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The Only Way to Fix the World Economy

By Mike Lux - Posted: 05/09/2012 12:22 pm - via the internet

Europe is a mess, and not because voters there are rejecting the austerity policies that are driving the European Union straight into recession. The USA's economy is picking up in some ways, but is still stalled out in others. And looming over everything are all these toxic assets the world's biggest banks created for themselves, and the mountains of debt piling up everywhere -- not only or even most importantly government debt, but trade deficits, underwater mortgage debt, student debt, consumer debt as well.

As Paul Krugman and so many other economists, and history itself point out, the austerity solution when facing a recessionary economy is a vicious cycle: you make cuts to lower the government's deficit spending, which puts more people out of work, which erases the savings you make from cut and then some. It's also not politically sustainable, as elections all over Europe are making clear.

Never-ending bailouts, whether for bankers directly as we did in the USA, or whether for countries so that they can pay off the bankers they owe (notice, either way, it is the bankers who get the money) don't work either -- especially in combination with austerity measures. No matter how many times the EU announces it has solved the problem by one more bailout, a couple of weeks later we start seeing reports that things are moving in the wrong direction again, and soon there is another emergency meeting where another bailout is necessary to solve the problem. No matter how much money is shoveled out the door, the economy keeps tanking, more jobs disappear, more tax receipts dry up, more houses get foreclosed, and deficits just keep getting worse. You can't climb out of a hole by continuing to dig.

When Hollande won his election in France, dark mutterings immediately began in the business pages about how the "markets" would react to the news. When you read the word "markets" in this kind of story, what you need to understand that this means bankers, along with the supposedly independent ratings agencies whose client base is bankers and who have shown themselves completely willing to manipulate their ratings to serve those bankers. Understand also that given the enormous concentration of market power in just half a dozen banks, the number of bankers who matter in the marketplace business writers speak of is very small. (Simon Johnson and James Kwak wrote a great book called *13 Bankers* about this incredible concentration of market power in the hands of just a few, like about 13.)

The conventional wisdom of the establishment demands that policy makers pay never-ending fealty to this marketplace, to this tiny number of bankers who control so many assets, but what gets clearer every day is that we need to stand up to them instead. The only way to break the vicious economic cycle is for policy makers, here and in Europe, to stop trying to suck up the big banks, and to force them to face the consequences of the mess they made. It was the big banks' speculative bubble making and their way too complicated financial instruments that drove the housing market and the economy in general over the cliff, and it that is what spiked government deficits as well. Bankers need to be forced to write down big shares of housing debt, student debt, credit card debt, and in the case of Europe national debt. The biggest banks need to be broken into smaller parts so that when they screw up they don't destroy the world economy, and so they are not Too Big To Fail. And bankers who committed fraud ought to go to jail. It will be hard and sometimes painful for the politicians to do this, because these huge banks have a whole lot of power, but sooner or later it will have to happen if we don't want our country and Europe to become weak third world-like economies.

Once we throw the big banks out of the catbird seat and seize control of our economy and our government again, we can turn to what the USA should have doing a long time ago: investing in our industrial infrastructure and the job producing industries of the future, investing in our educational system and the R&D we need to keep innovating, and rebuilding our middle class.

Let me close by turning from economics to values. For countries to be successful, they need to have both the right long term economic policies, focused on building and expanding the middle class, and the moral fiber to understand that power and money are not all that matters. Part of the problem with Wall Street's power in this country is that the cut throat dog-eat-dog values of Wall Street have infected way too much of our society. We need to not only take back our economic fate from Wall Street, we need to cleanse our values system of their culture as well. Read this wonderful piece by Alexis Goldstein, "Why I Had to Get Out: Confessions of a Wall Street Insider"* on how corrupting the values of the Wall Street culture really are, and you'll understand why we need to disinfect our broader culture of them. With this one article, Goldstein has instantly become one of my favorite writers, because she spells out so beautifully what is wrong with Wall Street, and how to make things right.

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*http://www.alternet.org/occupywallst/155236/why_i_had_to_get_out%3A_confessions_of_a_wall_street_insider?page=entire