# The Global Economic Recession

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After concluding their economic summit in Washington, the leaders of the industrialized and industrializing G-20 nations agreed on an outline for a new financial regulations regime to govern national and international financial transactions. However, they chose to overlook the need to address the global economic tsunami that is gathering strength day after day. While the financial meltdown has somehow receded, the collapse of the financial system was only the first and most obvious phase of a larger and wider and deeper economic problem that cries for attention. The downward spiral that began months ago has continued to accelerate, causing the US, the EU, the British and Japanese economies to slip into recession. Some people with experience dealing with past economic recessions and financial liquidity problems seem to think that the measures taken so far may be enough to arrest the economic decline; others, being a product of the pre-globalization age way of thinking, seem to think that a recession is what the American economy actually needs to correct itself, force weaker financial institutions and inefficient manufacturing companies to restructure, and thus pave the way for a healthier, more vibrant economy to emerge. Nevertheless, more and more people are slowly coming to realize that the world is facing a global economic crisis of a magnitude not seen since the great depression and, as consequence, advocate taking new, more daring measures to revive the global economy. President Bush said recently that he had agreed to the $700 billion bailout package only after being told that the American economy could conceivably slip into a depression worse than that of the 1929.

Experience dealing with economic, social, cultural or political problems is a good thing to have; nevertheless, experience is always limited in nature and scope and time, and thus has its limitations; advantages and disadvantages. If we were living in a traditional society in Africa, Asia, the Middle East or Latin America, experience would be all that a leader would need to manage whatever challenges he may face. Since life conditions in such societies tend to remain stable for longer periods of time or to change very slowly over time, past experience and inherited knowledge continue to be valid and able to play their traditional role. This is why for example the Awakening movement succeeded in Iraq as tribal leaders with little or no education were able to control events and help reduce the level of violence tremendously. Tribal as well as traditional leaders do not need to be highly educated or internationally oriented to lead and be respected; all that they need is experience derived from old age and social status. But in a world that is changing every second, experience rooted in the past is more of a liability than an asset. Since we never had an economy so complicated, integrated, interlinked, interdependent and globalized as we have today; measures used successfully in the past to arrest economic decline and deal with financial liquidity problems have become largely outdated; thus using the same old economic policies and financial measures and ways of thinking to deal with the current tsunami is more likely to complicate rather than ameliorate the current global economic crisis.

Most European leaders, for example, have been very reluctant to acknowledge the nature and extents of the economic change the world has witnessed over the last two decades; as a consequence, their national economies have largely remained mired in recession for

some 25 years. Almost all of the Euro zone economies have had to function for almost three decades with unemployment rates in the range of 8% to 12% %. The modest economic growth that most of those states have experienced over the last two decades had not been good enough or inclusive enough to reduce unemployment in a meaningful way, making the recession as well as unemployment structural rather than a passing phenomenon. But because Europeans in general have good social networks and savings traditions and generous social and unemployment benefits, European states have been able to manage the consequences of an endemic recession without much social unrest. Most European citizens, moreover, are today in a much better position than most Americans to face the challenges of the current economic crisis because of their universal health care and education delivery systems, a culture that rewards savers more than spenders, and the lack of distressed poverty stricken classes and neighborhoods, except for certain minorities in two or three countries.

The monetary policy the EU Central Bank has followed since the Euro zone was created has been bad; it was and continues to be a misguided policy based on misconceived assumptions that had long been invalidated. Fear of inflation is a state of mind that has largely ceased to exist as a state of economic and social affairs in all industrialized western states for some time. Globalization has made supply shortages of labor and other services and most goods, with the exception of oil, a thing of the past, thus reducing the threat of inflation tremendously. In addition, the tight EU monetary policy has been instrumental in raising the value of the Euro causing many European products to become less competitive in world markets and thus affect the performance of all EU zone economies negatively. Therefore, there is a need to correct this mistake by lowering European interest rates substantially. As for the US, I do not believe that lowering interest rates further would be helpful. The major financial problem in the US today is not liquidity but trust; and therefore a new cut in interest rates is less likely to ease credit; instead, it is more likely to hurt people who save and invest in government bonds and other financial instruments and live on the interest income they earn from their savings.

## How to Deal with the Global Crisis

About 10 years ago when Chairman Greenspan began to raise interest rates for fear of inflation, I wrote a paper under the title, "The Ghost of Inflation" in which I argued that inflation has become a ghost feared by those who witnessed its ramifications in the past. But like all other ghosts, inflation has vanished from the lives of the highly developed economies with the advent of globalization; and therefore it no longer threatens national or global economic prosperity. Sudden increases in prices due to food or oil shortages for example do not usually last long and no one can do much about them regardless of interest rates and monetary policy. As a consequence, I argued that monetary policies based on the assumption that inflation still poses a serious threat to economic prosperity is no longer valid as a long term proposition. To counter that fear and help poorer nations and peoples avoid paying the price of having to borrow at higher interest rates, I outlined a plan to ease restrictions on the migration of talent from Third World countries and manage the movement of talent in a way that makes benefits of migration mutual. While the rich nations gain the brain power of the immigrants, the poor nations get a modest share of the income earned by the talent they export to the rich states. Such monies would be invested directly to develop the immigrants' national economies and societies; while deepening international economic interdependence. Unfortunately, the paper did not get

published. Having promoted Mr. Greenspan as being the master of monetary policy and economic thought, the national media would not allow anyone at the time to question his questionable wisdom.

The economic and financial crises facing the world today have come in a new, much different age; and therefore they require new thinking and thoughtful policies and more daring measures. The world economy needs a global recovery package that includes every country and excludes no region or class. In fact, no package will be complete or fair or long lasting that fails to help the poor nations living in Africa, Asia, the Middle East and Latin America to move along the developmental ladder. Acknowledging the depth and width and seriousness of the recession, president-elect Obama warned repeatedly that the recovery will be slow and difficult; saying that the US is "facing an economic crisis of historic proportions." States that have acknowledged that their economies are already in recession represent about 2/3 of the world's GNP and more than 80% of international trade. This should make the global recession longer and deeper than "experts" forecasts, while making World Bank 2009 economic growth and trade projections for the rest of the world too optimistic, if not illusions. Furthermore, claims that the Chinese and Indian economies are able to be the new engines of global economic growth are highly unrealistic. While both economies are slowing down and more people are loosing their jobs, most Chinese and Indians tend to save a good portion of their incomes and therefore, are less likely to spend most of what they earn. And in a turbulent era dominated by financial chaos, rising unemployment, declining exports, and bad economic news, they are more likely to spend less and save more than before.

A downward economic spiral has two other negative byproducts: a psychological one that drives almost everyone to spend less on consumption regardless of income; and a financial one that drives almost every investor to be less inclined to take financial risk and therefore, to invest less. As a consequence, neither China nor India will get the kind of foreign investment capital they have gotten used to receiving in recent years. In addition, I believe that the US economic recovery process will be very slow and painful; causing most Americans to reconsider their spending habits and become more aware of the virtues of saving for a rainy day. Thus, we expect that demand and consumer spending in the United States to grow slowly; much slower than most politicians and business people would like to see and believe will happen. Even in the oil rich states of the Gulf, experts tend to forget that at least half of the demand for imports is generated by millions of guest workers coming from poor countries like Egypt, Jordan, Yemen, Pakistan, India and Bangladesh who are very sensitive to economic changes and therefore tend to save more and spend less.

An effective economic recovery package has to be large, global, comprehensive, futuristic and inclusive. First, it has to be large to create new jobs everywhere, address the needs of the poor and sick and others who lack education and technical knowledge, and strengthen economic links across political and cultural lines, while moving the larger world economy toward alternative sources of energy. Second, it has to be futuristic to address the need for long term economic growth and global prosperity by building not only the physical infrastructure of states, but also the social and institutional and peace infrastructures as well, particularly in the developing countries. For example, if the Sudan were to be enabled to utilize all of its water resources and arable and pasture land, it would produce enough food to satisfy the needs of at least 10% of the world's population;

an outcome that would substantially reduce the likelihood of having to face another global food crisis and an inflation scare in the near future; The Sudan however, has neither the roads to transport the produce and livestock nor the peace to encourage people to engage in farming and forget fighting. Third, the package has to be inclusive to engage the world's poor directly and provide them with the formal and technical education they badly need, and the health care services they lack, and the economic opportunity to motivate then to get involved in the economic production process. Fourth, the global nature of the economic and financial crises facing all nations today require a global response; all states that attended the Washington economic summit need to act together and coordinate their plans to be truly effective. Lack of coordination is likely to cause wide swings in exchange rates and to drive investment capital to shift fast from one country to another in search of short term profits. And fifth, the plan has to be comprehensive in order to avoid helping certain economic sectors or industries at the expense of others, or fail to address the needs of one group of people in the hope that trickle down economics will take care of their needs later.

When most economies were national in structure and scope, national recovery packages tended to work fairly well; increased government spending was able to increase national employment and workers' incomes, causing domestic demand for all kinds of goods and service to increase. As a consequence, producers were encouraged to expand domestic production to meet the rising demand by hiring more people and investing in machines and other production facilities; and therefore employment and incomes and domestic demand increased further compelling producers to start a new round of investment and hiring to meet the growing demand. However, in a globalized economy, new government spending to create new jobs is no longer able to have the same effect on either demand or production or employment or investment as before; a good portion of the increase in workers incomes is certain to be used to buy imports from other countries and thus to benefit workers and producers operating in the exporting rather than the importing states. Therefore, isolated national recovery programs to create jobs and fight economic recessions and financial crises are less likely to succeed in this age, making success in fighting the current economic and financial tsunami a function of global coordination to launch a global and comprehensive recovery package.

An economic stimulus package capable of achieving these goals needs to be in the neighborhood of 5% of the GNP of the G-20 nations. If this were to happen, the size of the proposed package will be about $3 trillion, giving governments the necessary financial resources and flexibility to spend on reviving the world economy and make it more productive, more just and humane, and largely inclusive. It is further proposed that the plan should allocate not less than 10% of the total package to help struggling Third World economies and nations to be placed on the right path toward economic and social development, peace and political stability. Helping the poor nations is not only a moral obligation the rich ought to fulfill, but also a self serving economic and security endeavor. Failing to address the dire economic and political and social needs of the world's poor is a recipe for more violence, intensified ethnic conflict, heightened radicalism and terrorism, and more wasteful spending on wars and armament that hurt everyone and benefit no one but the super greedy of the rich and powerful. If the rich nations were to ignore this issue or minimize its urgency and importance as usual, the recession will be longer than projected, the recovery slower than desired and expected, and the hoped for prosperity shorter than wished. The potentially large and expanding

and hungry markets are no longer in the highly developed nations of the West but in the developing countries whose populations are struggling to survive.

An economic stimulus package of $100 or even $150 billion as being proposed by some people in the US Congress and by others outside of it will achieve very little, if anything at all. The last $170 billion economic stimulus package enacted during the Bush administration may have slowed the down turn, but it did not prevent it; it only increased the size of the federal deficit and thus made the challenge facing the new administration larger and harder. In addition, a small stimulus package will give most European leaders an excuse to hide their heads in the sand and continue to languish in recession hoping that the US economy will save them later. The $30 billion package introduced in November by the British government for example will prove to be inadequate. The US $700 billion bailout package of the financial system has done nothing to help home owners, to ease credit or to create new jobs; in fact it has facilitated cutting more jobs as a result of corporate downsizing and consolidation and mergers which the bailout have actually helped instigate and largely finance.

Based on the dollar estimates of the investment needed to create one job for different countries, a stimulus package of some $3 trillion spent wisely over a three year period would create by itself about 75 to 80 million new jobs worldwide, of which about 10-12 million jobs would be created in the US, about 14-16 million in the EU, and about 17-20 million in the poorer states of the world, of which not less than 2 million jobs would go to young Americans and Europeans working for not-for-profit organizations and other state sponsored aid programs operating in Third World states. And while working hard to help the poor and the needy get the right health care and education and training and empower women, those young Americans and Europeans would be helping bridge the sociocultural divides that separate the West from most other peoples of the world. Meanwhile, a new generation of young American and European leaders would be trained to assume future responsibilities of leading a much economically interlinked and culturally globalized world, armed with the cultural understanding and the economic and practical knowledge to make our world safer, more prosperous, more equitable, and much more peaceful.

Many Americans on the right and on left are debating today the wisdom of bailing out the auto industry; many more Americans fear that such a bail out, if provided, would encourage many more industries to ask for financial aid as well. The EU Commission, meanwhile, has issued a statement saying that such a bail out would violate the rules of the World Trade Organization. Regardless of the nature of the debate and the seriousness of the EU warnings, the only and most efficient way to help the auto and other struggling industries in the US and elsewhere is to enact a large and well targeted and coordinated economic recovery and expansion package that creates jobs, generates new demand at home and abroad, and helps revitalize the world economy. An economic stimulus package of the sort described above is an investment in the future of all states and all peoples. For the western nations in general and the US in particular, the areas that ought to be given priority, as has already been articulated by President-elect Obama, include physical infrastructure, health care and education, renewable sources of energy, research and development, and the environment. As for the poor nations, priority should be given to building the physical and institutional infrastructure, providing education and health care, rural development, the empowerment of women, and peace.

Challenges facing nations do not represent problems and obstacles only; they tend to provide opportunities as well. However, to take advantage of the opportunities that might be opened, leaders need to be bold, creative and imaginative, moving away from outdated ways of thinking and into the world of imagination. As for the Europeans, the global nature of the recession gives them a historic opportunity to free themselves from the ghost of inflation and get out of their prolonged, structural unemployment and recession. The US, despite its severe economic and financial and social problems at home and complicated military engagements abroad, must take the initiative and lead the world in a concerted international effort to revitalize the world economy and transform capitalism, giving it a human face. Capitalism must be made more equitable and just and socially responsible; greed can never serve a noble cause nor provide long term help for anyone, not even to the greedy. A financial and corporate system based on trusting that people will continue to trust the greedy, while the greedy trusts that people will continue to be naïve to trust them no matter what they do, cannot work in the long run. People running the financial system and the institutions that control money and credit have acted on the assumption that the public will trust them regardless of their actions and intentions, and that they can continue to deceive the poor and the ignorant, manipulate the week and the vulnerable, and enrich themselves by exploiting everyone with impunity.

If old capitalism based on personal and corporate greed is dead as many economists and politicians have proclaimed, so is the rationale and wisdom that came with it, and the assumptions upon which its major institutions were based.

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