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A Holistic Approach to Economic Crisis

by Tony Malmberg

The sun rose to a different economic world in 2009. A stock market meltdown and bond markets crumbling has spread economic chaos across the entire world. Who would have thought that all of the world's equity markets could have shrunk by a third simultaneously?

The Dow Jones Industrial Average dropped 40 percent, with no reason to believe it has achieved its lows. Wheat down 60 percent, cattle down 30 percent, and oil down 70 percent, all scream of instability. The financial industry has seen equity vanish into thin air. Prices have gone from unsustainable highs to unsustainable lows.

When someone borrows money, the money supply grows. If the borrower defaults, the money supply shrinks. In fact, the money supply has shrunk by nearly 20 percent . This is a mere drop in the bucket if anticipated foreclosures come to fruition. The Dow Jones Industrial Average saw a third of equity vanish, and the money supply will match or exceed this amount as additional foreclosures shrink money supplies further.

The newly spawned derivatives market, supposedly hatched to hedge risk, magnified losses by the power of 10, by foolishly hedging ten times more than the equity underlying these instruments. Not only does this not make sense, it clearly demonstrates the lack of clear decision-making. People at many levels began making decisions simply to accumulate money without considering social, economic, or environmental sustainability.

The new year also greets a new president in the United States. Barack Hussein Obama, our 44th president, calls to a nation in words that echo Allan Savory's call to Holistic Management practitioners around the world. "One cannot be lazy. There are questions to be asked, actions to be monitored, to address hard issues enabling a thoughtful response." It sounds like a call to practice Holistic Management decision making. As Allan Savory says, "It's simple, but it's not easy."

On the other side of the coin, nations' treasuries are frantically pumping money back into the system. Bailouts flail to stabilize companies threatening to drag entire segments of our economy down. These companies, with drastically reduced markets, threaten to drown the taxpayers like a panicked swimmer drowning his lifeguard. At some point there will be a bounce and the recoil will reflect the velocity and duration of the downward plunge in another upward spike. Deflation will reverse to inflation.

So is it the end of the world? No, but I'm sure some players in the thick of the matter think they can see the end of the world from where they stand. What goes up usually comes down. When we breathe in, we must eventually breathe out. The longer we go without breathing in, the more desperate the gasp and the longer the sucking will be.

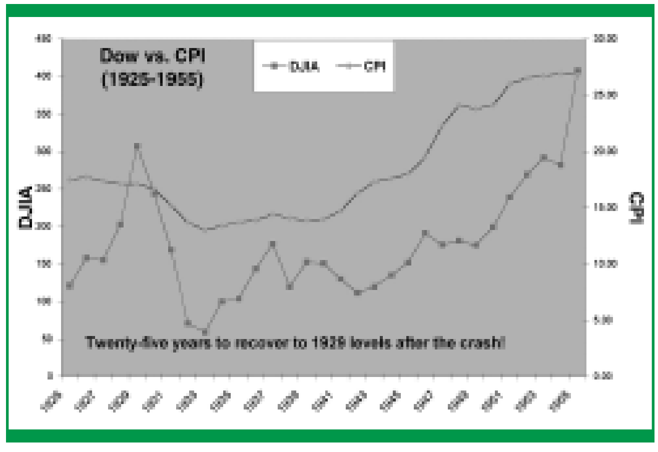
Sloppy Decision Making

Panicking will continue until somebody gets a grip on reality. With wild and extreme markets the only certainty is uncertainty. In uncertainty we have no chance of stability. From where I stand, it appears the root cause of the problem is sloppy decision-making.

Situations like this usually arise from sloppy decision-making. The best way to begin cleaning up the mess will be to acknowledge that our decision-making could be better. As a first step toward improving decisions, let's ask, "What depicts bad decision making?"

In the book, *Decision Traps,* by J. Edward Russo and Paul J.H. Shoemaker published in 1989, the authors say poor decision making is highlighted by:

- Plunge without identifying the crux of the decision
- Frame Blindness—we don't see the real problem

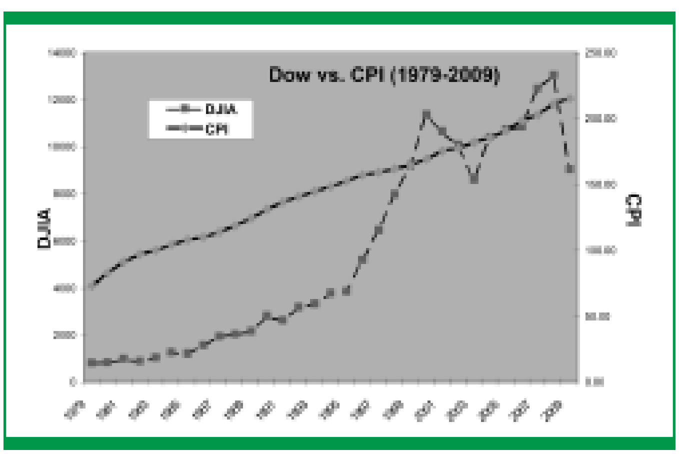


- Overconfidence causes us to ignore the facts
- Shortcuts result in using convenient supporting info
- Winging It—rather than use a systematic approach
- Feedback Ignored—due to ego or irrelevant hindsight
- Not Keeping Track—assuming lesson learned
- Failure to Audit Decisions

The financial industry probably became a little *overconfident.* With the longest economic expansion in post-war, everyone became bulletproof. The derivatives market became an effort to prop up yields when the economy began winding down and was a *shortcut.* The decision to leverage hedges ten times appears to be a gasp, and an effort at *winging it.* If underlying assets would have been tested toward future sustainability, it most surely would have been smoked out as phony. The financial industry failed to acknowledge the futility of propping up yields to ever higher returns into infinity.

Enter the government bailout guys. I can't think of a term that defines their behavior any better than plunging! Plunging will usually be prevented if we don't have *frame blindness.* Obviously the problem is unsustainable debt. The world's governments have succumbed to one of the basic fundamental rules of Holistic Management: Don't make the problem the goal!

Rather than attacking the problem by buying toxic assets or giving the mega-banks loans, we should step back and ask, "What would we like to have as a sustainable economy?" Having a holisticgoal, testing decisions towards our holisticgoal, monitoring for early warning indicators and using the feedback loop will deal with all of these decision making shortcomings. Russo and Shoemaker's bottom line kicker is that one must take a systematic approach to making good decisions. That's what Holistic Management does.



Economic Germination

The financial world requires a healthy tension between lender and borrower if it is to remain resilient. As assets and wealth accumulated to the few and the rich, the entire system became unbalanced. New found wealth was gained from trading paper and transferring risk rather than building wealth with raw resources and people. When you have most of the wealth purchasing hedges to insure more risk for higher yields, it's a house of cards. Economic activity requires money in many diverse hands. Our rangelands could not have remained resilient with only wolves or only herbivores, but the tension between the two created a vibrant biological community. The same is true for this economic crisis.

A healthy economy comes with one loan at a time. Mass bailouts send money to the unworthy, just as tighter lending practices strangle the needy.

Over the long term, the world GDP grows about 2-1/2 percent. When the financial industry comes up with gimmicks to grow faster and regulators look the other way so it can grow faster, there will be consequences. If we push the limitations, we have consequences in the world of life. We cannot grow more forage than rainfall will sustain, our mineral cycle will feed, or space we have to grow plants. We need to acknowledge the limitations within sustainable growth and work with them.

Financial managers may find they too are strangling the potential of the economic-system. We strive for diversity and complexity on our rangelands. This provides more pathways to harvest solar energy, utilize the soil's minerals, and hold and use water. If our government policies unwittingly block the flow of credit to small business, human creativity is cut off, local economies shrink because of the loss of multiplier effects, and the fruit of labor stalls. The seeds of this economic desert were planted by moving factories and industry to less developed countries. Local entrepreneurs lost touch with decision makers as banks became larger through consolidation and only clerks remained in local communities. The branch banks became a place to collect deposits and make consumer loans and no longer nurtured initiative for human creativity to strive toward dreams. The few decision makers, isolated from the depositors, invested in hedge funds to insure risks against a weakened economy. But the core of the economy could not be nurtured with paper. As a brittle landscape dies from rest, human creativity out on the ground oxidized, and the generation of wealth withered.

Land managers surveying a desert will choose the tool of animal impact to create disturbance. The hooves churn germination sites in the soil surface. One thousand head of cattle, with four thousand hooves generate more than seven million germination sites per day, (assuming each animal travels 4 miles in their grazing and traveling.) View each animal as a loan officer and each hoof print a small business loan. As germination sites spawn new growth, value is added to the local scene. As one plant benefits another, and another, a synergism creates a multiplier effect. The sum of the parts becomes greater than the whole.

The financial industry has the tools of deposits, loans, securities, borrowing, etc. Our government regulators have the tools of taxes, rebates, borrowing, stimulus, federal reserve policy, etc. But like us, the financial industry and government policy makers need to remember that tools are neither good nor bad. The recent economic meltdown has provided the disturbance. Now it's up to policy makers to use the tools necessary to create and nurture germinations sites.

Buying toxic assets and bailing out banks on the brink of failure is focusing on the problem and not the goal. Getting money into the hands of local banks for loans to *add value* to human creativity, labor, and equity of the many local citizens, rather than the few will have a better marginal reaction for the American taxpayer.

A Holistic Economic Stimulus

Let's write a generic holisticgoal for the United States. For the moment, let's not make the current global economic meltdown problem a focus. If we had undesirable weeds where our goal is a diverse community of perennial grass, forb and shrub, we would not include "killing weeds" in our holisticgoal.

Statement of Purpose

To build a diverse and complex community of sustainable cultures, healthy resource base, and sustainable economy.

Proposed Policy

To achieve this we propose sending the proposed bailout money to local community banks as partners of the taxpayers. They will distribute these monies in loans to local

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businesses adding diversity to our culture, our food production, and our capital base.

Testing the Policy Cause & Effect

Are we addressing the root cause of the problem?

Why is there no credit available? Because bank balance sheets were weakened by losses. Why? Because investments in hedge funds had no underlying equity. Why? Because loans were based on speculation rather than building wealth. Why? Because consolidation of banks fractured decision making from the land, people, and wealth building potential. Why? Because banks are no longer local. Why? Because decisions were not made toward a triple bottom line.

Root Cause of the Problem: Decision making for loans was removed from the grass roots of land, people, and wealth building. Policy **PASSES** as it resolves that imbalance.

Weak Link

• Social—*Have we addressed any confusion, anger, or opposition this action could create with people whose support we need in the future?*

Corporate banks may initially resist this as the money will not going to them. There would be a need to show how they benefit from this plan.

• Biological—*Does this action address the weakest point in the life cycle of the organism?* **N/A**

• Financial—*Does this action strengthen the weakest link in the chain of production?*

The financial weak link is resource conversion. For a sustainable diversity in culture, food, and capital formation, we need to invest in research, education, and human creativity. We need to invest in building healthy soil and a mechanism to plow new wealth back into local communities. **PASSES**

Marginal Reaction

(Comparing two or more actions.) *Which action provides the greatest return towards our holisticgoal in terms of time and money spent?*

The bailout sends good money after bad and leaves the decision making authority in the hands of those removed from the grass roots level. Our proposed action gets money to decision makers at the local level to invest in human creativity and building the real assets of people, land, and generating wealth. **PASSES**

Gross Profit Analysis

(When comparing two or more enterprises.) *Which enterprise contributes most to covering the overheads of the business?* **N/A**

Energy/Money Source & Use

Is the energy/money to be used in this action derived from the most appropriate source in terms of our holisticgoal?

Because the money is being used is taxpayer money it could be perceived as failing this test (because it is not the bank's money). However, others might argue that this is a good area to invest tax payer money and get a return later. In regards to money use, this would be an investment so it **PASSES.**

Regarding energy source and use, **N/A.**

Sustainability

If we take this action, will it lead toward or away from the future resource base described in our holisticgoal?

Our future resource base (as defined by the newly elected administration) calls for building roads and bridges, electric grids and digital lines that feed our commerce, restore science, and wield technology's wonders to raise health care's quality and lower its cost, harness the sun and the winds and the soil to fuel our cars and run our factories, transform our schools and colleges and universities to meet the demands of a new age. **PASSES**

Society and Culture

Considering all of the questions and our holisticgoal, how do we feel about this action now?

This is our gut-check and it's for you, you, and you to answer. It feels good to me.

Logjam (for Financial Planning)

The financial logjam is no liquidity. Banks receiving bailout money have simply paid off debt or invested in other financial companies. The root cause of illiquidity is not having loan authority at the grass roots level. The proposed action addresses this logjam. **PASSES**

Building Confidence

We are dealing with major complexity. The recent past adequately demonstrates that our world economy is more complex than anyone understands. Therefore, we need to identify early warning indicators to warn us if we are not moving in the right direction. The first confirmation will be improved confidence at the grass roots level, but not through a dangerous ratio of debt/asset. The American dream begins with an education to improve citizens earning ability. As graduates move into the work arena and start families, the dream continues with owning a home. By monitoring college enrollment and home ownership, we have a good early warning indicator of whether we are getting money into the hands of real people at the grass roots level.

Early warning indicators that might suggest we are on the wrong path would be increased filings of unemployment claims, domestic abuse incidents, and debt.

The key will be to use the testing questions as programs and policies are designed. Ideally the money won't be an addictive (as unemployment) cost but will move through schools, industry, and business hands to the hands of citizens learning, thinking, and working to build our future resource base.

Crisis = Opportunities

Finances have a natural ebb and flow with disturbance and recovery ratios that must be heeded for a healthy resiliency. One cannot expect a sustainable economy to expand at a rapid rate forever. Holistic Management decision making and testing decisions toward the triple bottom line would have retired our national debt during the longest business expansion in post war history (the previous five years) rather than financing our wars with debt. In that case, we would be in the situation China finds itself—debt free. This enviable position allows them to pump massive amounts of money into their economy putting people to work and build their future resource base.

Is national debt a logjam or just an adverse factor? With a total debt of $53 trillion and a $14 trillion GDP, I would suggest debt is *not* our logjam. Let's put it in perspective. Say a ranch's stocking rate is 1,000 AU and our gross sale of $20 per AUM equals an income of $240,000. (1,000 X $20 X 12 months = $240,000)

The US debt is 3.78 times the gross income. Our 1,000 cow ranch would have a debt of $907,200. Our government has the ability to borrow money pretty cheaply now and a 20 year treasury is 3.2 percent. If we were to plan on paying this debt off in 20 years, our principle and interest payment would be a little over $62,000 a year.

Those of us practicing Holistic Financial Planning know that the tough part of this is mental. The trick is to set aside our profit first, so our human creativity will focus on managing expenses more efficiently. We are used to setting up to half of our gross income aside, which would be $120,000 in this case. We could pay our debt in ten years! This is doable, but we can't afford to continue deficit spending *without* building a future resource base that will be sustainable economically, ecologically, and socially. Another ten years of adding $1 trillion more principle plus interest of a trillion or two and we're talking real debt.

Our economic weak link is the resource conversion link. We need to build worker skills and knowledge to build our future resource base. It's time to invest in people. Next time our economy is cranking, we need to retire debt.

Holistic Management is pragmatic and asks the questions that are meaningful for our lives and our situation, wherever we may find ourselves. President Obama called on Americans to face our economic crisis caused by "our failure to make hard choices." Holistic Management is a systematic way to make sustainable decisions when faced with hard choices. There is opportunity in this crisis. Working toward our vision of what we want to create will make all the difference in the world.