



New York Times Syndication
5 November 2008

Mikhail Gorbachev on the Global Financial Crisis

As the global financial crisis continues to deepen, it is clear that the stock market collapse has hit not just the wealthy, whose lifestyles will hardly be affected, but also millions of ordinary people who entrusted their life savings to the market.

This financial crisis is, in all likelihood, only the first stage of an economic crisis that may be the worst since the Great Depression of the 1930s.

The crisis did not come out of the blue. There had been warnings from different quarters, including economists – who are not susceptible to wishful thinking. Caution was also advised by veteran world leaders from the Trilateral Commission and the World Political Forum, who were concerned that the financial markets were becoming a dangerous bubble with little or no relation to the actual flows of goods and services. All those warnings went unheeded.

In the coming months, the greed and irresponsibility of the few will affect all of us. No country, no sector of the economy will escape the crisis.

The economic model rooted in the early 1980s is falling apart. It was based on maximizing profit by abolishing regulation aimed at protecting the interests of society as a whole. For decades we have been told that this benefits everyone: “a rising tide lifts all boats.” Yet, the statistics say that it didn’t.

The economic growth of recent decades – quite modest compared to the 1950s and 1960s – has disproportionately benefited the wealthiest members of society. The living standards of the middle class have stagnated, and the gap between the rich and the poor has widened even in the most economically advanced countries.

The system was made even more precarious by irresponsible lending supported by complex derivative tools. Those instruments turned out to be sophisticated financial pyramids. Even most economists and bankers could not explain how those tools work. The inventors of those schemes were their main beneficiaries.

Of all the facts that have come to light in recent weeks, one has particularly struck me. Last year the leading U.S. investment banks paid out \$38 billion in bonuses. Divided by their total workforces, this amounts to \$200,000 per person – four times the income of an average American family! And there were also the golden parachutes – the multimillion dollar exit packages paid to the executives of the banks that collapsed or were saved by the government.

So this is the bottom line: cutthroat capitalism for the majority and “socialism,” -- government help -- for those who are already rich. Yet, three or four years down the road, with the acute phase of the crisis behind us, these same people will be telling us that raw capitalism works best and that we should free them from regulation. Until the next, even more destructive crisis?

The current globalization model has led to the de-industrialization of entire regions, deteriorating infrastructure, dysfunctional social structures and tensions caused by uncontrolled and unregulated economic, social and migration processes. The moral damage has also been enormous, reflected even by the language: tax evasion has become “tax planning,” mass layoffs have become “personnel optimization” and so on.

The concept of sustainable development to protect the environment for future generations has been supplanted by the idea of free trade as a panacea for any problem. “Tomorrow is another day” is the attitude – at a time when 60 percent of the ecosystems have already been damaged.

The role of the state and of civil society has been diminished, with humans seen not so much as citizens but, at best, as “consumers of government services.”

The result is an explosive mixture of social Darwinism – the strong survive, the weak die – and the philosophy of “after us, the deluge.”

The growing crisis of the world economy is now, finally, focusing the minds of policymakers. For understandable reasons, they are concentrating on immediate rescue measures. Those are of course necessary, but there is also a great need to reconsider the foundations of the socio-economic model of modern society – even, I would say, its philosophy. It has turned out to be rather primitive, based entirely on profit, consumerism and personal gain. Yet, even the guru of modern monetarist theory, Milton Friedman, with whom I’ve met, pointed out that man is not just “Homo Economicus,” that the life of society is not confined to economic interests.

Some time ago, I called for combining morality and politics. During perestroika, I tried to act on the belief that policies must contain a moral component. I think it is for this reason that, despite the mistakes we made, we were able to pull Russia out of totalitarianism: for the first time in Russia’s history, radical change was achieved and brought to a point of no return without major bloodshed.

The time has come to call for combining morality and business. This is a difficult issue. Of course business must profit, or it will die. But saying that the only moral duty of a businessperson is to make money is just one step away from the slogan of “profit at any price.” And, whereas in the real economy of production there is still some transparency -- traditions, trade unions and other institutions -- that give society some influence, the area of “financial engineering” is, as we have seen, without such institutions. There is no glasnost there, no transparency, and no morality. The consequences have been devastating.

The alliance of politicians and businessmen, who for decades have been pressing for deregulation and spreading laissez-faire economics throughout the world, with analysts who have been cheering the stocks of companies in which they have interests, and with economic theorists whose solution to any problem is to “decontrol everything” has been destructive and often corrupt. We saw that in Russia, where those recipes were promoted with truly manic frenzy during the 1990s.

Now that this pernicious and immoral pyramid is collapsing, we must think about a model that will replace the current one. I am not calling for tearing it down without thinking, and I do not have ready-made solutions. Change will have to be evolutionary. A new model will have to emerge, and it cannot be based entirely on profit and consumerism.

I am convinced that, in a new economy, public needs and public goods must play a much bigger role than they do now. The public needs are clear enough: the need for a healthy environment; a modern, functional infrastructure; education and health systems; and accessible housing. To build a model emphasizing those needs will take time and effort. It will take an intellectual breakthrough. But there is one thing that policy-makers who bear the ultimate responsibility for overcoming the current crisis must understand: without a moral component any system is doomed to fail.