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September 2008 financial meltdown: Concern, not panic

by Arthur Jones


Commentary

To panic or not panic? Not.

The headlines are the result of panic buttons being pressed, due in part to some clever spin being utilized to pressure Congress. That to one side, let?s analyze what isn?t being spun, while acknowledging it is not Pollyanna we?re dealing with, but a many-headed Hydra.

The entire two-week meltdown ? moving into its third week ? is at boiling point because what can take place in a year and draw nothing but very, very deep sighs, has occurred in ten days.

What has taken place is always taking place, whether it is unpredictable Wall Street plunges, planned or emergency bank mergers, or direct or indirect government bailouts.

Four years ago, on the 75th anniversary of the Great Crash of 1929, the BBC remarked, ?market mayhem occurs with sickening frequency.? How true. Yet most Americans barely remember the personal financial impact of this decade?s two most severe Wall Street daily drops: the terrorist attack-driven September 2001 decline, 684 points, 7.3 per cent and the China stock market collapse February 2007 decline, 416 points, down 3.3 per cent.

The headlines on the latter (with the Dow down 546 points until an hour before the close) included, ?Seventh largest one-day drop ever.?

The advent of a Wall Street decline can rarely be predicted. Three University of Groningen professors writing in December, 2003, opened their own forecasting system with the statement: ?Indicators of pending financial crises generally do not have good track records whether it is financial crises, currency crises, banking crises or credit crises.?

Again, how true. But that doesn?t mean sharp minds were not aware of the possibilities.

A decade ago The New York Times accurately declared, at the time Norwest Bank took over Wells Fargo in a breathtakingly large merger, that ?as banks get bigger a huge financial blunder may affect a much larger proportion of the financial system than in the past.?

Welcome to the huge sub-prime mortgage blunder, a scam of the most colossal proportions: the unscrupulous taking advantage of the uninitiated and uneducated.

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What else has been behind this? While the rest of the world was saving, the United States was spending. To spend, the United States had to borrow from those who were saving. When they realized what the United States had done with the money (lost it), they became anxious about being repaid in dollars worth as much as they?d invested.

The economic world as geared operates on ? insists on ? ever increasing demand for an ever-augmented supply of goods and services. Demand just died. Everything slows down, even those who can buy are reluctant. Those who can loan are reluctant. Then the spectre of recession hogs the headlines. Three of the past five decades (1970, 1980, 2000) have had recessions, and there was a mini-one at the start of the 1960s. People were hurt, some very seriously. Yet many Americans who lived through them don?t quite remember them, or their personal impact.

These, too, are realities.

Finally, we live in one world that is simultaneously two worlds, and we really only occupy one of those two: the First World, the developed world.
We are, and we remain, no matter how badly battered, of the rich.

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