

Summary of James Howard Kunstler's presentation to CREF, April 19, 2010 (Attendance of 60)

Society's expectations and sense of what is normal has changed dramatically during the lifetimes of those of us who are alive today. The longer you've been around, the more things have changed. During the post WWII 1950's the Interstate highway system enabled people to move away from the "confining" nature of urban environments. It was a time of abundant and inexpensive petroleum that was domestically retrieved, a much greater amount of very productive agricultural land, and big open spaces.

Banking operated by the 3-6-3 principle, borrow at 3%, loan at 6%, and be on the golf course by 3 p.m.

American oil production peaked around 1970 and, once OPEC figured out that they were no longer dependant on the United States' ability to control the price of crude, they started escalating the price and set off our first shock at the pumps in 1973. Jim referred to Matthew Simmons as the preeminent investment banker for the petroleum industry.

Manufacturing started dying in America and the initial signs were cheap Japanese vehicles. We transitioned from making useful things to an economy based on services. We were starting to confront the diminishing returns of hyper complexity. As it became harder to make money on traditional investments we started looking for other ways to earn ever higher returns. The advent of computers happened concurrently with these other economic dynamics.

Banks started bundling loans, off loading their risks, and selling these bundled mortgages as securities. This resulted in the phenomenon of economic cycles and acculturated our expectations to these changed dynamics. Bankers made money on all different levels by collecting fees for each level of bundling activity. They were making profits out of nothing that had any tangible value and then took out insurance to cover the bad loan risk in the bundled mortgages that they had created – credit default swaps.

The Magnetar Hedge Fund of Chicago specialized in bundling to ensure that failures would occur that they could then collect insurance on.

These highly leveraged financial instruments created highly inflated real estate prices, when combined with very low interest rates, and led to very high valuations of financial assets that were far removed from the underlying value of the hard assets behind the financial instruments. This perception of wealth was divorced from any production of goods and services in our domestic economy. Jim recommended the podcast from Planet Money of 4/12-19/2010 and also a Pro Publica article on CDOs.

Now that our economy is undergoing the deleveraging of our financial assets and available capital is contracting, how will this affect our future economy? He suggested that our economy will revert to what it was in 1923. Governments are "broke" at all levels (for that matter, all taxing authorities (schools as well)). Jim suggested that we will shortly witness the end of all revolving credit. As a form of denial about global oil depletion, many people will choose to believe in "abiotic oil" meaning that petroleum is a renewable and thus infinite resource. This self denial will continue for several years after the evidence of declining production is available. Human population centers will undergo difficult transitions in the new reality. Cities are over built and are overly complex. Skyscrapers will not be maintained or sustainable due to lack of occupants that can afford to pay for the space. He anticipates that we will have neither adequate capital to pay for nor the natural and knowledge

resources to produce sufficient renewable energy technologies to sustain the current levels of consumption and mobility.

What are the viable future options? Downscale and relocalize. Globalization is not an inevitable or permanent economic model. We are suffering from the myth of Technical Grandiosity and Techno Triumphalism. Jim made reference to Andrew Bacevich (The Limits of Power) and the perception of American Exceptionalism. We need to become more modest and more “real,” become less complex. Reinhabit the landscape differently. Readapt suburbia into agricultural communities. We should consider investing in capital goods and production based endeavors which are close to their markets. Population expansion will diminish and the reductions will not be pretty – we will probably start witnessing contractions rather than continuing expansions of both population and the economy.