

# The Four Horsemen of the American Apocalypse

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**W**ITH the House Republican-led rebuff of the deeply flawed "plan" of Treasury Secretary Henry Paulson, it is clear the current crisis affecting the United States – and, because of its central role in the global economy, the rest of the world as well – is fourfold: economic, political, ideological and the media.

■ **ECONOMIC:** It's the credit freeze, stupid – not the private losses.

The systemic danger is not large losses, but the reaction to those losses: the sudden unwillingness of market actors to give one another credit. Thus, any "solution" to the crisis must be directed first and foremost at unfreezing credit.

There are many ways to ensure that. Mr Warren Buffett's taking a major position in Goldman Sachs is an example of how a relatively small private-sector action can help maintain credit circulation.

Messrs Nouriel Roubini and Robert Reich in their blogs, as well as Mr James Galbraith in a congressional testimony, have pointed out numerous alternatives to the Paulson "plan", though these have not been noted in the mainstream media.

If systemic stability is the goal, the focus should be preserving the free flow of credit and restoring confidence in the money markets. In that effort, the key factor is trust.

That is, all actors involved need to feel they have a reasonable – although not risk-free – chance of getting back the money they are investing or lending. And the only way they can feel that is if the system provides full information – which, in turn, is possible only within a framework of regulation and oversight.

As Securities and Exchange Commission chairman Christopher Cox said last week, one of the biggest trouble spots was the so-called shadow banking sys-

tem: notably, although not exclusively, the US\$60 trillion (S\$85.7 trillion) unregulated market for credit default swaps.

What is needed, therefore, is not the secrecy of even an amended Paulson plan, but rather its direct opposite – full information, in a framework of explicit regulatory oversight.

■ **POLITICAL:** Years of empty rhetoric coming home to roost.

Unfortunately, the restoration of transparency and regulation has to come from the same political elite whose lack of leadership led to the crisis. While Main Street may have swallowed the blatant lies that "justified" Iraq and countless other Bush-Cheney shenanigans, it clearly did see the Paulson plan as a transparent ruse to make up for the losses of the people who had caused the disaster in the first place.

The Washington-based, non-profit Centre for Responsive Politics has found that lawmakers who voted in favour of the bailout Bill received 51 per cent more in campaign contributions from sources in the finance, insurance and real estate – or Fire – industries over their congressional careers than those who opposed the emergency legislation.

■ **IDEOLOGICAL:** The bankruptcy of free-market fundamentalism.

As the above fact indicates, both Democrats and Republicans have reverted to a pre-New Deal era ideology of "free and unfettered markets". This world view has been the dominant orthodoxy for nearly 30 years since Mr Ronald Reagan's rise to power.

Consequently, the crisis cannot be resolved quickly. It is likely to be intractable, because its causes lie at the level of deeply held belief systems.

The result is the visibly barren public discourse about the crisis. There are almost no ideas about how to deal with the most serious financial catastrophe since the Great Depression – one reason a somewhat modified Paulson plan may yet emerge "victorious".

■ **THE MEDIA:** Worshipping the powers-that-be.

If the Paulson plan passes, it will be partly because what few constructive ideas there are do not find their way to the mainstream media.

Is this because the media accepts uncritically the statements of authority figures? Or is the media simply as clueless and confused as other American elite?

Whichever it is, the implications for the rest of the world of this hydra-headed US crisis are not happy. There is no immediately visible positive outcome – only bad and less bad. So, Singaporeans and other Asians should start making plans for a long, hard slog back to "normalcy".

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