

Can't Raise A Keynes Back Up When He's In Defeat

Contributed by Albert Bates
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"We need to reposition the global human prospect to make it more survival-oriented. That will require us to re-strike the carbon balance so that net sequestration is the prime directive for any new enterprise."

- the author, who has decades experience in intentional communities, appropriate technology, teaching, law, writing books, and permaculture.

How bad how good does it need to get?

How many losses how much regret?

What chain reaction

What cause and effect

Makes you turn around

Makes you try to explain

Makes you forgive and forget

Makes you change

Makes you change

— Tracy Chapman, Change

"The laws of economics are like the laws of engineering. There's only one set of laws and they work everywhere.

"There are no... limits to the carrying capacity of the Earth that are likely to bind any time in the foreseeable future. There isn't a risk of an apocalypse due to global warming or anything else. The idea that we should put limits on growth because of some natural limit, is a profound error and one that, were it ever to prove influential, would have staggering social costs." — Lawrence H. Summers (1994)

I have been going back and forth about the stimuli being applied to get the global economy, which went off the rails 14 months ago, or perhaps a few decades ago, or even 10,000 years ago, depending how you look at it, back on track. The problem is that I am not even convinced that the track is the best place for it to be.

Still, it may be helpful to break it down a little more and get at some core principles.

I have to admit that the dedicated obstructionists in the minority party in the US might even be right, if for the wrong reasons. Shoveling money down a black hole is something to do when there are no other ideas. It won't fill up the hole. The Republicans' proposed alternative, cut taxes, would be laughable if it weren't as pathetic as cutting interest rates. The 4 million people thrown out of work in the past year or so won't be paying taxes. I suspect a lot of people who are not being counted in the statistics won't either. It is hard to track down someone when they no longer have a home, a car, a job, or a bank account.

John Maynard Keynes' big idea was that if no-one has money left to buy anything, and credit is dead, you can "shock" the national corpse back to life by copious government spending. Only after trying everything else did Franklin D. Roosevelt try Keynes' advice, and then — with the help of the Second World War — manage to put the industrial engine back on the tracks. The George Marshall and Douglas A. MacArthur commands applied the same serum to devastated Europe and Japan, with favorable result.

So successful was Keynes debut in the 1940s that the International Monetary Fund and World Bank were set up at Bretton Woods in 1944 to provide Keynesian financing to any distressed countries. The post-war period was a Keynes-on-steroids example of unbridled optimism: the War on Poverty, the War on Crime, and the War on Terror replacing World War II spending with steadily diminishing effect. "Deficits don't matter" became the political grail.

However, there is an important change in the game now, and it is one that White House Economy Czar Larry Summers apparently doesn't get, assuming he has not had a "come to Jesus" moment in the 15 years since he sneered at the "risk of an apocalypse due to global warming."

USGS geologist and forecaster Marion King Hubbert expressed the difference most eloquently when he testified to Congress in 1983:

"I was in New York in the 30's. I had a box seat at the depression. I can assure you it was a very educational experience. We shut the country down because of monetary reasons. We had manpower and abundant raw materials. Yet we shut the country down. We're doing the same kind of thing now but with a different material outlook. We are not in the position we were in 1929–30 with regard to the future. Then the physical system was ready to roll. This time it's not. We are in a crisis in the evolution of human society. It's unique to both human and geologic history. It has never happened before and it can't possibly happen again. You can only use oil once. You can only use metals once. Soon all the oil is going to be burned and all the metals mined and scattered."

The track we are attempting to lift our growth engine onto was left by the Wild West's iron horse, laid with golden spikes when much of the fertile surface area of the planet was being opened to exploitation and was soon to be responsible for 70% of the world's economic growth. We are prisoners on that train. Billions of Chinese and Indians are prisoners on that train.

We have not yet owned up to the failure of our unlimited growth economic model to come to grips with the idea of sustainability within a finite planetary ecology. We have spent our billion-year starlight savings account on predator drones and cattle feeding operations while not thinking seriously about ways to live on the daily income that arrives for free. And so we rode our train right off a cliff, still accelerating. We were just following that track.

Seven years ago, in March, 2002, Colin Campbell, the retired petroleum geologist, predicted with amazing precision precisely where we would find ourselves now. He said:

"Initially it will be denied. There will be much lying and obfuscation. Then prices will rise and demand will fall. The rich will outbid the poor for available supplies. The system will initially appear to rebalance. The dash for gas will become more frenzied. People will realize nuclear power stations take up to ten years to build. People will also realize wind, waves, solar and other renewables are all pretty marginal and take a lot of energy to construct. There will be a dash for more fuel-efficient vehicles and equipment. The poor will not be able to afford the investment or the fuel. Exploration and exploitation of oil and gas will become completely frenzied. More and more countries will decide to reserve oil and later gas supplies for their own people. Air quality will be ignored as coal production and consumption expand once more. Once the decline really gets under way, liquids production will fall relentlessly by five percent per year. Energy prices will rise remorselessly. Inflation will become endemic. Resource conflicts will break out."

Many of those things have come to pass, and the rest of them we can look forward to seeing sooner, rather than later. We also have the consequences of population growth and climate change to look forward to.

So, with changed conditions, do Keynes' prescriptions still make sense? I think they do, but perhaps not in the way Larry Summers intends. We need to re-lay the track, literally. We need to reposition the global human prospect to make it more survival-oriented. That will require us to re-strike the carbon balance so that net sequestration is the prime directive for any new enterprise. That will force us to sponsor a new business model that draws in the neglected externality in all the old economic models — the global commons of atmosphere, ocean, and soil.

We will also need to come to grips with our addiction to growth. We have to cleanse our happiness receptors until we see again the simple pleasures in life that come from activities other than consuming things. We have to deal with our fecundity. We have to save wilderness, other species, the oceans.

A good place to begin would be the U.S. Treasury's unique management role at GM, Chrysler and Ford. We can transition from cars to mass-transit by building light rail. We can power that mass-transit with next generation renewables engineered in Detroit and elsewhere. We can make organic no-till farming implements and keyline plows. Do you think this is unrealistic, or too late? We are already committed to spending more to bail out the automakers than we spent to put a man on the moon. We had light rail (trolleys and barges pulled by horses) and heavy rail (with engines powered by wood) before kerosene began replacing whale oil in home lighting. This is not rocket science.

One man's jobs program is another man's pork barrel, and so there is a huge amount of money about to be thrown down the rat-hole of nuclear energy, "clean" coal, and offshore oil, especially the part under Afghanistan and Iraq. And, there is still a lot of warming in the climate pipeline, no matter what we do now. We could do worse than to sponsor jobs re-greening inland deserts with coastal desalination plants and urban waste-to-biochar, switching to no-till organic farming and reforesting the Mississippi valley.

The stimulus bills will provide tax credits to buy houses, but with no quality controls on their energy or climate impact. They will shore up the sinking FDIC, about to be bankrupted by cascading bank failures, but not invest in the security of regional currencies, which have repeatedly proven themselves in times like these. What is still to come are the next rounds of buying up mortgage-backed securities by Freddie and Fannie, about \$500 billion, and distressed bank bailouts — TARP-2 — which Goldman Sachs recently estimated to cost \$5.7 trillion, or about 7 stimulus-packages worth.

Of course all this pales when you step back for a look at the big picture. Before the crash, US GDP was 15 trillion, and world GDP was 57 trillion. If you sum the credit default swaps, hedged assets, turbo warrants, and other forms of debt in the world, you quickly get to 1000 trillion. Even if you write off 90% of that as bogus (who wins? who loses? what topples?), you are still left with far more paper debt than our capacity to service it. Welcome to fractional reserve banking.

One of the things that Keynes understood — better than most of his disciples — was that it matters where and on whom you spend the money. He also understood that the whole game is played on a slanted board, with workers at the bottom usually getting a raw deal as investors on the top give new definitions to consumer excess — San Simeon then, Dubai now. Only continuous expansion of jobs — and manufactured hope — has kept workers from rebelling. [Background: It's Not Going to Be OK] But now they are beginning to rebel — in France, Turkey, Greece, Ukraine, Russia, Latvia, Lithuania,

Bulgaria and Iceland: Governments across Europe tremble as angry people take to the streets. [Reaction to unrest can include Mystery Prison Buses in the Desert.]

The only way to prevent that conflict from enlarging and going viral is with a hand up — real hope. That is what the stimulus has to achieve.

And yet, and here is the telling point, the theme of this blog... we are back to the nexus between population, peak everything and climate change. Take the example of India. India has 9 to 10 million new people joining its labor force each year looking for work. It needs a sustained growth rate of 8.8 percent per year to create those jobs. Projections are that India's growth will drop to 7 percent this year and 5 percent next. Those projections are probably rosy.

The International Energy Agency, tallying all known production capacities and estimating effects of recent discoveries, puts the average annual decline rate of petroleum production at 9 percent over the next several decades. Negative nine.

China has consistently turned in a 10% growth rate to provide jobs for its burgeoning population. While the proof is sketchy, China says their GDP growth has now fallen to 6.8%.

In the United States, Japan, and many European countries, growth is already in negative territory. Minus 12 for Japan, minus 10 for France, Russia and Germany, minus 15 for Spain, minus 27-29 for Latvia and Ukraine. In the USA, employment growth looks like this:

Ireland lost 36,500 jobs in January – equal to a monthly loss of 2.3 million in the US. And you don't even want to think about Iceland.

With 20 percent of the world's population, China has only 9 percent of the world's farmland and 7 percent of the fresh water. All of the world's grain exports together provide less than two-thirds of China's annual demand for food. To avoid famine, China needs to keep up its exports. As I write this, not a drop of rain has fallen on Beijing for more than 100 days. In the northern provinces, nearly four million people are without safe drinking water. People are returning home from lost jobs in the southern cities, even as their relatives are packing up to leave.

The Obama team's application of Keynesian stimulus to the US economy is now in full swing, and what you are seeing ain't the half of it. In addition to \$1 trillion in stimulus, \$3 trillion in lending to banks and businesses, Congress has authorized \$6 to 9 trillion in agreements to provide aid to failing institutions like Fannie and Freddie and the Federal Reserve. How much is that? According to the Congressional Budget Office, it is 13 times what has been spent so far on wars in Iraq and Afghanistan, — enough to pay off every home mortgage loan in the U.S. It is enough send a \$1,500 check to every man, woman and child alive in the world. You could make every Iraqi and Afghani a millionaire.

And it still may not be enough. The planet has limits, Mr. Summers.

If everything you think you know

Makes your life unbearable

Would you change?

Would you change?

If you'd broken every rule and vow

And hard times come to bring you down

Would you change?

Would you change?

- Tracy Chapman, Change

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Albert Bates instructs permaculture and appropriate technology at the Ecovillage Training Center at The Farm community in Summertown, Tennessee. His *Financial Collapse Survival Guide* (2009) is now available in Kindle format from Amazon.com. He will be teaching a permaculture design course in southern Belize from March 20 to April 1 for anyone who'd like to experience his full repertoire.