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Friedman's Last Hurrah?

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Naomi Klein's 2007 book, *The Shock Doctrine*, describes the use of Milton Friedman's strategy for the introduction of radical changes in economic systems. Friedman suggested that such changes would occur if they were introduced in the guise of solutions at the time some political, natural, or economic shock occurred. For organizations prepared in advance, these crises presented opportunities.

Friedman's particular interest was the introduction of free-market economies in developing nations, and his combination of deregulation, privatization, and free trade was the basis of the 'Washington Consensus,' applied with variable levels of success in South America and Asia.

Klein's book demonstrates where and how the shock doctrine strategy has been successfully deployed world-over during the last fifty years.

Yet Another Crisis

Now we have yet another crisis, apparently the result of lending based on the exaggerated value of the US housing market. In fact, it appears that the supply of US dollars that has fueled the US economy over the past five years was largely based on this creation of fraudulent asset value. The crisis emerged from deregulation of the banking system.

The result is now being termed a 'credit crunch,' and has spread worldwide following the purchase of US-originated securities by banks and financial institutions in many nations.

World-Wide Sales, Local Regulation

Many securities are traded worldwide, but their value relies on regulation by their country of origin. In the case of US mortgage-backed derivative securities, it appears that specific decisions made by the US 'President's Working Group on Financial Markets' in 1998, under Federal Reserve Chairman Alan Greenspan, specifically decided to leave the market to self-regulation, or 'voluntary oversight.' Thus it was that US-based financial institutions were able to originate and sell securities which, in today's analysis, are worthless or close to it.

The Latest Shock

The result has been the financial failure of banks and other organizations who find themselves holding these securities, many of which they purchased with borrowed money, leading to a financial domino effect. Friedmanite opportunists could easily spot, and wait for, such an obvious outcome—and prepare the moves necessary.

Financial industries were quick to take advantage of the situation. Results started with the government rescue of several 'merchant banking' organizations (who already appeared to have profited mightily from trading in questionable securities) and then moved on to the promotion of much wider, and highly debated, \$700 billion US government rescue scheme.

It has not been made clear who will benefit from the new money which the government has promised, but it has been remarked that it may be the same people who created the market for these derivative securities in the first place. 'Privatize profits, socialize losses' has been suggested as an appropriate motto.

The US taxpayer is apparently on the hook for the \$700 billion—or however much it eventually turns out to be—because the US government must borrow the money from somewhere; it is not allowed to just print it. However the money is raised, we should expect that over the long term, each and every dollar, including those already in circulation, will lose some value. This inflation will take the form of rising prices.

So successful has been the shock strategy, the bailout process has gone international. Banks around the world seek and get bonanza injections of funds from their governments, either in the form of loans or, in some cases, equity. They may plead hardship, threaten bankruptcy, freeze credit to the legitimate economy, or claim that without such assistance, they will be unable to compete with banks of other nations.

Thus, whatever the true nature or the cause of the 'credit crunch,' the reduction in the value of money is

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internationalized, and the 'injections' to financial institutions will be paid for through worldwide inflation.

'Washington Consensus' Losing Steam

Originally, 'Washington Consensus' policies were propelled by a combination of International Monetary Fund debt and economic threat. More recently by the terms of 'free trade' agreements offering access to the US markets. Targetted nations are encouraged to adopt US trade law and business practices, particularly the broad scope of US intellectual property law; along with Friedman's favourites: privatization of public services, and deregulation of markets.

However, these measures have lost credibility and proposed bilateral trade agreements are running into resistance from a number of nations, notably in South America.

Alternative Cures

In the 'credit crunch', US bankers have forced a pure money grab, consistent with Washington Consensus policies. But there are other world economic restructuring alternatives to consider.

The first might be termed the European model, which includes a much stronger role for government, particularly in the provision of public services and infrastructure. It also regulates financial markets much more strictly. The Europeans are in a position to point to the failures of the US model, but whether they would be able to force international consideration of a return to the 'mixed economy' is questionable.

The second might be termed the Asian model, in which the government is an active partner in the development of trade, markets, and businesses. This model sees government as financier, regulator, market-maker, educator, and provider of social services to promote the competitive economic

development of the nation in world markets—a more aggressive role than the European.

Great Green Opportunity

A third alternative would be more radical—but also more forward-looking. In this time of rejigging the economic model, we have an opportunity to consider rewarding the environmental accomplishments of national economies. Government and enterprise would form a new kind of partnership to make this work; one based on co-operative programs, not just preferential taxation and new laws. A dynamic new economics could be born.

Why Not Now?

Now would be the appropriate time to examine all these alternatives. No one size fits all, but it is possible for all to co-exist, and this should be accepted and promoted.

Simply strengthening an outdated economic hegemony would be an opportunity missed—and a tragedy. If citizens must foot the bill, they should seize the moment and change the agenda. With the looming defeat of the Republicans in the coming US election this may be possible.

What will stop them is the overwhelming amount of 'shock' propaganda spread by a corporate media to the exclusion of any other news. This attention to shock doctrine tactics stampedes people into the single alternative of a financial bailout, blinkering them to a wider vision.

Interestingly, this latest 'shock' has derailed the world's environmental awakening (look how quickly the environment disappeared from the Canadian election agenda). Ask yourself who benefits?

If people can bravely resist this hysteria, this is a moment of great opportunity to get back to the real agenda of creating a sustainable world economy. ✍

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