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POPULATION POLICY FOR A DEPRESSION

An NPG Forum Paper

By Lindsey Grant

The country is presently absorbed in the financial crisis. We have, as usual, pretty well forgotten all the other issues that had been or should have been worrying us: fossil energy decline and the coming energy transition; climate change and its impacts; a growing water crisis; threats to U.S. food production; the on-going destruction of the non-human world; our spiraling budgetary and trade deficits; the stagnation of wages and the near disappearance of private savings for 30 years, and the threats to our health care system, magnified by rising unemployment.

The thesis of this article is that the population and immigration policies needed to deal with those fundamental systemic issues are the same policies needed to mitigate the current financial crisis, and they are made more urgent because of that crisis. And our government does not yet recognize the connections.

THE PRESENT CRISIS

The Boom. The recent boom was the product of greed uncontrolled. The financial community had learned that it could turn the labor force into milk cows by enticing them into an inescapable web of debts. Much of the work force cooperated. They bought houses they could not afford. Real hourly wages have been stagnant for three decades, so people borrowed and raised their mortgages to buy more of the goods dangled before them. They could do it because housing prices were rising, based in turn on the rising debt. It was like a Ponzi scheme, and it couldn't last.

The financial community intensified the instability by selling mortgages that the buyers could not possibly afford, and then passing on the risk of default in the form of inscrutable "securitized" mortgage-backed packages sold to unwary investors. The Government winked an eye as lenders' leverage rose to 35:1 and more, from a "normal" around 5:1.

We were setting up a classic bubble.

The Collapse. The bubble burst last autumn. The proximate cause was a sudden credit crunch engendered by higher interest rates on the avalanche of "below prime" variable-rate mortgages that had been issued in 2005 and 2006. Behind that crunch was a sudden tightening of an already tight budget for many people, when the spike in gas prices and rising food prices left them unable to make the higher monthly payments called for by their mortgages. As mortgages turned sour, the whole credit market collapsed.

Random, Unfunded Activity. Treasury Secretary Paulson reacted with panicky and haphazard measures intended apparently to save the fortunes of the financial plutocracy of which he is a member. The country has now committed astonishing sums to the bailout. Most of the first relief program, the $700 billion TARP, was channeled into subsidizing ailing banks and buying their bad loans. *The New York Times* estimates that the various commitments by Treasury and the Federal Reserve now total an unimaginable $8.8 trillion, with $2 trillion already spent.[1] That doesn't include the $787 billion just approved by Congress.

Nevertheless, a vicious downward spiral got underway and has spread around the world. (It is still technically a recession, but the head of the IMF calls it a Depression.) People tightened their belts and bought less, companies sold less and started firing employees, which of course lessened demand, so companies fired more employees...etc.

Spiraling Deficits. The effort to spend our way out of the recession comes on top of seven years of rising deficits. This year's deficit was already predicted to top $1.3 trillion. We don't know now what it will be, but it will be colossal. Add to that the problems of state and local governments trying to meet their commitments with a dwindling tax flow. California apparently is leading the way to bankruptcy, with Kansas and New Jersey not far behind.

The U.S. deficits are not simply budgetary. We were already running deficits on foreign accounts comparable to our budgetary deficits. Foreign investors – and particularly the governments of China and Japan – have been supporting the U.S. dollar for years. They are showing distinct signs of mistrust. The behavior of the U.S. Government in last autumn's crisis seems to have convinced them that we are not a reliable anchor for the world monetary system. They will not suddenly pull out of Treasuries, because to do so would wreck that system, but we may anticipate that most foreign governments, sovereign funds and even individual investors will be much more cautious in the future about their dollar holdings. That in turn means that the U.S. will have to learn to live within its means, internationally, for the first time in decades.

The Questionable Rush to Spend. The Treasury's rush to bail out banks, insurers and big business has not done any visible good. The real recession, in jobs and GDP, has intensified. Instead of using the governmental largesse to ease credit, the recipients have prudently been putting it in their pockets.

One commentator has recently suggested that Secretary Paulson magnified a limited credit crisis into a national one. Citing new Federal Reserve statistics, the commentator points out that commercial banks (which are more closely regulated than investment banks) increased their lending by 5.63 percent in 2008 and 2.36 percent in the last quarter alone. He notes that personal savings are going up and debts going down. Banks are tightening their lending standards, and the "excessive laxness that contributed to our financial mess" is being corrected. He warns against governmental pressures to push credit into a market that is just learning that it has been much too deep in debt.[2] I find the argument persuasive.

We already have instruments to address the credit problems. In the modern world of managed "fiat" money, the Federal Reserve system plays a unique role. It can create money at will, and it is not bound to balance its budget, although in the past it has done so. It supports the government by buying Treasuries on the open market, and it may even come to the rescue of state and local governments. It has begun to prop up member banks with loans. It engages in open market operations such as providing a market for commercial paper. As the private market for that paper revives, the Fed can withdraw, taking a small profit with it.

That flexibility offers great advantages, but it does not come free. Even though it does not need to finance its deficits, as the Treasury must, the Fed's expansion of credit will eventually come home to roost. Its one overwhelming responsibility is to balance the flow of money so as to maintain economic prosperity (which in the past it has equated with growth) without generating inflation. Right now, in a collapsing economy, inflation is not a problem, but the Fed will have a monumental task trying to mop up all the purchasing power generated by government deficits and its own, once the Depression begins to turn around.

The FDIC (Federal Deposit Insurance Corporation) is another instrument in place to help ameliorate the woes of our financial system. It already has and uses procedures to take over failing banks. That may be a better vehicle to cushion the impact of failing banks than trying to prop them up by subsidizing them and buying their bad loans.

The Pension Benefit Guarantee agency is available to ease the Depression's blows on older workers, though it would take a massive injection of federal funds.

These institutions are systems already in place to deal with the credit crisis without simply throwing huge sums of taxpayers' money at big business.

The government is still trying to do the wrong thing. President Obama has stated his goals cautiously, but the explicit purpose of most of the spending has been to restore the economy to the boom that preceded the bust. Our governing classes hold tight to the myth of growth. They are convinced that prosperity can only be achieved by more growth. Recent growth may have worked for them, but it hasn't worked for the people down the ladder.

Various economists are warning that the proposed stimulus will not be enough. Artificial stimulus did not end the Great Depression. It took World War II and a surge of demand, domestic and foreign, to do that. Those commentators may be right, but how vast a deficit do they propose?

A few commentators have suggested that perhaps we can't get there from here. We can't go back and ride the bubble. I share that feeling. We are peering into a new era only dimly seen (see below.) It will take time, perhaps years, to rebuild the economy on a saner basis. We face a period of real austerity, but we can be building a more solid system based more on savings and less on debt.

Many common folks have been trying to do the right thing: cutting their debts and getting in balance. Why does government encourage people to borrow and spend, when good sense and even economists argue that we should save and invest before we spend? Because business needs customers (and customers need jobs) NOW.

I believe that the facts and the views sketched out above portend a long, fundamental and difficult shift away from a system that fell of its own weight, to a new and (I hope) better system. That transition will weigh most heavily on those least able to bear it. Government will indeed need to spend a lot of money to help them make that transition. So far, its emphasis has been on propping up a failed system. President Obama seeks to save or create three to four million jobs but, in the realities of Washington politics, the new $787 billion stimulus is much more diffuse.

Jobs and Wages. We must put the money where the needs are. The real question is: What happens to the little guys who are being ground out of the bottom of the economy? The Depression means real suffering for them, if not for the CEOs. I would suggest that the Government's first responsibility is to keep some money in the hands of the poor and jobless, to keep a roof over their heads and to offer temporary employment opportunities that may lead eventually to better jobs. (The Depression-era WPA and CCC offer useful prototypes. The New Deal may not have ended the Depression, but it saved a lot of people. Their handiwork – the public buildings still in use; the conservation work of the CCC – are still evident around the country.)

The Connection with Population. What role does a population policy have in this scenario? It should be obvious. The issue here is immigration. Unemployment has risen officially to 7.6 percent of the labor force by one count, and 13.9 percent by another, and there are many others without jobs who want them. The unskilled are in the worst fix, with the least savings. The last thing we need are more immigrant workers, most of them unskilled, to compete with the existing pool. In 2008, immigrants and people on "temporary" visas added nearly two million people to the labor force. At that rate, they could quickly absorb most of the President's proposed jobs. We are already raising our governmental debt to perilous levels. We will be stretched to offer help to our own people. Even if we would like to, we cannot save others, even though their countries are poorer and are also suffering in the present Depression. Perhaps the first benefit of a reduced role in the world is the recognition that we do not have the power to right wrongs and confer benefits, everywhere.

Similarly, we do not need immigrants seeking basic housing, competing with our workers who are trying to adjust their living styles to their incomes.

It is astonishing to read that pressures from business for more immigrant labor still continue. The importation of cheap labor to hold wages down has been a feature of American business practice for most of U.S. history. It has been one cause of the stagnation of U.S. wages since the 1970s.

In the 1970s, Nobel Laureate Wassily Leontief warned that rising labor productivity is capable of producing more goods and services than the system can absorb. That threat is even more serious now, as we recognize that economic growth has led us into multiple resource shortages. Leontief suggested that we plan for massive transfers from workers to non-workers. That is not easily done without rupturing the social contract. A more realistic solution would be a long term diminution in the number of workers. The widespread fears of an aging population and a lack of labor may be precisely the wrong thing to worry about. With a decline of workers would come a declining population, which is necessary to address the energy, water and food issues I will discuss later.

In that context, again, mass immigration is the worst of policies.

Fertility is the secondary issue here, because the impacts of fertility change are felt more slowly than changes in immigration. It does play a role. Families on relief (or no longer on it) or in low paying jobs will do better with fewer children. Governments providing the relief will face less daunting demands. The costs of infrastructure such as hospitals, creches and schools will be less onerous if there are fewer children to serve.

Health Care. The United States faces an impossible dilemma as it attempts to sustain a free trade policy with countries with far lower labor costs. Health care is a specific subset of that proposition. Despite lingering opposition to "socialized medicine", even business is coming to recognize that U.S. producers attempting to provide health insurance to their workers cannot compete with foreign competitors in countries with no health insurance or a governmental insurance system. Much of U.S. business by now would probably welcome a single-payer health system supported by the whole economy. As to labor, it wants a universal system, and that goal is particularly important right now, since the employees who are being laid off do not generally carry their employer-provided health insurance with them, so they have no money and no health protection.

The country must do something about Medicare, anyway, to keep it solvent. If (perforce) the country moves to a universal single-payer health insurance system, it will be undertaking new costs and obligations. The connection with immigration, again, is clear. We can ill afford to bring in more participants, particularly unskilled new workers who will probably not be bearing their share of the costs, because the Social Security and Medicare premium scale is deliberately set so that the prosperous pay more than they receive, and the poor pay less.

BACK TO BASICS: ENERGY, WATER AND FOOD

We eventually escaped the Great Depression of the 1930s by exploiting the rising availability of cheap energy and resources. This downturn is happening in the context of the end of those cheap resources. We are entering this Depression with more than twice as many people as we had in the 1930s, each consuming more than we did then. Our harvested acreage per capita is about one-third what it was then. We have become dependent on others for resources. The United States is particularly vulnerable, because we must compete for those resources with countries flush with foreign exchange reserves, while we are not. China recognizes that resources are limited and it is making long term deals worldwide for aluminum, oil, copper, coal and iron ore. China and South Korea are even trying to buy arable land in poor countries, to produce food for themselves.

Let us look now at the fundamental issues facing us, going far beyond the current crisis. In several earlier books and papers, I have described the prospects for world and U.S. energy, climate, water and food production.[3] I will summarize the conclusions here.

Energy. In brief, world crude oil production is past or near its peak. Gas will follow. Coal resources are uncertain, and the use of coal poses immense environmental and climate threats. The downturn has offered a temporary respite, but any recovery will drive prices back up as rising energy demand faces dwindling resources.

U.S. oil production is now about half its 1970 peak. We depend on imports for most of our crude oil, and our deteriorating foreign exchange position puts us in an increasingly unfavorable position to compete. Meanwhile, energy exporters are increasingly inclined to manage their resources for their own benefit – which may not match our needs.

Renewable alternatives can replace some uses of fossil fuels, but much less efficiently and reliably. Rising energy costs will drive up the prices and reduce the supplies of industrial goods, particularly energy-intensive products like metals. This in turn will diminish our ability to build the economic infrastructure to support our population through the energy transition. A smaller population would reduce the demand for increasingly costly resources, and we will not have to provide the infrastructure – houses, schools, hospitals, jobs, roads, etc., for growing numbers. Even more than the short-run calculation, this prospect puts a premium on a lower population.

Among the renewables, only biomass can produce liquid fuels or chemical feedstocks. Useful quantities of biomass for those purposes can be obtained only by diverting land and water from food and fiber production. That competition becomes disastrous as population and the demand for food grow. The problem is aggravated because commercial agriculture needs fossil fuels to produce nitrogen fertilizer (see below).

THE FUTURE OF OIL

World oil production may have peaked in 2005. It was lower in 2006 and 2007. The average daily production through November 2008 was a whisker above the 2005 level, but we must await the full year figures to see which year was higher. In any case, the peak and the downturn are close at hand.[4] The OECD/IEA calculates that production from existing fields is declining 6.7 percent a year and will be declining 8.6 percent per year by 2030.[5] To replace those fields and keep world production from falling, new fields must be developed to supply more than three-quarters of total production by 2030. World oil discoveries peaked in 1960-1965, and there is nothing in sight to suggest that there will be exploitable new fields to fill that gap. The recent price decline is hardly a blessing, because it has led most major oil companies to curtail exploration and development.

We will turn to renewables to power our transportation system, and this means turning toward electricity. It can power trains but not airplanes, which will dwindle away. It can power automobiles and trucks, but inefficiently. The nation is already hailing the advent of electric vehicles – and the next shortages will be of lead and nickel for batteries.

Climate change will aggravate our problems by making the weather more violent and less predictable. Droughts and floods will become more common, and rising temperatures will diminish food yields in most areas. Rising sea levels will force the abandonment of lowland agriculture and some coastal cities.

Water resources for irrigation are under growing stress. Stretches of major rivers such as the Yellow River in China and the Colorado and the Rio Grande in the United States are now often dry in the summer. Our great Western reservoirs are down, and prospects for refilling them are getting worse. Water tables are dropping. Water shortages in California and the southern Ogallala aquifer have already forced the abandonment of some irrigated agriculture.

Food. The loss of commercial nitrogen fertilizers, climate change and water shortages will force total agricultural production down toward pre-industrial levels as the century advances, even if we stay ahead of the pathogens that threaten major crops.

The growth in agricultural yields has already slowed almost to a stop. Plant breeding and genetic crop modification may help to counter those forces driving crop production down, but research will necessarily focus on ways of dealing with the changes – low-input, drought and salt-tolerant crops, resistance to pathogens, etc. – rather than on increasing yields.

Only a declining population can be supported as this scenario unfolds. World population quadrupled in the 20th Century. So did U.S. population. We will need to undo much of that growth within this century to avoid hunger in the United States and starvation elsewhere. Even with a much less protein-rich diet, the United States will be able to produce only enough food for about half the present number when the transition is completed. We won't be able to import food, because most other countries will be in even worse condition. (These calculations are very rough, of course, and the variables are numerous and unpredictable, but the prospect remains that we must move to a much smaller population. Fast.)

Q.E.D., as my geometry teacher would have said, long ago. I think there is an iron case that we need less immigration and slower population growth now, to deal with the current Depression, and to help us begin the long-term shift toward a substantially smaller population.

POPULATION POLICIES FOR A CHANGED WORLD

Let me offer a formula for policies that would address the problems generated by mass immigration during a Depression and would open the way to a sustainable future.

The Two Child Family. Fifteen years ago, I drew up a mathematical model of fertility and migration levels that would lead to a turnaround in U.S. population growth by 2030 and a halving of population by 2100. The prerequisite conditions were that women limit themselves to two children and net immigration be reduced to 200,000 per year. That model is now somewhat dated, because we didn't adopt the needed policies, and population has soared.[6] It is, however, still a useful guide. The adjustments would be relatively painless – and unlike most other proposed "solutions" to our problems, they would cost almost nothing. The two child limit is not much of a change, since more than 70 percent of women now have two children or less – it is that other 30 percent that drive population growth.

The problem with that model is getting there. Since coercion is not an alternative in our society, promoting the two child limit would necessarily rely on persuasion and incentives. If a substantial fraction of women still have more than two, the model collapses.

Immigration. Net immigration of 200,000 per year is less than one-fifth of estimated present immigration, but it is above the average net immigration from the 1920s to the 1960s. It would allow for a substantial flow of people and ideas and would avoid creating a Fortress America.

The Government's View. Business, enlisting some well-intentioned idealists, has managed for years to block any serious national consideration of effective immigration control, but that has been changing in the face of mounting public anger at the competition of immigrants in a collapsing job market. Business CEO's don't have the clout they had a year ago.

President Bush II started by talking with the Mexican President about something close to an open border policy, but he steadily retreated from that position and by the last year of his term of office he had authorized several measures involving border security, raids on factories, and the E-Verify program (requiring business with governmental contracts to check the Social Security numbers of job applicants). Unfortunately, the E-Verify program has been allowed to expire.

The position of the Obama administration has not yet emerged. During the campaign, he spoke generally of immigration "reform", and he suggested to Hispanic audiences that it would involve legalizing many illegal immigrants. He has a sharp intellect, however, and I hope he recognizes the problems that mass immigration causes for his efforts to address the present crisis and the country's long term future. Whether he will dare to take on fertility is a much more dubious question. The government has regularly urged lower fertility on poor countries, but has avoided taking a position about U.S. fertility.

Obama's advisers run the gamut from Science Adviser John Holdren, who has written eloquently about the problems of population growth[7], to economist Lawrence Summers, who in the past has taken a position typical of capitalism's economists, denying that there are any visible limits to growth and rejecting any proposal to limit it.

Labor Secretary Hilda Solis and Homeland Security Secretary Janet Napolitano seem unlikely to take effective immigration control measures unless ordered.

Nevertheless, this worst of times may be the best of times to address immigration and population issues that have been swept out of sight for decades. The public mood is clear, and not lightly ignored. Those who still have jobs are afraid for them. Those who don't are getting desperate. Historically, immigration and U.S. fertility have tended to go down in difficult times. There are fewer jobs beckoning immigrants in a Depression. Illegal immigration has probably declined recently, though our statistical system is not up to giving us any reliable numbers. Even views about fertility may be changing. The Dionne quintuplets were instant celebrities in the 1930s. This year, a single woman had octuplets (having already had six children), and she and the fertility clinic doctor who implanted the eight ova have been subject to bitter criticism. Not everybody may be concerned about the demographics, but they are aware of the costs of 14 children on charity.

It is a good time, finally, to do something about our demographic future.

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Notes:

1. *N.Y. Times,* 2-4-09, "Adding Up the Government's Total Bailout Tab".

2. Bert Ely, "Don't Push Banks to Make Bad Loans", Opinion Section, Wall Street Journal 2-2-2009.

3. See "The Collapsing Bubble" (Santa Ana: Seven Locks Press, 2005), "Valedictory: The Age of Overshoot" (Alexandria, VA: Negative Population Growth, Inc., 2007), and NPG FORUM paper "The Edge of the Abyss", 2/2008 (available at **www.npg.org** under Publications).

4. U.S. Dept. Of Energy Information Administration (DOE/EIA) digital table 1.1d, "World Crude Oil Production (including lease condensates)", January 2009. All world oil production and reserve figures are imprecise estimates, because some countries are less than candid about their data.

5. OECD International Energy Agency, "World Energy Outlook 2008", digital Executive Summary, p. 10, and Figure "Average observed oilfield decline rate by year of first production." Both this agency and the DOE/EIA have become markedly more pessimistic in recent years about the future of crude oil, although they still hate to admit that the downturn may be permanent.

6. NPG FORUM paper "The Two Child Family", 5-1994. Updated graph in "The Collapsing Bubble", op cit, Figure 2, p.66.

7. See Holdren's 1973 article "Population and the American Predicament", in the NPG website **www.npg.org,** in Publications: Notable Papers and Articles, August 2007.

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