

Crossfire: The 'Occupy' movement and the polarization of rich and poor demonstrate that we are losing the battle on poverty alleviation in the free market system

SMITA PREMCHANDER and MARC DE SOUSA-SHIELDS

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Dear Marc,

The economic crisis in the US started in January 2008, mainly because of the US banks' search for short-term profits, driven to a great extent by Wall Street, and permitted by the diluted banking regulations in the US. The profits were not real, because by 2008, the loans they had given started going bad, and consequently many financial institutions which owned the toxic assets became bankrupt.

In the real economy, when a company becomes bankrupt there is rarely a bailout by the government, but when a bank becomes bankrupt, government is often worried about the secondary and tertiary effects of such a collapse. The US government bailed out these banks by capitalizing them through a purchase of equity.

The CEOs and senior executives continued to give themselves huge compensations and bonuses. Many of the

bankers who had taken risky investment decisions got away: though some were sacked, many were not, and many even got bonuses, in effect funded by the bailout money. Senior executives did not seem to be affected by the collapse of the banks, unlike employees of real companies who usually lose their livelihood and often their retirement savings. The population's general sense of revulsion for the financial institutions found expression in the Occupy Wall Street (OWS) movement.

Protestors occupied parks opposite Wall Street. A wide range of people began camping out in parks and taking over roads. The protests spread to more than 1,000 cities in 82 countries. Their original agenda, to draw attention to abnormal profits made unethically in financial markets, expanded to protest about inequality, whereby 99 per cent claim solidarity against the 1 per cent

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The movement highlights the fact that attention is critical when the problem is one that lies at the core of the rising economic disparities in the world; especially when the growing North–South disparities also mean continued poverty in the Southern nations.

OWS is a reminder that growth does not ‘trickle-down’. The rich around the world benefit from globalization, to the detriment of the poor who simply do not have the resources or opportunities to meet their basic needs, let alone their rising aspirations.

The movement also highlights the differences between the North and the South. In the US, the boom in the financial sector did not reflect the slowing down of growth in the real economy. In Southern countries, such as India, banking regulations have been strict, which has saved these economies from the cascading effect of the 2008 financial crisis in the USA. In addition, the Reserve Bank of India and the Securities and Exchanges Board of India, at the behest of government, moved swiftly to prevent the collapse of the mutual fund industry.

In the South, international aid for poverty reduction has shifted to administratively more efficient methods, where the private profit-making model is privileged (e.g. in microfinance). This approach places the burden

of coming out of poverty on the poor themselves. In the search for sustainability, poverty-reducing grants have become an anathema in the development world. There has been a significant weakening of state resolve to improve the opportunities for the poor, which can be done by investment in public services like health and education. The importance of such investments was known three decades ago.

The lesson, 30 years on, is the same: free markets don’t work for poverty reduction. They work better when participants in the market are endowed with factors of production. Even in such markets, as OWS exemplifies, they work for the rich and play a minimal role in allowing all members of society equal opportunity to achieve greater wealth. The lessons of Occupy Wall Street are clear: the poor cannot develop by adopting the free market ways of the rich.

*Kind regards,
Smita*

Dear Smita,
Capitalism in the 21st century reminds me of eating in a North American restaurant: we eat far too much and we are picky about what we eat.

We eat too much because we can, because restaurants give us portions that are far too large, and because 150,000 years of programming warns us there’s no telling when we will eat again.

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The economic analogue is that while some bankers may be greedy, most of them are pretty much like you or me. But if you put a bunch of bad regulations, or no regulations at all, on a plate in front of bankers (add rating company and sleazy mortgage brokers) they will eat until it's empty. No excuse for excess, but it's what they are supposed to do: make money, lots of it.

Capitalism per se is not at fault for the mess greedy people created. No, it was the socio-political infrastructure designed to shape and regulate finance that failed us. And the '99 per cent' must accept it was not just the bankers. We are just as complicit. We took out massive mortgages most knew in our hearts were too big to be affordable (forget the financial literacy argument – most of us know basic maths and can read the fine print; if my financial heroes in *Financial Diaries of the Poor* can manage their finances, then so can we).

You note, Smita, that the Indian Government avoided the financial mess. I can proudly say the same for Canada and Mexico, and we know this is true for most of Latin American, European, African, and Asian countries (their other messes notwithstanding!). Many *capitalist countries* have problems, but where the basic social contract between the average Joe/Jane and government allows for things

like sensible regulations and social investments, capitalism can work for the interests of society as a whole.

I stipulate that capitalism is not helping proportionally enough of the poor, but UN data shows that, during the unprecedented economic liberalization between 1990 and 2009, people living under the poverty line of US\$1.25 per day fell from 42 per cent to 20 per cent. These gains have reversed slightly since but for the most part poverty is much lower around the world than it ever has been.

Which brings me to being picky about food. The other day I was sitting at a bar eavesdropping on a guy ordering his meal. 'Chicken, no onions, cheese melted on top not burnt, sauce on the side, water no ice, latte with skimmed milk, dash of cinnamon unstirred', etc.

Myriad demands hold true in the economy in general. And capitalism responds: did you know that there are over 750 new products introduced to the market daily? And while many are not particularly necessary, most meet a need that makes society and individuals better off. The lesson: capitalism responds to impossible and complex market needs like no other economic system in the history of the world.

The benefits of sensibly regulated capitalism help the poor. *What doesn't help* are weak, unenforced, social, cultural, and political constructs that bar

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access to opportunities for many (catchy as the slogan is, we are simply being hypocritical, hyperbolic, or just plain fibbing if we pretend it's a 1:99 ratio).

Things are far too bad for far too many people. But a history check of feudalism, the Industrial Revolution, the robber baron era, and communism suggests that, while capitalism may not be the greatest, it may just be the best of a lot of currently available bad alternatives.

*Kind regards,
Marc*

Dear Marc,

You believe that capitalism gives the maximum people maximum choice through markets, and that greed is the only problem with capitalism which appropriate regulation can control. This is just not true. Markets are not institutions for the poor. Markets, like everything else, are socially structured, and are geared to giving higher benefits to those with higher resources to start with. Markets do not equalize, they are built to create more and more inequalities. In the 1970s, neo-liberalism began to take root in the USA and the rest of the world. Despite decades of development, poverty has been persistent; inequalities and unemployment have been increasing, leading to a simmering discontent.

The 2008 crisis led to foreclosures and losses of jobs for

millions of people, and instead of providing money to support these people to get back on their feet, the government bailed out the guilty. The OWS movement is an expression of anger among the general public towards these gaping holes in the capitalist system.

Similarly, economic growth in developing countries has been skewed in favour of the rich. The collusion of the state and large private sector firms has led to laws and policies that favour acquisition of land and financial capital by the rich. By contrast, the state-initiated support schemes and programmes for the poor have been riddled with neglect, inefficiencies, and corruption. The voice of the poor has been systematically weakened by the appropriation of NGOs by profit-making movements even in the development sector. Neo-liberalist thinking demands that the poor pull themselves out of poverty, while the state draws back from investments in development support, and backs industry instead.

The problem with regulation in capitalism is that regulation is lagging behind financial fraud. The politically powerful can circumvent regulation at will.

The poor need voice or choice for capitalism to succeed. In the developing world both are missing because of poor education, and feudal social and political structures. Consequently democratic

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processes other than elections per se are weak. Many political parties in developing countries are autocratic and hence democracy has no deep roots. In such an environment, the absence of voice makes it difficult for the poor to participate in a capitalist market. Two critical factors of production (education and health) are denied to a vast majority of the populace and consequently they enter a race for survival with unfair disadvantages.

So, the first problem is that the poor do not have a voice, or choice. The second is that they do not participate as equals in a democratic system. The systematic weakening of the state, in which the state itself has colluded, has also led to more resources and decisions in the hands of the private sector, resulting in a situation where strong regulation is an impossibility. There is strong evidence of this in the dilution of laws governing land and labour rights. The drama that has been played out in financial markets is only a small part of the problem; similar inequities are deep-seated in the real sectors of land and labour.

What is clear is that capitalism, without a strong state, is a recipe for disaster. Unfortunately, there is no way that capitalism will itself allow for such a role. The space for the poor will have to be fought for, and as the poor are

in no position to do so, the role for civil society is clear; a movement like OWS demands that civil society wakes up and begins to play this demanding role.

*Kind regards,
Smita*

Dear Smita,

The slow, inexorable march towards political systems that will initiate and then solidify sustainable policy change giving the poor a voice and the opportunity to fully participate in the economy is, I fully agree with you, far, far too slow.

But we must not let passion overcome evidence, one bit of which I pointed out in my first response to you. Let me repeat: between 1990 and 2009, people living under the poverty line of \$1.25 per day fell from 42 per cent to 20 per cent.

This is called progress and in any reading of history the combined work of many hundreds of thousands of individuals, policymakers, farmers groups, indigenous rights groups, women's organizations, and equal rights movements – among hundreds of others the world round – has made an astonishing difference in the lives of millions (some would say the simple fact that these groups/people exist and are tolerated is a big step forward in some countries). We must add to this many hundreds of microfinance institutions – the Caja Popular Mexicana in

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Mexico, XMI MFI in Laos, DECI in Ethiopia, and Finance Sudan in South Sudan – who provide appropriate and fair financial services to the poor. Let's not forget too, voluntary initiatives such as the Client Protection Principles, and the MIX Social Performance Indicators are also helping improve impact on the poor.

There are many good people doing many good things. But unfortunately it is easier to be cynical and focus on the bad things. True, the forces of 'good' are still in the minority, even I fear among the poor (neither popular nor patronizing thing to say, I know, but small-minded tribal politics, racial politics, tea party politics, among others, are hard to square with universal human altruism). Expecting capitalism alone to achieve wonders without some system of governance supporting equality, fair access to opportunity, and human capital development is like asking a teenager to drive a car without brakes and presuming it will come home in one piece.

Capitalism is far from perfect, I am the first to admit, but few Canadians, Swedes, Swiss, Aussies, Kiwis, and others return home from trips abroad complaining about their country's still imperfect but pretty well-balanced marriage with capitalism. Would the 80 per cent middle class in these countries say capitalism doesn't work for them? Doubtful.

Change is slow but it is coming. It was only 150 years ago that there were slaves in the United States. Multi-party democracy has been around for less than 40 years in most countries, and even less in many others. Yet we now see women in the highest posts of government and business, indigenous groups being repaid billions for the lands stolen from them – almost unimaginable change for someone even in the 1950s.

And, contrary to having 'weaker states', there is plenty of evidence throughout the developing world that suggests positive change. In microfinance, for example, I have had the honour of meeting central bank governors in Laos, Malawi, Peru, Bhutan, and Ecuador, among others, crafting sensible client-protecting regulatory regimes.

Is capitalism alone at fault for the horrendous almost intractable poverty that exists in a world of wealth and plenty? Would simply giving the poor a choice or voice make things better? I don't have an answer to that, but what I do know is that the common ground we stand on, Smita, is our understanding that capitalism without a strong state is not only a recipe for disaster, but a *proven* recipe for disaster.

So let's fix what is truly broken first and then see if capitalism is what Occupy Wall Street makes it out to be.

Kind regards,
Marc

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