

## Central Bankers should avoid exercising judgment at all times.

But on two occasions in particular: when they've analysed the issues and when they haven't.

The crisis is not over.

Europe's debt problem may be intensifying. Analysts are certainly worried about it. They fear the therapies implemented by Governments and Central Banks have been ineffective. They claim the negatives haven't been remedied, just reallocated. *Peter* has been robbed to repay *Paul* (the one saved and the other impoverished), but the central objective hasn't been achieved. The prospect of a return to economics equilibrium seems more distant than ever!

It may only be beginning.

When the crisis first broke, a couple of years ago, there was a presumption that the risks related only to commercial banks. There was no chance, it was thought, of contagion spreading to the rest of the economy. The authorities reacted accordingly.

It's always a mistake to save banks.

They organised a huge bailout. They thought the rest of the community could afford to support the banks. And, to this end, they engineered an unconscionably large transfer of taxpayers' funds. They did so in secret, of course, not bothering to get the approval of voters, nor even that of legislators.

It's lunacy to save bad ones.

Their analysis was wrong. The commercial banks were a fairly unimportant part of the economy, and the rest of the community could ill-afford to bailout good guys, let alone delinquents. Sadly, those who made the mistakes—senior officials in Finance Ministries and Central Banks—are still there. The risk is that they'll repeat their errors in the weeks and months that lie ahead.

Greece has lots of past, but not much future

Greece's fate is sealed. It cannot live within the EuroZone. Nobody will lend to it. The conjunction of an overvalued currency and penal interest rates ensures, moreover, that its economics activity will remain subdued. The country depends on others, principally Germany, for its daily bread.

And Ireland?

Is Ireland viable? The optimists point to its willingness to adapt. It has cut public spending sharply and has engineered sizeable reductions in pay rates. The country will shortly be competitive again, it is said. Net exports will boom and foreign direct investment soar.

It's brave. But wise?

Perhaps. But there are a number of uncertainties. How long is it going to take for Ireland to recover its old competitiveness? Might it be three years, possibly four? In either event, the near future will be characterised by high real interest rates. To what extent, will they offset the buoyancy postulated elsewhere? Will the drag on consumption and investment be greater or smaller than the boost from the external sector?

The near term won't be easy.

Who knows? But it's not a done deal. Nor can it be presumed that the rest of the world returns to significant growth. Banks in the commodity producing world also have problems. Likewise a few Governments. They'll not be serious problems so long as commodity prices stay high. But what if oil and metal and grain prices should tumble? Easy: there'd be several more Europes!

Likewise, possibly, Chindia.

Much the same thinking can be applied to China and India. They are fine while rapid growth lasts. But not if it doesn't. If there should be a spate of protectionism, for instance, how well would either survive?

Protectionism is a slayer of heroes.

Look at Argentina in the thirties! It was the most efficient grain and beef producer in the world (it was in agriculture then what China is in manufacturing today). It enjoyed unending boom prior to protectionism; unending slump afterwards. The risks, in other words, are high.

Cut taxes, not spending.

What should be done? It may be that nothing is possible; it may be that it's already too late. But, if the authorities were to want to maximise their chances of salvation, they'd act radically. They'd not worry too much about debt, but focus on growth. They'd not cut public spending in order to reduce bond sales, but to reduce taxation.

The Brits are going in the other direction!

Does any Government go along with the argument? Very few. In Washington, the proposition gets a partially sympathetic hearing. But, in London, it's rejected out of hand. Cameron and Clegg are more concerned with "fairness" than "effectiveness." They think that the poor man who loses his job will console himself with the thought that the rich man is paying more CGT (or avoiding it at a higher rate)!

Markets will respond.

There is a possibility of depression. We don't know how high it is. But the authorities are not doing much to reduce the risk. Investors ought therefore to be a little cautious. Financial markets will be all right. But there'll be phases of softness.

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