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How the Crisis Gives People Schadenfreude

By Harold James

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The protracted financial and economic crisis discredited first the U.S. model of capitalism and then the European version. Now it looks as if the Asian approach may take some knocks, too. Coming after the failure of state socialism, does this mean that there is no correct way of organizing an economy?

In the aftermath of the subprime crisis and the collapse of Lehman Brothers, fingers were pointed at the United States as an example of how badly things could go wrong. The U.S. model had supposedly failed, its reputation weakened first by the Iraq invasion and then by the financial crisis. Anyone who dreamed of the American way of life now looked stupid.

Immediately after Lehman Brothers collapse, German Finance Minister Peer Steinbrück put this diagnosis as a challenge not only to the United States, but also to other countries notably Britain that had Americanized their financial system. The problem, Steinbrück argued, lay in overreliance on highly complex financial instruments, propagated by globalized U.S.

institutions.

The financial crisis is above all an American problem, Steinbrück said. The other G7 financial ministers in continental Europe share this opinion."

Criticism of the United States did not stop there. Steinbrück's successor, Wolfgang Schäuble, persisted in the same tone, attacking the United States' clueless monetary policy, which was supposedly designed only to feed the U.S. financial monster.

But such criticism ignores the problems faced by banks that did not use or deal in complex financial products. Bank regulators had long insisted that the safest possible financial instrument was a bond issued by a rich industrial country. Then came the euro zone's sovereign-debt crisis, with its roots in lax government finance in mostly southern European countries.

Critics now had a new focus. Naturally, many conservative Americans were delighted by the imminent failure of what they saw as Europe's tax-and-spend model, with its addiction to a costly and inefficient welfare state.

They were not the only critics. The chairman of China Investment Corporation, Jin Liquin, commented skeptically on a proposed Chinese bailout of Europe, which he called "a worn-out welfare society" with "outdated" welfare laws that induce dependence and sloth.

Criticism of large European transfer payments may have some justification, say, insofar as French, Greek and Italian civil servants could indeed retire young. And restrictive labor laws have indeed discouraged many firms from hiring new workers. But such criticism captures only one small part of Europe's difficulties.

The fiscal problems of Greece and Spain were also the result of spending a great deal on high-tech and high-prestige projects, such as facilities for the Olympic Games, new airport buildings and high-speed train links. And Spain and Ireland before the crisis did not have a fiscal problem, owing to the rapid economic growth produced by a real estate boom that seemed to promise a new era of economic miracles.

One of the most widely used Chinese terms of recent years is xing zai le huo, which is best translated as schadenfreude. In this case, somebody else has tripped on an enormous political banana peel. Asian critics looking at the United States and Europe could easily convince themselves that the Western model of democratic capitalism was collapsing.

But haven't similar capital investments and soaring property prices also been an increasingly important part of China's transformation since the 1990s? Chinese citizens are now not only frustrated with the high-speed trains' increasingly obvious imperfections and inadequacies, but they are also wondering whether their government has set the right priorities.

Schadenfreude comes in several flavors. Prime Minister Vladimir Putin and Argentinian President Christina Kirchner liked to think that their versions of a state-controlled economy and society built in the aftermath of default on foreign debt offered a more viable alternative to cosmopolitan international capitalism. Both now face major problems with disillusioned populations.

In short, the world's major economies share many more vulnerabilities than is commonly supposed. A response to global challenges based simply on schadenfreude may promote a short-term sense of well-being, as people often like to think how lucky they are to have escaped a mess that originated elsewhere. But soon they encounter their own banana peel. Indeed, today's global economy is a hodgepodge of slipping economic models. And tomorrow the cacophony will be even louder.

So, is there any absolutely sure way of organizing economic life? If the quest is for a way of securing perpetual security or dominance, then the answer is "no."

Underpinning comparisons of different models is the wish to find an absolutely secure way of generating wealth and prosperity. In a market economy, however, competition rapidly leads to emulation, and high profits associated with an original innovation turn out to be transitory.

From a longer-term perspective, however, there are only temporary surges of relative wealth, just as there are only temporary surges of apparent success in a particular way of doing business.

During the Industrial Revolution in Western Europe in the late 18th and early 19th centuries, the pioneers and innovators in textiles, steel and railroads were not, on the whole, rewarded with immense riches. Their profits were eroded away through competition. The late 19th and the 20th century produced a different sort of growth because public policies and resources could be used to protect accumulated wealth from the otherwise inevitable erosion stemming from competitive pressure.

Behind the idea of a particular model of growth was the belief that a sensibly ordered state could somehow capture and eternalize the fruits of economic success. Like it or not, states cannot organize themselves in that way any more than individuals can.

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