The Oil Drum
DISCUSSIONS ABOUT ENERGY AND OUR FUTURE

Down the Rabbit Hole

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This is guest post by Sharon Astyk. In the CNBC interview mentioned, Taleb says that our money system can't be based on debt, which is very different from what most are thinking.

“It was much pleasanter at home, when one wasn’t always growing larger and smaller, and being ordered about by mice and rabbits.” - Alice in Wonderland

Rod Dreher has a fascinating observation over at his blog. He talks about watching an interview on CNBC with Taleb and Roubini:

> Both men are notorious bears, and called the current crash long in advance. Both, CNBC tells us, were the hottest tickets at the recent Davos gathering. CNBC called them in to discuss the crisis. Roubini and Taleb were both trying to make their case for why what’s wrong with the economy is radical, is fundamental, goes to the very base of all our economic assumptions.
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> The CNBC twits just wanted stock tips and investing advice.

The more I think about his point, the more I think that it epitomizes something fundamental about the intellectual shift we have to make - and about how hard it is to make it. Moreover, it caused me to think about how hard it will be to unmake that shift. I commented on the piece at Rod's blog, and said,

> I think the biggest problem is that people have been told that investing is a form of saving - *the* form of saving, in fact. And they believe it - even when their "savings" are being ripped out of their hands. So the problem, through that lens, must be investing in the wrong things, rather than the whole fact that what you put into the markets should be what you can afford to lose, not what you depend on for basic things.
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> Add to that the fact that the society has transformed basic things like security in old age and education into things that can only be achieved through fake saving (investing) in a market that goes up, rather than things ordinary people could have, and it is no wonder that people who live in this never-never land can't grasp that it is a world of myth. That is, they know they are not going to be able to eat during retirement or send their kids to college on their income or on regular savings. But they haven't yet grasped that the situation has changed radically and the choices are now - change the system or accept that a college education and independent retirement are no longer choices for most of us.

I wanted to say more about this, though, because I think that while this does show where we're not yet, it also gives us a glimpse of where we are a going, a change as radical as falling into Wonderland or Through the Looking Glass.

Here is what Taleb and Roubini are telling us with their answer that they keep their money in cash - roughly translated this means "We expect the markets to decline still more. We expect to lose anything we put into the markets. We believe that money is safer in holes in the backyard than in the stock market."

Here is what people who kept asking questions about college and retirement savings were saying, in translation: "We're terrified to take our money out of the markets, and we're terrified to leave it in. We depend on the "fake saving" message of investment for basic things like food, housing, health care and education. We know we have no way of insuring food in the pantry when we are old, or that our children will get an education without it, and we're not yet ready to admit that our hope of those things is already lost, and thus, cut our losses. We desperately need the market to go up, so we are in profound denial about what you are saying. We have no alternate plan, and our government has no alternate plan. If what you say is true, we face utter disaster. Please tell me that there's a way to make that not happen."

And they are right. Both sides of the discussion are right. Without infinite growth, the hopes of an independent retirement were doomed - everyone was told they'd need half a million dollars or more to live on in retirement? What was the likelihood of that money being saved over the course of 35 working years out a 50K per year salary? Hmmm....

Four years at a State University costs $50,000 - a young family with two kids, who began saving at birth - what was the odds they were going to be able to pay for college without the markets? None.

That is, it isn't just that people bought the mantra of fake saving, it was that they knew that this mantra was their only hope and clung to it as people being swept away in a current cling to anything in reach. And thus, most of us got into the stock market somehow. In fact, we often didn't have any choice - our pensions, our health insurance funds, our mortgages were invested without our consent. Our companies matched not our savings, but our 401K contributions. And all of this meant that the markets had an enormous amount of the average person's money to play with. This enforced participation meant that the growth cycle had a feedback loop going - more people had to play, which meant more pay. Now we're into negative loops.

We were lied to, and we were betrayed, and most of us will never see our money again. And that leads to an even more important corrollary point - it will be a very long time before our society sees this level of investment again.

Think about it. I'm 35, and my friends in their 40s and early 50s are often already caring for or concerned about aging parents that depend heavily on their investments. Many have lost nearly half of their money already, but haven't pulled out of the markets because they have been told that this would hurt them, that it is a bad idea, and because they desperately need to believe that they someday will be able to retire. They can't bring themselves to accept that the money they have now may well be as well as they can do, because it will not support the future they've envisioned for themselves. So they leave it in.

Many economists have estimated the bottom - quite a few have estimated it at Dow 4000 or so, while others are optimistic. But let's assume that the most optimistic estimates are wrong, and that much more of the money is going to disappear. It took *30* years for the Dow to reach the same levels that it hit in 1929 - the recovery was not quick, and there's really no certainty that we'd recover quickly either.

So millions of baby boomers are facing disaster - either extra years of work, or poverty in old age. And they are going to be angry and betrayed - none of them imagined their later years to be straitened and struggling. They did what they were told. And eventually, they will take what is left of their money out of the markets and salvage what they can - and they won't put it back. They won't be able to afford to risk what little they have.

Shift down half a generation or a whole one, to my peers, and those slightly older and younger. As we watch our parents struggle, how many of us are going to trust in the stock market for our own retirement? As we explain to our kids why they may not get to go to college, are we going to put our limited funds there? Universal investmen tis over - and we will remember our whole lives what the dangers of speculation are. I've never met a peer of mine who expected to collect social security, and I don't think that in 10 years, I'll meet one who expects to derive money from a 401K.

The 20 and 30 year olds buried under massive student loans, the 19 year olds who will have to drop out because the college fund isn't there - they will remember, inscribed on their chests where their vision of their future lay, that investment is not safe, it is not secure, it is not a way to ensure the future, but a way to betray it.

It took 30 years for the stock market levels to rise back up to the adjusted equivalents of the Dow in 1929 - in part, because it took 30 years for the people who were children in the Depression, and on whom the fear of banks and markets did not imprint, to grow up and tentatively step back into them.

It took 50 years, until the 1980s, to get levels of participation in the markets up to approximate the 1920s - until a generation of children who could not remember the Depression, and had only known growth had grown up.

It was only after that that ideas like giving people their safety nets and letting the gamble in the markets with them came up - and anyone want to bet how long before the next time Social Security privatization comes to the table?

Let's assume that peak oil and climate change simply aren't that big a deal (for the record, I assume y'all know that they are). Even without these ecological limits, the idea that the markets will rebound in the long term is probably dubious - because market participation depends on people who believe the "investing is savings" mantra. And people who have seen it shown to be false will not believe it - you have to wait until a new generation of people, more gullible because they have not seen, arises.

And that means that even if we don't face energy constraints (we do) and ecological constraints (we definitely do), we face capital restraints - much of our current infrastructure, the way of our way of life, was built with other people's money, invested in the stock market. Who will choose to give their money to corporations to spend? Who will choose to see their health care, housing and education dollars gambled? And that means that our long term recovery prospects must include the reality that the "investing is savings" mantra has been proved to be a lie, and it will be 20 years or more before anyone will come buying that lie again.

Now mixed in with energy and ecological constraints, I think the constraints in investment capital do mean that we must - I don't mean should, but must, make our plans for the future very carefully, that we must choose now where to put our limited resources and energies, because they may well turn out to be more limited than we thought. Down the rabbit hole we go - and it isn't very clear what size we'll be when we stop growing.