

The Big Picture

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“News to use & amuse”



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Dealing with crisis

Media commentators are suggesting that in fixing our economic problems, he may have to ignore climate problems or vice versa. This view ignores the leverage that can be applied with our knowledge of complex systems.

To focus on useful means to change system performance we need to understand the root causes of system behaviour, so that we don't spark off at every symptom while missing the disease.

In the case of climate change, part of our problem is created by shipping products all over the world, using oil and increasing costs. While some elements of global supply are useful, most are related to products and services that we could either produce ourselves, or manage without entirely.

Government policies have stimulated the growth of consumerism, in which we consume in order to create growth. We restricted our definition of growth to mean greater quantity, while quality has remained optional.

In these ways we have increased the rate at which we consume and process resources, without necessarily assuring that our efforts are worthwhile or that the resources used are available in sufficient quantities for future needs.

One of the problems for our politicians is that they appear to be trying to deal with climate change while keeping everything else the same. Change by keeping everything the same is a contradiction.

If we start to look at root causes of our systemic problems we note that many false relationships have been created in our minds from government policies.

Recently we've explored some of the problems created by connecting growth to debt. We also have created problems by allowing 2 major stores to control our food supplies and by shipping produce all over the place prior to using it.

Governments now say they have to spend more to stimulate the economy – that means using our money. Why spend more when they can redistribute what they've already got?

Instead of flows of money to industries like coal, forestry and cars, we could apply those monies to developing local community capacities to supply their own products. That would reduce fossil fuel use, increase jobs and cut our dependence on distant suppliers.

Size

Large organisations neither connote effectiveness nor efficiency. 20 people trying to cook a breakfast are likely to produce a disaster – the more people engaged in an activity, the more likely there are to be problems and the higher the costs of trying to produce what fewer people could do with ease.

As organisational size increases, so do costs. Costs of staffing, management, administration and so on. Getting benefits for the

increased costs is not so easy.

Whole books (e.g. [mythical man month](#)) have been devoted to the disproportionate cost increases and productivity losses associated with scalar increases in organisational size.

Back in the kitchen, you can't heat up the fry pan until it's been inspected by Work Safety, and the bacon has to be certified by Food Safety. You have to demonstrate that you are covered for any liability (\$50 million) incurred by accident or negligence in the hazardous environment of the kitchen. You have to wear heat proof gloves and complete your Kitchen Organisation Form KOF23a to provide detailed information about the source, date of purchase and audited storage methods of all foods used while assuring that non-essential personnel (like administrators) are not put at risk by proximity to hot pans and elements...

...or you can skip all of that and accept personal responsibility for your own safety.

Bureaucratic checking costs significantly more and produces far greater incidences of error than personal responsibility. Productivity decreases as operators are diverted from doing real work and required to perform administrative tasks to satisfy bureaucrats. Costs expand rapidly as layers of management are required for personnel, compliance, finance and all of the other administrivia associated with bureaucracy. People getting in each other's way and communication problems tend to stimulate error – a common outcome of bureaucratic method.

Once organisations move down the bureaucratic path, their managers become driven by fear and caution to such a degree that innovation and creativity are usually completely destroyed. Instead of dealing with situations as they exist, the organisation responds to outdated legalistic descriptions and responses conform to narrow ranges of 'approved' activities.

This is not the way to deal with climate change, or with financial collapses.

A better way is to understand which of our activities might be making climate change worse, then find ways of changing those activities.

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Control of populations in 'free' countries

Instead of military or police control, the powerful in 'free' countries use dependence, regulation, propaganda and punishment to control populations.

A key idea is to make the population dependent upon government and its services to achieve compliance. It is for these reasons that many essential services are controlled by government and it is one of the main reasons why we are not allowed to be self sufficient.

Collection of drinking water is an excellent example. Blind Freddie knows that it's easier and cheaper to collect drinking water from your house roof. It's easy to clean up, cheap to pump and entirely under the control of the householder. It's the same for food – easy to grow, cheap and easy to control quality (e.g. pesticides).

Unfortunately, these directions in self sufficiency prevent governments from controlling the wider population. While some of these activities are allowed, most are prevented by local planning laws.

Bureaucratic regulation is another tool to control populations – first by soaking up all their excess energy and time, second by pursuing and punishing those who don't conform. Conformity is the goal – the ultimate purpose of bureaucracy.

Today's world also sees the explosion of propaganda as a tool to contain people's thinking within predefined boundaries. Propaganda is now so prevalent that it cannot be differentiated from the news. In fact, events in our world become media opportunities to expand our limited descriptions.

This can be seen in the descriptions of the Mumbai attacks as 'terrorism' – as if everything can be explained and understood with Bushist terminology. We can be pretty sure that when a group of people are prepared to lose their lives for something – they feel pretty strongly about it and they believe they have good reasons. It's doubtful whether we'll ever learn of those reasons when any anti government expression becomes sedition.

Even the financial mess from Labor's view is a failure of regulation while BushCo argues it's too much regulation. Huh?

Our news is just used to advance old positions and ideas.

The way out is to rethink our situation and create new opportunities for ourselves based on what's really happening.

By the way

Last week's somewhat dire predictions by Cassandra included the idea of a citizen or private policing group – this week's [news](#) tells us about private spies being hired by government groups to snoop on 'protestors'.

Also thoughts about China buying our resource companies were also buoyed by a [story this week](#) about more of [Rio Tinto](#) being bought by Chinese interests.

The US is using its anti-terror laws to [criminalise charities](#) that have been providing hospitals, schools and social help in areas controlled by 'terrorists' like Hamas.

In the UK anti terror laws have been used to disrupt Iceland's banking system and now to [arrest an opposition MP](#) who got hold of embarrassing documents.

In case you missed it

Financial mess

Forward to the dole not fair to workers [TheAustralian](#)
Don't squander the upside of a downturn [TheAustralian](#)
Deficit warning as revenue drops [TheAge](#)
Crisis to savage tourism [TheAge](#)

Governance, fear, economy

How much can a market bear [NewMatilda](#)
China hint at Rio Tinto buy [HeraldSun](#)
Premiers want money as PM shelves grand plans [DailyTelegraph](#)
Police hire private spies to snoop online [TheAge](#)
Fat cats paid top dollar to walk [HeraldSun](#)
Private firm runs 8 candidates in Council poll [TheAge](#)
NSW Labor vows to crack the whip [SMH](#)
Economic predictions reduced to a gamble [TheWest](#)
Bungle may let bent cops escape [HeraldSun](#)
Tas Labor's crazy ride [Mercury](#)

Shelter

Pressure on Rudd over homeless [TheAge](#)
Big jump in WA mortgage arrears [TheWest](#)

Food/water

Egg corporation gets shonky award [DailyTelegraph](#)
Qld backflip on recycled water [TheAustralian](#)

Climate

Greenhouse gas levels hit record high WMO [TheAustralian](#)

Health & education revolution

Best of both worlds in education [TheAge](#)
How hospitals lied about records [SMH](#)
NSW public hospitals on brink of collapse [SMH](#)
Make or break time for public hospitals [NewMatilda](#)

Communications/transport/energy

Complaints soar as NSW struggles to pay power bills [SMH](#)
Tas power cost rise to pay for upgrade [Mercury](#)
Internet drives policy rethink [TheAge](#)
Telstra network bid 'a joke' [TheAustralian](#)
Fixing Vic's road ahead [TheAge](#)

World

[Tesla](#)
[Interesting video on the 10,000 year clock & long term thinking](#)

Bail out hits US\$8.5 trillion

[Kathleen Pender](#) Wednesday, November 26, 2008

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The federal government committed an additional \$800 billion to two new loan programs on Tuesday, bringing its cumulative commitment to financial rescue initiatives to a staggering \$8.5 trillion, according to Bloomberg News.

That sum represents almost 60 percent of the nation's estimated gross domestic product.

Given the unprecedented size and complexity of these programs and the fact that many have never been tried before, it's impossible to predict how much they will cost taxpayers. The final cost won't be known for many years.

The money has been committed to a wide array of programs, including loans and loan guarantees, asset purchases, equity investments in financial companies, tax breaks for banks, help for struggling homeowners and a currency stabilization fund.

Most of the money, about \$5.5 trillion, comes from the Federal Reserve, which as an independent entity does not need congressional approval to lend money to banks or, in "unusual and exigent circumstances," to other financial institutions.

To stimulate lending, the Fed said on Tuesday it will purchase up to \$600 billion in mortgage debt issued or backed by Fannie Mae, Freddie Mac and government housing agencies. It also will lend up to \$200 billion to holders of securities backed by consumer and small-business loans. All but \$20 billion of that \$800 billion represents new commitments, a Fed spokeswoman said.

About \$1.1 trillion of the \$8.5 trillion is coming from the Treasury Department, including \$700 billion approved by Congress in dramatic fashion under the Troubled Asset Relief Program.

The rest of the commitments are coming from the Federal Deposit Insurance Corp. and the Federal Housing Administration.

Only about \$3.2 trillion of the \$8.5 trillion has been tapped so far, according to Bloomberg. Some of it might never be.

Relatively little of the money represents direct outlays of cash with no strings attached, such as the \$168 billion in stimulus checks mailed last spring.

Where it's going

Most of the money is going into loans or loan guarantees, asset purchases or stock investments on which the government could see some return.

"If the economy were to miraculously recover, the taxpayer could make money. That's not my best guess or even a likely scenario," but it's not inconceivable, says Anil Kashyap, a professor at the University of Chicago's Booth School of Business.

The risk/reward ratio for taxpayers varies greatly from program to program.

For example, the first deal the government made when it bailed out insurance giant AIG had little risk and a lot of potential upside for taxpayers, Kashyap said. "Then it turned out the

situation (at AIG) was worse than realized, and the terms were so brutal (to AIG) that we had to renegotiate. Now we have given them a lot more credit on more generous terms."

Kashyap says the worst deal for taxpayers could be the Citigroup deal announced late Sunday. The government agreed to buy an additional \$20 billion in preferred stock and absorb up to \$249 billion in losses on troubled assets owned by Citi.

Given that Citigroup's entire market value on Friday was \$20.5 billion, "instead of taking that \$20 billion in preferred shares we could have bought the company," he says.

It's hard to say how much the overall rescue attempt will add to the annual deficit or the national debt because the government accounts for each program differently.

If the Treasury borrows money to finance a program, that money adds to the federal debt and must eventually be paid off, with interest, says Diane Lim Rogers, chief economist with the Concord Coalition, a nonpartisan group that aims to eliminate federal deficits.

The federal debt held by the public has risen to \$6.4 trillion from \$5.5 trillion at the end of August. (Total debt, including that owed to Social Security and other government agencies, stands at more than \$10 trillion.)

However, a \$1 billion increase in the federal debt does not necessarily increase the annual budget deficit by \$1 billion because it is expected to be repaid over time, Rogers said.

Annual deficit

A deficit arises when the government's expenditures exceed its revenues in a particular year. Some estimate that the federal deficit will exceed \$1 trillion this fiscal year as a result of the economic slowdown and efforts to revive it.

The Fed's activities to shore up the financial system do not show up directly on the federal budget, although they can have an impact. The Fed lends money from its own balance sheet or by essentially creating new money. It has been doing both this year.

The problem is, "if you print money all the time, the money becomes worth less," Rogers says. This usually leads to higher inflation and higher interest rates. The value of the dollar also falls because foreign investors become less willing to invest in the United States.

Today, interest rates are relatively low and the dollar has been mostly strengthening this year because U.S. Treasury securities "are still for the moment a very safe thing to be investing in because the financial market is so unstable," Rogers said. "Once we stabilize the stock market, people will not be so enamored of clutching onto Treasuries."

At that point, interest rates and inflation will rise. Increased borrowing by the Treasury will also put upward pressure on interest rates.

Deflation a big concern

Today, however, the Fed is more worried about deflation than inflation and is willing to flood the market with money if necessary to prevent an economic collapse.

Federal Reserve Chairman Ben Bernanke "has ordered the helicopters to get ready," said Axel Merk, president of Merk Investments. "The helicopters are hovering and the first cash is

making it through the seams. Soon, a door may be opened."

Rogers says her biggest fear is not hyperinflation and the social unrest it could unleash. "I'm more worried about a lot of federal dollars being committed and not having much to show for it. My worst fear is we are leaving our children with a huge debt burden and not much left to pay it back."

Economic rescue

Key dates in the federal government's campaign to alleviate the economic crisis.

March 11: The Federal Reserve announces a rescue package to provide up to \$200 billion in loans to banks and investment houses and let them put up risky mortgage-backed securities as collateral.

March 16: The Fed provides a \$29 billion loan to JPMorgan Chase & Co. as part of its purchase of investment bank Bear Stearns.

July 30: President Bush signs a housing bill including \$300 billion in new loan authority for the government to back cheaper mortgages for troubled homeowners.

Sept. 7: The Treasury takes over mortgage giants Fannie Mae and Freddie Mac, putting them into a conservatorship and pledging up to \$200 billion to back their assets.

Sept. 16: The Fed injects \$85 billion into the failing American International Group, one of the world's largest insurance companies.

Sept. 16: The Fed pumps \$70 billion more into the nation's financial system to help ease credit stresses.

Sept. 19: The Treasury temporarily guarantees money market funds against losses up to \$50 billion.

Oct. 3: President Bush signs the \$700 billion economic bailout package. Treasury Secretary Henry Paulson says the money will be used to buy distressed mortgage-related securities from banks.

Oct. 6: The Fed increases a short-term loan program, saying it is boosting short-term lending to banks to \$150 billion.

Oct. 7: The Fed says it will start buying unsecured short-term debt from companies, and says that up to \$1.3 trillion of the debt may qualify for the program.

Oct. 8: The Fed agrees to lend AIG \$37.8 billion more, bringing total to about \$123 billion.

Oct. 14: The Treasury says it will use \$250 billion of the \$700 billion bailout to inject capital into the banks, with \$125 billion provided to nine of the largest.

Oct. 14: The FDIC says it will temporarily guarantee up to a total of \$1.4 trillion in loans between banks.

Oct. 21: The Fed says it will provide up to \$540 billion in financing to provide liquidity for money market mutual funds.

Nov. 10: The Treasury and Fed replace the two loans provided to AIG with a \$150 billion aid package that includes an infusion of \$40 billion from the government's bailout fund.

Nov. 12: Paulson says the government will not buy distressed mortgage-related assets, but instead will concentrate on injecting capital into banks.

Nov. 17: Treasury says it has provided \$33.6 billion in capital to another 21 banks. So far, the government has invested \$158.6 billion in 30 banks.

Sunday: The Treasury says it will invest \$20 billion in Citigroup Inc., on top of \$25 billion provided Oct. 14. The Treasury, Fed and FDIC also pledge to backstop large losses Citigroup might absorb on \$306 billion in real estate-related assets.

Tuesday: The Fed says it will purchase up to \$600 billion more in mortgage-related assets and will lend up to \$200 billion to the holders of securities backed by various types of consumer loans.

Source: Associated Press

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