Financial Crises: Past and Present

by Douglas Dowd

As the 20th century began, scientific and technological developments provided the basis for much better and safer lives for all. The groundwork was laid for social progress and equity. But this was a promise to be realized *if and only if* accompanied by substantial democratization of the economy and politics. Sadly, they were not.

By 1900 the world's leading economies were those of France, Germany, Italy, Japan, the Netherlands, the UK, and the USA. All of them had participated in or had access to the scientific and technologic advances. Motivated by capitalist and nationalist passions, all participated in always more destructive imperialist ventures, seeking resources and markets. Even though it had uniquely abundant natural resources on its own lands — stolen murderously from the native peoples — the USA was finally coming into its own in this regard, joining the others in plundering outlying lands.

In those years there was a race for profits and power and the expansion of production, coupled with access to markets, natural resources, and cheap labor. All the leading economies stole from foreign lands, and were constantly at war. The dominant force was the UK. As the 19th century was ending, the USA, though it had no need for outside resources, reached across the Pacific Ocean to rule over and exploit the Hawaiian and Philippine Islands. The justification? The brown people needed white rulers to "civilize" them — which, of course, meant to murder, enslave, impoverish, and steal from them.

The USA holds all records for worker exploitation, given its history of slavery and its “freed” victims coupled with exploitable cheap labor from around the globe. Because European and Japanese capitalists were also expert in labor exploitation, millions of their families fled to the USA over the years, where they added to its mountain of cheap labor.

[In the 19th century my Irish Catholic grandparents fled from British-imposed poverty, land thievery, murder, and exploitation. Soon my Jewish grandparents fled from Russia.]

As the 20th century began, so did serious political attempts by workers to improve their lives in the industrial capitalist nations — with some progress. Then World War I smashed all decent achievements. With 10 million dead, what was seen at the time as “the war to end all wars” became instead, the birth of continued nastiness. The ensuing extreme politics laid the basis for World War II (and its 60 million Europeans killed, plus millions of Asians and hundreds of thousands of U.S. soldiers).

The societies that brought about those two world wars were greatly different from ours. But we may face even worse social times. A new, improved world war, featuring the latest weaponry, may end all life on the planet. Or at best the war will make the world a place, in Noam Chomsky’s words, “where no one will want to live.”

The Thirties: Past as Prologue

When the 1929 Crash hit, I was a 10-year-old boy, living with my divorced and impoverished mother. Five years later, I had to find work — cleaning houses, delivering morning papers, doing what I could to bring in some pennies to the household. Times were tough in 1934. And there was unrest.

In May 1934 San Francisco dock workers went on strike. In June three workers were murdered by the police and several dozen more were shot. In response, the workers held a huge protest parade up the city's main street. By chance I was there on Market Street when they passed by. A curious 15-year-old kid, I joined the parade to asked what was going on.

I found out. The San Francisco strike was against both the companies and also their utterly corrupt union. [The New York branch of this oppressive organization was the focus of the 1954 movie *On the Waterfront*. Who can forget Marlon Brando's painful trek?] I begin to pay attention to society [something larger than my immediate family], and soon became involved in politics — and protest.

Then was then and I was just a kid. What has 1934 to do with today? First, let us recall that from the day of the 1929 crash and many years after, economists assured and reassured us and reassured us some more. "Prosperity," they continually trumpeted, "is just around the corner." We suckers were supposed to believe this nonsense.

What was really on its way, however, was not enduring wealth and plenty, but the Great Depression. It deepened from 1929 into the mid-1930s. The Depression began to be eased up only by two or three years of New Deal social reforms. Then in 1937 Wall Street howled "Inflation!" (or was it "Wolf!" "Wolf!"). The reforms were halted and the depression returned. The U.S. economy remained weak until jolted from impoverished passivity by World War II.

A contemporary headline from the *New York Times* (2011-09-13): "Soaring Poverty Casts Spotlight on 'Lost Decade.'" "Census Bureau reports 46.2 million under official poverty line: highest number since the Bureau began to publish those numbers."

The 1970s: A Mess in the Making

The present stands in sharp contrast with the past. Since World War II and accelerating since the 1970s, there have been ever-increasing alterations among and between the leading nations, and between them and their ex-colonies. For reasons to be discussed, the changes carried with them always more socioeconomic dangers and endless wars. Things have exacerbated to the point that some say it's easier to imagine the end of the world than the end of capitalism.

Here's a summary look at the financial takeover of the economy. We begin with some revealing numbers, provided by the August journal closest to Wall Street's heart. (What heart, you ask? Not to worry; it's just a figure of speech.)

Already in 1990, *Fortune* Magazine announced that "500 *financial* companies have revenues equal to more than two-thirds of the production of the entire economy, exceeding the national totals of Japan and Germany, the next two largest national economies."

It wasn't always thus. In the early 1970s the U.S. financial sector was subordinate to Congress and the sum of financial trades in the USA over an entire year was a dollar amount less than GNP. By the 1990s, however, through a 24-hour-a-day cascade of electronic hedging and speculation, the financial sector had swollen to an annual volume of trading 30 to 40 times greater than the dollar turnover of the “real economy.” Each *month* several dozen huge financial firms electronically trade a sum of currencies, futures, derivatives, stocks and bonds that exceed the entire GNP of the United States. (Phillips)

That was in 1994, only the beginning of always worsening processes with always more assistance from the White House and Congress, irrespective of political party.

Since both parties have concluded they have to tap the same sources of cash, and cash is what determines elections, there’s precious little difference between them. Republicans unabashedly pander to the richest, the reactionary right, the revanchists, and thumb their noses at the rest of us and our social needs: “Let them eat dirt!”

Democrats, while they, too, hustle the big money, do their best to stifle popular movements and third-party activism. Then they offer “lesser evilism,” threatening us thus: “You have to support us if you don’t want *them* to win. Don’t you know you have no place else to go?” So these days it doesn’t matter which party is in power: The corporate financial powers win, the rich get richer, the incumbents get reelected, and We the People lose. Again.

Really? A Democrat named Clinton was in the White House most of the 1990s. His main financial advisors and officials were Wall Street heavies. We got NAFTA. We got the dismantling of the Great Depression financial safeguards. Need one ask who was calling the shots for Clinton?

Now a Democrat named Obama has had as his advisors some of the same people: Robert Rubin, Lawrence Summers, Timothy Geithner. Wall Street was Obama's biggest campaign contributor. Need one ask who is calling the shots for Obama?

"General Electric Chief Immelt (head of General Electric) is to lead Obama's job push, but will continue to run General Electric (*NYT*, 2011-01-22) [Ever the loyal corporation, General Electric pays no federal taxes and takes its jobs overseas.] In that same week, Obama appointed William Daley as his Chief of Staff, Daley being the top executive of Wall Street's JP Morgan Chase. Is Obama really a *lesser* evil?

As World War II ended, the USA was Number One by all socio-economic-political measures, and the U.S. dollar was the unchallengeable currency of world trade and investment. Then as the other once-leading capitalist nations regained their strength, globalization took hold. Along the way, the USA was downsizing and outsourcing. Consumerism became its leading drug, the new opiate of the masses. Then *voilà!* The USA was transformed from being the world's largest foreign *lender* to become the world's largest ever *borrower*. (We have the unspeakable R. Wilson Reagan to thank for that astounding shift.)

When in the year 2000 the *euro* became the currency of the leading European economies, the dollar and the *euro* exchanged equally. However, by 2007, the *euro* had risen by 50%, and traded at $1.50. Meanwhile, as a frightening slump on Wall Street was arriving, a justly admired financial commentator had this to say:

> That ugly action was caused by fear about how badly banks will be hit by loan and securities losses and regulatory officials referred to the problem as 'contained.' That was how they described subprime mortgage mess two years ago, even as it devoured home owners throughout the nation. Because of its enormous and growing role in the economy a financial services downturn is likely to have graver consequences than ever before. (Gretchen Morgenson, "Financial Sector Slump a Threat to the Economy." [*NYT*, 2007-12-12]) .

We will be lurching toward social suicide if we continue to allow our economy to be ruled over by gambling, if we sit back as our nation involves us in endless wars, if we don't rise up as resources for our human and social needs are neglected, cut back, and (if possible) eliminated.

These are ugly realities. Here's a closer look.

Today: The Speculative Economy

So what if in recent decades finance has come to dominate economic and much social life in the USA? Morgenson (*supra*) provides some bothersome facts concerning *profits*, how they are made, and by whom: "Profits from the financial sector in 2007 accounted for 31% of total corporate earnings, as compared with 8% in 1950 and 30% in 1990." She goes on to quote a major bank director: "No one knows how big the challenges in the financial sector are: what I do know is that we have never had a more highly leveraged household sector than we have today."

It is vital to add that as the economy has come to be dominated by finance, finance has come to be dominated by *speculation*, ruled over by layers of grossly overpaid executives. Speculation contributes *nothing* to the economy or to the society. It's good news only for the self-chosen gamblers. Until recently, the financial sector served a merely – but vital – "lubricating" function, much as simple loans did in the deep past. However, as the 20th century moved on, economies came to be seen as inconceivable without crowded networks of financial institutions. In this century, transportation and communications technologies have made intricate financial "instruments" common and *very* dangerous, more like bombs than instruments. Already in 2008, George Soros — one of the most successful financiers of our time — warned, "We are in the midst of a financial crisis the likes of which we haven't seen since the Great Depression." (Soros, 2008; also see Foster, 2011.)

Now a brief look at the financial system.

1. Production or Manipulation?

In a capitalist world nothing ever stays the same. In our time financiers have changed from being intermediaries to *controlling* others they had once mediated in trade and production. Over time, and most markedly from the 1970s on, they did so partially because the leading nations entered a prolonged slowdown in the realms of profitable production; it was called *stagflation.* It was then that speculative finance began its march toward sheer dominance. Stagflation began to repeat about 2007, with deflation and recession in some countries, inflation and recession in others. (Phillips; Dowd, 2004)

Financiers may or may not provide a useful service, but they do not *produce* anything. Decisions are often made for a producer by a CEO and may be seen as contributing to production, but the vast incomes of CEO's are not in accord with their "work." Indeed, their incomes often remain stratospheric even when the companies they have ruled over are ongoing severe financial losses.

For example, in 2007, when jobs were already being lost and median incomes were decreasing, the U.S. Congressional Budget Office announced: "The increase in incomes of the top 1 percent from 2003 to 2005 exceeded the total incomes of the poorest 20 percent of Americans: the total income of the top 1.1 million households was $1.8 *trillion*, or 18% of U.S. total income, coming from investments and capital gains. In 2003, taxes on capital gains were reduced." (*NYT*, 2007-12-17)

The early industrial capitalists were indispensable to the technological or the creative nature of their enterprises. But the "creative" functions of the industries following them (such as textiles, communications, and cars) are more accurately seen as those of *operators*, adept at putting together giant companies by any means at hand, barely distinguishable from the military general who lets others "do the work."

Yes, doing the work — as a popular World War I song [unpopular with the brass] put it:

> If you want to find the general
> I know where he is
> He's pinning another medal on his chest....
> If you want to find the private

I know where he is
He's hanging on the old barbed wire

2. Contemporary Finance in a Nutshell

Our focus is mostly on the USA (although finance is now globalized). The first big quantitative jumps were taken as the prosperous 1950s ended. The reconstruction of the Western European and Japanese economies had made them not only competitive with the USA (in autos and steel), but had done so in a world economy moving toward excess capacities. Competition and (the threat of) overproduction gave rise to the most dazzling round of mergers and acquisitions ("M&A's") ever — at least until the 1990s. In addition, the incentive for "real" investment in new or existing production facilities was reduced. Finally, as Wall Street became the ultimate home of M&A's, it also became their prime beneficiary.

The incomes of financial companies fall under the categories of both *interest* and *profits*. What is more important are their quantitative and qualitative meanings. In that connection, the statistical tendency after 1949 is illuminating (and shocking):

> In 1949, corporate profits (of *non*-financial companies) were *ten times* as high as those as interest for financial companies; in 1959, *five times*; as high; in 1969, two and a half times; in 1979 less than double; and since 1989 *non*-financial corporate profits have always been *less than* the interest paid financial companies." (*Economic Report of the President*, 1995)

Put differently, in those years the traditional role of interest in the economy was being abandoned, signifying a major transformation in the overall functioning of capitalism. Since the 1960s, corporate profits themselves have included large gobs of interest. There are two reasons. First, the number of financial corporations as a percentage of all corporations has risen greatly. Second, a rising percentage of the giant producing corporations have themselves merged with or created their own large financial institutions (e.g., both GM and GE are giant money lenders).

Add to the enormous set of financial dealings that came about since the 1970s the growth of other interacting financial developments such as equities and pension funds...add the astounding increase of household, business, and governmental debt, the spread and deepening of insurance companies and their mergers with other financial companies, the expansion of amateur and professional speculators and derivative markets and…Wow! (Henwood)

3. Overall Economic Fragility

The 20th Century is practically ancient history. Welcome to the 21st — and hold on to your hats. Wall Street has become the headquarters of big deal gambling, leaving the small potatoes to Las Vegas, Atlantic City, and Monte Carlo. How dangerous it has become now was foreshadowed by the savings and loan ("S&L") scandals of he 1980s. A quick look at the original function of the S&L's hints at the scandals of our current time and deepens the pain. Created in the 1920s, the original purpose of the S&L's was to create "regulated neighborhood thrift banks," which, through ceilings on their interest charges, would enable middle-income working class families to buy a house. Given the relatively low incomes of workers in the 1920s and

1930s that aim didn't amount to much — until after World War II. Then came the boom.

By the 1960s, two-thirds of US families (including mine) were homeowners. Those good results ended and were pushed aside in the 1980s. Although usually overlooked in this regard, a very conservative Southerner, one Jimmy Carter, started the ball rolling. Then Reagan and his pals pushed Carter's initial programs far afield, creating monumental financial deregulation. This removal of oversight and control — which was exacerbated during the Clinton 1990s — opened the door for the subprime disaster (among others). Financial activities were increasingly taken over by sharpies, fools, and downright crooks. By 1984 one after another of the S&Ls had collapsed, and the basis for today's collapse(s) was set. What had once been socially useful banking had become a gambling casino, a Ponzi scheme, a house of cards, a scam factory. The Reagan government and those since, White House to Congress, have seen to it that those who *caused* or presided over the debacle(s) were not themselves to lose any money along the way. They were too big — too important — to fail.

All of that should have, but has not been a warning against what was to come after the 1980s and up to the present. Note first that the cost to U.S. taxpayers for S&L was $100–500 *billion*. Subsequent fun and games have added and will continue to add *trillions* to bail out Wall Street's multi-millionaires and billionaires.

For the S&L crisis a new government agency was created. Its lawyers and accountants were paid $600-plus *per hour*. (Soros; Pizzo, et al.) In November of 2008 the bailout was $700 *billion*. Financed by massive borrowing and enlargement of the federal deficit the bailouts served largely to safeguard bank investors and assets. “The result has been and will continue to be not just to prop up the stock market but to allow it to keep hitting new highs, while Wall l St. firms achieve always new record earnings and continue to eat the real economy.” (Phillips)

In 1989, Michael Lewis, who had been working in Wall Street in the “hedge fund department,” left in disgust and in 1989 wrote a revealing book about what was going on, *Liar’s Poker*. Ten years later he put together a set of articles by himself and others, *Panic: The Story of Modern Financial Insanity*. In it, he laments “I had hoped that college students trying to figure what to do with their lives would read it and decide that it’s silly to phony up and become financiers….But I was knee-deep in letters from college students asking for other secrets to share about Wall St.: they had read my book as a “how-to-do-it manual.” So it goes.

When economists and politicians exhort us to “listen to the markets” the markets they have in mind are those for stocks and bonds, derivatives, and currencies, to which government leaders everywhere acknowledge *they* must listen. Were the general public to be reasonably well-informed on those “markets,” they would deem it risky indeed to have their economic and social well-being so dependent on the activities of speculators — that is, on gamblers. More than 70 years ago, in his *Economic Consequences of the Peace*, Keynes put forth the dangers of what was already well on its way to take over the economy:

> Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital

> development of a country becomes a byproduct of the activities of a casino, the job is likely to be ill-done." (1936)

The foregoing treatment of the financial world would be vexing enough if that were all there was to worry about. It isn't. There remains to be examined the dimensions and dangers of household, financial sector, and U.S. external *debt*. Already in December 1999 the nature and levels of those debts had risen to the point that *Business Week* dedicated an issue to it: "Is the United States Building a Debt Bomb?" Their answer was given in the details below, preceded by the warning that "it is not only the high levels of debt but the reasons *why* they have been and continue to be incurred that are troubling."

Household debt as a share of disposable income rose from 62 percent to 102 percent in 1999. *Financial* sector debt as a share of GDP more than quadrupled — from under 20 percent to 80 percent — and U.S. foreign debt more than doubled, from $1 trillion to over $2.5 trillion.

That was for last of the 20th century. Today we have to multiply those numbers. For example, U.S. foreign debt exceeds *$6 trillion* (more than a third of which is owed to China). *Business Week* went on to state that "those outside the financial world would be startled to learn how much borrowing (and why) those inside have been doing. It is common practice for all financial companies — banks, mortgage companies, et al. to 'repackage' the loans they have made and sell them as bonds and notes — creating debts of their own."

The numbers were already huge in 1999; now, as we multiply them for the present we must ask how does all of this differ from what led to the "Crash of ’29”? There are many large and small differences but they are more likely to be frightening than reassuring. Here a compressed discussion, divided between national and global, with the emphasis on the USA.

Keep in mind that for all nations what happens nationally today is much more strongly linked to the international than in the past. During the depression of the 1930s hit, all of the leading nations but the UK and the USA were ruled by totalitarian governments. For better and for worse, that meant that the economic crisis of that past was not at all as interlinked as now.

Today a serious economic crisis in the USA or Europe is likely to spread over the rest of the world. Such a crisis is in its first stage in the USA as I write (late 2011). Thus, as the USA struggles with a stubborn recession (recalling the years 1929–1934), Europe is also struggling with deepening and spreading financial troubles that, as I write, seem likely to spread and deepen. Ultimately, they could lead to the breakdown of the European Community.

Then what happens to world trade and the economies that depend upon it? For example, what could China do to have its $2 trillion debt paid off so that its voluminous exports continue? And China is not alone. Economically, the world is tightly running together. Many or all of the nations involved will put themselves first, last, and always rather than opt for anything more than a pretense of international cooperation. At least, that’s the likelihood. And it is ominous.

Many sensible policies were passed by Congress in the USA and governments in Europe and Asia *after* the depression and world wars had done their disasters. Of late, however, the governments in Europe and the UK have reversed decent postwar policies. And they now find themselves lurching toward a deepening financial crisis. Meanwhile, Wall Street continues to have its way, continues to make its fortunes, assisted by a kowtowing Congress and subservient White House. As Wall Street continues its enrichment, the public continues to look more at price tags and bank notices than at Congress and the White House.

Politics and Finance

The foregoing discussion of economic doings had politics at its spine. In fact, when economics as a discipline came into being, it was called *political economy*. Today it might well be called *the political economy of global big business*. After all, the *key* factors of economic, political, and social existence — including war and peace — are solidly in the hands of Big Biz.

Up to now, the USA has been in the lead of those realms, with the consent of giant European and Asian companies. Of course there have been many deviations and conflicts from time to time, but the USA has usually had its way. Now, however, as the USA has been transformed from being history's largest lender to become its largest ever borrower, its decisions are beginning to be challenged.

Increasingly since the 1970s, the tendency of domestic policy has shifted from moderate to severe degrees of conservatism at home and (see later) to endless militarism abroad. The road in those directions was guided by an always more conscious and unconscious "conservatism" — a disinclination to change or challenge the status quo or the power of privilege. As the 20^{th} century began, big business had already taken the seat of power, and that power increased and broadened substantially in the 1920s. This unchallengeable power also nearly became its undoing: when big business was [correctly] blamed for the depression. Thus, the war and early postwar years were a period of substantial political strength “of the people,” including the birth of strong unions.

Because of the political oppression of the 1950s and the burgeoning job and housing market, by the 1960s, the popular push toward political strength was lessened. Business regained by the diversion of “the people” away from politics and toward buying and borrowing. Plus, especially from the 1970s on, the business world consciously began to organize itself politically assisted by consumerism and mind-diverting “media madness” — especially television. (McChesney, 1999)

Thus it was that in the elections from the 1970s on, whether Democrats or Republicans took the White House (or local and state offices), there was a tendency toward pro-business politics at home and pro-war policies abroad. The were symbolized most clearly by the Republican Nixon and Reagan presidencies, and confirmed by the Democratic Clinton and Obama presidencies. Nor is it irrelevant to point to the ongoing and increasing strength of the extreme conservatism of the all too strong “Tea Party,” its influence on congressional elections and noticeable pressures on presidential candidates.

Of course, socio-economic realities in the USA have long been dominated by power politics — without need of a “Tea Party.” Look how successful the politics of the rich have been regarding *taxes*. Here a few examples, given us in 2011:

In 1950 the top income bracket had a 91percent rate; today the top is 35 percent; for investment income (dividends, long-term capital gains, "carried interest," hedge fund managers' funds, and private equity investors) the rate is 15 percent. Now a 50 percent rate for incomes over $1 million would raise $48 billion in the next 10 years; eliminating the "carried interest" provision alone would raise $21 billion. (*NYT*, 2011-08-17)

Surprisingly and pleasingly enough, the *billionaire* Warren Buffett had to say a bit earlier in the same paper. It is as worthwhile as it is unprecedented:

> While the poor and middle class fight for us we mega-rich continue to get our extraordinary tax breaks. Some of us are investment managers who earn billions from our daily labors but are allowed to classify our incomes as "carried interest," thereby getting a bargain 15% tax rate; others own stock index futures for 10 minutes and have 60% of their gains taxed at 15% as if they had been long-term investors….My friends and I have been coddled long enough by a billionaire-friendly Congress. It's time for our government to get serious about 'shared sacrifice.' Billionaires like me should pay more taxes. (*NYT*, 2011-08-15)

Mr. Buffett was serious, and his fellow rich guys were *furious.* Now it's up to us get serious from this day on, and never stop.

Wars and Finance

Question: What have wars got to do with finance? Answer: Since the end of World War II, the military have received much more from the U.S.

Treasury than all the following taken together: health, housing, education, and environmental protection. I remember still how, for a while after World War II, it was generally hoped and assumed we had at least learned: “No more wars!” Many had, but not the USA or the USSR. Even as we were shouting “Peace!” we were fighting over who would take Japan’s place in Korea. And we were on the way to substituting for the French in Vietnam after Dienbienphu. But no, the many years of countless dead and wounded behind there were not enough. As the 1970s were ending, the USA, thinking it could trick the Soviet Union to tale a beating, armed a tiny group of religious extremists to fight them. This was the Taliban, a power the U.S. created. The USSR was bloodied for nine years. The Taliban cooled down and got poor again. Then after a few years, the Taliban got wise, put its religious scruples aside, and began to take over the opium business in Afghanistan. As the 20th century ended it controlled it.

In the aftermath of September 11, 2001, President G. W. Bush conceived of (or at least managed to propose) a bold offensive strategy; he vowed “to take the battle to the enemy, disrupt his plans, and confront the worst threats before they emerge.” The principal means for undertaking this offensive was, naturally enough, the U.S. military, and U.S. forces soon found themselves engaged on several fronts. (Bacevich)

The several fronts included Afghanistan and Iraq. We are now in our tenth year of war against the Taliban and making believe we are exiting Iraq. We cannot “win” either war, but we have inflamed neighbors (most dangerously Iran). In fact, the USA has placed itself on a path to self-destruction.

What has all this to do with finance? It shouldn’t be hard to guess, given that wars are fought with mountains (or oceans) of weaponry, the production and distribution of which is done and paid for — to put it politely — generously. Here a few facts, starting with the *trillions* of military expenditure — "milex" — dollars *before* the war in Iraq (2001) The total cost of official milex from 1946 to *before* 2003 was about $12 *trillion*. Since then, and looking at only the Iraqi war, the title of Joseph Stiglitz's recent book gives this brain boggling answer: *The Three Trillion Dollar War* (2008) If anything, that is an understatement, for those trillions do not include the payments to 100,000 private contractors working in Iraq, 50,000 of whom are the private security operatives of the giant firm Blackwater Worldwide [now called Xe Services], originally assigned to protect US diplomats.

Those horrible numbers relate only to one war. Then there are the many years of Afghanistan, the announced or secret expenses for a potential war with Iran, or the ongoing expenses for new weaponry, what is being done for the ongoing or preparation for "the war on terrorism," or– you name it. The *International Herald Tribune* gave a useful summary statement: "The Pentagon's budget spending on ongoing and potential wars in real dollars since 2000 is equal the rest of the world's defense budgets combined; the highest level since World War II."

Those trillions went and go mostly into the pockets of a few hundred of the already very rich who get countless millions a year, as young "assistants" get at least hundreds of thousands. Those might well be seen as acceptable if society as a whole were thereby improved; it's just the opposite. In these years, as in the 1920s, as the always more enriched were having a fine time with the economy they were also digging graves for the rest of us. If in broad strokes, history does repeat itself, when it does (such as World War II vis-à-vis World War I) it's usually much worse.

See the connection today between Wall Street and Main Street? The USA has had always worsening wars in recent decades. That our society has deteriorated badly along the way makes everything worse. But that Wall Street has become greatly enriched itself along the way as a result has the stink of criminality. As the financial sector took the place of the industrial sector in terms of political power, it also became critically liable for what is or is *not* being done to maintain or increase social well-being and to protect the environment. Wall Street do *that* — who's kidding whom?

We are lurching downhill in both respects, as Wall Street celebrates its rising pile of money (and spends a lot of it on seeing to it that the Congress and the White House are cooperating).

Social Needs — People or Profits?

To repeat what was briefly suggested earlier, those needs — education, health care, housing, support for the aged and the needy — are critical if there is to be a decently functioning society. After World War II they were beginning to be taken care of in Western Europe, but much less in the USA, except briefly in the 1930s and again in the 1950s–1960s.

Since the 1970s there has been an always stronger reversal. The achievements were made in years when a substantial percentage of the public involved itself politically. However, since then a rising percentage of the public in Western Europe has copied the USA in borrowing, buying, and watching TV. To make matters worse, in that same period the business world created research groups to advise the powerful what to do to keep society moving backward. A major consequence has been the displacement of relatively progressive politicians by “conservatives” [in reality, radical reactionaries] in the USA, the UK, and Western Europe.

When Obama won the presidency in the USA, many hoped that the tide was turning for the better in the USA. But up to now (late 2011) whether by choice or by need, in addition to compromising or caving on many substantive issues, Obama has taken considerably more direction from the right-center (or worse) than from the left-center. Those ongoing tendencies cannot be reversed unless and until the people as a whole turn their energies more toward politics and pay less heed to television. It requires paying closer attention to government and then doing something about it. That will not be easy to do.

The Environment — Do or Die

Unless substantial changes in how and what we produce and consume are made soonest, the world will have nearly unthinkable environmental problems. Human survival is at stake. Destruction and waste have always been common, they are part and parcel of capitalism. But now they have become lethal. We have increasingly poisoned the air, earth, and water. Unless our destructiveness is curtailed, all living creatures will face disaster.

Consider coal in China. Each year 30,000 children die from diarrhea caused by coal mining pollution. Nearly 200,000,000 people in China have coal-related illnesses. Thousands die each year in coal mining accidents. In India, thanks to agribusiness, 250,000 debt-ridden farmers have committed suicide. And these are just the big countries. As the arctic melts, the greenhouse gasses released will blanket and heat the globe. It is possible that millions (and maybe tens of millions) will die as Africa swelters.

Among much that has been and is being said of our precarious environment, I find most penetrating the recent analysis of John Bellamy Foster. Here some excerpts:

> It is no secret that now we are facing a planetary environmental emergency, endangering most species on this planet, including our own….This catastrophe has its roots in the capitalist economic system…Nevertheless, the extreme dangers that system inherently poses to the environment are often inadequately understood and give rise to the belief that it is possible to create a new 'natural' or 'climate capitalism' in which the system is turned from being the enemy of the environment into its savior. The chief problem with such views is that they underestimate the cumulative threat to humanity and the earth arising from the existing conditions of production. (*Monthly Review*, September 2011)

In his analysis, Foster credits Veblen's earlier critique of the wastefulness of monopoly capitalism (in his book *Absentee Ownership* (1923), nothing that "The American Plan" of resource exploitation was one of accumulation by encroachment on both the environment and the indigenous population, converting all public worth to private gain on a plan of legalized seizure, every public need a means of private gain, as staple resources were overexploited by speeding up output and underbidding on the price, leading to "a rapid exhaustion with waste of the natural supply."

Thus was the stage set for monopoly capitalism (Veblen's *Absentee Ownership*) and the collusive methods of turning public wealth to private gain by means of regulated scarcity and monopolistic pricing, especially in the timber, coal, and oil industries. That meant first prodigious waste and ultimately monopoly control by a few absentee owners who, Veblen remarked of lumber companies, “have destroyed appreciably more timber than was utilized.” (*Ibid*.)

As the 1920s rolled on the giant companies took the economic lead. Then in combination with expanding consumerism and massive advertising, they reduced production costs, restricted outputs and made endless (and mindless) product variations. Veblen foresaw all that in his *Theory of the Leisure Class* (1899): “The infiltration of salesmanship into production was the proliferation of waste…that does not serve human life or well-being. To which, Foster adds “Much of the initial demand for purchased goods under monopoly capitalism was due to Veblen’s ‘invidious pecuniary comparison,’ i.e., status distinctions arising from having something beyond the reach of others, and the associated forms of ‘conspicuous consumption’ and ‘conspicuous waste.’” (*Ibid*.)

The volume and composition of contemporary production is determined by profit maximization, period. Capitalist production does little to meet human needs (which are, after all, “an externality”). It does do all too much to hasten social and environmental dangers. In sum, whatever else poisons the environment, industrial and financial capitalism have created more and more destructive waste. We’re swimming — nay, drowning — in it.

Conclusion — It’s Now or Never

“We the people” have allowed ourselves to be hypnotized by those seeking – and getting – profits and power. We have even put up with wars. As I write, what is already indecent and dangerous is very likely to worsen. Few if any of the governments in the rich and powerful nations seeking ways to reverse ongoing dangerous tendencies; indeed, as in the interwar period of the first half of the 20th century, today's main tendency is to accept functionally totalitarian governments, as matters lurch toward allowing economic and political matters to lurch from awful to suicidal.

The USA, once the leading nation of the world, is now on its way toward shipwreck. I did a bit of political work for Obama in his election campaign, for it seemed that he might assist in turning our society toward decency and good sense. That remains possible, but only faintly. Whether or not he stays in the White House, it is more likely that the USA will continue its lurch toward hard times, bottomless political corruption and insanity at home, with who knows what horrors abroad. In the summer of 2011 Noam Chomsky warned us of what lies ahead if we remain silent.("America in Decline," published as an "Op-Ed" in *Truthout* (8/5, 20011)

> American decline is in no small measure self-inflicted….Corporate power is now concerned that the extremists they helped put in office may bring down the edifice on which their own wealth and privilege lies….Their mostly financial domination over politics and society has reached the point that both the Republicans and the Democrats are far to the right of the population on the major issues under debate, for whom the major issue is unemployment. That crisis can be overcome only by a significant government stimulus well beyond the present one, which barely matches declines in state and local spending. For financial institutions the primary concern is the deficit: therefore only it is under discussion. A large majority favors addressing the deficit by taxing the very

> rich (72%; 27% opposed) Cutting health programs is opposed by overwhelming majorities (68% Medicaid, 78% Medicare). The likely outcome is the opposite. The public favors deep cuts in defense spending; the administration and the House propose modest increases. The public supports more spending on job training, education, and pollution. The deficit would be eliminated if the dysfunctional privatized health care system in the U.S. were replaced by one similar to other industrial societies.

Noam Chomsky is an intellectual giant. But what he argues can be easily understood by the rest of us. Wall Street and big business put tons of money into politics to become disgustingly and dangerously powerful and wealthy. The rest of us must put lots of thought and time into politics, before what we have let them get away with pushes us over the cliff. The USA is supposed to be "our country," but it isn't; it's *theirs.* We have to work away politically if it is ever to be *ours.* The longer we continue to sit back politically, the more likely we are to face irreversible horrors and the end of everything.

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