

Re: What caused the world economy to collapse,article link

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On 2009-02-01, Democracy Highlander <democracy.highlander@xxxxxxxxxx> wrote:

Let consider 2 countries C1, and C2. Both of them produce and consume bread and wine. C1 is 2% more efficient at making bread than C2 and C2 is 2% more efficient as C1 at producing wine.

Case 1: C1 and C2 keep their own localized economies and trade only surpluses and use protectionism to keep both bread and wine productions.

Case 2: C1 and C2 implement total free-trade, C1 specialize on bread and C2 only wine and then trade with each other. Because of advantages, they both consume 2% more bread and wine.

Case 2 (Globalized economy) seems definitely better to case 1 (Protectionist economies).

Now, let consider a plague of locust in C1 destroying all their crop.

Case 1: C1 is left without food. They appeal to humanitarian aid from C2 and also agree to trade most of their wine for some bread. C2 help/trade with them and give them enough bread (1/3 of C2 production) to survive till next year.

Case 2: Both C1 and C2 are left without food. If they are the only major players into the global economy of liberty loving countries. Now it is a good time for their enemies C3 and C4 to attack and subdue them both. Bye bye freedom, we will always remember you.

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For many many years, from when the systems started to become complex, the engineers knew that as a complex a system, as easy can fail. In order to handle the ever growing complexity, engineers started to develop complex systems in independent modules, able to be designed and operate independent of each other, and they just communicate using a small and well managed interface. That way, if a sub-system fail it crash does not affect other sub-systems. The supervisor module

will detect the failure of a sub-system and try to restart/reboot it.

This modularization does indeed introduce a lot of inefficiencies. The computer used for flight control can also handle communications very well, but it never will. The reason is that the engineers want to prevent a potential crash of the comm module to make the plane unresponsive to pilot commands. If the comm module crash, the co-pilot just turn it off-on without the risk that the pilot lose the control. This safety feature however, imply multiple computers, with their own power sources, cases, heat sinks etc. It is less efficient but is able to handle failures. It goes so far as to have duplicate subsystems for the most critical components like flight computers.

One can only wonder how an economist proponent of globalization will propose to consolidate all the computers of a plane into a powerful PC running an off the shelf Microsoft Windows Vista – Home Edition for "efficiency" purpose :-). Oppose any "useless redundancy" because this is not what the market wants and even globalize all the electric circuits on the plane on a single big fuse, instead of that "wasteful" fuse panel with independent circuits.

If the financial system would not been as tightly integrated, and globalized and so consolidated in huge large financial institutions (too big to fail) the sub-prime problems in US would been visible much much sooner. A number of small banks fail, our friends from England, Germany, Canada, Australia or yes, even France would been able to help and nothing bad happen.

Unfortunate, instead of having a large number of small local/national banks we allowed a wave of huge consolidation of the financial power in institutions "too big to fail". We gave them the right to globalize at their will and by this to induce unhealthy inter-connects into all our friends financial systems (more circuits on a single fuse). By this, when the short-circuit happen in US, there was available enough raw power to keep the wire running hotter and hotter until it started a fire everywhere in the system.

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Looking at this economic collapse we shall start to think. Efficiency is not always the only purpose:

Yes, we can increase the production with 2% but we risk to loose our freedom for that. Do we really want to pay that price price ?

We can reduce at half the weight of the avionics, and that will increase the fuel efficiency with 1% for every plane. But for that 1% increase we are going to have every one in five planes crashing and killing everybody on board. Do we really want to pay that price price ?

We can globalize our economy, giving free-trade rights to corporations to do at will whatever they want without any government control and supervision. But by doing this we will have something worse than Great Depression, a world wide systemic collapse that have the power to be a civilization ending event. Do we really want to pay that price price ?

I agree wholeheartedly (have been saying the same thing for a long time): we need modularity, because that becomes shock-proof. In terms of economics that means inefficiency, or maybe not: the disasters that increase their damage effects because of interdependence must be counted as a decrease in economic efficiency.

Economic wealth output is also not the only factor to consider: economic interdependence running at high/vulnerable "wealth efficiency" means a serious loss of sovereignty for all countries.

As a practical rule it is probably best if each country:

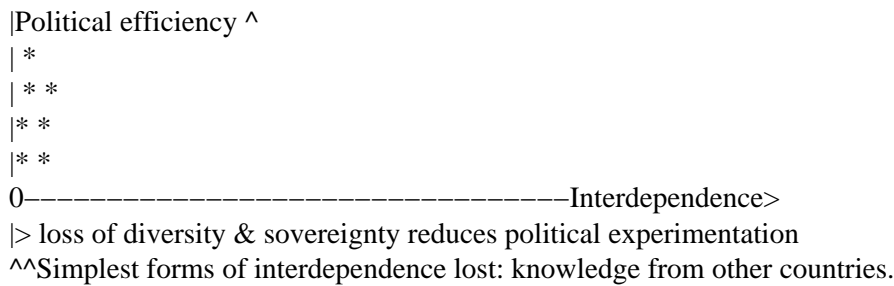
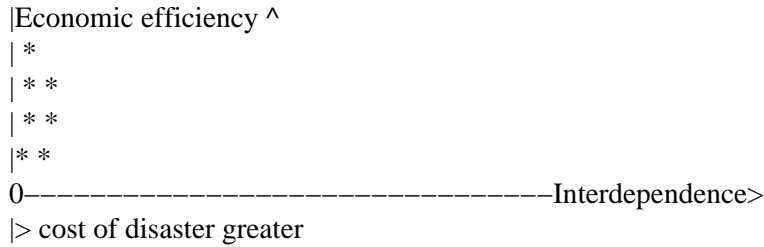
- has its own currency
- has its own sufficient food/water supply or could start that up quickly
- at least has some industry in all important areas

The politicians are also muddying the water of the economic debate: "free trade" is now a word denoting free-price setting as much as it is about no border tariffs/barriers. That is wrong: borders keep a country sovereign, modular, insulated to a degree. Within the country there should exist a free price setting trade system. Border tariffs are a great tool to keep the economic filth/instability out of an economy, for example: if we know that certain cars are build with effectively slave labor (a serious imbalance/disaster in the production country, which will potentially correct itself during an upcoming civil war or other such calamity), then slapping a tax on those cars equal to what they would cost under fair labor (might triple the cost of such cars) insulates the home economy from the outside world disasters, it does not promote the sales of the slave build cars (humanitarian profit), and once that country goes through a correction the home country remains relatively unaffected because the market for slave build cars was kept small, thus allowing honestly build cars to dominate that market already. In the ultimate case much or everything could be internally fabricated for the home market, in which case a country is 100% protected from foreign problems (that is probably not an optimum position either).

The best design is IMHO: many many sovereign countries, none too large. Even when some go through great corruption periods or whatever, there would be so many other countries to shift trade to that most other countries wouldn't even feel it.

The modularity is very important for political efficiency: to find out

what policies work and what don't. The more countries, the more different policies are being implemented concurrently. Example: if the USA had been 12 sovereign countries, they would only have had one Bush in one of them, only one of these countries at one time would go through a financial crash. Seeing that, the other countries who are into Government lending practices and wars or whatnot, seeing the crash might get out of such choices. In case the whole world is one nation political efficiency drops to near zero.



Hence the optimum level of interdependence / trade barriers lies somewhere less inter-dependent than pure economic efficiency taking account of cost of disasters, to allow for political efficiency. Or rather: for the optimum level of inter-dependence you also have to take into account the importance of political efficiency, since political efficiency is extremely important for how well an economy functions.

An example is easily found: say one country invents a better economic model. Other countries could benefit from that: political efficiency transfers into economic efficiency. In a totally inter-dependent "one nation" world no country can invent a better economic system since they would be tied hand & foot to what exists, and may have to contend with the overwhelming economic power of the big companies & banks who don't have general economic efficiency as their goal, but maximization of exploitation of the Earth & humanity for their own benefits and position in the competitive market.

Trade barriers should remain in a serious manner, and remain the toy for day to day politics. The great empires USA, India, China, EU must be cut up into quite a few new fully sovereign "modules." Each must have its own currency (or it is not sovereign), and should strive to be an independent "universe" for itself, or at least be able to survive fully independent (food/water/shelter). I think this also makes for a more interesting world. Foreign trade becomes a

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Carefully done bonus for marginal economic efficiency, rather than pretty much the backbone of many national economies. Having complete set of industries in all countries breeds employment & general competence.

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