

GLOBAL CAPITALISM: SAVIOR OR PREDATOR?

Candidates for fortune too frequently abandon the paths of virtue; for unhappily, the road which leads to the one and that which leads to the other, lie sometimes in very opposite directions.¹

—Adam Smith, 1759

Today, the system of capitalism is at a crossroads.²

—Joseph Stiglitz, 2002

“I’M NOT trying to make a profit!” This rocks me back on my heels. It’s 1962, and I have recently taken over management of an enterprise in Nigeria. The director of John Holt Trading Company, a British-owned firm active since the 1800s, is enlightening me about how his company does business in Africa. When I ask how he prices his imported cars, building materials, and consumer goods, he adds, “Pricing’s not a problem. I’m just trying to generate high turnover.”

Two years in graduate school reading balance sheets and income statements leave me totally unprepared for this bit of wisdom. I haven’t a clue why anyone would run a business with disdain for the bottom line. Staring at myself in the mirror every morning for the next two months, I ask, “Now why did you get an MBA?”

What could possibly be going on here? You know and I know that people will invest their money where they can earn a profit. Right? This is the fundamental precept, the foundation of capitalism. Right?

Wrong! A lot of people will invest their money in one place in order to earn a profit in a different place. John Holt was using artificially high import pricing as a mechanism for transferring all its profits out of Nige-

ria and back to Britain. It took me two or three years to realize that most foreign-owned companies were doing largely the same thing. And then it took another couple of years to learn that most wealthy Africans involved in foreign trade were illegally moving money abroad by the same means. As the decades rolled on and my activities spread to dozens of countries across the planet, I observed that countless forms of financial chicanery are prevalent in international business. Like an iceberg, the little that is visible is supported by vastly more hidden beneath the surface. Thus arose my understanding that the free-market system has a problem, which I have come to appreciate is a combination of several interrelated and undeniably serious problems.

“If a system cannot correct its major malfunctions, then it will be replaced.” Pierre Defraigne, director of north-south affairs at European Commission headquarters in Brussels, was my guest at breakfast. “Capitalism can become very corrupt. Profits should be made in the marketplace through quality of goods and prices, not through illegalities.” The topic was dirty money. “We think this is part of the normal functioning of the capitalist system. But it can be corrected and won’t limit efficiency. It’s up to those who defend the system to put their house in order.”³

House in order? It is difficult to argue that the free-market system is currently performing at the top of its game. While this is a book about global capitalism, a brief detour into what has been transpiring domestically, that is, within western countries, is useful. In North America and Europe, the breadth of business scandals and the recklessness of officers and directors in recent years have been simply astonishing. An assortment of frauds, thefts, corrupt practices, accounting irregularities, earnings restatements, asset write-downs, tax shenanigans, conflicts of interest, and other charges, probes, malpractices, and allegations have corroded the reputations of dozens of companies and sapped the net worth of untold numbers of shareholders and retirees. The list of financial institutions tarnished in the press reads like what should otherwise be the *Who’s Who* of propriety: Citigroup, J.P. Morgan Chase, Bank of America, Bankers Trust, Bank of New York, and some 55 more on the roster I maintain. The corporate rap sheet, ranging from spectacular failures to merely disgraced executives, includes Enron, WorldCom, Global Crossing, Halliburton, and nearly 100 more on my list. All Big 5 accounting firms have been tarred and feathered. The number of law firms taking heat is too long to recount.

Frank Partnoy, in his superb book, *Infectious Greed*, writes about how U.S. stock markets lost \$7 trillion of the wealth accumulated in the 1990s, and he goes on to say:

To any close observer of the changes in financial practices since the late 1980s, the collapse was not a surprise. New forms of risk and deceit now permeated every corner of the financial markets. Financial instruments had continued to develop in complex ways, and no one—including accountants, bankers, directors, regulators, or even plaintiffs' lawyers—was in a position to exercise even a modicum of control.⁴

For several years, the most publicized wrongdoings have captured our attention. They revealed to us just how wrong we were. We thought that these fine companies and their prestigious bankers and critical auditors and cautious attorneys were upholding the highest standards of corporate conduct, only to find out they were in cahoots to cook the books and deceive their employees, shareholders, and regulators. We felt thoroughly violated.

This is a book that also addresses violation but on a global scale. Much more disturbing than what has been happening inside our borders in recent times is the destructive manner in which we have been operating the capitalist system beyond our borders for many years. Subterfuge and dissembling have been far worse in the international arena.

The accumulated outrages of late began to embed themselves into our collective consciousness barely a decade after the twentieth century produced one of history's great turning points. The strength of capitalism became vividly clear, achieving its pivotal moment in the waning years of the last millennium. On November 9, 1989, young people wielding sledgehammers broke through the Berlin Wall, signaling the failure of the major competing ideology, socialism. The end of almost all remaining communist regimes swiftly followed, freeing Central and Eastern Europe and creating 15 independent nations out of the ashes of the Soviet Union. Even the surviving centrally planned economies—China, Vietnam, Laos, North Korea, and Cuba—were forced to recognize that private enterprise brought higher standards of living, leading each of the contrarians to begin or advance its march along the capitalist road. No alternative arrangement had demonstrated such an ability to marshal the initiatives and energies of so many people. After generations of uncertainty, capitalism had flat out won. The

most vocal free traders crowed that, despite occasional blips in emerging markets, the system was working as intended.

But the hubris was short lived. Aircraft were hijacked and crashed, the World Trade Center fell, and part of the Pentagon was destroyed on September 11, 2001, killing and injuring thousands in the world's greatest concentrations of financial and military might. As capitalism's most robust symbols toppled, a dozen years of hauteur ended for some people and were shelved by others. Terrorists had focused on the soaring self-confidence of America and by extension its allies and had, at least for a moment, set back the measure of certainty, of inevitability, that had come to characterize the western example and the tone of advice given to the rest of the planet. A realization that powerful and determined forces viewed the world in very different terms came as a rude shock to many.

Americans responded to 9/11 with incredible resilience. Yet, months later, even as deep pain and a thirst for revenge lingered, introspection began to creep into public dialogue and press commentary. Was it just religious extremism that brought on the terrorists, or were deeper frustrations, power disparities, income imbalances, and social disaffections evident in their motivations? Those who thought that democracy, capitalism, and globalization had emerged as standards after 1989 were set back when terrorists thrust a dagger into the body of the strongest nation in 2001. The anticipation that some fundamental consensus had been reached across vast stretches of humanity yielded to renewed uncertainty. As the Peruvian scholar Hernando de Soto had predicted a year earlier, "The hour of capitalism's greatest triumph is its hour of crisis."⁵

Within the critical review now hesitantly unfolding, some of the old arguments about capitalism are being revoiced. Optimists extol dazzling improvements in living comforts over the past 50 years, as incomes for the average person have more than doubled, and they are right. Pessimists lament that billions of poor are living at historically low standards or are only marginally better off than their ancient ancestors, and they are right. How can both be right? Or, more pointedly, if the first is true, why should the second also be true? The answer is, the second does not have to be, and the fact that it is true poses a danger to rich and poor alike.

Despite banking and corporate scandals in North America and Europe, practitioners generally regard capitalism as tested and proven in its ability to produce and distribute wealth. "Capitalism is the most successful wealth cre-

ating economic system that the world has ever known; no other system . . . has benefited 'the common people' as much."⁶ It "encourages and rewards business behavior that is honest, fair, civil, and compassionate, and . . . heroic."⁷ The misconduct of a few is seen as an aberration and certainly does not detract materially from the high level of perfection the system has achieved. "Not only are markets not too free, but they cannot possibly become too free."⁸ For market fundamentalists, competitive self-regulation in economic and commercial affairs led by a wealthy vanguard is the panacea for society's ills. "Instead of an aristocracy of the merely rich, we are moving to an aristocracy of the capable *and* the rich. The financial revolution is opening the gates of the aristocratic clubs to everyone."⁹ The prospect of a new aristocracy is offered as a wonderful design for the years ahead.

This book presents a different view. It penetrates the depths of crime, corruption, money laundering, tax evasion, and illegal transactions, joins these concerns to the impact they have on global inequality, relates both issues to some very basic conventions and ideas underpinning market economics, and hopefully extends perspectives on improving capitalism into new territory.

Lawlessness has permeated global commercial and financial affairs far more extensively than is commonly perceived, as explained in Part I. Writing on "the widespread incidence of fraud, corruption, organised crime and abuse of power" influencing the world economy since the 1970s, Harry Shutt, formerly with the Economist Intelligence Unit in London, laments "the progressive removal of restraints to such criminal activity and indeed increasing incentives to engage in it."¹⁰ On the other side of Earth, a Pakistani banker groused to me, "We have lost the distinction between what is legal and what is illegal. No one hates people who get their money through illegal means. Society is not acting as a restraint."¹¹ The astute observer of Latin American affairs, Norman Gall, talking with me at the Fernand Braudel Institute of World Economics in São Paulo, characterized international capitalism as "perversities built upon perversities."¹² Yet, we willingly tolerate and indeed encourage a level of lawlessness in global trade and investment that threatens the capitalist system.

The linkage between gross violations of legal norms and the diminished lives of billions of people surviving on a dollar or two a day is not often discussed in polite circles, but will be here, in Part II. "If we have no answer to our appetite for dirty money, we have no answer to the alleviation of

poverty,” confided a French banker.¹³ But “the question of income disparities has been lost in the competition for growth rates,” contended Gil-Sung Park, a sociologist sharing views with me in Seoul. “Growth and distribution; can they go together in a common debate? They must go together.”¹⁴ Peter Dougherty, an editor at Princeton University Press, ponders “. . . why no one seems to be paying any attention to the social and political dilemmas that continue to beset capitalism—such as deepening inequality in the presence of soaring affluence. These dilemmas are brought about by the very success of economics, . . . at the expense of a more expansive and critical worldly philosophy.”¹⁵ Yet, for most people, poverty and inequality are peripheral issues properly left to specialists in international financial institutions, largely irrelevant to capitalism’s more fundamental concern with market access and wealth accumulation.

Both of these conditions—lawlessness and inequality—find justifications in twisted interpretations of the free-market system’s founding tenets, addressed in Part III. Adam Smith, who opted for the interest of the poor rather than the rich at every intersection in his writings, is rolling over in his grave. While appreciating a rise in wealth, widespread abuses in global movements of trade and capital, combined with staggering gaps in income levels taken as inevitable and tolerable, is the opposite outcome from what he hoped would arise. “No society,” he said, “can surely be flourishing and happy, of which the far greater part of the members are poor and miserable.”¹⁶ Smith’s vision has been largely set aside, and instead capitalism has drawn its sustaining rationale from his contemporary, Jeremy Bentham, who despised the idea of inalienable rights and argued that it is acceptable to sacrifice the rights or the interests of some people for the good of others. This core idea—that the well-being of a part of society can be overridden for the advantage of another part of society—brutalizes our practice of capitalism in a way completely unimagined by its seminal thinkers.

These three—illegality, poverty, and distorted philosophy—exist on a continuum, and it is these combined systemic shortcomings that reveal capitalism’s Achilles heel, summarized in Chapter 11 of Part IV. Looking at each one yields insights into the other two, and an understanding of all three is necessary to an understanding of each. Illegality contributes to inequality. Inequality is worsened by warped philosophy. And perverted philosophical maxims underpinning capitalism serve to excuse rank illegitimacy and severe inequality.

We give short shrift to such concerns when we consider each in isolation. Frankly, as I have learned over many years, it does little good to look at illegal financial dealings detached from the larger context within which they thrive. How many times have I heard the question, “Why should I care?” It is too easy to view such machinations simply as games played by the rich. Grasping the impact these subterfuges have on the whole of humanity has been missing in public dialogue for too long.

Equally, it does little good to look narrowly at inequality and poverty and shrug our shoulders, self-satisfied that this is their problem. For many people, meting out foreign assistance, however begrudgingly, is the limit of obligation. The contrasting fact is, our gains in income in the West flow in part from losses in income in other regions, a point I hope will become unmistakably clear in later sections of this book.

Equally again, philosophical inquiry is now largely separated from public policy. Philosophy can and often does become culture, embedded in the way we rationalize and live our lives. Today, the prevailing precepts underpinning capitalism lend a measure of comfort to justifications for a divided and hypocritical world.

The harmful aspects of modern capitalism which I am addressing—illegality, inequality, and misapplied philosophy—can be viewed as segments on a line, with illegality on one end, inequality in the middle, and economic philosophy on the opposite end. Dropping down on any part of this line leads logically to the other parts of the line. And what becomes evident with growing clarity is the connection of each to the others. This is what has fascinated me for years: the juncture, the nexus, between illegality and inequality, between inequality and philosophy, and between distorted philosophy and its outcomes in poverty and lawlessness.

It does not really matter to the story I am telling whether you start with illegality and trace it through to its effect on inequality and its sustenance in outdated philosophy. Or you do the opposite, and start with misshapen philosophical precepts and trace them through to their impact on inequality and lawlessness. Or you start in the middle with inequality and look on either side at its contributing causes. The linkages are evident wherever the starting point. What I strive to do is integrate these three into a continuum, a triptych, a multiscreen picture, that provides a perspective on the nature of global capitalism as it has come to be practiced today. Together, it is the

interrelated parts of this continuum that constitute capitalism's Achilles heel and present the threat to stability and prosperity that must be resolved.

Are the challenges of these three issues so overwhelming as to be insurmountable? Absolutely not, the subject of Chapters 12 and 13. First, illegalities that permeate our pursuit of global free markets can be greatly curtailed with a few strokes of the pen and without harming efficiency and growth. This is not a defeatingly complex issue; it is instead a matter of political will. Second, inequality can be markedly reduced to the advantage of rich and poor together. This will occur, not through the timid pursuit of poverty alleviation, but through sensible steps underlying our own commitment to shared good fortune. And third, a major contradiction needs to be confronted—the contradiction between fresh thinking emerging from schools of philosophy in America and Europe and entrenched justifications for the status quo in the free market's supporting canons. Revised canons can guide us beyond an economically disjointed planet toward one in which capitalism extends its opportunities and benefits to the whole of humankind.

Anything less than addressing all three of these concerns means that capitalism will remain far short of its full potential. This book quite purposefully takes a holistic view of global capitalism and seeks resolution of problems created or worsened by what has now become a deeply flawed system.

"Markets are made to serve man, not man the market," wrote John Gray, a leading British intellectual.¹⁷ "We take a great risk if we don't combine freedom of markets with social policies that address imbalances," asserted Muhammad Yaqub, a distinguished central bank governor talking with me in Pakistan. "Globalization is driving impatience. People are living in dirt. It's not a vocal minority but a silent majority that must be heard."¹⁸ "With its victory over communism," wrote Hernando de Soto, "capitalism's old agenda for economic progress is exhausted and requires a new set of commitments. It makes no sense continuing to call for open economies without facing the fact that the economic reforms underway open the doors only for small and globalized elites and leave out most of humanity."¹⁹

Among the readers of this book, I hope that businesspeople and bankers will come away with a heightened awareness of just how badly we are undermining one of the greatest systems ever devised. I hope lawyers and accountants will seriously reconsider the advice given to corporate clients that places them in a position of risking felony offenses. I hope that development economists will resolve to seek better data on the hundreds of billions, accu-

mulating to trillions, of dollars flowing illegally out of poorer countries. I hope that government officials will conclude that, yes, we can indeed improve national security, spread democracy, and boost free markets by cleaning up the global financial system. I hope that philosophers, particularly those focusing on issues of distributive justice, will find additional reason to include in their deliberations the potential offered by and the problems evident in international capitalism. I hope that every concerned reader will share my desire to see capitalism build on its strengths rather than cater to its weaknesses. And finally to students and teachers, I hope that you might come to appreciate with me the finest lesson I learned in graduate school. If we ask the right questions, we can get the right answers. Or, put another way, it is more difficult to ask the right questions than it is to get the right answers. I will have succeeded if, upon finishing this book, you have in mind questions to continue thinking about in years ahead.

Within the stories and remarks presented in Parts I, II, and III, I pose three challenges. One is directed at business and banking sectors, the second is a gauntlet flung down to the World Bank and other international financial institutions, and the third is served up to scholars, wherever they may be pursuing their professions. Each challenge, in my view, focuses attention on the need for major revisions in the way we conceive of and practice global economic affairs.

The question “Savior or Predator?” posed in the title of this chapter encapsulates the issue and the choice before us. If capitalism is to offer adequate abundance to Earth’s growing billions, we must fight rampant lawlessness, reduce inequality, and recast the free market’s supporting structures around principles of global justice. The progress of the twenty-first century will be influenced in good part by how purposefully we fashion a new strategy to deal with capitalism’s conspicuous failures and subtle deformities and how successfully we extend capitalism’s opportunities to the whole of humanity.

