

Root Causes of the Modern Recession

The following information is a Failure Modes Effects Analysis (FMEA) provided in most chapters. This provides an initial analysis for which we investigate and verify the suspected root causes to verify the issues and come up with what is called suggested design controls and corrective actions. FMEA methods are used extensively in industry to safeguard products to make them reliable. A multidisciplinary team is used to brainstorm issues so that contributions are obtained from a wide variety of people who are experts in the area of the key issue of concern. This is the primary method introduced in our book to help articulate that such method used in industry are in fact, logical and needed to help assure a reliable economy. We seek to develop a proactive not a reactive approach (so we prevent fires rather than react to fires that start in our economy).

From Chapter 2 – Tight Money and Hoarding

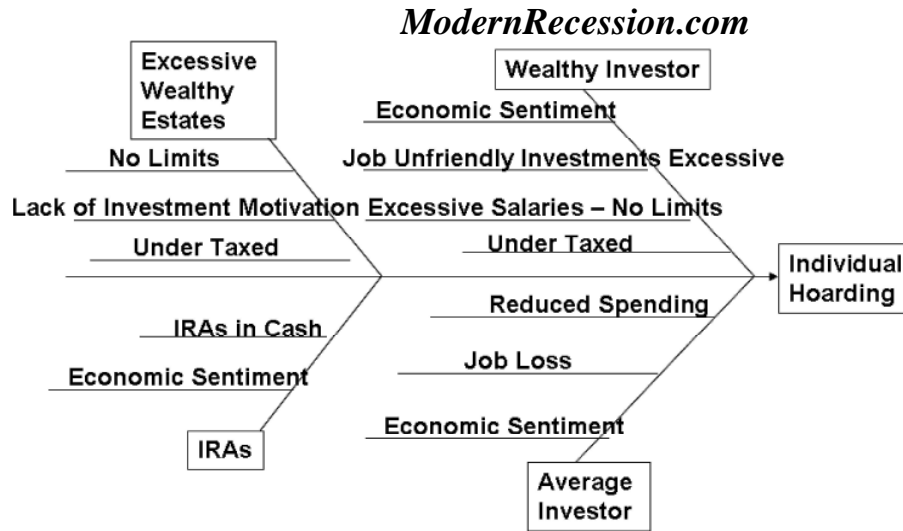
Key Issue	Potential Failure Mode	Potential Effect of Failure	<u>Root Cause(s)</u>
Money Is Tight	Reduced money in circulation	Business and personnel financial failure	1) Individual hoarding 2) Decline in GDP 3) Job loss 4) Business hoarding 5) Housing crisis

A root cause discussion is provided in our website, ModernRecession.com on the topic, **“The Growing Problem of Division of Wealth and Why it Contributes to Job Loss, Tight Money, and is Hurting our Economy.”** The other important root causes and reliable solutions are provided in this chapter.

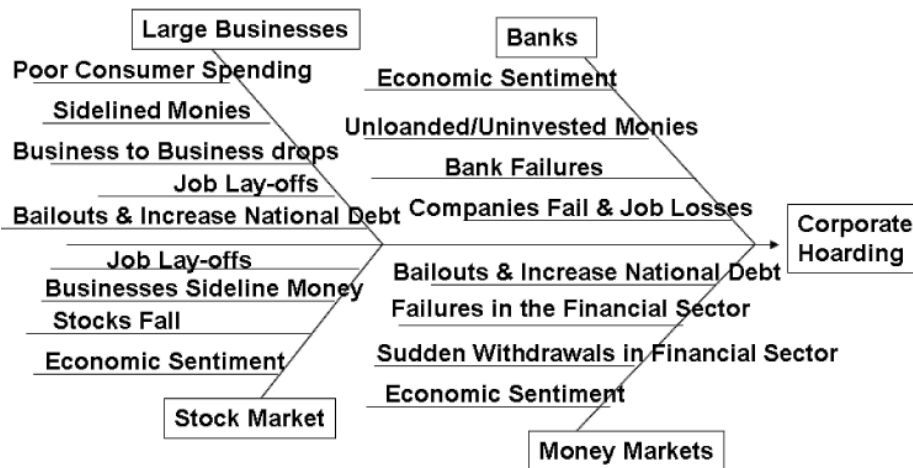
Information on Business Hoarding and Individual hoarding is explored as well in Chapter 3 using a Fishbone diagram below.

From Chapter 3 – Recessionary Hoarding Analysis

In chapter 3 we use a fishbone diagram. This is another common method used to understand potential links to key issues and understand root causes. This diagram is illustrated below. The key issues are identified and investigative research is provided to assess the validity and seriousness of the issues.



Using the fishbone diagram method, for the key issue individual hoarding, we find that under wealthy investor, economic sentiment, job unfriendly investment, excessive salaries with no limits, and under taxation are all suspected causes for individual hoarding. In a similar manner we can have identified a number of other root causes that are discussed and investigated in Chapter 3.



In a similar manner we have identified a number of corporate hoarding issues. Under banks for example we have unloaned and uninvested monies, under large business we have the root cause that money is typically sidelined in cash. Companies believe that Cash is King. This can create major issues in a recession.

From Chapter 4 – Reliability Issues of the U.S. Tax Structure

In chapter 4 the reliability issues of the U.S. Tax Structure are assessed using the FMEA method again. Identified are now three key tax issues: 1) income tax, 2) estate tax, and 3) tax administrative issues.

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Key Issue	Potential Failure Mode	Potential Effect of Failure	Root Cause(s) (RC)
Tax Structure (Federal Income)	1) Loss of needed government revenue 2) Separation of wealth increase 3) Wealthy may have no income to tax	1a) Poor monetary circulation 1b) Governmental national debt increases 2) Reduce money for average worker 3) No income tax revenue from wealthy retirees	1a) Tax bracket stops at 35% 1a) Excess tax write-offs 1, 2) Government administrative issues 3) No tax on wealthy retiree assets 4) Nonresident alien tax issues
Tax Structure (Estate and Asset Tax)	1) Loss of needed government revenue 2) Inherited separation of wealth increase	1) Sudden and continual changes in velocity of money 2) Governmental national debt increases 3) Reduce money for average worker	1a) Under taxed estates 1b) Excess wealth 1c) Admin. issues 2) Excessive generational opportunities 3) Excessive financial control
Government Admin Tax Issues	Failure to implement fair tax structure	1) Recession issues, increase in national debt 2) High interest rate payments 3) Loss of fiscal stability in U.S. 4) Default on foreign loans	1a) Irresponsible risk tolerance 2) Under taxation 3) Conflict of interest

For each issue in the table below a number of root causes are considered. One extensive root cause for the potential failure mode of loss of needed government revenues is the fact that the Tax bracket stops at 35%. This is discussed in our website ModernRecession.com in the article, “**Why Our U.S. Tax Structure Favors the Wealthy and How It Should Change.**” The other important root causes and reliable solutions are provided in this chapter.

From Chapter 5 – Hoarding Issues

The FMEA analysis in the table below is done assessed for the key issue of velocity of money. This is an expression in economics for how fast money exchanges hands. If it is very slow – money is effectively hoarded as an example. There are two main potential failure modes in which velocity of money either slows suddenly or gradually. There are many effects resulting from these failure modes,

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Key Issue	Potential Failure Mode	Potential Effect of Failure	Root Cause(s)
Velocity of Money	1) Velocity of money slows suddenly 2) Velocity of money slows gradually	1a) Companies lose orders 1b) Abrupt job losses 1c) Abrupt mortgage defaults 1d) Deflation 2a) Companies order slow down 2b) Hiring freeze 2c) Mortgages start to default 2d) Deflation	1a,b,c) - Economic sentiment leading to: - Small Sector of wealthy controlling U.S. investment dollars. - Job outsourcing. Company hoarding. - Rapid decline in stock prices, - Decline in GDP 1c) Lack of government oversight. Greed. 2) Job outsourcing, - Separation of wealth, - Wealth accumulation, - Decline of GDP

Job loss and deflation of housing prices are key reasons from a bottom-up root-cause perspective. Table 5.1 illustrates why we currently continue to have a slowing in the velocity of money, which has contributed to problems like the mortgage failure rate. As of June 2009 the foreclosure rates in the U.S. are spiking. The average U.S. statistic is not well-known but it is probably around 1 out of every 400 homes (CNN reported in June 2009).

From Chapter 6 – A Lobby Full of Conflicts of Interest

Key Issue	Potential Failure Mode	Potential Effect of Failure	Root Cause(s)
Government Tax Admin. Issues	Failure to implement fair tax structure	1) Recession issues, increase in national debt. 2) High interest rate payments 3) Loss of fiscal stability in U.S. 4) Default on foreign loans	1a) Irresponsible risk tolerance 2) Under taxation 3) Conflict of interest

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Quite a bit of information is provided in the root cause on lobbyist issues in this chapter on Conflicts of interest. The root cause is a primary concern for Tax administrative issues since many of our congressman are extremely wealthy, and have conflicts of interest with the estate tax, and income tax structure. As well, it is extremely hard and expensive to get elected. Running on a platform of fiscal responsibility that includes raising taxes is after all, not a popular position. Nevertheless, it points out the problems of Conflicts of Interest.

From Chapter 7 – A Seven-Year Plan To Eliminate The National Debt

Key Issue	Potential Failure Mode	Potential Effect of Failure	Root Cause(s)
Govern-ment tax admin-istration issues	Failure to implement fair tax structure	1) Recession issues, increase in national debt. 2) High interest rate payments 3) Loss of fiscal stability in U.S. 4) Default on foreign loans	1a) Irrespon-sible risk tolerance 2) Under-taxation 3) Conflict of interest

A root cause discussion is provided in our website, ModernRecession.com on the topic,, “**A Seven-Year Plan to Eliminate the National Debt - Why Declaring War on the National Debt Makes Sense.**” The other important root causes and reliable solutions are provided in this chapter.

From Chapter 8 – Job Creation and Retention Investing

Key Issue	Potential Failure Mode	Potential Effect of Failure	Root Cause(s)
Job invest-ing issues	1) Job losses due to non friendly U.S. job investing 2) Job loss opportu-nities due to overpopula-tion	1) Increase in unemployment 2) Slowing of velocity of money 3) Increases in separation of wealth 4) U.S. business failures	1) Business hoarding 2) Individual mass hoarding causing stock market decline 3) Increase job outsourcing 4) Increase in manufacturing outsourcing 5) No policy for

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	problem	and slow downs	overpopulation 6) Religious leaders not providing enough guidance on overpopulation.
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A root cause discussion is provided in our website, ModernRecession.com on the topic, **“The Growing Problem of Overpopulation and its Effect on Job Losses”**. The other important root causes and reliable solutions are provided in this chapter.

From Chapter 9 – Free Trade Failures and Related Job Losses

Economic Key Issue	Potential Failure Mode	Potential Effect of Failure	Failure Mode Root Causes
Free trade and job issues	1) Job outsourcing 2) Manufacturing failure & decline 3) U.S. corporation failures 4) Lost tax revenue due to layoffs 5) Trade deficit 6) Focused U.S. wealth	1, 2, 3, 6) Increase in unemployment, 2, 3) Foreign-dominated businesses 4) Spending cutbacks or increases in national debt 5) Increase in foreign U.S. business ownership and debt to foreigners 6) Increases in separation of wealth	1,2,6) Cheaper labor 1-5) Foreign subsidies 1-5) Foreign currency manipulation 3) Violation of free trade policy 3, 6) Lack of government oversight 3, 4) Job outsourcing, business failures due to foreign competition 1, 2, 5) High- versus low-wage economies

A root cause discussion is provided in our website, ModernRecession.com on the topic, **“Free Trade Failures – Understanding Root Cause Failure Modes.”** The other important root causes and reliable solutions are provided in this chapter.