

# The Big Picture

Issue 28  
21<sup>st</sup> February 2009

“News to use & amuse”

Editor: Mike Bolan



www.abetteraustralia.com

## Your choice

Bipolar disorder – a mood disorder that swings between extremes of excitement and depression.

Our media appears to be entirely bipolar, indeed it's possible that our society is following suit.

On the one hand we read that the 'RBA is upbeat on economy', on the other we read that Japan has plunged into a depression and that [Queensland](#) is about to follow suit.

On one hand we read that government was doing its best to protect Victorians from the bush fires, on the other that governments stood in the way and [failed to act](#) on recommendations made after previous fires.

On climate, we read that the government wants to get its climate responses right, on the other that they're [committed](#) to the emissions trading scheme no matter what.

This bipolarity is pretty hard to cope with. Which side to be on? What to do? What does it mean?

In this issue we explore the 'financial crisis' and whether or not we'll soon be back to normal. While we can't tell the future any better than anyone else, we can look at the alternatives and try to figure out what's likely from the available evidence.

The two poles between which the media cycles appear to be driven are optimistic and self congratulatory press releases emanating from governments and politicians versus a more morose, version of what's going on from reporters relying on evidence on the ground and scientists conducting actual studies and measurements.

In the 'optimistic' scenario, politicians and other front men tell us to keep our chins up and that if we just spend more money the economy will recover. They say that the whole thing is a matter of confidence so it's up to us to have confidence.

In the 'realistic' scenario, reporters and experts who've called the financial crisis accurately for the last 2 years, tell us that the problems are structural and that too many whole countries are [sinking into bankruptcy](#) for things to return to normal.

One useful way to think about these conflicts is to ask what action they require. If we choose to believe our politicians, we don't need to do too much except spend more money. In the 'realist' case, we need to save and deploy our resources differently.

If we choose to prepare ourselves for the worst case – a course chosen by many to help protect themselves from harm, then we ignore the politicians and deploy our resources in a different way.

Ideas about doing this are presented at the end of the 'back to normal' article.

No advice. The choice remains yours.

## Stuff

*Prosperity cannot be restored by raids upon the public Treasury.*

~ [Herbert Hoover](#)

[Colin Twiggs](#) opines...

Concerns over European bank exposure to emerging markets in Eastern Europe and South America are placing downward pressure on the euro and upward pressure on gold. [Failure of the European banking system](#) would threaten not only the EU but would engulf the global economy. It is vital that world leaders head off this threat. They should be reminded that the 1931 failure of Kreditanstalt, Austria's foremost bank, sent shock waves throughout Europe — and precipitated the collapse of the gold standard. The resulting panic overwhelmed Herbert Hoover's efforts to rescue the US economy from recession.

## Gold

Spot gold is headed for a test of \$1000. Profit-taking would normally cause retracement towards \$930. Failure to retrace would indicate panic buying and an accelerating up-trend. Reversal below the rising trendline remains unlikely, but would warn of another test of \$700. In the longer term, breakout above \$1000 would offer a target of \$1200; calculated as  $900 + (1000 - 700)$ .



## In this issue

Your choice.....	1
Stuff.....	1
In case you missed it.....	2
A few words of warning.....	2
'Back to normal' soon?.....	3

## In case you missed it

### Financial mess

Another depression – not likely [Crikey](#)

Stimulus used to pay credit cards [TheAge](#)

Japan plunges into depression [TheAge](#)

RBA upbeat on economy [TheAge](#)

### Governance

Vic govt refuses to map fires with Google [News](#)

Action needed on inquiries [TheAge](#)

Jobs scheme mired in bureaucracy [TheAustralian](#)

NSW liquor licenses costing \$50 k each [DailyTelegraph](#)

Red tape stops NSW bush clearance [DailyTelegraph](#)

Fast track for Qld ALP donors [CourierMail](#)

Qld stripped of AAA rating [TheAustralian](#)

Fire class action launched [TheAge](#)

Telstra attacks Aus human rights record [TheAustralian](#)

### Environment/food/water/forestry

More Gunns mill closures [Mercury](#)

Dash to save Melbourne water supply [TheAge](#)

### Climate

Refusing to learn when fires burn [TheAustralian](#)

Steel chief sounds jobs alarm over ETS [TheAustralian](#)

Bush fires release carbon load [TheAustralian](#)

Rudd isolated on ETS [TheAustralian](#)

Warming more rapid than predicted [TheAustralian](#)

### Health/education revolution

Health report skips real problems [TheAge](#)

Big risk worth taking [TheAustralian](#)

Qld students reading skills 'alarming' [CourierMail](#)

Health bureaucrats paid <\$130 k/yr to do nothing [SMH](#)

Sir Humphrey style health [DailyTelegraph](#)

PM told to take control of health system [TheAustralian](#)

Unshackle our Leninist hospitals [TheAustralian](#)

Huge difference between public and private hospitals [HeraldSun](#)

### Social/shelter

2600 public houses vacant around Sydney [DailyTelegraph](#)

Howard awarded another honorary doctorate [TheWest](#)

Recycling in the dumps [SMH](#)

### World

▶ Davos, debt and denial [FinancialSense](#)

▶ Winds of change [TheAge](#)

10,000 Americans foreclosed every day [HuffingtonPost](#)

Jailing kids for cash [MSNBC](#)

## A few words of warning

[Truthdig](#) reports...

The specter of social unrest was raised at the U.S. Army War College in November in a [monograph](#) [click on Policypointers' pdf link to see the report] titled "Known Unknowns: Unconventional 'Strategic Shocks' in Defense Strategy Development." The military must be prepared, the document warned, for a "violent, strategic dislocation inside the United States," which could be provoked by "unforeseen economic collapse," "purposeful domestic resistance," "pervasive public health emergencies" or "loss of functioning political and legal order." The "widespread civil violence," the document said, "would force the defense establishment to reorient priorities in extremis to defend basic domestic order and human security."

"An American government and defense establishment lulled into complacency by a long-secure domestic order would be forced to rapidly divest some or most external security commitments in order to address rapidly expanding human insecurity at home," it went on.

"Under the most extreme circumstances, this might include use of military force against hostile groups inside the United States. Further, DoD [the Department of Defense] would be, by necessity, an essential enabling hub for the continuity of political authority in a multi-state or nationwide civil conflict or disturbance," the document read.

In plain English, something bureaucrats and the military seem incapable of employing, this translates into the imposition of martial law and a de facto government being run out of the Department of Defense. They are considering it. So should you.

Director of National Intelligence, Dennis Blair articulated the newest narrative of fear. As the economic unraveling accelerates we will be told it is not the bearded Islamic extremists, although those in power will drag them out of the Halloween closet when they need to give us an exotic shock, but instead the domestic riffraff, environmentalists, anarchists, unions and enraged members of our dispossessed working class who threaten us. Crime, as it always does in times of turmoil, will grow. Those who oppose the iron fist of the state security apparatus will be lumped together in slick, corporate news reports with the growing criminal underclass.

Author Chris Hedges comments...

The corporate thieves, those who insisted they be paid tens of millions of dollars because they were the best and the brightest, have been exposed as con artists. Our elected officials, along with the press, have been exposed as corrupt and spineless corporate lackeys. Our business schools and intellectual elite have been exposed as frauds. The age of the West has ended. Look to China. Laissez-faire capitalism has destroyed itself. It is time to dust off your copies of Marx.

## 'Back to normal' soon?

As things become more complex, so more people become forced to take what they're being told on trust, if only because they have no means of figuring out what's going on.

In a recent [article](#), I pointed out some ways in which governments' reliance on 'political decision making', in a complex and highly interconnected world, is both inadequate and dangerous.

This week I'd like to explore how political decision making has both created the current 'financial crisis' and simultaneously diminished our ability to recover.

### Political decisions

'Political decision making' means to take decisions on the basis of some 'least worst' outcome between competing interest groups.

This can be very dangerous when making decisions in which some critical element is not represented by anyone (e.g. the climate).

The tendency of high level decision makers to make key decisions in areas in which they have no expertise has been well researched and management practitioners understand that decision makers need to delegate decisions to those most qualified to take them.

While this is fairly obvious, it has not prevented our politicians from intervening in decisions rather than working with populations to produce better outcomes.

The result has included demotivating others in social decision making, entrenching division into our societies (e.g. Green vs Development); picking winners (e.g. forestry, coal and fossil fuels) and creating 'losers' (e.g. agriculture, solar and wind power); coupled with a crippling balance of trade deficit as we drive competitive companies overseas, e.g. by favouring overseas companies with generous tax breaks that are subsidised by Australians.

For example governments have tended to ignore independent scientific advice and studies in favour of information from one or more of the parties to a project ie. people with conflicts of interest. I believe that those tendencies expose us all to severe threats.

Political decisions taken have included attacking distant countries with no relationship to Australia (e.g. Iraq, Afghanistan), destruction of catchments (e.g. MDB), industrial projects and climate policies that are not informed by independent science (e.g. emissions trading).

Errors routinely made now include:

1. Failing to recognise and protect essentials
2. Imagining that financial bubbles represent real value and growth
3. Not recognising the importance of productive capacity

### 1. Failing to value essentials

This error combines the fantasy that economic indicators are the best, or only, indicators of real value, and a failure to understand how our society is built and operates.

This mistake was epitomised by John Howard who played down the importance of agriculture by saying that 'it only represented 3% of the economy'.

While that percentage may be correct, without food we would have no economy whatsoever consequently although perhaps marginal to Howard's idea of the economy, food is central to our existence.

Other essentials such as water represent an even smaller fraction of the economy, while oxygen, the most immediate of our needs, is worth absolutely nothing to the economy.

Failing to value those aspects of our world that are fundamentally responsible for our existence (e.g. air, water, food, energy, health/medicine, shelter, transportation etc) is a huge mistake. It distorts priorities away from essentials and allows our focus to drift onto 'nice to haves'.

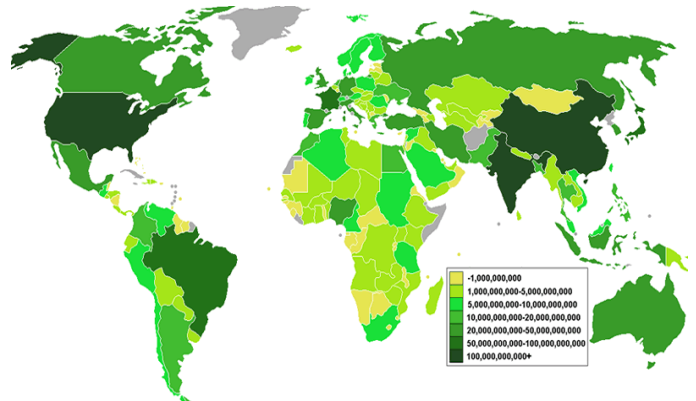
The important things can thus disappear or degrade.

One simple case is how food production priorities have been sacrificed to forestry in the competition for scarce land with deep soils and good rainfall. The priority, subsidies and favours that governments have given to forestry have provided that industry with unbeatable advantages over agriculture.

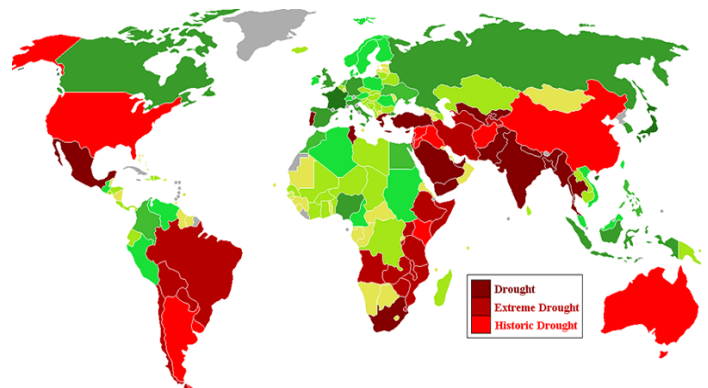
Such actions have helped forestry to gain control of large areas of arable land that was previously available for food production, and for plantations to deplete water catchments that otherwise might provide water for irrigating food crops.

While apologists for forestry will naturally want these favours to continue, two [global maps](#) demonstrate why allowing our focus to drift away from food production is a huge mistake.

The first (mainly green) shows the value of each country's agricultural output in US dollars at 2006



And here areas of drought currently impeding food production.



It turns out that two thirds of the world's agricultural production is threatened by drought which is also affecting 41% of Australia's agriculture production as it experiences the worst drought in 117 years of keeping records.

Given the productive losses and the primacy of food in our lives, shifting attention away from food and placing it on trees could be disastrous.

## 2. Imagining that bubbles represent growth

As stated above, political parties, politicians and governments have focussed on economic results to build their policies and set their priorities. While superficially important, the descriptions of our 'economy' leave out of consideration (externalities), or minimise the importance of, essential resources and activities that make the economy possible in the first place.

Some of the essentials are impossible to value, simply because they are essential (e.g. oxygen). To see why, try to work out how much money you'd charge to sell your brain.

Economic results represent the measures of selected 'indicators' of economic activity, such as GDP. These indicators often fail to provide enough detail to allow rational policy making as well as ignoring the essential underpinnings of the economy. The Greens have been making this very point about the environment for many years – no environment – no economy.

The problems accelerate when 'economic' activities appear to deliver good economic results, but actually are representative of an artificial increase in 'value' (bubble) such as occurred when US investment bankers created a huge range of financial derivatives based on debt (e.g. CDOs). As these relatively worthless pieces of paper were created and changed hands, so economic outcomes were 'seen' to [increase](#) – a classic bubble in the making.

As the bubbles inflated, so governments persuaded themselves that they were wealthier, that the citizens and businesses were better off. What was really happening was that everyone was being mired in debt that they might never repay. The economic growth recorded was a fantasy but governments still issued new money as if the growth was real, thereby effectively devaluing their currencies.

Governments came to believe that the 'magic pudding' created by financiers was real, and they started to attend to the 'needs' of those financiers to help them make more 'wealth'. The bubble economy started to shoulder out the real economy – in terms of reported 'wealth' and in terms of political priorities.

Of course politicians, whose main skill is manipulating people to believe them, didn't have a clue what was really going on – after all it's never in the interests of those making huge money for nothing to reveal their methods ([FinancialSense](#)).

The result was politicians listening to investment bankers instead of listening to people and industries engaged in productive activity. This is, at least in part, an explanation of why our governments have been so relaxed about our loss of productive capacity and our ability to meet our own needs.

## 3. Not valuing productive capacity

Another result of the drift in focus from essentials is to devalue the activities of those who are productive and who create the possibility for us all to live.

The entire productive capacity of the West has been hollowed out, largely under the tutelage of an economic theory so oriented to consumption that its value calculations could not distinguish between \$1 billion of GDP expressed as a steel mill and the same amount as represented by the sale of pet care products. As long as money was moving around, everything was all right.

The result has been that Western economies have been in what US financier George Soros has described as a "super-bubble" since the early 1980s, one in which the more recent bubbles — dotcoms, real estate — have been contained. Ronald Reagan and Margaret Thatcher, hailed as restoring the West to sanity, were its wreckers, trading away its material economic base for a healthy balance sheet. To keep things bubbling along, the erosion of productive capacity was accompanied by successive waves of financial deregulation to maintain liquidity, and the development of evermore abstract financial instruments and products. [TheAge](#)

A recent example of not valuing productive workers is the Victorian government's reliance on a Royal Commission to report on matters of dealing with fire and related disasters. The implication is that firefighters, burns specialists, house designers and military communications experts are not reliable – instead we want lawyers and people in wigs to tell us what to do.

Such legalistic approaches alienate the very people whose help we need in such emergencies – instead their experience and skill is diverted from being decision makers (which they must be during emergencies) into mere witnesses.

This same attitude has seen doctors, nurses, tradespeople, food farmers and other essential front line workers diminished in various ways. Tennis players, golfers and media 'celebrities' are all paid significantly more than productive workers so that more and more of our young are focussing on 'service' professions like accounting, law and journalism rather than learning how to produce the items essential to our social and economic health.

We are now short of front line medical staff and tradespeople while food farmers are giving up and walking away from their properties.

## 2 schools of thought

There have thus developed 2 distinct (bipolar?) schools of thought – one still believing in the idea that economic results transcend all other factors, the other rooted in practical reality that provides real world information that we can interpret.

[Times Online](#) put it this way....

“There are those who perceive that the events since the credit crunch erupted in the autumn of 2007 have radically changed the economic and financial landscape in a way that rules out a return to the previous order. And there are those who believe that, simply by pulling the tried and tested levers of policy, revival will follow recession just as readily as in the downturns of the Eighties and Nineties. As the crisis has progressed, and grown relentlessly more ferocious and intractable, there has been a reluctant but steady shift from the latter camp to the former as the harsh realities have become increasingly undeniable.”

The situation is made more problematic because our governments aren't listening to the people. According to GetUp, 86% of Australians don't believe policy is made according to their needs and interests. Our governments have isolated themselves with a fantasy that cannot be communicated to

people living in the real world, and that cannot tolerate conflicting evidence from that same real world.

Can people rise up and protest?

Because people are carrying so much debt that they are diminished and afraid. They are in 'debt bondage'. Here's previous US Fed Chairman Greenspan...

*As Mr. Greenspan observed in testimony before Congress, a major reason why US wages have not risen is that workers are afraid to strike or even to complain about being worked harder and harder for longer and longer hours ("raising productivity"), because they are one paycheck away from missing their mortgage payment – or, if renters, one paycheck or two away from homelessness (6).*

So we have government and political classes who have come to believe in the primacy of economic 'results', who have intervened in all decision making without reference to their competence to do so, and a people hunched under an unaffordable level of debt all dominated by large corporations with special tax breaks and favours that effectively raise them above everyone else.

Many of the politicians are also complicit in supporting the financial bubble that is now shattering so many peoples' lives and savings and are highly defensive as a consequence.

## Recovery problems

It is the loss of our productive capacities that will make recovery from our 'financial crisis' much more problematic.

Because governments have made us almost totally reliant upon other countries for many critical supplies, our ability to pay for such supplies will be in question if our currency collapses due to our high levels of debt.

With our political classes insisting that they must make all key decisions, coupled with their isolation from the real world, it's very hard to see how they can turn the situation around. Rudd's handouts have been something of a shotgun approach and whether the state governments can deliver any, or all, of the supposed benefits is under real question.

Also unknown is whether borrowing from the future to spend money now is an effective way to deal with a crisis that appears to be due to our love affair with debt.

Because of the unreliability of governments, coupled with their evident disinterest in the real welfare of the people, you might want to consider personal strategies to deal with any oncoming recession, climate crisis or other matter that might affect you and your family.

## Some possible personal strategies

1. **Be aware.** Check up on what's really happening around you and build your ideas on evidence that you can believe. Note those who would mislead you. Use independent sources of news where possible.
2. **Eliminate debt.** Getting out of debt is an important survival strategy, both to avoid useless interest payments and to avoid the owners of the debt 'foreclosing' on you.
3. **Get fit.** You just cannot tell what's going to happen and the ability to stay out of hospital and remain mobile could become important.
4. **Find alternatives sources of essentials.** Governments control essentials like water but are showing that they cannot be trusted. Grow your own food, set up trade co-ops, learn new survival skills, stay under the radar and prepare to protect yourselves. There's a very strong possibility that governments won't be able to help you.
5. **Get vital imports.** If you need imported products, try to buy them while the dollar is strong, and while they're still available. Expect serious supply chain disruptions as companies around the world go broke in this crisis.
6. **Stock up.** If you have the space and finance, it does no harm to be ready to stock up on essential items, such as pulses, grains, medicaments and so on.
7. **Be independent.** Don't trust governments or politicians. They have shown themselves to be unreliable and uncaring of the needs of Australians. Try to look after your own needs wherever possible. It could be useful to avoid attracting the attentions of government at all – they're going to want to make up their lost money to keep their benefits so they'll be looking for any excuse to forcibly relieve us of our cash.
8. **Attend to your security.** Recessionary conditions can create many desperate people. Consider your situation carefully and secure valuables and essentials in the best way that you can. If you're investing in tradeables (see 9) make sure that you can secure them.
9. **Consider tradeables.** If our currency comes under threat, or if government solves our problem by printing money and inflation takes off, your dollar savings could collapse in value. Unless you're a skilled trader, shares are risky with the market still being very uncertain. Consider acquiring tradable items like bullion, bullets or medicines, just in case you are better off trading such items than using money.