Neoliberal Obscurantism and its Ill-fated Children

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On close questioning from the U.S. Congressional hearings, Alan Greenspan who for twenty-one years has been at the apex of the Federal Reserve of the United States, admitted that he found a "flaw in the free market theory." Representative Henry Waxman pursued this admission relentlessly in his questions. You, mean, he asked, "that your view of the world, your ideology, was not right, it was not working?" Greenspan replied, "Absolutely, precisely. You know that's precisely the reason I was shocked, because I have been going for 40 years or more with the very considerable evidence that it was working exceptionally well."

Mr. Greenspan should be commended for his honesty. This is more than one can say for literally hundreds of ideologists, clustered around some of the best universities in the North and also in the South, and economists in the World Bank and the International Monetary Fund (IMF). From their cloistered and hallowed sanctuaries, they design policies for the distressed nations of the South whose leaders rush to them for advice and financial bailouts. They should be warned that in their rush to the IMF/WB, they are not necessarily helping their people. These are institutions of ideological obscurantism; they are part of the problem and not part of the solution.

The German philosopher Karl Mannheim defined ideology as the total system of thought held by society's ruling groups that obscure the real conditions and thereby preserve the status quo. In his classic *Ideology and Utopia: An Introduction to the Sociology of Knowledge*, he analyzed the relationship between sociology and social policy, and the role of the intelligentsia. Borrowing from Karl Marx, Mannheim argued that the ideological structure of thought is conditioned by the class structure of society. He went on to say that in class-divided societies, a special stratum of individuals, "whose only capital consisted in their education," develop their ideas to advance the interests of different classes. Among them are those that serve the ruling classes; they provide the knowledge that forms the kernel of the ruling ideology, the dominant "*Weltanschauung*." These are opposed by another stratum that challenges the ruling orthodoxy, including the production of knowledge. Mannheim argued that the prevailing ideology makes the ruling groups opposed to knowledge that would threaten their continued domination.

We are at this critical moment in History. We are at a crossroad between the neoclassical theory that has ruled for nearly forty years (as Greenspan says) and produced the failed ideology of neoliberalism on the one hand, and on the other hand the challenge that modern intelligentsia faces to produce knowledge that would liberate the people as well as their political leaders from the prevailing obscurantist mindset.

So where do we start? We start with Alan Greenspan`s honest admission about the flawed ideology of the free market. The commonplace understanding of the market is a place where people come to buy or sell. The capitalist market, however, is much more complex, and works at many different levels. What we need to understand to start with is that in the present phase of the evolution of Capitalism, finance is the king. Everything is *financialized* that enters the market. Consider the housing market in the United States, for example. What explains the housing bubble that burst in September 2007, leading to what began as the sub-prime crisis?

Simply explained, it starts with the financing of the purchase of a house. Home buyers were persuaded by the banks to borrow from them at cheap rates and with long redemption dates. The banks had too much liquidity in their hands—not hard cash, but fictitious money (for every dollar in cash, banks can "create" up to twelve more dollars as credit). They targeted the housing market. Until about five or ten years ago, the banks would take the houses as collateral against which to make the loans. But capitalism thrives on greed; it is its basic nature—like it is for the leopard to kill. So the banks went for the kill. They created innovative ways of doubling or quadrupling their profits by collateralizing the mortgages. How did they do it? Ordinarily, investment banks deal in stocks and bonds. These, depending on their performance, are rated by the rating agencies (such as Moodys) as AAA (Triple A) for the best performers and CCC for weak performers. Driven by the profit motive (greed), and using new sophisticated computer models, the investment banks packaged housing mortgages with Triple A stock and created new commercial instruments called Collateral Debt Obligations (CDOs). These included bonds classed as senior debt, mezzanine debt, subordinate debt and equity, and some unrated securities, or junk bonds, which present U.S. Treasury Secretary Henry Paulson, from hindsight, described as "toxic" paper. These CDOs were then sold as collaterized bonds in the global market. By the year 2007, U.S. banks had issued approximately US$2 trillion worth of CDOs. According to the IMF, in the U.S. financial sector US$23 trillion is subject to potential writedowns. The estimated losses are $1.4 trillion, and of these, losses on subprime loans are estimated at only $50 billion while estimated losses on CDOs/securities are $980 billion. It would seem there was very little "prime" or even "sub-prime" in the CDOs!

Furthermore, making matters worse, the banks also removed some of their assets from their balance sheets and transferred these to their CDO portfolios. Why did they do this? They did this to escape from the regulatory capital requirements, such as those imposed by their own national regulatory authorities and the Basel Convention. Some of them used what they called Special Purpose Vehicles (SPVs). These are special companies ostensibly aimed at protecting specific assets, but in reality they became a way of hiding debts, as we saw with the collapse of Enron.

Today, from hindsight, the U.S. and European governments are getting back to regulating the banks and even nationalizing some of them, raising the spectre of "socialism" in the public media. Remove the technicalities and statistics from the above paragraphs, and the reality stares in the face that the CDOs were really synthetic bonds, like synthetic coffee. They contained some Triple A corporate bonds mixed with a lot of junk, backed by nothing substantial other than *synthetic money*. The banks were heading for the rocks. Had Alan Greenspan consulted better economists, he would not have had such a "shock." He would have been told that no amount of obfuscation and obscurantism by neoliberal theorists could hide the reality that under the present phase of *financialized capitalism*—capitalism not run by the priority of production over finance, but of finance over production—the global economy is heading for the rocks.

The story does not stop with the housing bubble. Greed drove investment banks from houses to oil, metals, cereals, and other commodities. Neoclassical theory says that prices are determined in the market by "supply and demand." Maybe so in the long run. But in the short run, the prices of commodities, including food, are set by the futures market in places like the Chicago Mercantile Exchange where they trade in futures and forward contracts based on pure speculation. Food that is not even seeded in the ground, let alone harvested, is *financialized* through the creation of tradable bonds in the *futures market*. Much like what happened to the housing market in the U.S. has happened to food prices in the global market. Some neoliberal theorists now put the blame on the rising demand of food from countries like China and India. They are obscuring the reality. They are not looking where they should be.

What, then, is the moral of the story? What can the political and intellectual leaders in the Global South do about the obscurantism of neoliberal theorists and their ill-begotten children?

Let us learn from another philosopher, this time the American physicist, Thomas Kuhn. In his classic *The Structure of Scientific Revolutions*, Kuhn argued that science evolves through alternating "normal" and "revolutionary" phases. The revolutionary phases differ qualitatively from normal science. Kuhn described normal science as "puzzle-solving." Because its puzzles and their solutions are "familiar science," the theorists seek to solve the puzzles within the existing paradigm. Revolutionary science, on the other hand, seeks to provide new thinking outside the existing paradigm (paradigm shift)—thinking outside the box. Of course, Kuhn's book received much hostile reception during his time because as Mannheim explained to us, the ruling intellectual oligarchy fight hard to protect their orthodoxies.

So where do we begin? We begin by thinking outside the neoliberal paradigm, not only in relation to theory, but in terms of today's practical problems. Intellectuals should question themselves whether the "puzzles" created by the financialization of capitalism can be solved within the existing paradigm. As for the political leadership in the South, they should use their reserve or sovereign funds (if they have them, as do China, India, and the Gulf states) to create regional banking and credit systems that would protect countries in the region from external and foreign exchange shocks, and to develop regional currencies. The recent decision by ASEAN+3 to create an $80 billion regional pooling mechanism to safeguard regional financial stability is a step in the right direction.

The danger that some of the larger countries of the South face in the efforts by the North to revive the IMF is that through cooptation they could become part of the problem and not part of the solution. They might be persuaded to help bail out the IMF so that the latter would then bail out others in the South. If they do, then this would be the greatest irony of our present times—a parody to History. It would be like allowing the fox back into the henhouse.