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HOW MUCH TIME IS LEFT BEFORE THE NEXT ECONOMIC CRISIS ?
CONFLICTS CONFOUND AGREEMENTS

In the United Kingdom, during World War II, there used to be a very popular proverb which, in effect, stated that the show is not over until the fat lady sings.

The actual proverb is: *‘It ain't over 'til the fat lady sings.’*

The origin of this proverb, probably, comes from Richard Wagner’s opera, Götterdämmerung, where valkyrie Brünnhilde, usually personified by a *‘fat lady’*, being well-endowed with voluptuous breasts, wearing a horned helmet and carrying a spear and round shield, sings her 10-minute aria, marking the end of the opera.

In the world of today, one could misquote this old proverb by stating that the full impact of the worldwide recession, which, officially, took root in December of 2008, will not be known until the fat plutocrats of the world stand up and sing their respective swan songs ... or whatever they determine to sing.

One should not think for a moment that the problems of the last recession are over.

Far from it, because, thus far, there have been no definitive remedial actions for the many and varied causes of it.

One might have expected prevenient actions to have been taken by now by the world’s largest powers in order to guarantee that the component parts, that led to the last recession, will not be repeated in the future.

But there appears to have been a convenient absence, by the great political thinkers of the world of today, to apply themselves to this important task.

Where is the Milton Friedman of 2010?

To suggest that Wall Street and/or the managements of US banks were among the foundation stones of the recession is puerile and, in any case, it is a meaningless task to try to ascribe blame, at this late stage in the game, although analysing root causes of anything is, always, of academic interest.

The real causes of the recession lie in a lack of timely and basic reforms to the banking systems, not of the US, alone, but of the world.

The big question, today, of course, is whether or not basic structural banking reforms will be forthcoming as well as reforms to the international monetary system before another financial crisis comes crashing down on the economies of the world.

Statistics only too often can be horribly misleading as one noted recently when the Government of the People’s Republic of China (PRC) announced an 85-percent increase in exports in the month of January 2010, compared with the like month in 2009.

What was completely overlooked by the international Press, especially Popular Press of the Hongkong Special Administrative Region (HKSAR) of the PRC, was that January 2009 was an especially poor month, in terms of exports to the largest single customer of the PRC, namely the US.

At that time, the US was suffering a brunt of the recession, with banking and financial houses, as well as major corporate entities, going belly up, almost on a weekly basis.

In 2009, more than 100 US banks were declared insolvent.

One is told that, today, the world is emerging from recession.

'Statistic prove' is the name of that logical fallacy

However, one is, also, told that most economies of the world remain *'fragile'*.

It is assumed that the word, *'fragile'*, as the **I**nternational **M**onetary **F**und (**IMF**) used it, recently, is indicative of a country's economic plight which could slide back into recession unless artificial means are engineered by governments to prevent another economic catastrophe.

The IMF has gone on record as stating that unless governments of the world continue to support their respective economies with emergency measures, there could well be a double-dip in the recession that had its roots in the second half of 2008.

One cannot help, therefore, in arriving at the conclusion that recently released statistics, with regard to many of the world's economies, if not all of them, are indicative, only, of the suggestion that those economies have climbed, or are climbing out of, recession by artificial means, such as substantial bail-out funds from various governmental coffers.

This could be likened to a lady, smothering her face with powder and rouge in order to hide her many facial blemishes.

One sustained gust of strong wind and, Lo and Behold! The truth of the facial pockmarks is known for all to view.

It should be accepted that, in order for the world to recover, completely, from the recession, it is going to be a long, and, in many cases, a painful process.

And, *'you ain't seen nothing yet'*, according to the words of the 1974 rock song.

Looking at positive, quarterly economic statistics will not put food on the table: Unemployment in the US is, still, perilously, close to 10 percent and, in the United Kingdom, it is close to 8 percent.

These levels of unemployment must be considered unacceptable.

However, in other countries in Europe, the unemployment situation is even worse.

To name just 3 countries, facing tragic unemployment situations:

Latvia	22.80 percent
Spain	19.50 percent
Estonia	15.20 percent

Such high levels of unemployment, to be absolutely trite, are a ticking time-bomb.

And time is fast running out.

Nothing moves people more and quicker than a shortage of food and water.

'Idol hands are the devil's tools' is a proverb that has proved, over and over again, to be factually correct.

High unemployment levels in Germany was one of the core reasons that permitted Adolf Hitler to rise to power on a political platform, aimed at providing employment for the working man and restoring Germany to its former glory, following its ignominious defeat of November 11, 1918, thus ending World War I.

Some of the Reasons for High Unemployment

Without question, a major reason for continued high unemployment, internationally, can be laid at the feet of banks and finance houses.

When the recession bit into the economies of the world, during the last quarter of 2008, there was an immediate and very sharp monetary squeeze.

Banks, in effect, became afraid to lend money – to anybody or any entity, including other banks.

In many cases, banks did not have the money to lend out!

Banks had to rein in bad and doubtful debts where-ever possible, but as the recession deepened in the first quarter of 2009, it became only too evident that many banks were being forced to bite proverbial bullets, one after another.

As the 1805 nursery rhyme went:

Old Mother Hubbard
Went to the cupboard,
To give the poor dog a bone:
When she came there,
The cupboard was bare,
And so the poor dog had none.

The violent squeeze on the money supply resulted in governments, stepping up to the plate and releasing tens of billions of US dollars/sterling pounds/euros, etc, into the stumbling economies of the world.

But, still, banks were not ready to lend money, without careful consideration, for fear of making the same, or similar, mistakes as they did in 2007 and 2008, specifically, constructively fostering the securitisation of mortgage lending.

The result of that situation is, still, being felt, today: Banks are continuing to be chary about lending money.

Recently, the US Government has proposed giving tax incentives to corporate entities that hire more workers, but, without bank support, it is difficult for this proposition to bear fruit in the short term.

Thus, a shadow has been cast over the future of a rapid rise in the employment levels of many a country and, it follows, that industrial output will, also, continue to be constrained.

The *'quantitative easing'* by many a government in making massive amounts of money, available to banks and finance houses, has, no doubt, averted an international cataclysm, but the cost of this quantitative easing is likely to be extremely high.

The knock-on effect has been to saddle many a nation with a financial deficit, unseen in history.

In short, many countries are, virtually, bankrupt.

Recent cases in point: Dubai; Greece; and, Spain.

Governments of the world saw no alternative options, open to them, in order to avert a disastrous monetary squeeze: The printing presses of the world churned out paper money, day and night.

What the governments of the world did by their actions may well have stiffened the backbones of many a country's bankers, but it was, mostly, cosmetic in terms of the root causes of the problems that required these governments to loosen their purse strings.

It was the here and the now that had to be tackled as a matter of extreme urgency with little consideration, given to preventing a recurrence of the problems that had led to the popularity of the term, quantitative easing.

When the PRC, The Republic of India and The Russian Federation became major powers on the world stage, and became important players in the world's trading systems, the benefits of increased trade were very evident.

But the cost of the capital flows from these financial powerhouses was not, immediately, apparent.

They, certainly, are apparent today, with the PRC, being the biggest lender to The United States of America.

The world, suddenly, woke up to the realisation that globalisation included the likes of the financial might of the PRC, The Republic of India and The Russian Federation.

All of these *'new boys'* on the block, so to speak, revved up their combined industrial infrastructures in order to export more and more of their manufactured goods to the **E**uropean **U**nion (**EU**) and the US, especially, thus creating more jobs for their respective huge *'armies'* of workers.

In the PRC and The Republic of India, workers determined to save their new-found wealth in banks rather than hit the High Streets.

This action depressed domestic demand.

Substantial trade surpluses followed, swiftly.

On the other side of the coin, also so to speak, countries, importing those manufactured goods, especially from the PRC and The Republic of India, ran huge trade deficits.

For the US, especially, the cheaper manufactured goods from the PRC and The Republic of India had the effect of keeping the lid on inflation.

Thus, in the US, low savings was the immediate result.

The US Federal Reserve seemed happy with the low level of inflation in the country, because, inter alia, keeping inflation in check has always been a principal mandate of The Fed.

The exporting countries – the PRC and The Republic of India, in particular – were delighted with their lot and, for the US, it seemed to be happy with its lot, also.

However, many people in the US, especially leaders of labour unions, were jabbering about the number of jobs that were being exported to the PRC and The Republic of India.

As a direct result of the above scenarios, employment was created in countries whose population had a high percentage of savings and, conversely, in countries where the population had a low percentage of savings, consumption increased.

It was noted that, in countries where the general population was not known for their thrift, cheaper imports came to mean a higher standard of living.

In fact, living standards rose faster than the increase in production.

However, things did not continue along this path for too long a period of time because, in the poorer countries of the world where the general population was not used to spending lavishly, and, in the richer countries where the general population was not used to saving very much money, things were coming to a head.

The status quo was not sustainable.

The capital flows, brought about by the above scenarios, soon were seen as being a thorn in the side of many a government agency.

The level of the normal barometer, indicating such things as growth, unemployment and inflation, was seen to be completely out of whack.

The capital flows, also, had the effect of depressing interest rates and, once again, it seemed to suggest that risk-taking should, obliquely, be encouraged.

The economies were seen as going full circle – once again.

In order to prevent another financial crisis of the order of the recession that is said to be a matter of history, now, banking reforms were seen as being required.

US President Barack Hussein Obama has, already, stated that his Administration welcomes reforms to the banking industry of the country.

What President Barack Hussein Obama omitted, however, was that, along with banking reforms in the US must come consideration as to the structure of banks.

From this would follow consideration as to the structure of international monetary system.

If a country spends more than it earns over a long period of time, it is toying with uncontrolled inflation.

It is as simple as that.

The US Government recorded, in the month of January, that it spent about $US42.60 billion more than it earned.

It was the 16th consecutive month of a budgetary deficit.

Spending dropped by about 14.40 percent in January, Year-On-Year, and revenue declined by about 9.20 percent.

By the close of Fiscal 2010, the budgetary deficit is estimated to be about $US1.60 trillion.

Since December 2007, a total of not less than 8.40 million jobs has been lost in the US.

Large deficit spending is not sustainable forever because, for every Current Account Deficit, there is an equal Net Capital Outflow.

Shades of Sir Isaac Newton's Third Law:

> *'If body, A, exerts a force on body, B, then B will exert an equal and opposite force back on A for the same period of time.'*

As with a castle, made in the sand at the seashore, one can raise a tower to a relatively high level, but, eventually, the tower will collapse when the foundations of the tower are insufficient to sustain the added weight of the sand as one tries to create another inch of height.

Trade deficits are akin to that tower, built on the seashore: There is a limit to the height that that tower may reach before it collapses and, with its collapse, the entire castle is crushed.

This lesson appears to suggest, strongly, that countries will have to work together in order to prevent the construction of an economic tower, built on sand, a tower that is too heavy to be supported by its weak, or weakened, foundations.

Clearly, it is imperative, today, that an international mechanism must be put in place in order to achieve political consistency, that consistency, designed to control, at least to a measurable extent, trade imbalances which are seen – and known – to be dangerous.

It could be suggested that countries, whose working population is not known to save their money to any great extent, must reduce net borrowings.

At the same time, countries, whose working population is known to save a goodly portion of their income, these countries must be encouraged to expand domestic demand, thus permitting trade surpluses to contract.

However, there is the conundrum: Conflicts confound agreements.

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