

# The Source of the Current Economic Crisis: “A Chicago State of Mind”

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Worried about the global economic crisis? It's all in your head, says a leading financial expert.

And that's the problem, according to Jeff Gates, author of the highly-regarded *Democracy at Risk: Rescuing Main Street from Wall Street*, a sequel to *The Ownership Solution: Toward a Shared Capitalism for the 21st Century*, which was described by one reviewer as “the best book on economics for a generation,” and praised by Ralph Nader as “a Capitalist Manifesto, a blueprint for spreading the benefits of capitalism more equitably.”

In an interview with Japan's *Kansai Time Out* magazine, Gates, a former counsel to the U.S. Senate Committee on Finance (1980-87), identifies the source of the current economic crisis as a “shared mindset” into which we have been induced to put our faith, to the grave detriment of the majority — but to the immense benefit of a very few.

Following the September 15, 2008 collapse of Lehman Brothers about 460,000 Japanese had lost their jobs by the end of April, bringing the number of unemployed to 2.95 million. With 77 percent of people not receiving any government benefits, the already serious problem of homelessness is certain to get much worse, *Bloomberg* reporters Stuart Biggs and Masatsugu Horie wrote on April 26, 2009 in their article “‘Lehman Shock’ Fuels New Wave of Homeless in Osaka.”

While the events of last September on Wall Street may have come as a “shock” to many — not least those who suddenly found themselves out of work and on the streets — they were “perfectly predictable” to a close-knit group of “financial sophisticates,” Jeff Gates maintains.

## “Reforms”

“Lehman's demise traces its roots to 1982 when Reagan-era ‘reform’ of the Savings and Loan sector transformed a modest problem into a major disaster for mortgage markets,” Gates points out. “Then Clinton-era ‘reform’ of investor protections, led by Treasury Secretary Bob Rubin, former co-chairman of Goldman Sachs, enabled the ‘financial supermarkets’ at the core of this collapse — including Citigroup where he became a senior

executive alongside CEO Sandy Weill.”

These “reforms,” Gates says, led to a return to the “Depression-era conflicts of interest” that characterised the financial sector up to 1933 when President Franklin D. Roosevelt signed into law the regulatory Glass-Steagall Act, which prohibited banks from owning other financial companies.

“Rubin successor Larry Summers (now Barack Obama’s top economic adviser) fought for ‘reforms’ that de-regulated financial derivatives — magnifying the impact of the crash as those arcane arrangements grew from \$88 trillion a decade ago to a market that now represents transactions with a face value of \$600 trillion,” Gates says.

“Add to that toxic mix the easy credit policies of a central bank overseen by Alan Greenspan, a disciple of Ayn Rand, a Russian-Ashkenazi philosopher and market fundamentalist.”

The Fed Chairman’s praise for Wall Street’s financial “creativity” further “emboldened market-exploitative practices,” he adds.

Gates also points to the culpability of insurance giant AIG for failing to put aside reserves to cover the hugely profitable risks they took on in the newly de-regulated market, since they were “confident that taxpayers could be forced to pick up the tab,” which to date has come to \$170 billion.

“Meanwhile the perpetrators — typified by Lehman CEO Richard Fuld — booked record profits and paid record bonuses from this multi-faceted fraud,” Gates says. “The gains were theirs; the losses ours.”

## **Money, Money, Money**

But is there any evidence that this was a deliberate fraud?

“Systems analysts offer an acronym (“POSIWID”) to identify systemic flaws: the purpose of a system is what it does,” Gates explains.

“In financial systems, results are downstream of the ‘Chicago model’ — a shared mindset from which today’s results flow. Over the past half-century, this market-fundamentalist perspective evolved into the ‘Washington’ consensus to emerge as the guiding principle of the World Trade Organization (WTO) now taking this model to global scale.”

What exactly does he mean by the “Chicago model”?

“At the core of this worldview lies a premise whose purpose is easily stated: ‘maximize financial returns and — trust us — all else will be fine.’ Faith in that perspective ensured today’s results,” Gates says.

“As this ‘Chicago’ frame of mind gained the force of law through the ‘law and economics’ movement, the result became a globalized operating system best described as ‘money-on-autopilot.’ There lies the blame for this collapse — in that narrow ‘consensus’ perspective.”

The “law and economics” movement referred to by Gates also traces its origins to the University of Chicago. As key opponents of financial regulation, this movement was heavily funded by the same Olin Foundation that also supported neoconservatism through its funding of neocon think tanks such as the American Enterprise Institute.

This “Chicago” state of mind, Gates argues, had far-reaching consequences that could have been easily foreseen by its advocates.

“The results of this purpose-driven ‘operating system’ were guaranteed to concentrate wealth and income and thereby undermine both democracies and markets. By equating personal freedom with financial freedom, we were induced to freely embrace the very forces that now jeopardize freedom,” Gates says.

“Nowhere in this operating system is there any provision for the values essential to the long-term health of communities: fiscal foresight, civil cohesion and environmental sustainability. Money is the only value granted a voice.”

As to how they are getting away with it, Gates explains: “The source of this internalized fraud remains invisible because its operating system relies on that shared perspective. Its cause remains imperceptible because its source is a mental framework through which we were educated to filter our perception. Therein lies the blame for these fast-globalizing trends.”

Education, Gates argues, played a key role in the dissemination of the “Chicago” mindset to other countries such as Japan, particularly in the post-WWII period. “Since WWII, Japanese policy-makers have granted deference to the U.S. — including an education system in which Japanese were schooled in the same consensus economic beliefs as Americans.”

These oligarch-creating forces, he points out, “are imbedded in education. Both our peoples were taught to put their faith in a consensus ‘operating system’ guided by a very narrow bandwidth of values (i.e., money).”

### **The people in between**

Jeff Gates’ latest book, *Guilt By Association: How Deception and Self-Deceit Took America to War*, which traces the corruption that plagues American politics to a network who “share an

ideological bias sympathetic to Israel,” should be read by concerned citizens everywhere, but especially in the United States, where the “Chicago” mindset has been most deeply embedded in its economic and foreign policy-making.

Endorsed by former U.S. Ambassador Edward Peck and Illinois Congressman Paul Findley (1961-1983), *Guilt By Association* identifies those who have promoted aggressive economic and foreign policies that have been “ruinous” not only to America’s reputation but also to “moderate and secular Jews,” who, Gates points out, are often unfairly portrayed as “guilty by association” with the behaviour of these “elites and extremists.”

Who are these “elites and extremists,” and how do they make America appear “guilty by association”?

“When waging unconventional warfare, Defense Secretary Robert Gates points to the perilous role of ‘the people in between.’ Thus, for instance, while pro-Israelis induced the U.S. to wage war in Iraq with false and flawed intelligence, ‘the people in between’ created, promoted and reported intelligence ‘fixed’ around that pre-determined goal,” Gates explains.

“In the financial domain, ‘the people in between’ are securities bundlers, rating agencies and, most fundamentally, those who induce “the mark” (the public) to put their faith in the financial premise that enables this ongoing fraud. All flows downstream from a ‘consensus’ perspective –regardless whether the deception is a shared belief in Iraqi weapons of mass destruction or a consensus faith in the infallibility of unfettered financial markets. The *modus operandi* is identical — the displacement of facts with beliefs.”

Perhaps not coincidentally, the intellectual roots of neoconservatism can also be traced to Chicago, where University of Chicago Professor Albert Wohlstetter’s cadre of students included Richard Perle and Paul Wolfowitz. Wohlstetter himself had been a protégé of another University of Chicago Professor, Leo Strauss, considered to be the “intellectual godfather” of the neocons, who significantly advocated a “philosophy of deception.”

Robert Zoellick, Paul Wolfowitz’s successor as president of the World Bank, also typifies “the people in between,” in that he too weaves together the political and economic strands of the “Chicago” state of mind. Zoellick is another ardent Zionist, as signatory of the neocon Project for the New American Century, advocating in 1998 the overthrow of Saddam Hussein and the destabilization of Muslim regimes throughout the Middle East. At the World Bank, Zoellick now plays a key role in globalizing the “Chicago” economic mindset.

In 2004, as U.S. Trade Representative, this one-time manager of Goldman Sachs, was very influential in Prime Minister Koizumi’s privatization of Japan’s Post Office. Postal privatization was, according to Gavan McCormack, “a further, large step in sustaining Washington’s Iraq mission” – a mission for which Zoellick’s neocon cronies were key instigators. Moreover, privatization allowed America’s “financial supermarkets” much coveted access to “the giant Japanese pool of savings.”

## Toward a sustainable future

Through their failure to identify the source of the problem, government responses to the ongoing economic crisis will only make matters worse, maintains Gates. He sees little difference between responses to the crisis whether crafted in Tokyo or Washington.

“Same pig; different lipstick,” he quips, referring to Taro Aso’s \$153 billion and Obama’s \$787 billion stimulus plans.

“Both lawmakers seek to solve a systemic problem well downstream of its source. By piling on more interest-bearing debt without addressing the underlying problem, both men are unleashing long-term financial forces destined to make a bad situation worse — at a staggering cost,” he says.

“Both nations can anticipate stagnation and inflation while ‘the people in between’ continue to amass more assets (at distressed prices) and collect more interest on more taxpayer-secured debt. The pace is poised to quicken in this policy-enabled redistribution of wealth — from the bottom to the top.”

What then would Gates, who has counselled more than 35 countries on financial policy, advise Prime Minister Aso to do?

“The mindset is the problem,” he reiterates. “The consensus operating system includes a ‘closed system of finance’ guaranteed to concentrate wealth and income — and thereby destabilized democracies and markets. Those foreseeable results are made worse by relying solely on government debt as the means for creating money — and by depending on a one-size-fits-all national currency. With these design flaws left intact, nations are *systemically* unable to meet the needs of communities.”

So, what kind of financial system could actually meet the needs of communities?

“The solution,” Gates believes, “lies in combining financing techniques that broaden ownership with monetization techniques that secure currencies with the physical capital essential to healthy communities. Local hydrogen reformers, for instance, could back currencies able to stimulate local purchasing power while also hastening the transition to the Hydrogen Age.”

“Sustainable futures will be found in policies that decentralize monetization and make finance more inclusive and more accountable. That’s how Japan can begin to identify and displace ‘the people in between.’ And how other consensus-enamored nations can be freed of this systemic corruption.”

No doubt, “the people in between” wish that you had never heard of Jeff Gates, so as not to disturb your Chicago state of mind.

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