

The Perfect Storm

Comments by **Betsy Bowman** on *Bad Money: Reckless Finance, Failed Politics, and the Global Crisis of American Capitalism* by Kevin Phillips (Viking, 2008).

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Put simply, bad money is debt. But for a more complete answer to what is bad money, I need to say it is a system of accumulation system based on financialization. A system of accumulation that is to say the economic system that a society has developed to increase value, wealth. In some historical periods, it is through extraction such as gold and silver mining. In others, it is through buying cheap, transporting, and selling dear. Under capitalism, it is normally done through manufacturing a commodity and paying the workers less than the value they produce and keeping the difference. Under financialization, it is done by repackaging debt and selling it again and also by hedging ones bets on any kind of financial transaction.

How does a society produce increasing value? Well, traditionally it does so the old-fashioned way – by manufacturing an object or providing a service. But over the last quarter century, profit has been made increasingly by creating and selling pieces of paper showing ownership of something or pieces of paper hedging ones bets that the piece of paper will go up or down in value. Creating pieces of paper – new financial instruments such as mortgage backed securities, collateralized debt obligations, credit default swaps – instead of manufacturing something or providing a service is a larger and larger part of our economy. This is very dangerous because it does not indicate the creation of any new value – simply reshuffling the value that already exists in the economy. Guess what? This is neither sustainable nor stable!

Kevin Phillips further argues that if put together with an energy system based on oil that is now in decline (peak oil), this bodes ill for the future of US political and economic world dominance. He cites the historical examples of Spain and Holland whose empires burst after a spate of speculation when the world energy supply changed from wind to coal. Coal and industrial manufacturing marked the rise of the British empire which also ended in a spate of speculation at the opening of WWI as the world energy supply changed from coal to oil. The rise of the US was driven by oil, but now the world is being compelled to switch to renewable sources of energy as the US collapses in a mountain of speculation and debt.

But the “future of US political and economic world dominance” is not my concern. The earlier empires Phillips refers to were, like the US empire, built on exploitation, violence and murder and misery imposed upon millions if not billions. My concern is an economy that provides for the well-being of all. It sounds so simple! An economy is a system of production, distribution and savings and investment. Because the population expands, more value has to be created so that additional peoples can live. Because the earth has finite resources, conservation must be practiced. We need growth in value that does not deplete resources or impose misery on billions. We should be able to figure out how to do that.

We are at a pivotal moment in history. Our real economy has been severely damaged by the fictitious economy of financialization and debt and needs to be overhauled so as to meet need. We are nearing the limit of our energy supply but that very same energy supply threatens the environmental sustainability of our habitat. And we are living a political crisis where increasing we see that the world’s elites have been telling lies to obfuscate the truth that they are rigging the system and grabbing more than their fair share at the expense of everyone else. In short, the legitimacy of our economic system and our political system is in question.

But there is more. Our currency is shored up by its linkage to our energy supply. It is oil and its sale in

USD that guarantees the value of our currency. The US, because its currency functions as the world's reserve currency, can run trade deficits, fiscal deficits, and pile up mountains of debt because the value of its currency is guaranteed by the world's energy supply – oil. But that is coming to an end. Putting aside for a moment the fact that the previous administration tried to take control of one of the world's largest reserves of oil through a war promoted and executed on the basis of lies, putting that aside and its implications for the legitimacy of our very government, what would happen to the US if it had to adhere to the rules of the game that everyone else does? What would balancing the US fiscal budget, paying off the US debt, balancing the trade deficit, and reducing the mountain of debt both personal, corporate and governmental, what would that mean for the US?

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