

ECONOMIC CRISIS: Background, Causes and Lines of Solution

HERE IS THE QUESTION: Some years ago, when we were discussing the economy, you said the whole system is a house of cards just waiting to collapse. Paul Krugman said in his Monday NY Times column that the deficit hawks pushing for cutting stimulus and unemployment benefits will, if they get their way, actually bring about a double dip recession or even a great depression. What's your take on things?

HERE IS THE RESPONSE:

This is actually an extremely complex and multi-faceted issue including both structural long-term issues and some short term concerns. Until humanity begins to seriously address the structural issues, we will be forced to endure repetitive crises, some greater and some lesser, and this simply makes accommodation to these crises more difficult and provides fewer actual "solutions".

The major structural issues, without getting too complex, would include, the increasing burden that humanity places on the resources of the planet, and the consequent struggle for control of those resources. It has been estimated that we are living on the planet in a way that would require NINE planet earths to sustain. The USA alone accounts for 20+ % of all energy use, although we only have 5% of the people. Other countries are increasing their energy requirements to bring their population to a higher standard, and in the past, the excessive use by Western Europe and the USA has been offset by holding 85% of the world in utter desolate poverty. That solution no longer applies, so the struggle for resources, ENERGY, POTABLE WATER and FOOD, plus raw materials for production of goods, will intensify dramatically until we both address more prudent ways to live on the earth and share the resources, and find a more balanced lifestyle approach that is sustainable. Another structural issue is the climate change issue which is consequent from the excessive and wasteful energy use policies of the world, as well as our addiction in many parts of the world to a meat-based diet. This leads to increased greenhouse gas emissions, increased destruction of forest resources which capture carbon, and this in turn leads to sea level rise and increasingly violent weather patterns which increase the magnitude of natural disaster events around the world, with the cost, dislocation and destruction that causes. As a result of the effects of the above, there is an extremely unstable social and political climate around the world which leads to more wars, more violent confrontations, and more social upheaval including massive migration events (including the migration of people from Mexico to the USA to fuel the USA's hunger for cheap exploitable labor) which wreak havoc on the economic and social structures around the world. Add to this the increasing incidence of pandemic diseases and disease vectors exacerbated by the climate change (for instance, West Nile Virus and Malaria are spreading due to the increased warmth of the formerly temperate zones), and you can see that there are massive structural issues. On top of this, the world is much more dependent on technology and thus, the global system is both more "responsive" and more "fragile" than at any time in the past.

This brings us then to the short-term issues. From what we can tell, the ideology of "free market *laisse faire* capitalism" that ruled through the 80's, 90's and into the first decade of this century, created an environment that

dramatically enhanced the power of large multi-national corporations at the expense of countries and their governing power. This led to the ability of a small number of companies and individuals to wreak enormous havoc on the financial system, the environment, and the control of resources. Companies, for their own profit and in some cases hidden ideological goals, are basically free to do whatever they please, and they have created complex systems and processes that are simply far beyond the ability of most people to either understand or protect themselves. The intrusive nature of the media allows these companies to systematically manipulate the public opinion, desires and thoughts of most of the population, so that they can gain ever more control. Within this context the financial meltdown was simply one symptom of the runaway greed and sophisticated tools of manipulative fleecing of people that has been building over the last 30 years. At the same time, these same parties have worked to increasingly bring large populations under their economic control and breed what may be called "economic slavery" to replace "physical slavery" which is no longer fashionable in this day and time in most parts of the world. The oil spill is of course another symptom, and the runaway costs of health care and the larger number of people who cannot afford health insurance and health care is another symptom. All of this together has succeeded, over the last 30 years, in accomplishing the largest ever transfer of wealth of a society such that the rich have become successively richer, and control more of the resources, and the middle class and the poor have become successively poorer and control less of the resources. The top 1% of the wealth control something like 60% of all the wealth, and the top 2% gets it to something like 90%. The other 98% of the population have access to just 10% of the wealth and that is in the "wealthiest" and "freest" nation in the world. When we look globally, it is even more stark and one could say that the top 2% GLOBALLY control probably 96% or more of all the resources. For these people, life is paradise and they simply don't seem to care about the lives of anyone else, or the suffering occasioned by their appropriation of resources far beyond their "share" of the global resources. And of course, they want to hold on to this, and they control the levers of power in the economy, the government, the media and the military forces arrayed around the world.

This brings us to the current situation, if you will. Sorry it takes so long to get here, but this stuff is incredibly convoluted and intertwined and does not make a lot of sense if looked at out of context. Much of what took place in the financial meltdown can be traced to several causes. First, the attempt by the kings of finance to gain ever more control of the economic system through creating complex derivative financial instruments that were able to thereby manipulate less sophisticated investors, bankers and their customers into a situation where the lending was no longer tied to the relationship, and thus, everyone gained an incentive to "pump and dump" which led to the mortgage bubble. Second, the use of these derivatives to create a gambling casino for the "masters of the universe" (as they call themselves on wall street) to enjoy the thrill of gambling while using other people's money. I suspect there was some amount of hubris and miscalculation that went along with this as well, but it is also not out of the question that the crisis was ENGINEERED as was the crisis early in the 20th century which consolidated the power of banking in the hands of several hundred banks, with several dozen maintaining major control, by driving out thousands of small local banks (the crisis that eventually led to the creation of the Federal Reserve by the way). Either way, whether engineered or whether it happened through some amount of miscalculation, the result was that the financial

markets froze up, the government was given an ULTIMATUM by the bankers that if it did not quickly bail out the market, we would have a great depression. Panic ensued, a bailout was granted within weeks, and the result was that dozens of banks failed and were taken over by bigger banks, millions of people went into foreclosure and lost their homes and assets, and the economy fell into an economic tailspin. It is INTERESTING to note that the richest 2% continued to get richer during the last 2 years, while the other 98% continued to get poorer, so this obviously did not affect THEIR well-being.

The solutions to this current situation, if you will, involves starting to address some of the macro issues, while applying "short term" fixes to stabilize the people in the crisis and support the basic economy. What we have seen here is the economic equivalent of a major natural disaster. In natural disasters, the first thing that is done is to "triage" the people affected and provide them whatever aid is needed for whatever time is required until their infrastructure can be rebuilt; and the second thing is then to shore up and rebuild the infrastructure. If we look at it analogously, then, we would see that there should be a massive government "infrastructure support" program in place to provide the financial lubrication the system needs, to minimize the population suffering and dislocations, and to invest in things which will support the long-term growth, strength and stability of the society. Ideally you would want to see a program which puts unemployed people to work, through things like repairing and upgrading our water systems which are badly in need of repair and waste a lot of the limited fresh water; our pollution control and clean up systems, the roads and bridges, and the development of new and more efficient energy generation and usage systems, including better conservation methods, and expand our communication and technological grid and improve our educational system and expand its benefits further to all people in the society. All of these things would create millions of productive jobs, make the foundation for future stability and growth more effective and provide a basis for a better future for all. The more people put to work, the less need there is for the "safety net" of unemployment insurance and Medicaid, although it is clear that as in any "natural disaster" those who have been put out of work by the crisis should get whatever support they need.

At the same time, we need to take a much more realistic approach to regulation of business, industry and corporate activities as well as their ability to influence and manipulate public opinion through the use of their enormous economic leverage to control the media. This would involve things like very substantial health care reform and negotiation (probably more on a European or Canadian type model), control of polluting and health-destructive industries and charging them for the costs of "cradle to grave" impact of their activities including clean ups, health impacts on society, etc, financial reform to prevent the type of "gambling" that was being done and to ensure that the lending and borrowing have a connection to one another so they don't become purely abstract, a reformation of our transportation system and our utilities such as water and electric power to ensure they are done in effective, efficient and non-monopolistic ways that benefits the commons rather than just a few well-placed individuals. We should begin the process of becoming more sensitive about resource use and allocation and thereby reduce our need to fight wars to control resources for the future.

The short-term need involves taking care of people slammed by the economic tsunami and instead of trying to scapegoat them, we need to appreciate that forces far outside their control have been acting here, and they need to be treated with respect, goodwill and be provided assistance; and this is a benefit to everyone else because in fact, the unemployment insurance and Medicaid support, etc. goes right into the economy and generates productive demand for businesses from the ground up, and thus, actually helps jump-start the economic growth in a more healthy way than artificially created desire-bred demand generated by media hype.

In order to pay for this, it is clear that the trend of the "rich getting richer" while the "poor get poorer" needs to be addressed. This happened to a great degree through an artificial transfer of wealth through tax cuts given during the last decade that overwhelmingly favored the top 2% of the population. At the very least, these tax cuts should be eliminated and that money used to work on the short term support needs of the people and the longer term infrastructure building that puts people back to work (and thus reduces unemployment and other support needs automatically). Ideally, it should be recognized that this top 2% gets the benefits of the entire infrastructure and enjoys far more in terms of freedom, enjoyment and options than the other 98% and that is worth paying substantially MORE in taxes--you get more, you pay more..... In addition, industries that pollute, or that help to generate the enormous health care costs that are overwhelmingly due to the obesity epidemic, smoking, and exposure to toxic chemicals and pollution, as well as an over reliance of pesticides, herbicides, antibiotics and genetically modified foods in the food chain, should be taxed to pay for the costs that their industries create, and the real cost of these services and goods should be assessed on them to create a more realistic supply/demand curve. Thus, tobacco products with a very high long-term health cost, should be very highly taxed so that money is built into the system to pay for those health care costs. Similarly, foods that promote obesity, such as soft drinks, fast food, etc. should be taxed heavily rather than being made ultra-cheap. Heavily polluting oil fuels should be highly taxed, as also all sorts of hydrocarbon sources plastics. Meat production should be taxed. Each of these has direct causal relationship to costs that fall on society at large and individuals who have to deal with the impacts and the cause/effect relationship is broken at this time.

Obviously a lot of this is illusory at this time given the toxic political climate and the vast control that the major financial and conglomerate interests have, but at the very least, we should be starting to move along these lines wherever possible.

Coming then to the initial question, it is extremely harmful and disruptive at this time to arbitrarily cut off or cut back people who have no options, who have been affected by the economic tsunami, from having access to unemployment insurance support or Medicaid. Further, a much more expansive infrastructure investment program should ideally be undertaken which would jump start employment and reduce the need for the other support. By putting people back to work, we shore up local, state and federal government income streams and thus build our way out of the long-term deficits which unfortunately were created by the unpaid for wars of aggression of the last decade, the unpaid for tax cuts for the top 2% and the unregulated "anything goes" policies on corporate and financial interests

that allowed them to gain substantial income at the expense of the "commons" and everyone else individually.

In business, we differentiate between "expense" and "investment". Much of the real benefit could be obtained through a systematic long term INVESTMENT strategy in infrastructure and building the "future", and investment is not counted as a "cost" but as something which has a real and positive payback over the long term. It goes onto the balance sheet as an ASSET. The payback in efficiency means costs go down in the future, thus, recouping the value of the investment. A similar approach at the governing level would show that investing even trillions of dollars productively in this society would be a very valuable and useful investment which will pay back many times over in the future and thus, investment now means deficit reduction later; whereas failure to do that now, and to cut back on both the investments in infrastructure and in needed support for unemployed, suffering people, will inevitably lead to the potential of a "second dip" recession or eventually a depression because the buying power of the mass of people will be reduced, and no matter how much money the top 1-2% of the people have, they cannot spend it all!!! The best place to put money that needs to be spent, is in the other 98% of the populace.....

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7/3/2010