

Opinion

How a supermarket trolley can make you behave badly

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Task No 1 for Obama: reinvent capitalism

Lessons have been learnt. Obamanomics will not try to rebuild America on the principle that markets are always right

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The words "Remaking America" were splashed yesterday across the front pages of *The New York Times*, *The Washington Post*, *USA Today*, *Los Angeles Times* and almost every other paper in the US. This kind of unanimity in the press corps is not coincidental — "Remaking America" was the phrase the President's media machine wanted to emphasise. Why?

"Remaking America" is President Obama's riposte to the slogan of populist conservatism through the ages: "If it ain't broke, don't fix it." This do-nothing mentality was taken to its logical extreme by George W. Bush and his doltish Administration, whose epitaph should be the P. J. O'Rourke quip: "The Republicans are a party who believe that government doesn't work and get themselves elected to prove it."

To have any hope of repairing the ruin left behind by the Bush Administration, President Obama must first convince the 45 per cent of the population who voted against him that America really is broke. Not only is the US trapped, as Mr Obama noted, in a geopolitical quagmire and the worst recession in living memory. But behind both of these dreadful things lurks a horror even more existentially shocking: the entire politico-economic model of free enterprise, rugged individualism and

small government on which America built its global hegemony seems to have broken down. How else can one describe a situation in which all of the country's main financial institutions and many of its biggest industrial companies are effectively bankrupt and on government life-support?

The crisis triggered by September's bankruptcy of Lehman Brothers appears to have discredited many of the assumptions on which American prosperity and democracy was founded. In this sense, it really is possible to compare the credit crunch, as Ed Miliband did last weekend, to the fall of the Berlin Wall. In 1989 the world, from China and Russia to South Africa, India and Brazil, concluded that there was no serious alternative to market forces as a means of organising productive activity. In 2009 the whole world seems to have reached the opposite conclusion — that free markets and financial incentives lead even the richest and most sophisticated societies to disaster.

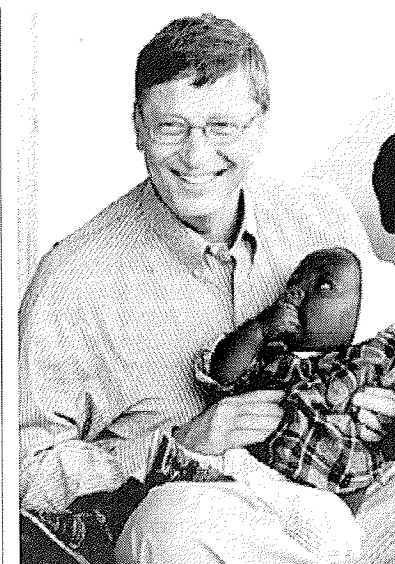
There is, however, a crucial difference between these two pivotal years and this brings us to the positive side of President Obama's message. Communism was a monolithic and inflexible system that worked against the grain of human nature and had to be brutally imposed. Capitalism, by contrast, is a constantly evolving and organic set of human relationships. It advances by trial and error and takes a myriad different forms. Thus the demise of the post-1989 fundamentalist faith in market forces as the solution to all social problems now offers Mr Obama the chance to preside over a new evolution of American capitalism

into a more stable and ultimately more successful form. Creating this new kind of capitalism will be the most important challenge of the Obama presidency and beyond.

But two features of this evolutionary process can already be suggested. First, it is clear that America will continue to lead the world, not only as a military power and technological innovator but also as a model of economic management. The idea that Anglo-American capitalism will give way to a European or Asian model is already crumbling, as Germany, Japan and China discover that their economies are even more dependent on American (and British) consumers, mortgage markets and financial institutions than the Americans themselves. With the US likely to start recovering this year, while Europe and Japan remain mired in recession, American economic management will again be seen as a model around the world, instead of a cautionary tale.

Second, America's new leadership will encourage much more pragmatic thinking around the world about when market mechanisms are useful and when they are useless, about the right balance between the profit motive and social objectives, and about the relative efficiency of private and public enterprises.

This may sound abstract, but such a shift in US ideology will have profound practical effects. Once it is understood, for example, that financial markets often send perverse signals about values, whether of houses, mortgages or barrels of oil, new solutions to the credit crisis will become possible. In America many homeowners will have their



Philanthrocapitalism in action: Bill Gates tackles the malaria problem

mortgages reduced and guaranteed by government. Such mortgage writedowns have been stridently opposed by bank lobbyists and Republicans for ideological reasons, yet they are likely to save many banks from going bust. More generally, there is likely to be recognition that many problems demand non-market solutions and that financial incentives are neither necessary nor sufficient to achieve social ends.

This doesn't mean, however, that the State will necessarily grow. As President Obama said on Tuesday: "The question we ask today is not whether our government is too big or too small, but whether it works."

This injunction brought to mind *Philanthrocapitalism*, a fascinating

book by Matthew Bishop and Michael Green. It describes the varying approaches of billionaires who spend extraordinary sums of their own money to achieve social ends, such as Bill Gates's campaign against malaria or George Soros's promotion of "open societies" in former communist dictatorships. The book's main conclusion is that these efforts could serve as models for broader collaboration between government and private enterprise, whether charitable or not.

As the book notes, the most important asset that these hands-on philanthrocapitalists bring to their foundations is not just money but a way of thinking, specifically that "society's biggest problems have to be addressed in a businesslike way in the sense of a serious focus on results; understanding where scarce resources have the most impact; a determination quickly to scale up solutions that work and a toughness in shutting down those that do not".

Given that many of the people now joining the Obama Administration, including the President, have spent large parts of their careers in the non-profit sectors, philanthrocapitalism may well be an idea whose time has come for the new model of US capitalism that the President must now invent.

More generally, financial regulation and macroeconomic management will surely now recognise that naive theories about "efficient" financial markets and the statistical models they spawned were a major cause of the entire financial disaster. It will still be capitalism, but Obamanomics will not try to rebuild America on the principle that "markets are always right".