produced and disseminated to the public increases as well. And as institutions begin to multiply and expand, they reduce the influence of the individual and the group and weaken their roles in society. As a consequence, change becomes multifaceted, self-propelled, hardly controllable, and often unpredictable; it affects all aspects of life, all people, all the time, and in all places. The people most involved with the production and application of knowledge, however, are more likely to change faster, benefit more, gain added wealth and power, and achieve higher standards of living, causing the socioeconomic gaps and sociocultural divides within and between societies to widen and deepen further.

Historical records suggest that human societies have passed through numerous stages of development on their way to the current stage. Although it is widely believed that the first human society with a family organization and a language appeared about 95,000 years ago, the first society with a distinct culture and an economy appeared about 30,000 years ago. For roughly 20,000 years thereafter, human societies were small, and people within those societies lived a nomadic life as animal hunters and food gatherers rather than food producers. But by organizing into small groups of hunters, people were able to enhance their ability to hunt and use the meat of some animals for food, the skin and fur of others for clothing, and certain bones as tools.² An archaeological discovery made in Ethiopia in 1996 suggests that humans developed an appreciation for music about 30,000 years ago and used animal bones to make a musical instrument that can play more than one musical tone.

About 11,000 years ago, humans managed to domesticate several animals and use them for a variety of purposes. Animals were employed to ease the burden of migration, carry food across inhospitable terrains, and help launch and fight wars. Around the same time, people also developed agriculture, or plant cultivation. This development, which facilitated the production of food in relatively large quantities, was probably the most important single development in human history; it provided man with enough food to satisfy his needs and generate a surplus to trade. And

as it enabled agricultural people to attain a substantial degree of food security and independence from nature, it paved the way for humans to settle and grow, interact with one another, and make progress. With the cultivation of the land, the ideas of progress and civilization were born. Populations began to grow faster, cities to be built, states to be established, trade to expand, and what is called civilization to emerge and slowly flourish.

Societies that appeared about 30,000 years ago have continued to develop and become more complex and productive. They started with the primitive tribal society and passed through the traditional agricultural society, which was followed by the relatively dynamic industrial society. Today, advanced industrial societies are moving into the still evolving but very dynamic knowledge society. Each successive society represents a civilization that is profoundly different from all other preceding ones; it has an economy that is more productive and diversified, stronger military power, and more knowledge and cultural sophistication. And as societies become more complex, they develop different cultures and new social and economic structures, and they build new political systems to suit their life conditions and meet their growing needs.

A Personal Note

Since this book is about the present and the future as seen from the perspective of the past, I feel the need to explain my connection to history and the transformations of societies, cultures, and civilizations. I have been fortunate to experience firsthand the development of human societies over time, witness the evolution of civilizations, and participate in some of their important events. And because civilizations go through difficult transitional periods before transformations are completed, living the life I have lived has given me a unique, probably unprecedented opportunity to witness the three major transitional periods in history and feel the pain and hopes of people in such circumstances. My writings therefore are reflections of real life, and not a matter of imagination or curiosity only.

I was born in a serene, beautiful agricultural community where neither electricity nor running water nor modern sanitation was available. The house in which I was raised had a swimming pool and a few rooms and was surrounded by orange trees and flowers. People in the village used donkeys and mules to plow the land, plant the seeds, harvest the

products, and transport them to local markets. The community in which I spent most of my childhood was probably quite similar to a typical agricultural community in Europe during the late decades of the eighteenth century, with a few exceptions such as the absence of feudalism and the existence of cars and radios and paved roads and water wells operated by mechanical pumps.

As I was growing up and becoming aware of my sociocultural and economic environments, war erupted and caused my family and my generation to become refugees. The refugee camp in which I spent about five years of my youth was outside an agricultural town at the edge of a vast, desolate desert. For about two years, my older sister and I were assigned by our father the task of spending the weekends roaming the neighboring desert to collect dry and dying bushes and shrubs to make fire for cooking. During late winter and early spring, the task was expanded to include the collection of wild vegetables to feed the family. Two of the vegetables we so many times collected are now domesticated, and every time I taste them I remember the days and events of a childhood lived as a gatherer.

Other circumstances surrounding my life led me to share with nomads their food, listen to their songs and old stories, spend time in their tents and observe their daily life, and even go with shepherds about their daily tasks. It was a life that represented the first stage of the development of human society on its way to civilization. Having been uprooted from an affluent and secure existence to living in abject poverty and an insecure environment caused me to become aware of the new life, taking nothing for granted and evaluating every change and every development with a critical mind that never stopped thinking and wandering beyond the present and into the unknown.

By the time I entered high school, my family had moved to Jericho, which is believed to be the oldest city in the world. Nevertheless, all nine of us lived in a one-bedroom apartment that had none of the basic modern amenities. The family, moreover, had neither the money nor the space to buy a desk, a chair, or any piece of furniture that is today taken for granted in most agricultural communities. For eight consecutive years, I had to lie on my stomach for approximately one hour a day to do my homework. My father rented and cultivated a small piece of land on which we lived and whose produce provided most of the food the family needed to survive and save a little money to support a mostly subsistence living; all children who were old enough to help were required to do so.

Domesticated turkey, chicken, pigeon, and rabbits provided the meat the family needed to supplement its mostly vegetarian diet.

Upon graduation from high school, I received a grant from the United Nations to study in Egypt and live in Cairo, one of the largest and most vibrant cities of the Third World at the time. The trip to Cairo gave me the first opportunity to fly in a plane and spend a night in a hotel, in Beirut, Lebanon. Living and studying in a big Third World city gave me a chance to observe affluence and abject poverty coexisting side by side, and watch modern and primitive cultures living their separate, estranged lives in one place. Third World nationalism and socialism were thriving along with anti-imperialism in an atmosphere that inspired the young and gave hope to the deprived. It was only there that I was able to live in a house with electricity, running cold and hot water, modern sanitation, and even a refrigerator. Life in that city represented what I call the transitional period separating two civilizations: the agricultural and industrial ones.

Five years later, I received a grant from the German Academic Exchange Service that took me to Germany to witness and participate in the “German Economic Miracle,” and I lived for almost two years in a mature industrial society. In Germany, I pursued a graduate degree and worked a few months in a publishing house. Most of my free time was spent visiting as many German cities and towns and villages as possible and immersing myself in the culture of the land. In 1965, I moved to the United States, where I completed my higher education, received a PhD degree in economics, and taught at three American universities. While living and teaching in the United States, I witnessed two of the most important social and political movements in US modern history: the civil rights movement and the antiwar movement that opposed the Vietnam War.

In 1970, I left the United States to teach at Kuwait’s newly established university. And while teaching, I managed to change the university’s educational system and the curriculum and introduce coeducation for the first time in the history of Kuwait. And through my participation in the cultural life of society, I learned how immigrant workers lived and viewed life conditions in that part of the world. For six consecutive years, I witnessed a tribal society losing the major characteristics of its traditional culture and way of life as oil money was transforming it into what I call “petroleum society.” It is a society whose roots were anchored in the fourteenth and fifteenth centuries and whose aspirations

were touching the twenty-first century. The Kuwaiti people thought and behaved at the time as if they could buy anything with their money and employ anyone to serve them without having any rights except the right to get paid.

In 1976, I returned to the United States to teach first at Georgetown University in Washington, DC, and then at other universities. And while living in Washington, I witnessed the transformational impact of the Reagan and Clinton years on the US economy as well as on American society and culture; it was an opportunity to witness civilization change for the second time and live through the transitional period that led a mature industrial society into the age of knowledge. And in addition to teaching at a few American universities, I got involved in business, research, and publishing.

Between 1998 and 2000, I spent my time shuttling between Washington and Germany, giving lectures at German universities and research institutes and advising Erfurt University, which was being reopened after more than two centuries of closure following the religious wars of the seventeenth century. In 2002, I went to Morocco, where I spent two years teaching at Al Akhawayn University, and then I spent two more years living in Jordan. So for the second time in forty years, I had the opportunity to observe how life changes during a transitional period separating the agricultural from the industrial age, where globalization has caused traditional cultures to lose most of their old traits and characteristics and be deformed beyond recognition.

Since boyhood, my life has been an ever-evolving, most fascinating story that took me to many interesting places in Asia, Europe, the Middle East, North Africa, and North and South America, enabling me to look back at the primitive roots from where I started and explore the unknown future in my thoughts and ways of living. And throughout the time since graduation from college, I have continued to travel, give lectures, write articles, and publish books. Thus my perspective goes beyond the ups and downs of ordinary life in one society, one region, or one civilization, and my connections to all the places and historical phases I have experienced firsthand have continued to fascinate me and challenge my intellectual capacities. As a result, I can say with confidence that I have experienced, within my lifetime, starting with the tribal age and into the knowledge age, the life of five hundred generations, going back to the preagricultural times. I believe that no other person has lived my life, and no man or woman will ever experience my life experience

because the times I lived and the developments I witnessed have come and gone and will never come back again.

Conflict and Change

Relationships between individuals, groups, and institutions in every society are based on cooperation and competition that exist side by side and play their societal roles concurrently. Cooperation creates and sustains societies; it integrates values, traditions, and social systems and gives members of each society a unique identity of their own and a sense of belonging to a larger community. Thus cooperation tends to support unity, foster stability, enhance harmony, and maintain coherence. Competition, in contrast, enables individuals and groups as well as institutions and organizations to utilize their particular strengths and potentialities more efficiently to achieve their specific goals. When people compete, each active player gets the opportunity to show his talents and try to increase his stock of knowledge, utilizing whatever assets he may possess to improve the quality of his life and gain more power and wealth. However, enhancing one's social position does not lead to enhancing the fortunes of everyone else; it oftentimes comes at the expense of others. People, therefore, tend to play by the rules of both cooperation and competition at the same time, sometimes consciously, but oftentimes unconsciously.

In societies where the level of cooperation is very deep due to environmental constraints and/or strict social traditions, conformity and contentment usually prevail. In such societies, the economic pie tends to be small and to remain relatively small due to contentment. Any growth in the economic pie is usually incremental and unevenly divided, causing the gap between the haves and the have-nots to widen. In contrast, wherever and whenever competition is fair and moderately strong but does not threaten the sustenance of society, the size of the economic pie tends to be relatively large and to grow faster, allowing more people to gain more wealth and improve the quality of their lives. Thus moderate competition in stable societies usually increases the numbers of the haves and reduces the numbers of the have-nots, and consequently causes societal progress to be made.

Throughout history, conflict and change have maintained a mutually reinforcing relationship, causing people as well as the institutions and social systems through which they function to experience the vagaries of

both conflict and change without interruption. At times, change precipitates conflict; at other times, conflict paves the way for change. People, no matter how hard they may try, can avoid neither conflict nor change, nor can they escape the impact of either one on their personal lives and their collective consciousness and living conditions. The interaction of conflict and change in society and the accumulation of their consequences over time have undermined the role of the individual and reduced the importance of traditional institutions. As a consequence, certain forces of societal transformation evolved slowly to cause conflict and change and shape and reshape the collective memories of nations and irreversibly change their characters, social and economic structures, and national cultures.

Change is caused by the introduction of unconventional grand ideas that have sociopolitical and sociocultural implications, or by scientific discoveries and technological developments that have organizational, entrepreneurial, or economic applications. Change may occur first at the intellectual or mental level, creating a new state of mind, which in turn labors, often hard, to change the actual states of social, cultural, political, and economic affairs on the ground. Such a change presents a challenge to the existing sociopolitical and sociocultural orders in society and therefore has a revolutionary nature. Change may start by the introduction of new technologies in the economic arena and work slowly to change the prevailing state of mind. This change in particular comes to foster the development of the socioeconomic order, not to challenge it, and emerges as a natural byproduct of human efforts to improve the general quality of life.

Change that technological developments precipitate rarely challenges the sociopolitical or sociocultural order in society and, therefore, seldom clashes with the basic interests of the dominant elites, despite its profound long-term implications. Adjustments rather than open conflict are usually the path through which technological changes travel into the larger society to effect economic and noneconomic change. In the process, however, change produces winners and losers; the first tend to accept change, the latter to detest it and struggle to stop it. Eventually, new states of political, socioeconomic, and sociocultural affairs evolve, causing all relationships to change and sociocultural gaps to deepen. And this in turn disrupts the existing balance of power relationships, instigating a new wave of conflict that causes further change.

In contrast, change that starts with the state of mind, such as religious fundamentalism, Protestantism, communism, and nationalism, presents