Our Humpty-Dumpty Economy

Contributed by Dan Bednarz
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This is not just another recession. We are reeling from two entwined problems, “Bad Money” and “The Bottleneck” of ecological pressures. The financial/economic crisis represents the market and Mother Nature forcing us to devise a sustainable economy. Unfortunately, government, Democrats and Republicans alike, is attempting to put Humpty Dumpty back together again.

Bad Money is the title of a book by pundit Kevin Phillips. Money is bad, he writes, when a nation allows the development of “a debt-gorged and negligent financial sector.” Phillips notes that in 1950 finance was 6% of the economy; today it is 20%. He adds that the federal government made a momentous policy decision -- whose bitter fruits we are harvesting -- three decades ago to favor finance and allow manufacturing to decline.

Americans are realizing that the financial sector’s iconic leaders are either a gaggle of Mr. Magoos -- the chosen defense of Alan Greenspan, Ben Bernanke, Hank Paulson and Robert Rubin -- or enablers of the mother of all financial bubbles. With wages stagnant and unemployment growing, the solution of Paulson and Bernanke is to pour money into the financial sector to revive the economy. For instance, Bloomberg News estimates that the federal government thus far has committed over $7.4 trillion to “rescue” financial institutions. However, they possess untold trillions of dollars of nearly worthless holdings. Their desperate hope is that housing values will magically -- without wages increasing -- rebound or stabilize. The reality is that our gargantuan financial sector is no more viable or well run than the Big Three automakers.

The implications of Bad Money are to 1) “right-size” Wall Street by making it bear the market consequences of its “toxic assets” debacle while 2) recommitting the nation to manufacturing by, first of all, converting our fossil fuel energy infrastructure and reviving mass-transit. In short, give people dignified work that leads to an ecologically sustainable economy.

Nevertheless, our addiction to debt-based “growth” makes us susceptible to a “greening the economy” bubble similar to the dotcom and housing busts. This brings us to the importance of The Bottleneck of ecological pressures now battering economies. We do not have oodles of energy and time for blunders or boondoggles -we must get this right.

The fact that the natural ecology is the foundation of economics has been hidden by the powerful but false dichotomy of “jobs versus the environment.” Economic activity is wholly dependent upon the earth’s resources and proper functioning of its natural systems. Regardless of how innovative one is or how hard one works without a healthy earth and its resources -- energy is the master resource -- human economies are impossible to create.

In 2000 Harvard biologist E. O. Wilson wrote that humanity was entering The Bottleneck of ecological constraints. In my view climate change and peak oil are possibly the most immediate threats. Recently, the National Intelligence Council (NIC) -- not known for tree-hugging -- reported: "Resource issues will gain prominence on the international agenda," as “energy, food, and water … demand is projected to outstrip easily available supplies..."

Focusing on oil to illustrate the direct connection between the ecology and the economy, note that four of the past five US recessions were preceded by a rise in oil prices. Energy economist James Hamilton of the University of San Diego wrote in spring 2008, as oil prices passed $120, that the economy was creaking. Subsequently, the government has confirmed that a recession began in December 2007, when the price of oil climbed to nearly $100 a barrel.

As the price rose to its all time high of $147 in July signs of disruption were everywhere. Gasoline consumption declined; Continental Airlines laid off 3,000 workers and said its business model did not work with three-digit oil prices; SUV and truck sales plunged; in health care, ambulance companies were desperate because they were paying $5.00 a gallon for diesel, long-time blood donors informed agencies like the Red Cross they could no longer afford the travel costs to donate blood; school systems, especially rural ones, cut back on the number of school days per week and canceled some sporting events to save fuel; and in places Meals on Wheels volunteers curtailed their work. In mid-September the economic downturn intensified and spread to China, heretofore touted as growing so fast that it would insulate America from a deep recession.

Ironically, $2.00 gas is a sign of recession. The world supply of oil has been on a plateau since May 2005 and appears to have peaked; it is demand that has fallen off the cliff and cut prices. Attempts to end the recession will require more oil; and all indications are that the world cannot substantially increase its supply.

It is academic to sort out the relative importance of the financial meltdown and oil prices in setting off this economic maelstrom. The critical issue is that our Humpty-Dumpty economy has had a great fall. The question is how long before we recognize our situation.

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