

# Capitalism: a road towards global and financial crisis



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Michael Moore's *Capitalism- a love story* is a documentary film about how corporations exploited the public for their own interests on the name of capitalism and its impact on economy. According to him, capitalism, far from being a system that rewards excellence, has turned American society into some business entity that only cares about profit and says money is the only value. He has laid ill of American society that resulted from out of control free market system. Furthermore, he has revealed shocking truths and has presented reasonable arguments about the impact of Capitalism on the economy that eventually led society towards global and financial crisis. Hence, it becomes very important to understand this impact as this gave birth to many other financial and economic problems. In his film, Moore has emphasized on the problems that society faced when capitalism prevailed including job losses, home losses, dead peasant salary and foreclosures due to large scale scandals, reckless lending, real estate businesses that pushed the global economy to the edge of multi-year depression that threatened current and future generations. Among these issues, one was the VIP mortgage scandal. This scandal was the result of Capitalism. This scandal created enormous fire that eventually consumed the American economy. The film contains a clip of an interview of Robert Feinberg, the former countrywide VIP account executive, who acted as a whistleblower for the company. Countrywide was nation's largest mortgage company between 1999 to 2006. The Countrywide's VIP mortgage scandal was one of the biggest scandals in 2008. According to an article published in Housingwire, "The " Friends of Angelo" unit began operation in 1991 to process loans for Countrywide executives and their friends. It widened in January 1996 and operated through June 2008." Countrywide favored those who it thought <https://assignbuster.com/capitalism-a-road-towards-global-and-financial-crisis/>

might be worthwhile to the company. This group of borrowers included legislators, congressional staffers, lobbyists, and the other political leaders.

According to an article published in *Washington Post*, the securities and exchange commission charged Countrywide chief Angelo R. Mozilo with fraud and accused him of “ illegality in connection with the financial crisis.” He took his Company to new heights, earning huge profits as the economy boomed, making loans to borrowers without checking their history, proof of income or employment. Prices of homes increased between 1982 and 2003, leading to an immense increase in Countrywide’s stock prices. Mozilo personally earned more than \$400 million. Additionally, it was not just the mortgage fraud, countrywide was even accused by group of investors including New York Life insurance Co. for “ massive fraud” by selling securities on a large scale and investors thought that they were buying conservative low-risk investments. “ Angelo Mozilo got rich selling the American Dream. Then he became the face of America’s mortgage nightmare.” Robert Fienberg revealed in his interview with CNBC that most of the borrowers were aware of what they were getting, and for them, they often used taglines like ‘ pricing was especially priced by Angelo and you are getting better rate than regular customers.” “ His actions suggest he was willing to push the system to its limit, irrespective of the consequences”, said Dick Bove, a veteran Banking industry analyst. Moreover, Time Magazine named Mozilo as “ one of the 25 people to blame for the financial meltdown.”

Consequently, this ill-fated mortgage investments sowed the seeds of today’s crisis. This created deep disturbances and contradictions in the US

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financial and economic system and became one of the main reasons for Great global and financial crisis. The impact of crisis on population was multidimensional. Everything has cause and effect. And this scandal was result of capitalism. Capitalism didn't just have loopholes, it failed completely. And effects are pretty clear, it led to " ideological, intellectual and political battles." The crisis was associated with increased inequality, inflation and unemployment. And we are struggling even today to overcome these problems. It had international implications too. Other countries blamed US for this mess.

As evidence, The Financial crisis inquiry Commission conducted an inquiry in 2011 and submitted the " Financial crisis inquiry Report" on the Causes of the Financial and Economic Crisis in the United States. They stated various reasons for crisis. And eventually it is same as presented by Moore in his movie. According to their report, Countrywide was among those financial institutions considered to be responsible for financial crisis. Capitalism was featured by risky subprime lending and securitization, an unsustainable rise in housing prices, increase in house debt and unregulated derivatives. Financial institutions indulged in poor strategies. They cared only about short-term profits and ignored long term consequences. Their actions were far away from being ethical and responsible towards the society. All this led to distrust of investors and public. But what failed most was the " System", the so-called free enterprise system that had no rules and regulations. Government and regulatory bodies were very well aware of what was happening. But they were ill-prepared. They had no comprehensive plan to deal with the situation. It was the flaw of system. In case of countrywide and

other institutions, Federal reserve was the only entity to regulate their practices. Its mission was “ to ensure the safety and soundness of the nation’s banking and financial system and to protect the credit rights of consumers”. But it failed.

In 1991, US economy boomed. It was the period of economic prosperity. There was strong economic growth, steady job creation, low inflation, rising productivity and a surging stock market. US economy expanded significantly during the 1990s. There was development in each sector. Economy became more efficient, technology improved including computers and IT. Soon, Capitalism showed its true face. Since, the lending rates were low and lending standards were lowered, there was an increase in the number of investors. As lot of funds were infused into real estate sector, there was boom in market, and as a result, prices of the houses increased. Financial institutions and Banks financed even those who had bad credit history. And over a period, the prices of houses declined, foreign investors suffered huge losses. And the prices of houses fell to such extent that they were less than the borrowed amount. This led to foreclosure. And this was the starting point of economic problems in the country.

Followed by the frauds and scandals, other problems started showing up. Large scale scandals usually have cyclic character. To overcome from these scandals, great amount of money was poured over the financial institutions at the expense of public. And ultimately, the economy suffered.

Eventually, speculative model of capitalism laid the foundation of crisis. This crisis has given rise to problems like inflation, unemployment, income

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inequality, vanishing middle class that still haunt the economy. Inflation still prevails in our economy. Buying power decreases. Middle-class, having the same salary find it difficult to deal with such a situation. Their expenses increase and eventually they start falling into the category of poor as they can no longer afford the things, they could buy earlier. According to Warren, “the typical man working full-time, after adjusting inflation, earns about \$800 less than his father earned in the early 1970s” (65). This is the effect of inflation. Now, the number of earners in a family is more than that in 1990s but comparatively, their income is still less. Moreover, rising poverty rate has led to increase in debts and borrowed money. And it is mainly the middle-class that suffers. Since the crisis, market has improved but not stabilized. It is well known fact that middle class is backbone for every economy. But it is in serious trouble now. Massive financial assistance was given to financial institutions to stabilize their situation. Most of the money used was tax money. And this tax money came from middle-class taxpayers. Rich got relief as they didn't have to pay it on the profits that they earned from capital gains, which was at that time the main source of income for them. So basically, they got unpunished, and as a result, who suffered most was middle-class and it is still bearing it.

As presented in the movie, Capitalism gave rise to 'Plutonomy', a situation where 95% of income gains go to top 1% only. Income is concentrated at top. And the situation is so worse that even redistribution of income cannot help. Growth rate is slow at the bottom and rapid at the top. This income gap widened at the beginning of late 1990s and continued after 2008 to our present economy. This gap has led to vanishing middle-class. Brooks states “

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We are two Americas-rich America and Poor America” (213). He has very well presented two societies of America, one that works and other that reaps the reward, where one has to struggle for almost everything and other just get it as if was hereditary gift for them. Capitalism was a system where anyone could do any wrong freely. To increase profits, new technology and machines were used, that led to job loss for many. And that trend is still prevailing where there is no job security. Middle class earns less than what they have to pay as fixed expenses. They cannot get healthcare services that in turn leads to unhealthy man-force in the economy. Eventually every problem gives rise to another problem.

Today, even though its not free-market system for our economy, but still somewhere mindsets of some politicians, economists and policy makers is that of Capitalist system. This is the reason why our economy is still not able to recover from most of the situations it is facing since 1990's global and financial crisis. According to an article posted by Occupy Wall Street activists “ Our idea is that our political structures should serve us, the people-all of us, not just those who have amassed great wealth and power” (167). It was posted on 15 November 2011, few years after crisis when US economy was more of socialist and democratic base. Even after leaving the system behind, we can still see it's marks on our society. Ariana Huffington, very fearlessly declared America as two societies where one earns huge profits, gets big paychecks, bonuses while on the other hand, rest are facing the aftershocks of scandals and loan crisis, and are still struggling for a way out of it (172). Also, in her book ‘ Third World America’, she has presented various facts due to which US is in danger of becoming a third world nation. Vanishing

industrial base, poor educational system, poor infrastructure and political system, all are the evidences for it.

As shown in the movie, financial institutions and business enterprises took a complete advantage of Capitalism to earn huge profits and exploit public. They followed no rules and had no boundaries. They did whatever they thought was best for them even if it was not ethical and in accordance with law. Friedman suggested a solution for business enterprises that completely lacked in capitalism. According to him, the responsibility of the business is “to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom” (158). Capitalism as free-market system, where even when possible, there were no regulations on actions of any enterprises. There were scandals where regulatory bodies paid no attention to control what they did; job losses because of changing working policies by big corporations, where government didn't take any initiative in favor of employees; home losses due to heavy borrowings where borrowers were misguided.

Undoubtedly, Capitalism is a system of exploitation. Even the best generation rejected it decades ago. It favors “power” to enslave people and force them to live a miserable life. It destroyed society, environment and middle-class. Capitalism failed in every aspect whether it was related to financial institutions, big enterprises, real estate business or general public, especially middle-class. Michael Moore in his movie has given thumbs up for ‘democracy’ as the best economic system. Capitalism failed and can never survive again. It just harmed the economy to its roots that it is still trying to build up from it. It led to the great economic and financial crisis. We are still <https://assignbuster.com/capitalism-a-road-towards-global-and-financial-crisis/>



facing many issues as aftershocks. Failure of capitalism was not just the failure of system, it also happened because of human actions and inactions and is still prevailing due to the capitalistic mindsets.

Obviously, economy needs a relief and special focus must be given on middle-class or otherwise, our present economy might also become just like capitalist system, ignoring all warnings, giving rise to issues that can hardly be overcome in decades. We already have a system that is in favor for all the income groups. And we have solved many problems. Our education system is one of the best systems in the world and so is the infrastructure. There is best use of technology and most of the businesses are running in accordance with law and trying to be ethical at the same time. Rules and regulations control all their actions and activities. Regulatory bodies have been given power that they are implementing it very well. There are unions that are protecting public and customers that lacked in capitalism because unions were destroyed. We are on the right path towards success. In my opinion, all we need to do is learn from the mistakes and try to avoid those, remembering that “ Capitalism is an evil”, and we need to be away from it, as far as possible, for our economy to prosper.

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