

THE GLOBAL FINANCIAL CRISIS – IS IT OVER?

STANDARD WARNING ABOUT FINANCIAL ADVICE

1. The Answer

- No: it is not over and no one knows for sure when it will be

2. Three Ways of Thinking About the Future

(i) **prediction** (eg IT's "Moore's Law")

(ii) **preferred futures**: role of vision: building a bridge back from the future
eg post-World War II US reconstruction of western Europe: Marshall Aid programme

(iii) **possible**: scenario planning: importance of paradigms/ worldviews eg Nokia and the invention of texting

3. Value of Scenario Thinking

- helps people to "think about the unthinkable"

- encourages us to "look" at the same facts from different angles: there is more than one way of looking at events

- it encourages attention to the long-term

One: "Business As Usual"

4. Cycles are Just a Natural Part of Economic Life

- it's just like getting drunk: "Roaring 20s", "Roaring Noughties"

- humans don't learn from history

5. Therefore Don't Panic

- economies *do* recover from crashes: 1987 Wall Street, 1997 Asian Crash

- we need to focus far more on good news and not talk down the economy

- people who survive are the financially cautious, who avoid excessive debt

6. Implications

- don't worry too much: Australia has faced – and survived – far worse crises

- look at Australia's strengths: eg educated population, highly regarded internationally, plenty of resources

Two: "Break Up"

7. The "Rise and Fall of the United States" Debate

- Paul Kennedy The Rise and Fall of the Great Powers

- survey of 500 years of European empires: Spain, Portugal, The Netherlands, France, Germany and Britain: similar pattern: each begins as a small trading country, then it acquires overseas trade links, then it develops a strong military to protect the trade interests, then it gets involved in wars, then it goes into a decline

- is the US next to decline? US until December 7 1941 was not a major military power; George Washington advised against foreign alliances and "isolationism" remains a strong theme in its history; but now the US is the

international police officer; US now bogged down in Afghanistan (“graveyard of empires”)

- a nation is not rich because it has a large military force – but it can afford to have a large military force because it has a strong economy: is the US’s economy now in terminal decline (eg indebtedness to China?)
- debt destroys empires
- empires tend to die via suicide rather than murder

8. Therefore: Don’t Get Fooled by the Economic Spin

- despite the talk of “green shoots”, the underlying causes of the US economic crisis still exist: loss of manufacturing, increased unemployment, good jobs going offshore
- banks remain unrepentant; politicians are unwilling/ unable to take on the major banks; increasing public anger: politicians won’t help poor people but they will help the banks; rise of the Tea Party Movement
- record sales of guns and ammunition

9. Implications

- Australia (despite the hysteria over the asylum seekers) is a long way from the major places of conflict
- changing nature of warfare: fewer international conflicts: trade knits the world together
- many of the basic long-term indicators suggest that Asia is still on track for rapid economic growth: (i) rising expectations (ii) rising incomes (iii) improved health and education (iv) increased status for women
- 300 million Chinese have been lifted out of poverty in three decades: one of the greatest achievements of the 20th century
- Australia will just have to get used to China/ India as our “great and powerful” friend (and not US or UK)
- note that the US will have its own domestic problems to sort out eg by 2050 whites will be in a minority (US will be a nation of minorities) and the US will be a major Spanish-speaking country (already 10 per cent of Mexicans live in the US)
- if China’s environment continues to decline, could Australia become a “breadbasket of China”?

Three: “Break Down”

10. This Time it Really is Different

- global financial crisis masks the really serious one: environmental decline and resource depletion
- note the impact of “Blowback”: traditionally a political concern (eg arming Osama bin Laden against the Soviets and who then later turned against the US); now it is developing a natural/ environmental component eg wonderful economic growth is now leading to resource scarcity
- economies used to be able to recover from recessions through economic growth – but now the growth is problematic because of the large consumption of resources, increasing population, risk of “resource wars”, shortage of water
- there is speculation about “climate change” but governments don’t know what to do about it

11. Looming Environmental Crisis

- The Club of Rome warned in 1972 that there were “limits to growth” and set the 2040s as a particularly dangerous time
- “peak oil” debate: running out of oil
- population (though down from the high birth rate of the 1960s) is still increasing
- as a society gets richer so it consumes more resources (The Club of Rome’s original calculations did not factor in the growth of China and India)
- economic development brings increased pollution
- there is a growing sense of Armageddon and End of the World: Christians are waiting for the 2nd Coming, Jews are expecting the Messiah and Shia expecting the 12th Imam; the Mayan Calendar cuts out on December 21 2012
- meanwhile most people are being “entertained to death” and diverted from the big picture via celebrity gossip and sport

12. Implications

- Australia has few immediate resource issues
- Australia is clean and green
- it enjoys good social cohesion (Australians reserve their anger for referees on a Saturday rather than use it politically)
- Australia may have time to adapt to the new era of resource scarcity

Four: “Breakthrough”

13. Value of Crises as a Turning Point for Change

- you can do things in a crisis which you daren’t do during ordinary times
- Great Depression in the 1930s and World War II enabled President Franklin Roosevelt to re-invent the presidency and government
- a crisis can enable new thinking to suddenly erupt; Bush used “9/11” (September 11 2001) for the “politics of fear” but he could easily have used it for more positive purposes eg get Americans off their addiction to oil and develop alternative energy sources
- the economic crisis could generate a sense of urgency on the environment

14. Crisis Could be Used to Reinvent the Economy

- could the crisis be used to reorganize the US? (www.greenforall.org)
- (i) solar electricity industry
- (ii) “green collar jobs” eg making homes more energy efficient, eliminating heat loss
- (iii) organic gardening on deserted city lots (good for growing food, enhancing social cohesion, and giving people exercise)
- (iv) follow Mrs Roosevelt’s World War II example: grow vegetables on the White House lawn

15. IT Revolution: Moore’s Law

- Gordon Moore of Intel: doubling power of computers
- just as the planet is facing its greatest environmental crisis, with humans as the “global cancer”, a “global brain” is invented - Internet

16. Gene Revolution: The Life Sciences Revolution

- speed of change: for example, stem cell technology: hardly mentioned as a major issue before about two decades ago
- life sciences can be a pharmaceutical gold mine (eg a cure or a way of preventing of dementia) and so there is still a major financial incentive to do this research

17. Implications

- Australia is usually ready to embrace change (unlike many other traditionally more conservative cultures)
- the new era will be knowledge-intensive and so much more money should go into education
- need for education/ training for completely new jobs eg Perth's experience with hydrogen powered buses
- new careers: eg carbon forensic accounting: making sure that the carbon records are accurate (and new police work as well)

18. Where to From Here?

- remember: should not pick "winners"!
- create indicators
- create contingency plans
- talk up the scenarios ("strategic conversation")

19. Pace of Change Will Continue to Increase

- scenario thinking reduces the risk of being taken by surprise
- it encourages us to develop contingency plans: we may not be able to predict the future but we can plan for it
- we can embrace the future with confidence knowing that whatever the future may throw at us we can cope

20. What Would Governor Macquarie Have Thought About All This?

- wrong to assume that we can interpret what historical figures would do today
- Macquarie was not overwhelmed by the task ahead of him – though it was clearly daunting
- he transformed the colony from a convict settlement to a thriving place of business
- he encouraged various economic activities eg creation the first bank (Bank of NSW – now Westpac)
- he saw government as an engine of economic development
- he gave convicts a second go – and clashed with the conservative Establishment over this
- the Global Financial Crisis needs bold action

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