INTRODUCTION

"IT'S THE ECONOMY, STUPID"

Maybe Bill Clinton was right in his first campaign for the presidency when he promoted a slogan that pushed economic issues to the top of his agenda. Since then, they have been eclipsed and, for years, the fallout from 911, the debate over the Iraq war, and the focus on the impact of the Bush presidency have dominated our attention. But now, economic issues are back with the intensity of a hurricane. They cannot be ignored. And speaking of hurricanes, Senator Chris Dodd has called the subprime scandal "a 50-state Katrina."

In the epicenter of this storm are two words that have tended to be buried: credit and debt.

Usually, when we hear about economic distress, it takes place in someone else's country; often in Africa or some place you have never visited, conjuring up images of desperation and sadness. The same is true when you hear about debt. When rock stars like Bono or Bob Geldof crusade for debt relief, they are doing so, however successfully – and there is a big debate about that – around conditions in what we used to call the Third World and what others refer to as "Developing" Countries, even when they aren't.

What is more rarely discussed is economic deprivation and exploitation in our own country and what we think of as "the West." We may hear stories about individuals with problems, but we rarely hear about deeper economic forces and the institutions that create and perpetuate the problems. Discussions of how our own economy has been transformed in a way that accelerates deep economic inequality and all the suffering that flows from it have been minimal.

Beyond that, there had been an assumption, almost a subtext, in much of the reporting on our economy, that its market system somehow reflected the national order of the universe, the human species' greatest contribution to stability and prosperity. This ideological overlay, sometimes explicit, often just implied, colored our understanding and contributed to a sense of confidence, or should I say false confidence?

In just the short period, three years, in which I began investigating these issues, from 2005 to early 2008, there has been a tectonic shift with the financial system melting down. This has produced convulsive strains in an interconnected, or as the analysts say, "entangled", system, as well as losses in the trillions, and continuing uncertainty on whether or not we can avoid disaster.

In Europe, statements were circulated to challenge financialization. There was even a petition published in leading European newspapers. It reads in part:

> Freedom for finance is destroying society. Every day, in both North and South, shareholders silently pressure firms and workers to extract higher and higher returns. The situation becomes dramatically visible when major crises display the excesses of speculative greed and its backlash on growth and employment. Lay-offs, precarious work, deepening inequalities: workers and the poor suffer most from both the speculation and the toxic effects of subsequent financial collapse.

A petition by outsiders is unlikely to do much, but it also reflects anxieties felt by many in in the financial world.

The usually calm and staid *Economist* magazine in mid March 2008 was near apocalyptic in its assessment of an intervention by the Federal Reserve Bank in saving an insolvent investment bank. "The marvelous edifice of modern finance took years to build," wrote its editors about the crisis on Wall Street. "The world had a weekend to save it from collapsing."

Business cycles have been with us forever, but this potential system-destroying swing from boom to gloom over the course of a weekend was extraordinary, suggesting why the subject deserves independent scrutiny from someone who is neither a player nor has fish to fry in this game.

As a journalist, blogger, and filmmaker, I am no stranger to economic issues. I grew up in a working-class home in a family of unionized workers who spoke of the importance of solidarity with people fighting for their rights and economic security. When I became active in civil rights and human rights movements, I saw firsthand how economic forces were driving the mistreatment of minorities and workers in other countries.

When I joined the media, I sought to integrate my understanding of these issues into my own work. I quickly realized that the lack of media attention to labor and the impact of economic policies kept important issues in the dark. When I was producing for ABC's 20/20 news magazine, I worked on stories on the outsourcing of jobs and was among the first to investigate the Savings and Loan scandal of the 1980s.

As the mainstream media itself moved away from in-depth reporting and toward a more superficial focus, distortion and deception assured audience distraction.

I spent many years writing about the need for media reform and the decline in investigative reporting on economic power and the special interests that often stack the deck against consumers. As a reporter myself, for years, I focused on human rights and then media issues, but now I have come back to seeing how directly the economic system imposes itself, for good and, yes, evil, on every corner of our lives. It wasn't hard to realize that, in recent years, our economy has changed from one built around production to one centered on consumption. The mall has now replaced the factory as our dominant economic icon. Debt has been key to restructuring our economy and has kept it flourishing.

As a result, explains Stephen Pizzo, "America and Americans have switched from being net creditors (money lenders) to net debtors (credit junkies). And not just American Yuppies hooked on credit cards and home equity loans. No siree. Corporate America, the folks who got Americans hooked on living beyond their own means fell for their own line and started doing so themselves."

Driving this change is, as I argued, a growing concentration of power in the financial and banking sector. That, in turn, unleashed a process called FINANCIALIZATION, with the economy dominated by a vast CREDIT AND LOAN COMPLEX every bit as insidious as the Military-Industrial Complex. Most Americans have no idea that this even exists.

This "complex" is even more shadowy and even more omnipresent, hidden to all except those who work with it. It is active in funding our politicians and lobbying for laws that benefit their businesses. At the same time, it is hidden from view to most of us. It operates through a covert, decentralized network of shady lobbyists – interconnected institutions working through highly legalized and poorly understood systems. Rules, laws, and procedures underpin the market system, and high-speed computers move money and buy/sell orders around the world in seconds.

It is often difficult for outsiders, including most consumers, to penetrate the dense language that defines the rules of the games financiers play. The outline of the whole system only comes into view when there is a crisis. Recently, Jeremy Grantham, a leading investor, compared the finance system to a large BRIDGE with interlocking pieces:

> Thousands of bolts hold it together. Today a few of them have fractures and one or two seem to have failed completely. The bridge, however, with typical redundancy built in (unlike the Minnesota one that collapsed), can (easily) take a few failed bolts, perhaps quite a few.... What is worrisome is whether or when we reach a "broad-based level of financial metal fatigue" causing simultaneous multiple bolt failures "with ultimately disastrous consequences.

Stephen Lendman adds: "What's also scary is the global financial structure is heavily 'faith based, held together by unprecedented amounts of animal spirits' moving in the same positive direction. If the faith wanes, it's then 'every man for himself' and look out below..."

Before I travel deeper into this world, let me assure you that I may be considered totally unqualified to tell you any more. I am a journalist but not an economic specialist. I am not an insider. I went to the London School of Economics but studied politics, not economics. I have never worked on Wall Street and am even pretty hopeless in managing my own money, much less "OPM" – other people's money. I did a stint at NBC's Business Channel CNBC but on a talk show, not in the newsroom monitoring market shifts.

I may not know a derivative from a tranche, but I think I do know how to ask questions that the so-called "Masters of the Universe" avoid. The experts in this field are as divided as in any other. They usually do not agree with each other and are often experts at keeping the public confused.

In many ways, moneymaking is as much an art as a science. And despite all the rules that govern the markets or regulations designed to assure transparency and accountability, crooks, swindlers, and even gangsters are commonplace. Corrupt practices are pervasive; regulation is not. When professionals in the field were asked how they define criminal conduct, the majority surveyed said crimes only occur when you are caught. There is also extensive posturing in the industry to mask the often-fuzzy line between risk and uncertainty. In many instances, major decisions are made on the basis of fragmentary knowledge, even ignorance, despite professions of careful reviews and "due diligence."

The *Financial Times* cites a market economist at Lehman who said: "We are in a minefield. No one knows where the mines are planted and we are just trying to stumble through it." Another market participant put it this way: "It is not the corpses at the surface that are scary; it is the unknown corpses below the surface that may pop up unexpectedly."

So if the people in the know admit they don't know, why shouldn't I opine and report on these issues? Many of the "experts" whom I read or see on TV seem clueless, full of hot air. Many of their predictions turn out wrong, even when they seem so self-assured and well informed in making them. Jim Hightower warns against believing them, writing:

> Don't be deterred by the finance industry's jargon (which is intended to numb your brain and keep regular folks from even trying to figure out what's going on)."

A folksinger, Ethan Miller, even sings about the way some of the always all-knowing media pundits have turned their prognostications into a form of entertainment – call it finance-tainment. His song is called "The Market Game." One lyric:

> *Does it seem like we've given up our power*
> *To an entity that we can't even see?*
> *Oh, this is not the first time that it's happened?*
> *You can learn about the others on TV.*

How does one make sense of what is going on? You have to burrow in the business pages and read articles from the bottom because the most revealing facts are often buried. You have to break dependence on mainstream media and check out specialized websites, blogs, and alternative sources.

After the NY Stock Market took a 340-point drop only to quickly recover, I went to the business pages of the *New York Times*. I figured that they would explain it. But THEY DIDN'T KNOW the reason for it either, reporting "Emotion and psychology, not financial fundamentals were mostly at work." They quoted the chief U.S. equity strategist for Citibank: "I don't think anybody can make sense of it."

Part of the problem here is that the traders and brokers have come up with all sorts of highly esoteric and complex financial instruments – ways of securitizing debt and raising capital – that outsiders, even experienced financial journalists, have a hard time understanding, much less explaining. Ditto for regulators (and the laws they theoretically enforce), who are hard pressed to keep up with the pace of change. Market traditionalists are also lost.

Even some bankers like Jean-Pierre Roth, president of the Swiss National Bank, who believes the market turmoil is far from over because tremors from the sub-prime debacle will continue to rock the world, is confounded. "Something unbelievable happened," he said, in the *Telegraph* of London. "People who had neither income nor capital got credit with very attractive conditions. Now reality is striking back."

Of course he does not mention that the subprime loan was a well thought out marketing scheme designed to seduce borrowers with poor credit ratings who would pay more in fees and interest. Everyone complains that the system has gotten too complicated even for players who try to define their own reality. Writes Andrew Leonard on Salon.com:

> The truth of what is really going on is far more complex. So complex that no one has a good handle on exactly what will happen if things go awry. Not regulators, not traders, not even pessimistic journalists. Try reading an SEC filing from a New York investment bank – it is one of the most difficult-to-comprehend documents ever created by the human mind...It is not, in a word, transparent. It serves the opposite purpose: It is an instrument of obfuscation.

No wonder the media coverage is so confusing. Perhaps that's why so much money is now being invested in upgrading and disseminating business news. The market for financial and business news is big and getting bigger as well just to keep up with this information overload. There is a reason that Rupert Murdoch was willing to pay $5 BILLION for the *Wall Street Journal* and Dow Jones.

He spent even more in creating, staffing, launching, and marketing a new global Fox Business channel. His maneuver came on the heels of Thomson acquiring Reuters, while Bloomberg and the *Financial*

Times announced plans to expand and compete. True to form, Murdoch baits his main competitor, the General Electric NBC-owned CNBC channel, as anti-business.

Bear in mind that little of this is being done only to inform the public. Much of it is aimed at the industry itself and high-income consumers. News organizations that specialize in business news often also make money from the information they don't make public but offer in specialized newsletters or other "products" sold for big bucks to elite customers. Finance is itself an information business and the one most striking complaint heard among insiders during a period of market volatility was that their panic was feeding on a lack of knowledge about how much "bad debt" was in their system. It seems to be a mystery, even to them.

For me, mysteries make challenging stories. I gravitated toward trying to understand, investigate, and then popularize some of these fascinating issues because of the massive impact they are having – and because I felt many in our media were doing such an uneven job in explaining and tracking them.

THE UNITED STATES OF DEBT

Total number of Americans	300,000,000
Total consumer debt of Americans	$3,000,000,000,000
Average debt per U.S. household	$30,000
Number of households not paying off their credit card balances each month	6 in 10
Average length of time, in months, spent paying off credit card debt	43
Consumer bankruptcies in 1980	287,463
Consumer bankruptcies in 2004	1,500,000
Consumer bankruptcies in 2005	2,000,000
Percent increase in bankruptcies	422
Amount the average college student owes in loans at graduation	$30,000
Amount that same student owes in additional consumer debt	$20,000
Amount $1 invested in stocks in 1963 would have compounded to today	$12.36
Amount $1 invested in real estate in 1963 would have compounded to today	$1.79
Total in 2005 and 2006 lenders wrote in new home mortgages	$3,200,000,000,000
Net profit percentage annually by the major credit card companies	54
Years it took for America to move from a society based on production to a nation driven by consumption	25
Date when the first baby boomer was eligible for early retirement	1/1/2008

THE WARNING

"The combined threat of subprime loan defaults and excessive indebtedness has supplanted terrorism and the Middle East as the biggest short-term threat to the U.S. economy."

The National Association for Business Ethics