# UNIAPAC FOUNDATION

## The Blurred Economic System: The Financial Crisis and its aftermaths

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# <u>The Blurred Economic System</u> : the Financial Crisis and its aftermaths.

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* I wish to thank Mr Etienne Wibaux and professor P de Woot for their helpful comments on a first draft for this Note.

However the opinions, here involve only the author.

*one; and frequently fatal to the*

**<u>The Blurred Economic System</u> . The Financial Crisis and its aftermaths. “Research**

**Eduardo Aninat , Ph D economist .**

*“While the principles of bank trade seem to have a certain [mystery], it is not less true that one can synthetize the practice of banks into certain invariable rules. To wish in certain occasions, to stretch away from such rules…because one sees in*

*banking company that goes into it.”*

**Adam Smith, Book 4th of**

*speculation an extraordinary gain, is a risk, nearly always a dangerous*

**on the Nature and Causes of the Wealth of Nations”**

## <u>Introduction</u>

**It is common to hear opinion leaders and analysts refer to the present Crisis situation as a ¨disarray of the economic**

**system¨ Blunt speakers call it a ´´model out of control ¨. What is fair to say is that we are living in an epoch where important areas of the economic sphere have become ¨¨blurred¨¨: volatility and uncertainty on the future being the norm. There are worrying symtomps showing decomposition in the macro financials, and global menaces for another recession have not disappeared from the horizon.Lack of direction in public policies , beggar-thyneighbor behavior on the part of country players, high volatility in private expectations, and, the looming costs of excess indebtedness of sovereigns, coupled with a weak global banking sector, have left very many thousands of investors and millions of consumers in a complex risk scenario.**

**Lack of direction was the recent past norm. Lack of cooperation and conflict may become the consequence.The ¨¨indignados´´ are but one symptom of an underlying important malaise !**

## Characters at Play

**We are not focused in the Note, in describing macro issues, or on predicting where the system will evolve to. The focus of the Opinion Note , is to research and describe a few *dominant characters* that help us to understand why the postmodern global economy behaved so much deviated from normality and has led to the gravity of the Crisis today.**

**We thus identify and discuss four stylized factors ( characters), that combine each other in ways that led to a major disarray; impacting in very severe terms the global economic system, and, menacing the social fabric in unwarranted ways.**

These four characters are not easy to assess, in the blurred day to day perspectives as we observe them. But they appear to have common denominators both in the larger economies experiencing imbalances, and in the smaller economies considered still as contagion realities.

The forces conducive to this Crisis are as follows:

1 An over-extended invasive Global Financial Sector ; 2 Short termism and hedonistic spending patterns in consumption , as a dominant trait of the economic system;

3 An obsesive, masoquistic focus of global and national public media, reporting on habitual economic news;

4 Gaps in the Governance and Leadership, compared to what is required for guiding the Crisis resolution process.

It is not complex to understand there is connection and close correlation between character 1

**and 2, and, between character 3 and 4 . The analysis that follows will keep these associations closely in mind.**

**It is a slightly more challenging task to judge the manner in which all four character interact, and how and why these tend to feedin amongst them ….**

**Regretably for society (millions of affected citizens) the ways the four characters are mixing-in today, is one important component of why the visible leadership in several countries ,has avoided bold committment for strong and courageous moves. By these we mean: the in depth changes in policies needed to redress a sliding of the economy to even shakier or darker arenas in the medium term. Short termism is still the dominating vision.**

**There is nothing intrinsic about a free market economic system , if it is based and founded on the respect of the human person , that would have the system lead to**

**present Crisis and gaps : defficiencies characterized by extreme volatility and unprecedented uncertainty. There is nothing in the construct of a *Social Market Economy*, which would - by its structure- generate the ¨¨ black holes¨¨ characterizing the present conundrum.**

**It is the strong *pragmatic deviations* away from fundamental norms, produced by dis-equilibrium in the relations and horizons of the key agents at play, which has led to an inferior or very third-best scenario, as we have it in the global Financial field today.**

**A brief examination of the elements describing how each of the four stylized characters play in the system, leads to more enlightened understanding on the *roots of the malaise, a sizable part of* the globe is experiencing. And helps perhaps build useful questions for options and policies for the future.**

The Classical Political Economists would have commented -were they still alive-an opinion as the one sketched in the paragraph that follows:

*“There is nothing intrinsically destructive about the roots of the free market system;*

*Cycles are an historical force, and have been dealt with and responded to, by organized societies in many epochs*, under reasonable historic results.”

It is in the build up for the present Crisis that the interplay of a particular set of sentiments, passions, attitudes, and distortions , arising from a *positivistic epoch* (emerged shortly after the fall of the Berlin Wall) , which silently and forcefully led dominant country economies into a “virus-type” scenario. The virus of *short termism* coupled with the bacteria of *indebtedness*.

It is *not a system* that *contaminates*; given that a system is merely a *human built* tool, and not an end results. It is *human behaviour , human desires , human actions -* ( within a special epoch where: hedonistic,individualistic, ,ritualistic and unrealistic arrogance are champion ) – that have transformed themselves into a virus and contagion factor.

Watch deviations in character of major players , and obtain thus a powerful understanding how results have become inefficient (suboptimal) and grossly unfair (inequitable ) : a very bad combination to Society as a whole

## <u>Character One : *The Financial Sector Deviation*</u>

There is respectable evidence that shows the combination of *three* new forces -inaugurated in the decade of the nineties, Namely:

- **formidable technological and organizational changes in modern banking systems ( the digital era of banks) ;**
- **the abolition of economic/ geographical frontiers by an accelerated globalisation process ;**
- **the strong deregulation at the political level and in operational overseeing frameworks ,**

**which generated a huge shift in *scale , in scope and character* of posmodern banking.**

**The business model for banking shifted : in very sideral ways and quantum scales.**

**The stock and flow dimensions of the financial services business grew at double-digits, and surpassed any historical observed trends, by a very large number. The last two decades can be characterized as the flight of the unbound *proud banker***

***Prometeus*: ever expanding, ever reaching new sophistication, and climbing to ever extending altitudes.**

**That phenomena, - which would have helped to produce better sustainability of economic and social development via democratization of sound credit – ended** up alas and ***de facto…giving* more wings and energy to over–ambitious and dangerously unbounded *Prometeus* banking entrepreneurs.**

**There was no limit to the growth or sophistication of financial business plans.**

**Human actors in the field, incubated in the course of time all the symptoms leading to the ¨˝Too Big to Fail ˝˝ character, where a number below the count of 200 *global mega-banks*, have placed today Central Banks and Sovereigns at bay .**

**By the accumulation of a sizable balance sheet dimension, including a variety of technically opaque**

**instruments , leading to a huge leveraging of financial instruments , many of these of an inferior kind or quality.**

**The expansion of the leverage scale never registered such high numbers in all of the history of mankind.**

**When a sector grows totally *unbounded, and cumulatively* at *double digit* rates , much surpassing the average growth in Gross Domestic Product , it is probable to find the sector will *dis-equilibrate the system*. And will do it in terms of : its acquired rising weight, its quantum share in total economic activity, its added powers in the socio-political fields , and its ramifications on key entry points to other sectors of the global economy (ie technology applications communications industry, and, all leading intangible services ).**

**This story leads to a set of nonsurprising features : an**

**overextended , over leveraged , pervasive banking sector. One that in actual practice, -even perhaps unintendedly- has *invaded and occupied* the habitual spaces pertaining to *the traditional sectors* that normally interplay in a modern economy.**

**Astonishingly : the dominant global banking sector has tended to invade the traditional domain of the Central Banks : making now the efficiency and flexibility of monetary authorities policies, a most difficult task to exercise .**

**Witness in these matters the discussion concerning the roles of the Fed or of the European Central Bank .**

**It is via expansion to dominant sizes, and continuous leveraging techniques, that the financial services sector has become the *principal vehicle* for the unprecedented growth of financial debts everywhere: both in the**

**private area and in the public sector domains.**

**The present scenario is faced then, with a paradoxically complex *factual situation*: one that makes it complex for policy makers to come out and well from the Crisis conundrum….**

**Leading banks need the monetary authorities to allow them to share *into* the proper Central Banks balance sheet, in order to preserve and defend the needed liquidity and own solvency ; the Central Banks need a stronger and proactive banking system to help transmit monetary stimulus to consumers , investors placed in the so called ¨real sectors¨ of economic activity. This is needed to combat the crunch, and promote reactivation in aggregate domestic activity levels.The so called Keynesian requirement .**

**The *Too-Big –to-Fail* syndrome and the *Too-Eager–to–Reactivate***

**requirement , tend to become mutually incompatible in the medium term macro scenario: given fear for incubation of inflation, and given the many added side-disequilibriums into the future ( *distortions* in savings and in long term capital markets ).**

**It will be a *detour* to Coordinated courageous, bolder and well cooperated *long term oriented Policies* , which can resolve the connundrum .**

**The human side feature, of this unfortunate sets of scenarios and constraints, can well become illustrated from factors pertaining to history and to mythology .**

**We can illustrate something of what happened in the banking sector , with one story from the *greek* mythology- being the geographic paradoxic coincidencean unfortunate irony.**

**From greek mythology let us recall the arrogant *free fly* to the sky of Icarus. And then immediately let us go to recent history , where we witness the many several *free***

***falls* by groups of bank leaders that climbed too rapidly and unsafely to the altitudes. These have been getting their wings burned now like Icarus….Fire has arised from volatilities, from heavily altered expectations,from disappointments, from an accute loss of favor that bankers are experiencing in political circles everywhere.The declination has forceful deregulation , of excess self ambition and greed , nurtured and fed the high rise of this dominating banking sector, and did it at the speed of lightening.And then: malaise and contagion set into the system.**

**Several informed players fear that, if the new *mutanting virus* were the factor that was to bring back**

**for the bailout of Greece more recently !**

**been sad and rather dramatic.**

**bank system abruptly , it will be**

**A combination of excessively the larger economy – non rapid**
**innovations, of naïve and financial one- that could suffer**

**to earth and land back the most from the strong adjustment operated this way. That fear has been an underlying issue in the slow and protracted negotiations**

**Options have been gradually narrowing , and now decision making has been forced to more speed .But issues of a deeper substrata will remain rather unsolved , alas.**

**Some of the key questions become:**

**how do we get business leaders and global authorities to *cooperate thoroughly* to build up a *long run solution* to many of the structural problems illustrated here ? What forces and voices can be mobilized to have the players in the present system, not hang around emergency patchwork exercises only ?**

**What will be the role of the *larger society* in leading/pushing to such new kinds of consensus ?**

**What is the *moral obligation* of informed citizens?**

**It is easy and direct to understand here we are dealing *head on* with a set of issues that involves the Common Good of society.**

**The social conditions that can redress the evils, and, bring back the financial sector to play the**

**role that a democratic ethical society demands of it .**

**Open questions that must be dealt with and discussed at the appropriate levels of each and every postmodern society ; in the context of a cooperating global setting as globalization demands.**

<u>Character Two: ***Short Termism and Consumer Hedonism , as the world had not experienced before.***</u>

**As the world economy grew at an unprecedented rate of 4 % yearly , in a context of stability and of shrinking frontier barriers, between roughly 1990 and 2007 the rise of consumption levels, the broader access to consumption , the increase in the average quality of life, the expansion of social expenditures, standardization of private consumption in massive ways ,**

all changed social patterns, and affected social traits of households. It was regarding their vision how they approached spending patterns, and, the mores on the *postmodern consumption act* .

This time , economic expansion and financial facility via *excess global liquidity* , did not merely induce each household to follow the usual and traditional pattern for "catch up and keeping up with consumption of the Jones", the neighbors next door. The impacts and *mood shifts* were more sophisticated; with much stronger economic implications.

Let us explore.

A host of sophisticated changes in life styles, in the communications industry, in the introduction of internet and digital era, and in strong secularization, gradually and sistematically led the *typical consumer* to become:

more individualistic, more self centered, more *privately gregarious*. Aiming to reach and enjoy modern sophisticated life standards :

described predominantly by consumption bundles and their exhibition in the private /public spheres.

A new citizen/consumer : inclined to form part of the new *urban tribes* , was brought along by globalisation . Tribes which tend to behave in spending patterns particularly in more hedonistic ways and fashions, than in past epochs.

The good news were, economic conditions and the revival of positivism , allowed a new majority of people to be incorporated into the more hedonistic consumption lifestyles. This was specially the case in the larger economies of

**the G7 countries , plus the countries considered today as the BRICS ( ie India , China , Brazil , Russia ). The bad news were : that still there was a *third of total world inhabitants* left behind, excluded from economic and social progress. Barely living on public subsidies, and reaching close to a mere subsistence income level per person.**

**The connected bad news was… that posmodern communications allowed all inhabitants in the globe to become aware for the big *income and consumption disparities* existing . Including here : an inmodest and imprudent exhibition of luxuries by Tv , by many social networks, and by the proliferated "reality shows" .**

**The social inter relations established within a secularizing society - rapidly wanting to satissfy in special manners their consumption needs – walked, the new typical consumer to an *imitation pattern* : one calling for ¨¨inmediate satissfaction¨¨, with particularly hedonistic patterns of spending and enjoyment .**

**Mr Jones, the consumer , acquired …. quickly rising income perspectives , rapid access to bank credits to spend and consume as he wished , easier access to observe all new life styles, and to visualize new consumption products and patterns.**

**Simply thinking that the world would now *inexorably be* ¨¨** *his or hers* **¨¨*,* as the publicity repeats every day. So … Mr Jones decided *to go along in the big float* : where rising tides did seemed to raise mots of the boats.**

***What is happiness for you*? a very popular anchor Tv figure was asked some weeks ago; and he replied to**

**nobody´s astonishment : ¨´it is nothing else than the unending expression of one's desires day after day ¨¨ …. This is precisely a *symptom of the postmodern new character* we have been describing in the chapter.**

**The facilities encountered for prompt satisfaction of desires, the expectational changes, plus a new sociology of life styles, led to an exaggerated version of short termism.**

**It became ´´ *hedonism blended with short termism´´* ; in a context of a dynamic society favoring mobility .**

**There was little , if at all, need to undertake the classical (boring) calculations : comparing the rate of time preference of consumption, with the rate of interest gained on savings .**

**Since Mr Jones felt that it was now the obligation of: private corporations via retirement fund schemes , or, that of governments via public funded old age plans ,**

**which had the responsibility to account for such medium and long run themes, ( the funded needs ).**

**Mr and Mrs Jones, the new consumers, now had become *dettached from* the major responsibility challenges. Again the world was *´´his or hers´´* .**

**Governments did not much seem to care, as long as they kept alive their taxation grids on the populace, and their access to liquidity and to debt . Corporations did not care, as long as the financial sector kept its expansionary dynamism and invested the accruals derived from large Corporate savings.**

**It was *a ¨¨Mirage Economics¨¨ Paradigm*, easing-out by the promoting of unlimited liquidity , soft and easy banking , universal free trade, accelerated globalisation , standardization to one-size fits all. All of this riding in a *virtual communications pathway,* a road that could do away rapidly, with a rigid notion of economic constraints**

**. Walking consumers steadily to rapid velocities in spending , and to access for very expensive and fancy luxury services.The luxuries industry never had a bigger impulse than this one.**

**The Old classic economic paradigm was *out of shape* with the new epoch. And so were the new very liberal voices out from Washington, or Tokyo, or New York city , or London shouting aloud ,to all that would care to listen for.Expansion was the call of the day .**

**The world was changed fast and unadvertidely.It then came to inhabitate -steady and strong- on *instantaneous consumption,* excerbated spending, and unprecedented sophisticated services , mostly sustained by rising financial debts .**

**What are the key lessons then, for the terms of our Opinion essay ?**

**The fact the typical consumer considers the new consumption**

**terrain conquered as his *private personal rights*: *disconnected* to obligations on personal taxes due, or unrelated to bank interest and capital dues.**

**This new set of attitudes is troublesome , given that now more than in the past , macro perspectives have changed, and very strong responsibility and clear personal *accountability* are required.**

**The excess leveraging and the huge indebtedness of *both governments and households* , has – since the hot and horror summer of 2008 onwards –returned us *strongly back,* to the more slow world of the classical economists. Away now with excitement and acceleration ; back now to the basic arithmetic of "*making one´s means meet one´s ends*". And for many citizens , this is a sudden bitter return to the hectic search for jobs and the queuing for unemployment public aid.**

**The problem at stake is one of structural transformation, and**

**needed change of mores and habits .**

**A *not simple adjustment* : which goes against facilitism, works against the self complaciency culture, alas …..still dominant.**

**How can we *undo* the marriage of the vicious parts ? ; Those that *are undermining* , the whole structure of the economic system?**

**It can be argued, from a point of view of democratic sustainability and social ethics, the shift to the *rebalancing* ….in favor of austerity , rationality and an investment culture – in the end – is clearly a *superior outcome* .**

**Because it reduces volatility, enhances accountability , promotes realism , and therefore, manages better the uncertainty : thus increasing the true sustainability of the system. The magnum changes described, and required now , if achieved, would certainly provide a long term development horizon !**

## Character THREE : *The Obsessive Nihilistic Public Media Messages*

**Generally the public Media does affect expectations and feelings of consumers , investors , savers and entreprenuers in important ways. We state in what follows, that this has *been the case…* in the Crisis at hand , and *not* in a useful or conducive way.**

**If one watches a vast array of public reports in the News, and reads a diversified number of written press sources , one gets the feeling that we would be living at the verge of a major catastrophe of unprecedented dimensions and prolonged consequences . It is not the reporting of an Economic Cycle – as bad as this one may be- but the repeatal in amplified terms , of something like the picture of the Great Depression of the nineteen thirties , that which is promoted by the Public News systems in many places.**

To make a long story shorter :

The globe has walked from a Media system ,where canadian thinker Marshall Mc Luhan expressed in wisdom , that *The Media is the Message* to a presently updated Media system where now ,

*The Recession Is The Message !*

Nothing aired nowadays but hard stories on panics, crashes and downfalls: characterized in red inks, and predominating on the larger screen of Public media messages .

Even if it is technically proven that the Global economic system has not reached a global recession , we are however still listening ( and inducing citizens to ¨¨feel ¨¨) as if the world plunged into a deep full strong depression .That media diagnosis being simply *not true*!

**As bad as things are, and hard as the options have become , we are not in any global depression today.**

**We state here there is a trend- a noticeable tendency- for some manipulation of stories, to make us feel that *doomsday has arrived* .**

**The tone of exact despair disseminated varies from country to country , and, is meddled through by combining with scandal stories or with anecdotal episodes of the other kind ( violence, crimes and sex scandals ).**

**The typical Financial news program aired today, does not content to depict economic zig zag indicators by week, or for once the closing of markets end of day arrives. Instead, it tends to do it now by the hour or specific time lapse of each trading session; providing lots of *brain analysis* to comment on *every gyration arriving there* .A fact which a scientific statistician will deem as irrelevant, and scientifically non useful ! All this shows the inclination for short**

termism in every single economic life domain.

Why is ¨¨*Recession the Message* ¨¨ rather than airing ¨¨ *Recession <u>is</u>* one more *of the many Messages* ¨?

The ¨¨*Society of Spectacle* ¨¨, has made its way , and penetrated the manner in which some Media have been working in the last epoch.

*Economicism:* an unhealthy *concentration* on just economic and financial considerations in the modern epoch, is one good explanatory factor on these trends.

There is an *implicit unhealthy social bias* when gyrations of currencies and of stock prices at the milesimum of time unit , become amply analyzed , much described and reported .Surpassing the proportionality of their *human relevance….* for an ample group of citizens all over.

These obsessions of posmodern Media, are *highjacking critical time away* from very many other sources of news , including a few-but very robust- good news in very many domains of human endeavor.

Witness, to list a few examples : new decisive discoveries in pharmaceutical and medical processes with promising cures for many endemic malaises, or the adoption of safer and better irrigation systems for vast areas of African inhabitants, or, the impecable reverberation of peaceful winter Olympic games globally admired, or the new odissey being prepared by world scientisits to explore larger space planets, or, the unexpected internet distribution of brilliant photographs by disident chinese consecrated world artist Wei Wei .

Human actions and human led events are a rich mosaic of never ending experiencies, to be shared upon with the inhabitants of a common world.Economic news are just one small sphere of endeavors.

It is a big shame that economic considerations, and the material application of consumption and

**finance actions only, have highjacked such an important share of our total Media hours . Worse: that it would have done it at the cost of biasing attention for untrascending topics: many of these then touched upon in daily conversation with family or friends. This noisy *blurring trend* observed, will make things harder to resolve, and , will make social changes more complex to redress for the better .**

**Do we have to live, work, and enjoy with a *divided or fragmented* mind?**

**How do we *integrate Media propelled messages* in a more sophisticated , and much rebalanced way ?**

**How are we conscious, of these indirect *cross- effects? On impacts on our cultures systems ?***

**What is the quality of analysis for news Media events, that we are constantly bombarded with?**

**How is that state of the art of Communications impacting our lives as citizens ?**

## <u>CHARACTER FOUR *: Governance Gaps and issues of Leadership .*</u>

**A big Crisis like this one unfolding in a uncertain context, would normally have to call for the very *best leadership* available, to handle it in best possible ways .**

**We do not observe still, that tends to be the frequent case .**

**The continuity of traditional leaders at the political level and at the**

**upper technocratic levels reigns supreme.**

**There is an old country cowboy phrase which says : ´´one does not change horses in the middle of the river …¨¨ , and there is certainly some wisdom to that !**

**The issue is that it is possible that , by driving on the same traditional**

**horses , the awareness factor remains low , the habits and old mores of politicians remain unchanged , and the leadership provided is simply not up to the big challenges ahead.**

**It is not clear that old horses , many of which were in part conducive to the Crisis , will gain the wisdom and stature to redress the road and to cross the river, in good form.**

**Intelligent observers can sense a growing *gap – still in the present-* between strong social demands calling for new action , vis-à-vis, a very limited supply of policy responses being offered and applied in real practice.**

**In many countries of large and smaller economic systems we are observing that there is a Governance deficit . In some, the deficits of Governance are smaller in size and quality than in others , but still the state of the politics is**

**quite unsatisfying . Witness the voices of the ´´indignados´´ ,and witness the growing percent of abstention and absentism at polls and votes taken for an array of public issues.**

**Where is the new Good Governance required for a long lasting resolution of Crisis, in large parts of the developed world ?**

**By the end of this exploratory Opinion Note, we can ask a few questions of relevance . In this instance they will be mostly relate to the fourth character : the factors concerning Governance and quality of Leaderships .**

**What are selected *key layers* where political craftmanship should be deployed in the near future ? With which inspirations , under what principles of ethics and morals?**

**How should the style of the new politics approach become ?**

**What would be the social ordering of the new deployment needed :**

**given the *governance gaps* alluded to ?**

**How can the citizens become more participative in the solutions package reforms , those required in a longer term vision ?**

**How can we restore the agendas of the public Agora , bringing both economic growth paradigms and democratic choices to an integrated part of public dialogue ? What is the strategy now and to the future , to heal and push forward , rather than lament and look past ?**

**How can the disclosure of lessons learned in this Crisis , help us to rebuild back a consensus for a healthier economic system : one looking to humanistic values and to the sacred respect of the dignity of persons ?**

**Is true personal and social change feasible and forthcoming?**

**How?**

**We restrain on giving more insights on the themes here , given limits of scope , opportunity , and space.**

**An interested reader could use the four characters at play , described in this Note , to see how they may or may not, illustrate some paths for exploring a few answers .**

**Consider characters 1 and 2, and, consider characters 3 and 4 .**

**How would they combine pro or against , a change in direction, in the setting of the Crisis scenario of a given society ?**

**And also : how do some of these four characters feed each other, as a force for inmobilism and stagnation , as the circumstances may be?**

***These are important dilemmas.***

***We only wanted to describe and suggest how they might help explain social , economic and political scenarios , while respecting the idiosincracies of particular***

*Country experiences .Clearly : there is no one story to the issues , and actual experiences vary widely and differently.*

I leave the reader to think on scenarios that could be forthcoming sooner than later.

New events and unforseen forces will most certainly impact ; and affect all of outcomes alluded.

New circumstances may bring a given society closer to the day where leaders could further *wake up.* Acquiring then a *deeper awareness,* for the need of facing present social challenges, in more decisive and creative ways .

There is a bias of *hope*. We should work and try for the better, and be open to changes. goodwill.

ready and steady to raise up and cooperate , in full commitment and

**When the dawn of a new day**
**brings bells of hope , all should be**

***( The opinions in this essay are the*** **<u>sole responsibility</u> of the author*, Dr Eduardo Aninat. In no ways do these involve Uniapac as such ).***

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