SPEAKING FREELY
Asia to follow serfin' USA?
By Joergen Oerstroem Moeller

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The destruction of individual economic and personal freedom is coming to pass in the US capitalist system 60 years after Freidrich Hayek warned of such a threat under communism and fascism. Asia, still searching for an economic and social model, could yet move in favor of a market economy and private ownership just as these assets lose favor in the US. - **Joergen Oerstroem Moeller**

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In 1944, Austrian-British economist Friedrich Hayek published *The Road to Serfdom* arguing that any form of collectivism - he targeted communism and fascism - would lead to the destruction of all individual economic and personal freedom. Under Hayek's banner, politicians such as US president Ronald Reagan and British prime minister Margaret Thatcher led the struggle against communism, socialism and the social welfare state.

It is one of history's strange paradoxes that unwillingly they and others sharing their philosophy have led us into a situation where the individual finds him/her in exactly the situation against which Hayek warned so eloquently and convincingly. Two illusions have emerged: the illusion of ownership through the boom in leasing and the illusion that one can live a risk-free, consequences-free life.

After the end of the duel between capitalism and communism in 1991, centralization of capital has put economic decisions in the hands of the few, turned free-markets and free competition into a relic of the past and removed any reminiscences of Scottish economist Adam Smith's theory of the market acting as an invisible hand.

Most of us looked forward to liberal values with the individual as owner of homes, cars and other durable consumer goods, but it does not quite look that way. A leasing economy has taken the place of the market economy. Financial institutions provide money to the consumer conditioned on de facto ownership until the loan is paid back. The operation of the debt market is based on revolving credits that serve to perpetuate themselves and protect the financial institutions rather than to truly serve borrowers and consumers.

The large outstanding loans indicate that payback increasingly fills the role as exception to the rule relegating individuals to leasing property and goods. Looked at in the terms of capitalism and communism, this is much more communism than capitalism, albeit with the difference that large funds instead of state-owned assets control economic activity. The owners of quite a few funds are anonymous and the funds are not always listed on the stock exchange and are not always subject to the rules of transparency. The public does not know who owns their homes through mortgaging or their cars through loans. A labyrinth of faceless intermediaries has replaced the age-old direct link between debtor and creditor.

Not many will step forward to defend the workings of centrally planned economies as they utterly failed, but you have to look for brave people to find praise for the workings of capitalism since 1990, it having delivered several financial crises and accumulated wealth and income into a few hands. The capitalistic model has proven itself as a superior growth machine, but has squandered the opportunity to allocate wealth in an equitable way and lay the foundation for sound and stable economic development. Furthermore, it is beginning to rub out the very core market principles that should have been its lodestar.

How has it come to that?

The property market in the US and parts of Europe, with rising prices and reckless lending by many financial institutions, is the obvious starting point. By offering very attractive loans, financial institutions lured potential homeowners to buy beyond their means. The loans did not draw interest or payback for an initial period. The lender and the borrower hoped that the value would go up, offering the opportunity to extend the loan or even increase the loan.

In many cases, elderly people joined this wagon by borrowing to finance their old-age consumption, not having a sufficiently large pension. They mortgaged their home with the result that after their death the home would not go to their children but to the real owners: the mortgage institution. The operation of the debt market weighs heavily on revolving credit that serves to perpetuate itself and protect the institutions behind it rather than to truly serve borrowers and consumers.

As the subprime crisis in the US shows, this was simply irresistible to almost the whole range of financial institutions entering this market, inventing new financial instruments to reallocate and resell the loans between financial institutions. Millions of people jumped into this frying pan, rejoicing in being homeowners without realizing that they were nothing of the sort, in reality transferring their homes from individual ownership to institutional ownership.

Even worse. As falling home prices do not yield sufficient money to redeem original loans, buyers depend on lenders to offer terms stretching over many years. They become serfs as Hayek warned, not of the state but of financial institutions with an obscure ownership having little or no interest in softening the economic blow for millions of people.

The stock market shows a similar pattern. In 1965, individuals owned the majority of US stocks, with 84% and only 16% in the hands of institutions/funds. In 2005, institutions owned 67% and individuals 33%. Ordinary common sense tells that control over the large

part of corporations in the US has changed from individual stockholders to institutional ones with the inescapable observation that the whole panoply of measures to ensure corporate governance geared to the old model had to be changed.
The misery of the individual is being almost completed by the credit card business. Outstanding debt is growing enormously and is now about US$900 billion, equal to 7-8% of current US gross domestic product. Each month, credit cards holders pay to the companies 16% of outstanding balances, but that figure covers those who pay the full amount as well as those carrying debt forward from month to month with an interest rate of more than 13%. This explains why it does not take long for some credit cards holders to run up an insurmountable debt.

Analysis of the subprime crisis tells that it is neither new nor special. Like all previous crises, solutions will be found. Debts and assets will be shuffled around between institutions. Some individuals, corporations and financial institutions will declare bankruptcy and after a while the debt will have been brought down to a manageable level.

But there is something new behind the veil. And that is the obliteration of individual ownership of homes and many durable goods with the individual replaced by the real owners the financial institutions and/or funds. Inspired by British statesman Winston Churchill, we might put it this way: never in the history of mankind have so few owned so much taken from so many who believed it was theirs'.

The present debt crisis suggests a need for the consumer to get back to the basic principles of individual responsibility plus accountability and for the financial system to reinvent ethics prohibiting products that through their complexity disguise risks and make the debtor and creditor unknown to each other.

If not, the unanswered question is what kind of society this will bring about. Certainly not a liberal economy and a market state with the invisible hand and the individual in the driver's seat. The world may enter an era of institutionalized economics with capital, money, ownership and power to steer the economy according to the wishes and preferences of institutions.

As recent experience suggests, that will tend to override signals from the market, open the door to accumulate capital value and make a virtue of short-term profits irrespective of long-term consequences. The potential for the individual to pursue his/her preferences and safeguard economic interests will be limited, very limited indeed. That is why Hayek's prophetic words may come true more than 60 years after he wrote them and inside the kind of society he thought would prevent this from happening.

Asia is still in the early phase of searching for an economic and social model. At present, it is a mixture of Western capitalism and Asian institutionalism. Further down the road, Asia may have to follow either the US and disown private ownership with all the consequences that implies for economics and social structure, or endorse the old-fashioned core virtues of the market economy. It would be one of history's whims if Asia swings towards the market economy and private ownership at the very moment these long-cherished assets lose favor in the US.

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