

Time to Redefine the Economic Paradigm

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The World Bank today [released](#) its long awaited forecast for the World economic future. "The financial crisis is likely to result in the most serious recession since the Great Depression," said Justin Lin, its Chief economist. The global economy is captured in a downward spiral as never witnessed before. Whereas before, economies were more localized and had more immunity to outside forces, now Globalization has ensured that one big failure in the machine can create a systemic event that brings down all the component parts. The inevitable failure of a few major banks has demonstrated just how much havoc can be wreaked from Alaska to Beijing.

Emerging markets, dependent on mature market consumption, are teetering on the edge of Bankruptcy as Private capital inflow has been drying up and is forecast to reduce by half next year. The volume of world trade is set to decrease by 2.1%, the biggest drop for 33 years. Oil exporting countries from Venezuela to Russia are seeing revenue crash as demand across the world decreases. Poor countries, on the other hand, have experienced a decrease in the cost of living as food and oil prices drop. In an unforeseen twist of fate, Globalisation has enriched poorer countries and impoverished richer ones.

Greece is in the throes of a revolution as their people mount a massive protest against the country's history of corruption and economic mismanagement. Originally born of the alleged murder of a 15 year old boy by Greek police, the momentum was maintained by deeply rooted history. Is this a sign of things to come ? As economic conditions deteriorate across every continent, blame will be apportioned and it won't be hard to find easy targets. Shortage of food, homelessness, unemployment are now realities for an ever increasing number of people who have never known a life like this before. We are watching our own Governments waste the money we could be using constructively to prepare and mitigate for harder times. Attempts to restore the economic activity of nations through liquidity injections in to failing banks will achieve nothing when the basics of this same economy rely on a volume of activity that was sustained by inflated wealth through credit. The only reason we bought so much stuff was because we could always pay the bill off later.

So it's no big surprise that "We're almost in an air pocket, where we don't have a new global driver of growth." as said by Thomas Mayer, the chief European economist for Deutsche Bank. Sorry Thomas, we're all tapped out. Unrealistic growth was the problem in the first place. Growth of an economy through a regulated monetary system, consumer saving, profits ploughed back in to production, balanced budgets is one thing, but unhinged consumption and imaginary accounting by the Financial "Industry" to inflate wealth was always destined to arrive at cardiac arrest. Financial companies are supposed to provide credit to individuals and real industries to grow the economy. When they discovered that

there was money to be made giving loans to anyone who could hold a pen, they officially became usurers. When they opened the casino and took bets on anything that could go one way or another, from the economic health of a country to whether interest rates would go up or down, they opened the gates to their own destruction and consequently that of their victims. Even ordinary citizens got caught up in the act as stocks were bought and sold like candy. We have a Stock market that may as well take it's cue from the atmospheric conditions on Pluto. It certainly has nothing to do with economic realities on the ground.

Lack of regulation and the quest for short term profit at the expense of long term sustainability has brought the World to it's knees. A new paradigm is desperately needed to restore sanity to a world gone mad. As we travel the downside we cannot expect the same failed mechanisms to save us. The actions of Governments the world over so far is to try and blow air in to a burst balloon; no matter how hard they blow it will never be able hold it's form. It's time to admit that we have overextended the system to the inevitable breaking point and now the remaining pieces must be reassembled in to something that does not need wizardry to keep it upright.

Pundits the world over are espousing many different analyses and solutions, but in most cases, Economic fundamentals play a minor part in the dialogue. Fortunately there are people like the FDIC chairman, [Sheila Bair](#), who seem to have a grasp on what is actually needed..

"We will dig out of this. And when we do, I hope for a back-to-basics society - where banks and other lending institutions promote real growth and long-term value for the economy, and where American families have rediscovered the peace of mind of financial security achieved through saving and investing wisely. We need to return to the culture of thrift that my mother and her generation learned the hard way through years of hardship and deprivation. Those are lessons learned that the current crisis is teaching us again."

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