



Economic Delusion

The whole world is currently suffering a major economic crisis, which has a good chance of being as severe as the depression of the 1930's. Can Buddhist teachings help us understand what is happening? I would like to suggest one way in which it can.

The financial markets reflect the cumulative result of millions of individual decisions. Regarding decisions, The Buddha said that they should never be made on the basis of greed, anger, fear or delusion. It is obvious how greed and fear have poisoned the well, but I would like to focus on something a little deeper, how delusion has worked in creating the present financial collapse.

Specifically, the whole scenario demonstrates the truly amazing power of mental formations (saṅkhāra) in human history. Money itself is an abstraction. At some point in the distant past people agreed to believe that this shiny rock was worth those two cows, even though the real, utilitarian value of a cow is considerably more than the real, utilitarian value of a shiny rock. Paper money is an even more refined level of abstraction. This piece of paper with the queen's face, or a spooky eye-in-the-pyramid design or whatever it might be, is said to represent so many shiny rocks, which are worth so many cows. (Eventually, they dropped the fiction about the shiny rocks.)

Having gone off the "gold standard," such currency is sometimes called "fiat money," meaning that the value is established purely by government fiat. This is not really accurate. A dollar bill doesn't have value because the government or the central bank says so. It has value because the people believe it does. It is faith-based currency. It is not surprising that paper money was first used in China, a civilization deeply affected by Buddhism and Taoism, and used to philosophical subtlety.

Consider what is happening here; material goods and hours of labour are freely traded for an agreed convention. Something on the material plane of reality is being surrendered for something on the purely abstract plane of mental formation, which is void and without substance. Maybe that eye-in-the-pyramid on the dollar bill is telling us something.

Fast forward to the dawn of modern capitalism in post-reformation Europe. The "real economy" of goods and services was becoming complicated, involving more, and more kinds of goods, some of which were being shipped literally across the planet. To facilitate all this action on the plane of material reality, various new kinds of mental abstraction were invented, usually represented by fancy bits of paper. Insurance, promissory notes, bonds and company stocks all came into being, each representing a contract between parties to fulfill certain obligations.

It is significant to observe that stock certificates, bonds and so forth were often printed with all kinds of elaborate borders, seals, watermarks and other decorations. This did serve the utilitarian purpose of making forgery more difficult, but even more importantly, it had a symbolic function. Much like ritual in religion, it worked to awe the observer that something special was happening here. It wasn't long before such pieces of paper were trading for more than their book-value.

The stock market, in its original manifestation, was not very far removed from its base in material reality. If you bought a ten percent share in the East India Company it represented something close to ten percent of the ships and goods of the Company and entitled you to ten percent of the profits made. The value of the stock would, in theory, go up only if the Company acquired more ships and trade goods.

Of course mental formations, although void of substance, have a powerful energy when millions agree to believe in them. And they also have the tendency to proliferate. From the earliest days of capitalism the phenomena of “speculative bubbles” made themselves felt. As company shares traded hands, the value become divorced from the underlying reality it was supposed to represent. The value of a share was no longer based on how many ships the company had, it was now based on what the buyer and seller mutually believed it to be. If the buyer believed he could later resell it for more to somebody else, he didn’t care about the underlying value.

This is sometimes called the “Greater Fool Principle.” If the value of a company share in terms of the real goods it represents is, say one hundred dollars, a person would be a fool to pay one hundred and fifty unless there is a greater fool out there to whom he can sell it for two hundred. The value of the share becomes a pure abstraction. You might as well be trading tulip bulbs. Or “credit-default swaps.”

The case of tulip bulbs is instructive. Seventeenth century Netherlands was the trading hub of the nascent world economy. Tulips, now a national symbol of Holland, were first imported into that country with the trade ships. Cultivating tulips became a national craze. Rare varieties began to fetch a premium price. At some point a line was crossed from gardening hobby to speculative mania. A rare bulb was bought, not with the intention of planting it, but with the idea of reselling it for more. Hundreds of thousands of guilders changed hands for a single bulb.

The problem, of course, is that inevitably you run out of fools. Then the whole bubble bursts with frightening rapidity. The whole thing would be comical if the abstract world of imaginary numbers on bits of paper or computer disks didn’t rebound back on the real world. Many 17th century Dutch burghers had sold real assets like land or ships to “invest” in tulip bulbs. Then the inevitable happened and the tulip market collapsed overnight leaving many people ruined. This is usually considered the first speculative bubble of the capitalist age.

Many, many people today have put the earnings of their labour into the stock market or other financial instruments that turned out to pure bubble. Real goods thrown into an imaginary realm. The disconnect with the underlying real economy has become complete

Now, after several centuries of elaboration, we are into a fantastic realm of abstractions of abstractions. Fractional reserve banking creates money which is based on nothing at all, not even bits of paper. And understanding the levels of abstraction involved in derivatives is a special science. The “value” of the derivatives out there is said to be ten or fifteen times the combined GDP of the whole planet. Tulip bulbs at least made pretty flowers.

The imaginary nature of the financial world is very clearly illustrated when you hear, after a market downturn, that so many billion or trillion dollars of wealth have disappeared. That “wealth” was never there in the first place. What has disappeared is the agreed upon mass delusion that such wealth existed.

It will be interesting to see what happens next. So far the world leaders seem to be reacting out of panic and fear. The first response was to pump astronomical sums of borrowed (imaginary) money into the bubble in a mad attempt to keep it inflated. The Stadtholder is buying all the tulip bulbs with money borrowed from Venice.

The state, really the community as a whole, has now become the greatest fool, the fool of last resort. The question is, what effect will all this movement of imaginary numbers have on the real world of work, clothes, food and housing? Real goods will probably become scarcer for most people either through higher taxes to repay the stupendous debt load or through hyperinflation of the currency to eliminate the debt that way. There will be pain, material existence will become bleaker and harder and all because of the shifting fantasies of purely imaginary conventions.

In the various schemes to restart the big Ponzi scheme, you keep hearing the phrase, “restore investor confidence.” That gives the game away; the goal right now is to get people believing once again in the magic money tree. Eventually, we will have to face the need to get the real economy of goods and services working. It may have to wait until the bubble economy collapses back to it’s natural state. Then there may be a general realization that you can’t get something for nothing, no matter how inflated the imaginary numbers are.

The case of Bernie Madoff’s busted Ponzi scheme is an example of the whole picture in miniature. He rode high for a long time, playing on the greed of investors by paying dividends culled from new investors. This is the greater fool principle par excellence. Of course, and inevitably, he ran out of fools and the whole house of cards came crashing down. But was what he did so very different, in principle, from what the most respected banking establishments have been doing for three hundred years? Fractional reserve banking allows banks to loan out several times more money than they actually have and only works so long as everyone doesn’t withdraw their deposits at once. It is hard to see this as anything more than an elaborate ponzi scheme. The whole financial world is structured on these principles.

If the collapse is as complete as it looks like being at the moment, there will inevitably be a restructuring of the world economy. What shape will it take? What shape should it take? I don’t have the slightest idea. I’ve long ago stopped believing in political utopias; this is samsara, after all, it’s supposed to be broken.

It might be worthwhile, though, to consider some basic values. Capitalism, at least before it switched from managing production to flim-flam schemes, worked pretty good in some respects. It did keep a very complex economy moving on a global scale, and that is no mean feat. However, it was not so good at other things, very important things. It has no built-in mechanism to conserve the natural environment, and that is starting to become critical. It was never very good at distributing goods to those who needed them most, and in recent decades the gap between the richest and the poorest has been growing. And it requires continual growth to function properly, and in the long term that is unsustainable in a closed system like the planet earth.

When thinking about an economic order, we should remember what an economy is for; human comfort and health primarily and the satisfaction of lawful sense pleasures secondarily. The first priority should be to make sure that every person gets the sufficiency of a decent life, i.e. the four requisites of food, shelter, clothing and medicine. After that, the surplus should be rewarded to those who are most energetic and creative in producing wealth for the general community, certainly not to those who are most clever at manipulating mental abstractions like derivatives and futures. In other words, reward production and creation, not speculation.

In any case, we are in for some changes, but that’s always been the case.

—Ajahn Puṇṇadhammo

Forest Hermitage Renovations

In March the old roof of the Forest Hermitage, where the BPS was founded and where its editors have resided and worked, was replaced with a new one. For years the current BPS editor has endured white ant and woodworm droppings falling on his head. An inspection of the roof beams revealed that many of them had been badly eaten by the bugs and were in need of replacement. The asbestos cement sheets on the roof were badly eroded too, causing leaks. The roof's condition is not surprising as the Forest Hermitage is about 80 years old, which in the tropics is a long time. Other parts of the building are also in need of renovation, which will be carried out later.



After the builders took off the old roof, the hermitage was without a roof for a week. Heavy rain would have been a disaster. Despite delays, and threatening clouds and lightning, it fortunately did not rain until one day after the roof sheets had been put on. This rain—the first after an unusually long dry period lasting six weeks—poured down when the Buddha's tooth relic in the Temple of the Tooth was shown for the first time in five years—an auspicious occasion attracting hundreds of thousands of people to Kandy.



Prior to the roof restoration, from last August to January, a meditation hut or kuti was constructed with the financial help of supporters in Australia and the Sierra Construction Company in Colombo. The new kuti—the first and only one at the Forest Hermitage—will provide more seclusion and better conditions for meditation.

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