

March 16, 2009

WORLD DAY OF SOCIAL JUSTICE AND THE ECONOMIC CRISIS

Adam Smith, the guru of the freemarketers, had it right in 1759. In his first book, "The Theory of Moral Sentiments," he stated that 'prudence is a virtue for individuals', but "humanity, justice, generosity and public spirit are the qualities most useful to others." The extraordinarily timely World Day of Social Justice recently established by the UN builds on the same fundamental idea that economic success depends on the well being of people.

The followers of Adam Smith have ignored all these qualities. The market gurus who have distorted their prophet's message to claim that the market can heal all ills should have heeded what their prophet actually wrote. Adam Smith stressed the need for regulation of financial activities. Capitalism's success has increasingly come within the control of institutions that curtail its side effects and excesses, while providing the tools of a civilized society which exist outside the market system.

The global financial meltdown affecting the rich countries is even more drastically hurting the poorer countries. Each day millions of the marginally poor are falling into unemployment, food scarcity and poverty-- a global tsunami that politicians are warning could create political and social havoc both within and outside the borders of their countries. Any solution will require worldwide cooperation in a nexus of laws, business and trade. The present crisis has highlighted the inadequacy of the growth imperative and unregulated markets from the model of rational decision makers.

Many thinkers believe that this model of capitalism is bankrupt. Funny man Art Buchwald commented " An economist is a man who knows a hundred ways to make love, but doesn't know any women." Even Allen Greenspan, a free marketer, and former head of the Federal Reserve has admitted that he was wrong about deregulation. Billionaire Bill Gates, speaking at the Economic Summit at Davos, stated that unfettered capitalism cannot solve broad social problems.

In the UN's World Day of Social Justice on Feb. 20, speakers proposed that an economic system needs to be just in order to function and to take into account the

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social and economic rights embodied in the Universal Declaration of Human Rights. Articles 22 to 27 spell out rights to water, sanitation, food, housing, education,---all outside the market driven model of economics.

Classical economics calls the negative effects of market activities "externalities" Attention to these crippling consequences are what is driving Bill gates, when he speaks of a kinder, "creative capitalism" that can create wealth through responding to these needs. Growth and prosperity should be judged by the well being of people.

In the last 20 years, in the US, family income has risen only very modestly, but income inequality has mushroomed into a gap greater than any since the twenties. In 1975 the top 1% earned 8% of all the income in the US. But by 2005, that top sliver of the population earned almost 20% of the total income in the country. The top 10% of the population collects 44% of total income and the top 20% collects a walloping 60%. Here in the US we are increasingly a top-heavy economy.

In the world's population in 1980, the median income of the richest 10% was 70 times that of the poorest 10%. But in 2000 the gap has widened to 122 times. It is no joke when we say that the rich are getting richer and the poor are getting poorer.

Prior to the present financial crisis there were already warnings that the observed trends in income inequality might not be sustainable. The grossness of the inequality gap and the environmental damage from the emphasis on growth has undermined the stability of the system. Inadequate wages for workers and their families are causing them to rely more on debt.

There are numerous reasons for growth of inequality--deregulation, the decline of unions, stagnation in the minimum wage, and growing emphasis on technology. President Obama's top economic advisor Lawrence Summers has described the trend of increasing inequality as if each family in the bottom 80% of the income distribution was sending a \$10,000 check every year to the top 1% of earners.

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Nobel Prizewinner in economics Amartya Sen, has proposed that instead of measuring only the GDP (gross domestic product) as an indicator of a country's well being ,it should be measured by a persons capabilities--'what people are actually able to do and be'. One such measure,used by the UN , is the Human Development Index(HDI) which is a composite of income,longevity and education.

By this measure the US ranks eighth to Australia's third. Australia's annual income per head is \$9000 less than America's income. Nevertheless it ranks higher because Australians are better educated and live longer. The essential message of the World Day of Social Justice is that we need a global economic system which shifts from a narrow preoccupation with markets to a broader perspective on the well being of people.

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