A PRACTICAL ASSESSMENT OF THE CURRENT CRISIS

By Verity Carney

With the endurance of the international financial crisis, we are currently witnessing something profoundly unique in the structures of value on an international scale. A change which is not significantly understood by economic theory as it has thus far evolved. How the contradictions in the international financial system are resolved will determine the future of the evolution and sustainability of global capitalism.

The current devaluation on stock and commodity prices as well as the debilitating credit squeeze that has resulted from imperiled financial markets has thrown the economies of all countries around the world off the steady track of growth and into the uncharted territory of fundamental crisis.

Governments around the world have responded with traditional Keynesian policies of fiscal and monetary policy aimed to stimulate effective demand and buttress a nervous banking sector. These have stabilized the jitters in domestic finance sectors, yet Wall Street and stock markets around the world continue to fall and have lost on average more than half their volume of real value. Company balance sheets reflect the downturn with massive downgrades of asset values that have thrown their debt portfolios into budget constraint.

The solution to the problem can only be in standardized prudential regulation across international markets. The absence of strict regulation, in the domestic mortgage market of America, led to a collapse of subprime mortgage lenders and subsequent downgrade of the value of mortgage backed securities. The domino like crash in stock and debt markets triggered a worldwide crisis that we are yet to see resolved in any sustainable way.

So far each country had reacted according to their own particular experience of the crisis. Britain has moved toward nationalizing the Banks. America is pumping money into buying up the weakened mortgage backed securities. Australia has guaranteed the deposits in all national banks. Governments have responded quickly yet the impacts of these stop gap measures are still to be tested by time and the burdens of successive deficit budgets. It is a simultaneous challenge across the globe to respond to very differently structured economic contingencies.

China and South East Asia have historically undertaken an export orientated industrialization. This required access to high wage countries markets whilst profiting also from the much lower wages of their own labor markets. With the contraction of consumer spending in the West, markets for manufactured consumer durables from Asia are being challenged. It might just be the solution for China and others to raise wages so that their own markets can absorb a greater part of domestic production. This was the strategy of the Singapore model, and much can be learnt from their experience of rapid growth that facilitated a profound increase in the standard of living of their citizenry.

The challenges of the current crisis are many, multifaceted and complex. They are hinged as much on accounting standards and prudential regulations as they are on consumer sentiment and government policy. The outcomes of which will be assessed and judged by history. In the end the economy is a structure that enables us all individually to engage in activities that are ultimately about the way that we live our lives.

Capital markets exist way beyond the imagination of the everyday person yet determine confidence over day to day household decisions. Yet there are grounds for optimism that can lead us to dismiss the worries of a replication of the Great Depression that began with the crash of 1929. It is an affluent age that can see governments spend in the tens of billions and there is much public infrastructure, such as for example in health (in America) and housing (in Asia) that can potentially benefit from spending to radically transform.

Thursday 12th March