

The Big Picture Crisis!

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“News to use & amuse”



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A domino crisis

Current [monetary policy](#) is to issue money roughly proportionate to the amount of debt underwritten by our banks, which leads to growth being (more or less) relative to debt created.

It's pretty obvious that we cannot increase our debts indefinitely because debt accumulates and will reach a limit that we cannot afford to repay.

Yet governments have ruled out exploring monetary policy as a response to the 'financial crisis', yet it appears that basing growth (money supply) on debt may well be at the core of our problem.

When accumulated debt reaches a level that we cannot pay everything grinds to a halt. If we cannot repay, then we cannot borrow more and therefore we cannot grow and will not issue new money. At this point our economic assumptions about growth are rendered false and economic models collapse.

Governments collaborated in the growth of debt and called it economic growth. Under Howard/Costello, Australia's overseas debt grew from less than \$50 billion to over \$750 billion. Howard's time was trumpeted as 'economic sunshine' which was code for a bubble based on ever increasing debt.

Howard also added a GST and failed to assure that the States reduced other taxes to compensate so overall taxation increased. Budget surpluses reported by governments became little more than excess taxation that left many Australians with too little to cope - forcing them to borrow to meet their needs.

Meanwhile, US bankers created complex financial derivatives based on debt that created the appearance of growth and wealth.

When borrowers were unable to repay (e.g. sub prime), the entire scheme began to unwind, gradually revealing progressively greater layers of debt exposure as industries, governments and businesses found that 'assets' written into their books were worth only fractions of their supposed value.

As businesses began to write down their assets, so banks found that their exposures on loans exceeded businesses ability to pay. Panic, layoffs and forced sales of assets accelerated the downward drift, exposing more weaknesses in the system.

Whole countries began to report problems, again for similar reasons – growth based on debt that couldn't be repaid. Optimistic advances to ex-communist countries led to places like Romania and Latvia building massive shopping centres that no-one could afford to shop at, and luxury apartments that no-one could afford to live in.

All of this was seen as good on the basis that growth is good, plus commissions were flowing freely.

The untrammelled growth of debt coupled with cheer squad media reporting encouraged many to borrow to buy shares and other financial 'products'. People became wealthy on profits made from borrowed money. Companies rushed to get projects approved that involved massive loans. How could you lose if borrowing money cost 6% and you could get returns of 12% –

20% on the market? The more you borrowed, the more you could profit – as long as the stock market kept going up.

'Investors' had been paying their interest bills out of the money they made in increases in share value. In other words, they could cover their loans by selling shares at their new inflated value. When the market dropped to 50% of its 2007 levels, investors were severely exposed. Even if they sold all of their shares, they'd still owe ½ the original loan and have no way to repay. With some loans into 7 figures, many were in real trouble.

Many sold out, pushing the markets lower creating more pressure on those remaining. The predictable downward trend (what goes up must...) also brought out the short sellers, who profit from downtrends.

Politicians rushed to massive meetings in opulent surroundings where they issued optimistic statements about co-operation and free trade...but no evidence that they had solutions.

Meanwhile everything 'grew negatively'. When countries, banks, industries, businesses and families cannot pay their debts, they also cannot borrow more and so growth must be curtailed. Markets shrank along with revenues matching the shrinkage of assets on company books. The whole US auto industry is now crying poor and demanding another \$25 bn cash injection (they already got \$25 bn in September!).

Superannuation funds have lost up to 30% of their contributors' savings, banks worry about unsecured loans to businesses, 'blue chip' companies have sunk to ½ their market capitalisation.

Planned projects are on hold or cancelled, businesses are losing asset value and worrying about how to cover their loans, banks worry about exposure to bad debts, householders worry about keeping their jobs and paying mortgages.

Governments are also losing revenue, the dimmer bulbs (NSW, Tas) are proposing to raise taxes which will quickly make our situation worse. Nonsense policies predicated on political donations and irrelevant dogma have brought us to our current state. [Their advice](#) to us – 'Don't worry – be happy'.

We'll need more than that to get out of this.

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Future crisis

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In a low or no interest environment and a declining stock market, money will start to flow from interest bearing accounts and stocks to more lucrative activities (e.g. drugs, crime, food & energy stocks) so a considerable increase in illicit activities can be expected, as can the development of 'black' markets that avoid taxation and short circuit other government controls (e.g. guns, fuel).

In a bid to prevent movements of money into illicit activities, expect heavier handed policing and more draconian laws, all of which will increase the price of illicit items making them a more attractive 'investment'. Governments will denounce people who seek some form of reliable income without the burden of excessive taxation.

There'll be a flood of executive toys and [mansions](#) for sale as over-leveraged DINKs unload unaffordable possessions.

The shift of more people into financially untenable situations is likely to lead to a rapid growth in overall crime.

In the US, over 1 million homes have been seized by banks in foreclosure actions. That probably translates out to 3 - 4 million people without adequate shelter. Many of the vacated homes will by now have been repossessed by desperate homeless families who will now be living 'illegally'.

Crime networks are likely to expand both top down (investors seeking money making opportunities) and bottom up (locals desperate for income of any type), potentially creating a more dangerous world of home invasions, robberies, drugs, gangs and guns.

Expect a push for a citizen militia, low or unpaid volunteers authorised to control crime or dob people in. If the usual government standards apply, many of these will be borderline criminals who want to use their positions for personal gain.

Centrelink, already error prone, is [likely to fail more frequently](#) resulting in substantial anger from their 'customers' as tens of thousands of unemployed struggle with ridiculous bureaucratic rules and absurd job hunting requirements.

Expect the cash economy to expand as more people perceive taxation as optional although that same cash will probably be seen as an attractive target for criminals.

If you want to be in cash, put it where even you cannot get at it easily to help protect from robbery and threats etc. That's one valuable use for banks and credit – trouble is deposits can be tracked for taxation purposes.

These factors could create a rise in 'alternative' banking systems – perhaps like the [Islamic system](#) or [Lets](#) trading or perhaps something more local.

We could also find foreign groups controlling our resource prices and much of government policy.

With our dollar at below \$0.64 c and our company shares at super low prices, our resource and other companies are very exposed to foreign takeovers. Government preferences may be to regulate against this, but it wouldn't be too hard for a foreign country to set up Australian shell groups to buy and control our resource companies (e.g. BHP, Rio Tinto etc).

The implications of this kind of foreign takeover are not easy to forecast, but we might expect major influence from foreign

groups over Australian government policy as their hold on resource revenues tightened.

With our foreign debts topping \$820 billion, it's hardly surprising that those to whom we owe the money should start to call the shots. We might not like the results but we need to thank our governments, particularly under Howard, for our current situation.

World of the daft

This report from the LA Times states...

CIA lied over attack on plane

WASHINGTON: An internal investigation by the CIA has found that agency officials engaged in a cover-up to hide negligence in the downing in Peru of a private aircraft suspected of carrying illegal narcotics. [SMH](#)

The CIA is the US covert action agency. Their job involves secrecy and disinformation. What does the LA Times expect from them...the truth?

Individual operatives don't use their own names, they don't even tell their wives and families that they work for the CIA. On what basis does the media, or the government, expect the CIA to 'come clean' and tell them anything resembling the truth?

When we authorise an agency to be covert, we invite false statements from them. The idea that we can rely on what they say is extreme delusion.

School soap

Some time ago, I reported that many Tasmanian public schools no longer provided soap in the toilets – said by some schools to be 'too difficult'.

[In a story from the US](#) I read...

SURGEONS searching for a suspected tumour inside a woman's brain were astonished when they instead pulled out a worm, which was affecting her vision and nerves...

No one knows exactly where she picked up the worm - doctors said worms can come from eating undercooked pork or spread by people who don't wash their hands after using the bathroom, according to the report.

"It only takes one person who is spreading it constantly to get a lot of people exposed and some of those people are going to go on to develop this problem," Dr Nakaji said. "Wash your hands, wash your hands," the victim said.

The idea that our public schools and government are unable to provide the fundamentals for basic hygiene is deeply shocking. This story presents only one of the risks, influenza and other diseases can be spread the same way.

One characteristic of Australian government is their almost total lack of care in the welfare of taxpayers. In business experience, that is down to failed leadership, that is supposed leaders who set an example of tolerance of bad service and waste, defensiveness and failures to stand up for taxpayers.

With Howard this even extended into abandoning Australian citizens in trouble and falsely imprisoning people for political gain.

We need leaders to set good examples to our public services.

In case you missed it

Financial mess

Superannuation slumps 22pc [HeraldSun](#)

Home sellers warned prices will keep falling [TheWest](#)

Local government lottery [TheAge](#)

Couple caught in shares trap [HeraldSun](#)

Governance, fear, economy

Machine culture rotten to the core [Australian](#)

Inner circle of Rudd revealed [DailyTelegraph](#)

Hitting the hard stuff – NSW govt [Australian](#)

We've developed a tax complex [SMH](#)

Tas Councils book \$7 m losses on CDOs [Mercury](#)

Motor registry fiasco costly [Mercury](#)

Shack owner compo for bungled process [Mercury](#)

Fears over lower councillor standards [TheAge](#)

Home owners paying for non-existent rail links [Telegraph](#)

Market bottom – are we there yet? [CourierMail](#)

Forestry/farming/fishing

Pulping the truth [Australian](#)

Money does not grow on trees [SMH](#)

Farmers need our support [Australian](#)

Poll pulps mill support [Mercury](#)

Food/water

Recycle for industry – leave dams alone [Australian](#)

Ag Minister thoughts about food [SMH](#)

Climate

Climate threatens Koala [SMH](#)

Wild weather in Qld a sign of climate change [Australian](#)

Health & education revolution

Cure from the heart [Mercury](#)

Hospital couldn't cope with sick boy [TheWest](#)

Communications/transport/energy

Poor phone service to be exposed [SMH](#)

Oil prices fall below US\$50 [TheWest](#)

World

US power will decline [CNN](#)

This Is Not A Normal Recession

Moving on to Plan B

By © Mike Whitney November 20, 2008 "ICH"

"The Winter of 2008-2009 will prove to be the winter of global economic discontent that marks the rejection of the flawed ideology that unregulated global financial markets promote financial innovation, market efficiency, unhampered growth and endless prosperity while mitigating risk by spreading it system wide." Economists Paul Davidson and Henry C.K. Liu "Open Letter to World Leaders attending the November 15 White House Summit on Financial Markets and the World Economy"

The global economy is being sucked into a black hole and most Americans have no idea why. The whole problem can be narrowed down to two words; "structured finance".

Structured finance is a term that designates a sector of finance where risk is transferred via complex legal and corporate entities. It's not as confusing as it sounds. Take a mortgage-backed security (MBS), for example. The mortgage is issued by a bank (the loan originator) which then sells the mortgage to a brokerage where it is chopped up into tranches (pieces of the loan) and sold in a pool of mortgages to investors that are looking for a rate that is greater than Treasuries or similar investments. The process of transforming debt ("the mortgage") into a security is called securitization. At one time, the MBS was a reasonably safe investment because the housing market was stable and there were relatively few foreclosures. Thus, the chance of losing one's investment was quite small.

In the early years of the Bush administration, Wall Street took advantage of the gigantic flow of capital coming into the country (\$700 billion per year via the current account deficit) by creating more and more MBSs and selling them to foreign banks, hedge funds and insurance companies. It was real gold rush. Because the banks were merely the mortgage originators, they didn't believe their own money was at risk, so they gradually lowered lending standards and issued millions of loans to unqualified applicants who had no job, no collateral and a bad credit history. Securitization was such a hit, that by 2005, nearly 80 percent of all mortgages were securitized and the traditional criteria for getting a mortgage was abandoned altogether. Subprimes, Alt-As and ARMs flourished, while the "30 year fixed" went the way of the Dodo. Lenders were no longer constrained by "creditworthiness"; anyone with a pulse and a pen could get approved. The mortgages were then shipped off to Wall Street where they were sold to credulous investors.

The disaggregation of risk--spreading the risk to many investors via securitization--was as much of a factor in the creation of "the largest equity bubble in history", as the banks lax lending standards or Greenspan's low interest rates. By spreading risk throughout the system, securitization keeps interest rates artificially low because the real risks are not properly priced. The low interest rates, in turn, stimulate speculation which results in equity bubbles. Eventually, credit expansion leads to crisis when borrowers can no longer make the interest payments on their loans and defaults spiral out of control. This forces massive deleveraging and the fire-sale of assets in illiquid markets. As assets lose value, prices fall and the economy enters a deflationary cycle.

There are many types of structured instruments including asset-backed securities (ABS), mortgage-backed securities

(MBS), collateralized debt obligations (CDOs) and collateralized loan obligations (CLOs) all of which provide a revenue stream from loans that were chopped into tranches and turned into securities. There are many problems with these complex securities, the biggest of which is that there is no way to unravel the individual pools of loans to isolate the bad paper. That's why subprime mortgages had such a destructive affect on the secondary market, because--even though subprimes only defaulted at a rate of roughly 5 percent--MBS sales slumped nearly 90 percent. Why? Former Secretary of the Treasury Paul O'Neill explained it like this: "It's like you have 8 bottles of water and just one of them has arsenic in it. It becomes impossible to sell any of the other bottles because no one knows which one contains the poison."

Exactly right. So why weren't these structured debt-instruments "stress tested" before the markets were reworked and the financial system became so dependent on them?

Greed. Because the real purpose of these exotic investments is not to provide true value to the buyer, but to maximize profits for the seller by increasing leverage. That is the real purpose of MBS, CDOs and all the other bizarre-sounding derivatives; higher profits with less capital. It's a scam. Here's how it works: A mortgage applicant buys a house for \$400,000 and puts 10 percent down. His mortgage is sold to Wall Street, chopped into pieces, and stitched together in a pool of similar loans. Now the brokerage can use the debt as if it were an asset, borrowing at ratios of 20 or 30 to 1 to fatten the bottom line. When Fannie Mae and Freddie Mac were taken into conservatorship by the government, they were leveraged at an eye-popping 100 to 1. This shows that nearly an infinite amount of debt can be precariously balanced atop a paltry amount of capital. This explains why the \$4 trillion aggregate value of the 5 big investment banks and the \$1.7 trillion value of the hedge funds is now vanishing more quickly than it was created. Once the mighty gears of structured finance shift into reverse, deleveraging begins with a vengeance pulling trillions into a credit vacuum.

It all started when two Bear Stearns hedge funds defaulted in July 2006 and there were no offers for their MBS and other structured investments. Panic quickly spread to every corner of Wall Street as the alchemists of modern finance began to see that their worst nightmare might be realized, that trillions of dollars of Frankenstein investments could be worth nothing at all.

Since the Bear Stearns funds fiasco, there have been huge explosions in the financial markets. Fannie Mae, Freddie Mac, Wachovia, Washington Mutual, Indybank, AIG, Lehman Bros and other industry giants have either gone under or been forced into shotgun weddings by the FDIC. The stock market has plunged over 40 percent and suffered wild gyrations not seen since the 1930s. The entire Wall Street landscape has changed completely. Investment banking is no longer a viable business model; the Big 5 have either vanished or transformed themselves into holding companies to escape short sellers. The hedge funds have been deleveraging with a ferocity that has sent stocks and commodities crashing. In one day last week, the stock market plunged 300 points in the morning only to bounce back 550 points a few hours later; a whopping 850 point-spread in one trading day! No one but a madman would dabble in this market. Cautious investors have pulled up stakes and moved to the safety of Treasuries. Meanwhile, the financial tsunami is roaring through the real economy where consumer confidence has plummeted, unemployment is soaring and retail sales have fallen to historic lows. The downdraft from the financial markets

has flattened Main Street and set the stage for a humongous \$500 billion stimulus package to be delivered in the first few months of the Obama administration. The meltdown appears to be playing out much like Henry Paulson anticipated. According to Bloomberg News : "Shortly after leaving Wall Street as Goldman Sachs' CEO, Henry Paulson was at Camp David warning the president and his staff of "over-the-counter derivatives as an example of financial innovation that could, under certain circumstances, blow up in Wall Street's face and affect the whole economy." (PAUL B. FARRELL, "30 reasons for Great Depression 2 by 2011", MarketWatch)

So far, the Federal Reserve has provided nearly \$2 trillion through its lending facilities just to keep the financial system upright. The Treasury is currently distributing \$700 billion to key banks and other financial institutions that are perceived to be "too big to fail". In truth, the "too big to fail" mantra is a just public relations hoax to conceal the web of counterparty deals that make it impossible for one institution to fail without dominoing through the rest of the system and wreaking havoc. That's why AIG is still on life-support with regular injections of taxpayer money; because it had roughly \$4 trillion of credit default swaps (structured "hedges" that are not traded on a regulated exchange) for which AIG does not have sufficient capital reserves. In other words, the taxpayer is now paying the debts of an insurance company that didn't set aside the money to pay its claims. (As yet, No SEC indictments for securities fraud) In fact, the Fed and Treasury are now providing a backstop for the entire structured finance system which is frozen solid and shows no sign of thawing any time soon.

This is not a normal recession, which is a downturn in the business cycle and "a period of reduced economic activity" usually brought on by a mismatch between supply and demand. (that ends in two quarters of negative growth) The present situation is much more grave; it is the utter destruction of a system that was developed fairly recently and has proven to be thoroughly dysfunctional. It cannot withstand the effects of tighter credit or adverse market conditions. This is not a cyclical downturn; the structured finance system has collapsed leaving behind a multi-trillion dollar capital hole that is bringing the broader economy to its knees.

One by one, we have seen the structured instruments fail; mortgage-backed securities (MBS), collateralized debt obligations (CDOs), credit default swaps (CDS), commercial paper (CP), auction rate securities. Now we are seeing investors boycott anything related to structured investments. This is from Mish's Global Economic Trend Analysis:

"There were NO sales of bonds backed by credit-card payments in October, the first time since 1993, when the asset-backed securities market was in its infancy. Yields on top-rated credit card bonds relative to benchmark interest rates reached a record high of 525 basis points more than the London interbank offered rate, or Libor, last week, according to Bank of America Corp. data."

Wall Street has turned off the faucet for securitized investments. That market is toast. The only reason that Libor and the other gauges of interbank lending have normalized is because the Fed guaranteed money markets and commercial paper. It has nothing to do with trust between the banks themselves. There is no trust. Even so, the banks are not capable of making up for the vast amount of credit which was produced by the now-defunct investment banks and hedge funds which are constrained by losses of nearly \$3.5 trillion; half of their total value. In the best

case scenario, bank credit will only shrink 15 or 20 percent, which will put the US on track for a deep "18 month to 2 year" recession rather than another Great Depression.

Paulson's attempt to divert \$30 billion to non-bank financial institutions to revive loan securitization when there is no appetite among investors for such structured junk is pure folly. More troubling, is that neither Paulson nor Bernanke have a Plan B; an alternate scheme for rebuilding the financial markets on a solid, sustainable foundation rather than low interest rates and pools of debt. Everything they have done so far, suggests that they are focused on one thing alone; inflating another equity bubble. "Inflate or die", as the saying goes; and Bernanke intends to achieve this objective using the same tools that brought us to the brink of catastrophe. Here's a clip from a recent speech by Bernanke which shows his determination to prop up the broken system:

"The ability of financial intermediaries to sell the mortgages they originate into the broader capital market by means of the securitization process serves two important purposes: First, it provides originators much wider sources of funding than they could obtain through conventional sources, such as retail deposits; second, it substantially reduces the originator's exposure to interest rate, credit, prepayment, and other risks associated with holding mortgages to maturity, thereby reducing the overall costs of providing mortgage credit."

Sorry, Ben, the funding has dried up and the banks have shown no interest in going back to the days of conventional "30-year fixed" mortgages. It's a dead letter. The Fed and Treasury need to stop looking for ways to reflate the bubble and work to restore confidence in the markets by increasing regulation and reducing the amount of leverage that's allowable to 12 to 1. After all, it's no coincidence that AIG, Fannie and Freddie, Lehman Bros, General Motors, General Electric have all fallen off a cliff at the very same time. They are all victims of the same low interest, easy money finance swindle which allowed them to roll over huge amounts of short-term debt at artificially low cost. When Bear blew up; lending tightened, demand weakened, and credit was flushed from the system at an unprecedented pace. Borrowing short for long-term investments is not feasible when credit becomes scarce, but it's not because the banks aren't lending. That's just another myth that keeps the public from seeing what's really going on. As Jon Hilsenrath points out in his Wall Street Journal article, "Banks Keep Lending, but that isn't easing the crisis", that is not the case:

"Banks actually are lending at record levels. Their commercial and industrial loans, at \$1.6 trillion in early November, were up 15% from a year earlier and grew at a 25% annual rate during the past three months, according to weekly Federal Reserve data. Home-equity loans, at \$578 billion, were up 21% from a year ago and grew at a 48% annual rate in three months....The numbers point to one of the great challenges of the crisis. The credit crunch is surely real, but it is complex and not easily managed. Banks are lending, but they're also under serious strain as they act as backstops to a larger problem -- the breakdown of securities markets..The worst of the credit crisis is being felt not in banks but in financial markets..."

The banks are not to blame. There is a generalized contraction of credit in the non-bank financial system where structured finance has blown up and taken half of Wall Street with it. It's the end of an era. Here's how economist Henry C. K. Liu sums it up in his "Open Letter to World Leaders attending the November 15 White House Summit on Financial Markets and the World

Economy":

"Neoliberal economists in the last three decades have denied the possibility of a replay of the worldwide destructiveness of the Great Depression that followed the collapse of the speculative bubble created by unfettered US financial markets of the 'Roaring Twenties'. They fooled themselves into thinking that false prosperity built on debt could be sustainable with monetary indulgence. Now history is repeating itself, this time with a new, more lethal virus that has infested deregulated global financial markets with 'innovative' debt securitization, structured finance and maverick banking operations flooded with excess liquidity released by accommodative central banks. A massive structure of phantom wealth was built on the quicksand of debt manipulation. This debt bubble finally imploded in July 2007 and is now threatening to bring down the entire global financial system to cause an economic meltdown unless enlightened political leadership adopts coordinated corrective measures on a global scale."

Rome is burning. It's time to stop tinkering with a failed system and move on to "Plan B" before it's too late.

America the illiterate

Chris Hedges November 16, 2008 © "Truthdig"

We live in two Americas. One America, now the minority, functions in a print-based, literate world. It can cope with complexity and has the intellectual tools to separate illusion from truth.

The other America, which constitutes the majority, exists in a non-reality-based belief system. This America, dependent on skillfully manipulated images for information, has severed itself from the literate, print-based culture. It cannot differentiate between lies and truth. It is informed by simplistic, childish narratives and clichés. It is thrown into confusion by ambiguity, nuance and self-reflection.

This divide, more than race, class or gender, more than rural or urban, believer or nonbeliever, red state or blue state, has split the country into radically distinct, unbridgeable and antagonistic entities.

There are over 42 million American adults, 20 percent of whom hold high school diplomas, who cannot read, as well as the 50 million who read at a fourth - or fifth-grade level. Nearly a third of the nation's population is illiterate or barely literate. And their numbers are growing by an estimated 2 million a year. But even those who are supposedly literate retreat in huge numbers into this image-based existence.

A third of high school graduates, along with 42 percent of college graduates, never read a book after they finish school. Eighty percent of the families in the United States last year did not buy a book. The illiterate rarely vote, and when they do vote they do so without the ability to make decisions based on textual information. American political campaigns, which have learned to speak in the comforting epistemology of images, eschew real ideas and policy for cheap slogans and reassuring personal narratives.

Political propaganda now masquerades as ideology. Political campaigns have become an experience. They do not require cognitive or self-critical skills. They are designed to ignite pseudo-religious feelings of euphoria, empowerment and collective salvation. Campaigns that succeed are carefully constructed psychological instruments that manipulate fickle public moods, emotions and impulses, many of which are subliminal.

They create a public ecstasy that annuls individuality and fosters a state of mindlessness. They thrust us into an eternal present. They cater to a nation that now lives in a state of permanent amnesia. It is style and story, not content or history or reality, which inform our politics and our lives. We prefer happy illusions. And it works because so much of the American electorate, including those who should know better, blindly cast ballots for slogans, smiles, the cheerful family tableaux, narratives and the perceived sincerity and the attractiveness of candidates.

We confuse how we feel with knowledge. The illiterate and semi-literate, once the campaigns are over, remain powerless. They still cannot protect their children from dysfunctional public schools. They still cannot understand predatory loan deals, the intricacies of mortgage papers, credit card agreements and equity lines of credit that drive them into foreclosures and bankruptcies. They still struggle with the most basic chores of daily life from reading instructions on medicine bottles to filling out bank

forms, car loan documents and unemployment benefit and insurance papers.

They watch helplessly and without comprehension as hundreds of thousands of jobs are shed. They are hostages to brands. Brands come with images and slogans. Images and slogans are all they understand. Many eat at fast food restaurants not only because it is cheap but because they can order from pictures rather than menus. And those who serve them, also semi-literate or illiterate, punch in orders on cash registers whose keys are marked with symbols and pictures.

This is our brave new world.

Political leaders in our post-literate society no longer need to be competent, sincere or honest. They only need to appear to have these qualities. Most of all they need a story, a narrative. The reality of the narrative is irrelevant. It can be completely at odds with the facts. The consistency and emotional appeal of the story are paramount. The most essential skill in political theater and the consumer culture is artifice. Those who are best at artifice succeed. Those who have not mastered the art of artifice fail.

In an age of images and entertainment, in an age of instant emotional gratification, we do not seek or want honesty. We ask to be indulged and entertained by clichés, stereotypes and mythic narratives that tell us we can be whomever we want to be, that we live in the greatest country on Earth, that we are endowed with superior moral and physical qualities and that our glorious future is preordained, either because of our attributes as Americans or because we are blessed by God or both.

The ability to magnify these simple and childish lies, to repeat them and have surrogates repeat them in endless loops of news cycles, gives these lies the aura of an uncontested truth. We are repeatedly fed words or phrases like yes we can, maverick, change, pro-life, hope or war on terror.

It feels good not to think. All we have to do is visualize what we want, believe in ourselves and summon those hidden inner resources, whether divine or national, that make the world conform to our desires. Reality is never an impediment to our advancement.

The Princeton Review analyzed the transcripts of the Gore-Bush debates, the Clinton-Bush- Perot debates of 1992, the Kennedy-Nixon debates of 1960 and the Lincoln-Douglas debates of 1858. It reviewed these transcripts using a standard vocabulary test that indicates the minimum educational standard needed for a reader to grasp the text. During the 2000 debates, George W. Bush spoke at a sixth-grade level (6.7) and Al Gore at a seventh-grade level (7.6). In the 1992 debates, Bill Clinton spoke at a seventh-grade level (7.6), while George H.W. Bush spoke at a sixth-grade level (6.8), as did H. Ross Perot (6.3). In the debates between John F. Kennedy and Richard Nixon, the candidates spoke in language used by 10th-graders. In the debates of Abraham Lincoln and Stephen A. Douglas the scores were respectively 11.2 and 12.0.

In short, today's political rhetoric is designed to be comprehensible to a 10-year-old child or an adult with a sixth-grade reading level. It is fitted to this level of comprehension because most Americans speak, think and are entertained at this level.

This is why serious film and theater and other serious artistic expression, as well as newspapers and books, are being pushed to the margins of American society. Voltaire was the most famous man of the 18th century. Today the most famous

"person" is Mickey Mouse.

In our post-literate world, because ideas are inaccessible, there is a need for constant stimulus. News, political debate, theater, art and books are judged not on the power of their ideas but on their ability to entertain. Cultural products that force us to examine ourselves and our society are condemned as elitist and impenetrable.

Hannah Arendt warned that the marketization of culture leads to its degradation, that this marketization creates a new celebrity class of intellectuals who, although well read and informed themselves, see their role in society as persuading the masses that "Hamlet" can be as entertaining as "The Lion King" and perhaps as educational.

"Culture," she wrote, "is being destroyed in order to yield entertainment." "There are many great authors of the past who have survived centuries of oblivion and neglect," Arendt wrote, "but it is still an open question whether they will be able to survive an entertaining version of what they have to say."

The change from a print-based to an image-based society has transformed our nation. Huge segments of our population, especially those who live in the embrace of the Christian right and the consumer culture, are completely unmoored from reality. They lack the capacity to search for truth and cope rationally with our mounting social and economic ills.

They seek clarity, entertainment and order. They are willing to use force to impose this clarity on others, especially those who do not speak as they speak and think as they think.

All the traditional tools of democracies, including dispassionate scientific and historical truth, facts, news and rational debate, are useless instruments in a world that lacks the capacity to use them.

As we descend into a devastating economic crisis, one that Barack Obama cannot halt, there will be tens of millions of Americans who will be ruthlessly thrust aside. As their houses are foreclosed, as their jobs are lost, as they are forced to declare bankruptcy and watch their communities collapse, they will retreat even further into irrational fantasy.

They will be led toward glittering and self-destructive illusions by our modern Pied Pipers-our corporate advertisers, our charlatan preachers, our television news celebrities, our self-help gurus, our entertainment industry and our political demagogues-who will offer increasingly absurd forms of escapism.

The core values of our open society, the ability to think for oneself, to draw independent conclusions, to express dissent when judgment and common sense indicate something is wrong, to be self-critical, to challenge authority, to understand historical facts, to separate truth from lies, to advocate for change and to acknowledge that there are other views, different ways of being, that are morally and socially acceptable, are dying.

Obama used hundreds of millions of dollars in campaign funds to appeal to and manipulate this illiteracy and irrationalism to his advantage, but these forces will prove to be his most deadly nemesis once they collide with the awful reality that awaits us.