

Slate

THE BIG IDEA

Name That Economy

We don't just need to recapitalize the banks. We need to reconceptualize capitalism.

By Jacob Weisberg

Posted Saturday, Oct. 4, 2008, at 7:51 AM ET



At the beginning of the century, when the United States briefly contemplated the prospect of paying off its national debt, Alan Greenspan raised an unexpected concern. A government surplus would end up being invested in private assets, which would violate free-market principle and could deliver socialism through the back door.

Greenspan smothered that dangerous surplus in its crib by endorsing the Bush tax cuts, but his benign view of derivatives and his nonchalance about the unregulated "shadow banking system" helped bring about the outcome he feared anyhow. Authorizing the Treasury Department to take stakes in financial firms is merely the Paulson plan's most dramatic departure from textbook capitalism. The legislation—which the Senate had enough sense of irony to attach to a mental health bill—implicitly recognizes that major financial institutions have become too interwoven with the global economy to be allowed to fail.

What should we call the economic model emerging from this crisis of capitalism? Despite the collectivization of losses and risk, it doesn't qualify as even **reluctant socialism**. Government ownership of private assets is being presented as a last-ditch expedient, not a policy goal. Yet it's inaccurate to describe our economy, either pre- or post-Paulson, as simply *laissez faire*. A system in which government must frequently intervene to protect the world from the results of private financial misjudgment is modified capitalism—part invisible hand, part helping hand. This leaves us with a pressing problem of both conceptualization and nomenclature.

Where right-wing critics denounce the Paulson plan as socialism, those on the left see it as a form of **corporatism**. This was the economic philosophy of fascist Italy, which Mussolini defined as a merger of state and corporate power. Under such a system, the largest industries function as adjuncts to the regime. There are many contemporary variations on this theme, such as the Asian and Latin American styles of **crony capitalism**, oil-state **plutocracy**, and **kleptocracy** on several continents. Vladimir Putin's **authoritarian capitalism** is yet another version. But despite the closer ties that can be expected between government and a consolidated financial sector composed of superbanks like J.P. Morgan Chase-Bank One-Bear-WaMu; Bank of America-LaSalle-U.S. Trust-MBNA-Countrywide-Merrill; and Citi-Smith Barney-Wachovia, corporatism doesn't accurately describe a system in which favoritism toward specific companies is roundly decried and concern about moral hazard nearly sank the economy.

Perhaps, then, we're at another of the midpoints between public and private ownership usually described as a **mixed economy**. The New Deal welfare state that arose in response to the Great Depression is one example of this compromise. The most durable version is the Western European model of **social democracy**, with its larger, more interventionist state, wider social safety nets, more extensive regulation, and higher taxes. Socialized health care would represent a step in this direction, but bailing out bondholders to protect the financial system doesn't. Our new order also can't be described as trending

toward *dirigisme*, the economic approach of Charles de Gaulle, where government directs the allocation of resources toward chosen technologies—in the French case, nuclear power, high-speed rail, [Le Minitel](#). Nor are we moving toward the Chinese system, a modern form of **mercantilism**, in which government-owned enterprises serve the power of a philosophically bankrupt state.

The system that's emerging from this crisis has less to do with the eternal liberal project of finding a humane **Third Way** between socialism and capitalism than it does with containing the fallout from private risk-taking. It might be described as **regulatory capitalism**, since stringent capital requirements, thoroughly enforced, are probably the most obvious preventive measure for the future. But regulation, which is inherently backward-looking, seems an insufficient answer to the current crisis. What got us into trouble wasn't merely a failure of oversight. It was something we previously thought of as a strength of the Anglo-American system, namely aggressive financial innovation. Even a supervisor with broad authority, like Britain's [Financial Services Authority](#), is challenged to keep pace with the inventiveness of investment bankers. To prevent crisis, we need something more akin to a financial-preemption doctrine, to address systemic risks before they materialize.

A better name for our new system might be **life jacket capitalism**. The role of the watchdogs isn't just to enforce seat-belt and helmet laws for the financial sector. Market misjudgments have produced systemic risk with growing intensity and alarming frequency, requiring rescues in 1988 (the savings-and-loan crisis), 1994 (the Mexican collapse), 1997 (the Asian meltdown), 1998 (the Long Term Capital Management debacle), and 2008 (the subprime catastrophe). In an age of globalization, threats to the financial system can arise unexpectedly from almost any place. What's scary about such an arrangement is how much power it vests in our economic guardians and how vigilant, wise, and adroit those guardians need to be. One dud call [like letting Lehman go](#) and the whole world can blow up.

Or perhaps we should say that we've entered the Marxist stage of **Rube Goldberg capitalism**. Bill Gates [coined the term](#) *creative capitalism* earlier this year to describe a market approach to alleviating poverty. In a broader context, his phrase gets at the reality that private enterprise on its own won't address global ills such as climate change, economic inequality, or systemic financial risk. Put a different way, when capitalism stops working, it's time to start looking for a good adjective.

Jacob Weisberg is editor-in-chief of the Slate Group and author of [The Bush Tragedy](#).

Article URL: <http://www.slate.com/id/2201534/>

Copyright 2008 Washingtonpost.Newsweek Interactive Co. LLC