

"Lame Duck" citizens and the global economy

By Pablo Ouziel

In regards to our 'global economy', one is better off reading Dostoevsky's *The Gambler* and saying to himself, "at the present moment I must repair to the roulette-table," than listening to George Bush deluding himself about the fact that "while there is some uncertainty, the financial markets are strong and solid." The truth is, our global markets have become a "lame duck" and all we can do is wait for the next disaster to shake the corrupt foundation on which things have been run.

As Hugues Rialan, managing director in charge of discretionary asset management at Robeco France puts it, "if they [financial institutions] had a much more transparent communication, we would not have all the bombshells, or rumors of bombshells, that we're having today, with all the negative implications for the market."

The fact remains that people are reluctant to utter the word depression, and therefore all we are left with are the words of all those experts who created the mess in the first place. Just before ending 2007, York professor Peter Spencer, chief economist for the ITEM Club, warned us; "I don't think the central banks are going to make a major policy error, but if they do, this could make 1929 look like a walk in the park." What has unraveled before our eyes since then, is a grim picture which threatens the very way in which we think of our 'wonderful democratic societies' and their 'solid financial structures'.

We started 2008 with a series of announcements which should have shaken even the most faithful of believers in the goodness of our political and financial institutions. We recovered from our new year celebrations with legendary Wall Street guru and chief investment strategist of Pequot Capital Management, Byron Wien, telling us he expected oil to move between \$80 and \$115 a barrel, corn to rise to \$6 a bushel, and gold to reach \$1,000 an ounce. By the 7th of January, David Rosenberg, Merrill Lynch's chief North American economist, was informing us that "according to our analysis, this [recession] isn't even a forecast any more but is a present day reality."

Then the bad news kept rolling in, Goldman Sachs predicted that Japan was in danger of following the US into recession later in 2008, and The Bank of Japan announced that annual growth in bank loans was the slowest in nearly two years. Rolls Royce followed, informing us that 2,300 jobs would be cut as part of a cost reduction program.

By January 14th, recruitment companies Michael Page and Hays, were reporting hiring freezes in the City of London, and John Philpott, economist at the Chartered Institute of Personnel and Development, was saying; "We expect this year to be the worst for job creation in a decade." One day later, Goldman Sachs joined Morgan Stanley and Merrill Lynch in estimating that the US "may already be in a recession," and Gerard Lyons chief economist for Standard Chartered bank, followed by telling us "the US economy in our view is heading into a recession."

On January 20th, Merrill Lynch published its worst quarter since its foundation almost 100 years ago, with a loss of \$9.8 billion in the last three months of 2007.' Citigroup followed suit, reporting a 40% cut in its dividend and an \$18 billion write-down in its quarterly results.' EMI (the world's leading independent music company) used that day to warn it would cut one in three jobs.

By January 21st, Black Monday was upon us, the Spanish stock market registered its worst fall since 1987 with a drop of 7.54 percent, the Bombay stock exchange slid 7.41 percent, as brokers were unable to pay stock exchanges the money which they owed on the shares they had bought. Other stockmarkets were also down, Paris 5.48 percent, Frankfurt 7.16 percent, Milan 5.17 percent, the Swiss bourse 5.26 percent, Toronto 4.75 percent, Sao Paulo 6.6 percent, Buenos Aires 6.27 percent, Mexico 5.35 percent, Santiago 5.03 percent, Lima 8.35 percent, Tokyo 3.86 percent, Shanghai 5.14 percent, Hong Kong 5.49 percent and Seoul 2.95 percent.

Pedro Solbes, Spanish minister of economy and finance told us, "there is no reason to exaggerate," Europe "is reasonably prepared" for a slowdown. He obviously forgot to acknowledge the fact, that over 40,000 estate agents closed their doors in Spain in 2007. Euro group president Jean-Claude Juncker commented; "We should not over-react to the events on the stock exchanges today," although the economic and financial climate is "highly volatile and uncertain."

That same day, S&P acknowledged that "the US housing market slump may last far longer than previously expected," and University of Maryland economist, Carmen Reinhart and Harvard University economist, Kenneth Rogoff, informed us that "the current crisis appears on track to be at least as bad as the five most catastrophic financial crises to hit industrialized countries since World War II." Bank of America added; "The perfect storm took time to brew, but it hit hard and fast - much harder and faster than we expected."

Discouraging news followed. Rumors came that Societe Generale which had repeatedly stated it didn't have exposure to the troubled subprime mortgage market, could possibly unveil write-downs. Then Commerzbank's chief executive, acknowledged further write-downs on the value of its subprime linked investments, and rumors surfaced, that Bank of China may become the latest banking casualty, from the collapse of America's sub-prime mortgage market. According to the Financial Times, in a Chinese stock market crash "since most publicly listed companies are state-owned... Large-scale public protest is a possibility."

By January 22nd, billionaire investor George Soros, emphasized that the United States was facing a possible recession and that the world was eying the worst financial crisis since World War II. Then Paul Sheard, global chief economist at Lehman Brothers, warned; "at the moment we are seeing the global imbalances unwind -- so far it has been orderly, but there are signs that it could become a little more disorderly."

The truth remains that The Federal Home Loan Bank system has injected \$750bn into mortgage banks since the beginning of the crunch, \$210bn in November alone. In the past 10 days, Citigroup has cut 4200 positions after its biggest quarterly loss. Fourth-quarter earnings of Bank of America Corp. and Wachovia Corp., second and fourth largest U.S. banks, have plummeted after more than \$6 billion of combined mortgage related writedowns. Germany's investor confidence has dropped to its lowest since 1992, and the first signs have emerged that China's economy may be slowing.

Worse still, this turbulence is far from over. According to former US treasury secretary Lawrence Summers, "there is the possibility, not yet at all the probability, that a recession could prove long and severe." From Bernard Connolly's perspective, global strategist at Banque AIG, "the next really big shock to financial markets is likely to be the risk of collapse in the EMU [European Economic and Monetary Union] credit bubble: the private sector credit consequences are likely to be catastrophic."

So although Josef Ackermann, chief executive of Frankfurt-based Deutsche Bank AG says; "I hope that we don't swing to... an irrational depression," I am inclined to believe, that rational thought will be the detonator of an acknowledged depression. The sooner the better, the more we hide things under the carpet, the more our global economy will look like a scaled-up version of the Enron scandal. I tend to agree with Klaus Schwab, the World Economic Forum's founder and chairman, when he states; "We have to pay for the sins of the past." The question I ask, is who will end up paying the price? It seems clear to me as this poker game unravels, that the true "lame duck" is going to be the taxpayer.

Pablo Ouziel is a sociologist and a freelance writer based in Spain.