

Chronicle of Catastrophe

A Contemporaneous History of the Bush Years

By Michael Cuddehe

Introduction

The financial crisis of 2008 was neither an unforeseeable nor unexpected event.

I began writing about the inevitability of this crisis in 2002 in quarterly newsletters under the title Risk and Opportunity, published online at www.riskopportunity.com. This volume collects those newsletters and contains dozens of references to others who were also pointing out the misguided fiscal policies and business practices that led to the crash. Those of us attempting to sound the alarm were ignored, as the acolytes of economic utopia assured the world that all was well.

At the beginning of 2002 I wrote that the “defining characteristic of all investment mediums today is *pervasive risk*.” In particular, it was painfully obvious that the huge move into housing by marginal buyers and the boom in refinancing—often for 100 percent or more of the inflated market value—was going to result “in a wave of defaults, personal bankruptcies, bank failures, and big losses for agency bondholders and other mortgage investors.”

These were not especially brilliant insights, but the observations of a marketplace clearly out of balance and resting on unstable foundations. I repeated these messages during the next five years as the tsunami of deficit spending and the fraudulent Wall Street credit bubble generated a global frenzy of real estate speculation, distorting the values of all asset classes and setting the stage for the meltdown in 2008.

At the same time the oligarchs of finance were stacking wood for the inevitable financial bonfire, parallel excesses were manifesting in the political world.

Republicans had leveraged the culture wars to propel themselves into total control of government in 2000, and added to their numbers in 2002 by shamelessly exploiting 9/11. These culture warriors were not traditional Republicans but rabid partisans who showed nothing but contempt for their critics, the constraints of laws and treaties, and the necessary compromises of democratic governance. Their hubris was clearly a hazard to the nation. In 2002 I wrote, “Unless victorious Republicans get a grip and discipline themselves they are likely to precipitate disaster in their blind arrogance. . . . The big question is, will the disaster be merely a Republican Party disaster or will it be global?”

One of the most disappointing features of this group of firebrands was their willingness to harm the country for political gain. In 2003, in reference to an especially egregious strategy known as *starve the beast*, I wrote, “In one of the more stunning and discouraging political developments of my lifetime, conservative House Republicans, who have long been the stalwarts of fiscal

responsibility, have adopted a strategy of pushing up the deficit as a way to limit government spending. . . . This is a ‘scorched earth’ policy for which we are all going to pay dearly. If this kind of thinking carries the day, I predict that we will very soon see trillion dollar *declared* deficits.”

Although Democrats had limited power during the Bush years, they were not entirely powerless. Their cowardice and failure to resist the fiscal madness, the trumped-up rush to war in Iraq, the culture of corruption and lawlessness, and the profound violations of our precious constitutional heritage during the Bush era make them complicit in all that has transpired.

Chronicle of Catastrophe is a record of events during the final years of America’s tenure as the global hyperpower—the sole globally dominant economic and military superpower after the collapse of the Soviet Union. Taken as a whole, *Chronicle* presents a clear picture of George W. Bush’s America: a nation in thrall to free-trade fundamentalists and belligerent neocons. The Bush regime projected America’s awesome military power abroad without regard for tradition, treaties, or world opinion, while at home an arrogant and venal political and business elite greedily ran the ship of state aground.

I began writing the Risk and Opportunity newsletters in 2002 when it became apparent that the new all-Republican government was not going hold to its traditional values of fiscal restraint, but was in fact moving hard in the opposite direction. The media were ignoring this issue, and I naively thought that pointing out the inevitable consequences of these developments would resonate widely and somehow influence policy. Silly me.

I also recognized that financial and economic issues do not exist in isolation, even though they are generally reported that way. These issues are part of the greater whole of society, which is informed by economic, political, geopolitical, and cultural issues, all integrated with and influencing the others, and I wrote these letters from that perspective.

The objective of the R&O newsletters was to draw from an array of resources to present the big picture of current events and a deeper and more holistic understanding of trends and underlying forces at work than could be gained elsewhere. In constructing these newsletters, I attempted to present an objective picture of events and issues at each point along the way, while incorporating timely essays and speeches by other commentators, as well as my own assessment of developing trends, risks, and opportunities.

There are several main themes that run throughout this book.

The primary economic theme is the bipartisan *fiscal insanity* that steadily eroded our economic foundations over decades and set the stage for the calamity we’re experiencing today. Underlying this theme is the principle of balance in nature. Balance is the central principle of natural law and this principle applies to markets and economics as well as to every other area of life.

The primary political theme is the *hubris* of the Bush administration in particular and of our society in general. As Nassim Nicholas Taleb put it, “Hubris is not corrected by 20 percent.”

Hubris is corrected by disaster. The aggressive, wildly partisan, and irresponsible behavior of Republicans during the Bush era was bound to create disaster.

The primary cultural theme is *machine culture*, which has relegated human beings and citizens to the status of consumers in the global economic machine, egged on by the false promise of economic utopia. Yet human beings have been increasingly devalued and left behind in the wake of the “creative destruction” of the technological revolution and a world changing faster than they can adapt. As the dream of economic utopia fades away, ever-increasing numbers of disillusioned consumers will turn away from endless consumption and materialism to seek fulfillment in family, community, knowledge, and spiritual pursuits. There will be a huge upsurge in grassroots political activity, and it will not be centrist.

The primary geopolitical theme is the *realignment* of global power and alliances as the United States’ dominance fades and it begins to withdraw from empire. The continuing chronic trade deficits and most recently the dramatic buildup of debt to unsustainable levels have signaled the coming end of the dollar as the world’s reserve currency. It is now only a matter of time before our 700-plus garrisons spanning the globe are no longer affordable and we begin to close them and withdraw. The dramatic loss of U.S. prestige and moral standing resulting from the invasion of Iraq, Abu Ghraib, and Guantanamo has hastened the onset of this development.

These themes provided the foundation of the R&O newsletters and they continue to play out as America attempts to right itself after the serial disasters of the Bush era.

During this period of Republican rule lawmakers didn’t concern themselves much with the impact of policy on the lives of ordinary people. The almost religious fealty of our elites to the notion that “the market solves all problems” excused policy makers from any serious consideration or responsibility for the consequences of their actions, and certainly from the exercise of the power of government to limit excesses.

It was apparent to me that Republican policies were crushing America’s working and middle classes and that there would eventually be major consequences. In 2003 I wrote, “When the next recession arrives (there is always a next recession) the job situation and the growing gulf in income and wealth distribution are going to start causing a severe crunch. Coming on the heels of thirty years of slow erosion in purchasing power and the recent period of real difficulty for workers, this crunch will begin to generate big social, political, and economic disruptions.”

When George W. Bush came into office, he inherited a nominal budget surplus from Bill Clinton, the first in many years. With total Republican control of Congress he had the opportunity to apply the traditional Republican principle of fiscal responsibility to put the nation’s tenuous fiscal situation on the road to long-term stability. But Bush did not follow that path. He instead ran up the national debt at a pace beyond anything previously imaginable, and left trillion-dollar deficits in his wake. His tenure was equally destructive on other fronts, from FEMA’s disastrous management of Katrina to the violation of our most fundamental values with the Military Commissions Act to the embrace of torture in the “war on terror.”

Bush’s legacy was summed up best by London’s mayor, Boris Johnson:

However well-intentioned it was, the catastrophic and unpopular intervention in Iraq has served in some parts of the world to discredit the very idea of western democracy. The recent collapse of the banking system, and the humiliating resort to semi-socialist solutions, has done a great deal to discredit—in some people’s eyes—the idea of free-market capitalism. Democracy and capitalism are the two great pillars of the American idea. To have rocked one of those pillars may be regarded as a misfortune. To have damaged the reputation of both, at home and abroad, is a pretty stunning achievement for an American president.

The era of Republican rule has been truly catastrophic for America. The full cost is yet to be tallied and will probably not be known for at least a decade. Paul Craig Roberts, a genuine conservative, former assistant secretary of the Treasury during Ronald Reagan’s first term and former associate editor at the Wall Street Journal, labels this era “the mother of all messes.”

Public memory, though, is short. It is my hope that this volume, as a readable, contemporaneous record of the Bush years, will help readers place our current troubles in context and will contribute to the understanding of how we arrived at this predicament, so future decision makers can avoid the mistakes of the Bush years.