A critical analysis of chapter 7 "the global crisis of american capitalism" essay...

Economics, Currency

A Critical Analysis of Chapter 7 “ The Global Crisis of American Capitalism” Chapter 7 of Kevin Phillip’s book mainly discusses the reasons behind the global crisis, which is mainly caused by various irregularities and flaws by what he calls American Capitalism. If in the previous chapters, the author expounded on the crippling effects of unsound politics on the economy, here, he ties in all what he has tackled and illustrates how everything culminates into bad capitalism. In general, he emphasized that a mounting debt, misguided economic policies, threatened oil supplies, a heavily mounting debt, and crumbling house market, have dramatically affected the United States hegemony over global markets, and have resulted in very adverse effects on its economy. In other words, while it is highly evident that America is the hardest hit and was the main cause of the financial crisis that has spread throughout the world, Phillips saw that the country is in even deeper financial straits than most people would admit.

One of the main premises of Phillips’ arguments lies can be first traced to the perceived invincibility of a free market or, in this case, the American market. In the past decades, notably following World War II and then subsequently, after the end of the Cold War, it has been no secret that the United States has emerged as the world’s central powerhouse in the global market. Its stocks rose, major American-based corporations flourished, and Americans generally enjoyed a prosperous life as compared to other First World countries that have tried to catch up with them—until recently. Today, as seen everywhere in the country, the United States is in economic recession.

The collapse of the housing market has seemingly caused a domino effect, which ultimately resulted in the decrease in spending by common American people due to fears that the situation might worsen. Another ground that Phillips has extensively tackled was the perceived rise of an Asian market, which was thought to be Japan, that would knock the United States off the top of the economic mountain. Although Japan did enjoy a relative amount of success in terms of technological advancement, manufacturing, and engineering, among others, it is actually China which has been increasingly growing dominant over the past years. As Phillips argued the fall of the United States' grasp on the global economy can be attributed to many things.

However, one major reason behind it is the country's substitution of finance for manufacturing as its main focus of growth. As illustrated by Phillips in chapter 7, the financial services have greatly overtaken of the manufacturing sector as part of the United States' gross domestic product in the mid-90s. This was seen through the country's huge federal rescues and bailouts, which include the quarter of a trillion dollar insurance such as the Resolution Trust Corporation's release of loan associations and failed savings. Arguably, this is best exemplified by the country's cash infusion of the $1. 5 billion dollar Saudi cash, which was orchestrated by the New York Reserve Bank. Other good examples are the various board rate cuts bailed out real estate and junk bonds from the 1990 to 1992 and the 1994 utilization of special government funds to rescue Mexico currency, the peso, along with other peso-driven investments in Wall Street by the administration of President Bill

Clinton. In short, it can then be surmised that the United States prediction that finance would usher in new era of economic growth and stability for many years was wrong in every way.

Their excessive use and circulation of funds caught up with them. And as Phillips pointed out, this is simply history repeating itself. In the past, the Dutch relied too much on its investment incomes and excessive lending to aristocrats and members of the social elite while the British heavily depended on their brokers, financial centers, and banks. However, both countries failed to account for the economic factors such as engineering and manufacturing, which, after all, was what led them to their prosperity. Likewise, the United States has chosen to forego industrialism and rely on financial services. Basically, it is this parallelism between America's current state and the status of both the British and the Dutch in the past that results in the country's bad capitalism, which has subsequently led to the global crisis that the world is now facing. One simple example that can be used to illustrate this over-reliance on finance is the status of the banks prior to the start of the recession.

To make it simple, investment banks, commercial banks, consumer finance, insurance, mortgage and other aspects of the financial sector simply lent too much money and relied too much on the prospective return in profits that they have failed to account of possible situation and scenarios in the future. These scenarios include the inability of the people to pay loans and their refusal to spend, which thereby halts the circulation of money. As a result,

the people and the banks incurred heavy debts and significant losses in profit.

In short, too much debt, whether the personal debts or the national debt proved to be the fatal blow that the financial sector has dealt to itself and in effect, to the rest of the United States economy. It can be said that this is an overextension of Gresham's law which simply states that bad money drives away good money. Furthermore, another important premise that Phillips tackled in the chapter is the inextricable bond between the price of oil and the dollar. Historically, since the 1970's the dollar has been tied to oil because the Organization of Petroleum Exporting Countries (OPEC) wanted an increase in price. The deal had the OPEC commit that it would buy and sell oil only in dollars and that they would invest their petrodollars in the United States, in the form of Treasury debt. Although the American dollar has greatly profited from this connection with the oil, it has now resulted in a backlash in which the country finds itself spending too much on oil simply because its price is in dollars.

The figures are another major point tackled by Phillips. He claimed that the statistics appear to be misleading and those who measure and believe in them are simply presenting good numbers when in fact, it's bad. This argument is actually true because there is a lot of technical issues and complexities involved in determining the country's growth.

Although there are always inflation numbers, unemployment numbers, and the often-used Gross Domestic Product (GDP), these alone are not enough to

make a relatively accurate assessment of the real situation in the country. In short, it can be surmised from Phillips arguments that the GDP is no longer an accurate tool to assess a country’s economic progress. There are simply too many variables and factors that cannot readily be determined by figures or statistics. For example, in China the finance sector has played a significant role in the country’s economic growth but its share in the GDP is small as compared to the share of manufacturing.

It is also notable that other First World countries such as Japan and Germany also have a relatively small finance sector as compared to their respective manufacturing giants. Over-all, Phillips various claims and arguments in chapter 7 provides a very painful reality in the United States, especially today. The financial sector, which was once touted as the main propagator of further economic growth and stability, has done the opposite of what it was supposed to do and caused the economy to collapse. The credit system in banks has boomeranged to the country and has resulted in increasing public and private debts, which in turn, have led to huge decreases in profit. Although the United States has survived past crises such as the Great Depression, it must now faced a colossal task of reviving its economy, which is still being driven mostly by policies and systems that are no longer as effective as before.