

We need piggy banks not Western economists



We all fool ourselves sometimes. We think that we are slimmer or smarter or better-looking than we really are. It is natural to think positively and, usually, it is harmless. Until we become too detached from reality, that is. Then it gets risky.

Yet that is what most of us are doing when we talk about economic recovery. Fooling ourselves. Of course, we all want the growth to come back. But we are going to have to learn that it will not. With too much debt, we need to save more, and this will restrict our rate of global growth for many years to come.

Rather than accepting this though, most people still scan the newspapers anticipating hopeful news. They long for the stock-market to recover, read enthusiastically about new business plans in China and feel thankful that house prices and unemployment levels in the US and Europe appear to have stabilised.

Things will pick up now, won't they?

The truth is unfortunately otherwise. The weak signs of life in the last few years have only been because the world was running on economic steroids, pumped full of financial incentives, heavily-dosed with quantitative easing, injected with low interest rates and drip-fed a wide range of subsidies. Since 2007 the American government has injected \$5 trillion into the economy in bailouts, tax cuts and quantitative easing measures. In return it has managed to generate growth of just \$600bn. For every dollar invested, US tax-payers got 12 cents back.

The failure of this treatment was because the diagnosis and recovery plan were wrong. We don't need more of this sort of medicine, we need a different sort. We need new economic doctors, people with different ideas and a different approach.

Today's economists are deluded. They cannot understand the scale of the problem they face. They still think that their ship, their debt-for-growth driven economic model can be saved. They are not only guilty of sloppy economic thinking. They are also making the situation worse, by raising the levels of debt even more.

The economic growth the West experienced between 1980 and 2007 was not normal. It was a freak occurrence. A period of growth that was too fast and wholly unsustainable, driven almost entirely by debt. In almost all Western economies, real wages actually stagnated. Yet consumption boomed, driven by borrowing. Consumers borrowed themselves into oblivion, banks took on too many bad debts and governments, in an effort to fix these problems, borrowed ever more, making the situation even worse.

That ship is sinking. The great era of under-regulated free-markets, debt driven growth and the-world-is-flat sort of globalisation is coming to an end.

Even now, weak-thinking policy makers, wrong-headed economists, lazy Western journalists and central bankers who appear to live on another planet, cannot see this. They still think they can save their system, this time by getting China and the rest of the developing world to spend more too.

But that will not work either.

Cajoling China, India and the rest into becoming consumer-driven societies laden with debt as well, just to fix the problems of many Western countries makes no sense at all. Nor is it possible. There are not enough natural resources on the planet, nor is there enough spending power in these places, to make up the shortfall. For every \$10 a US consumer spent in 2010, a Chinese consumer spent \$0.42. Indians spent just a third of that.

Modern-day economists are trying to impose a failed economic model on the rest of the world—one based on unrestricted markets, debt and consumerism—in the hope that its universal application will somehow fix the system's obvious flaws. Such foolishness will only make the long-term outlook even worse.

Rather, the world's debt balloon needs to be reduced, not expanded. We need to consume less, not more.

It is the West's economic drum that needs to change, not the way the economists bang it. The West needs to return to something more like Adam Smith originally intended—economies build on firm foundations, which promote balance, fair competition and free-trade but with a vital dose of social responsibility at their core.

We are trying to escape this reality. We have been trying to pretend that the financial crisis was just a bump on the road, that the mountain of debt in the US and much of Europe could be reduced by printing money, borrowing more or getting the Chinese to consume insanely too.

That will not work. To fix the problem, the West needs to learn to spend within its means.

