

EASING OUR WAY OUT OF A CRISIS?

Funny how some situations often have a buzz phrase attached. Book him, Dano, from Hawaii 50; or You're nicked, from The Sweeney; or Loadsamoney, courtesy of Harry Enfield. Which brings us neatly to financial crises which have generated their own vocabulary. The pound in your pocket; subprime loans; crisis? what crisis; and now, step forward quantitative easing...a buzz phrase you will be hearing more of in the future.

It's jargon for printing our way out of the current credit crunch. Like the Weimar Republic and Mr Mugabe why not just print more money and all will be well. Watch out, too, for the concept of the "bad bank"...something being seriously considered. Basically a state bank would be set up where all those so-called toxic loans could be parked out of harm's way...and then covered by the taxpayer.

And it's not over...the creation of "green collar" jobs is on the agenda both here and in the US, a sort of New Deal where instead of building roads and dams, jobs would be centrally funded to combat climate change and the abuse of the earth's resources. Even that is not quite as it seems. For a start it could be part of a classic decoy ploy where those under threat try to avoid the real issues by focusing efforts on often unrelated activities. And there is more.

As one leading commentator has put it, this concept is less FDR in the Great Depression, rather more like wartime interventions by government when the markets became mere pipelines for funneling funds to finance the public sector deficit. FDR's solution was innovative, being implemented not at the start of the Depression but as a means of recovery. In contrast, the current owners of the crisis are hoping to use the technique to avoid having to do any crisis analysis or innovative thinking. We still seem to be tackling the symptoms of the disease rather than the cause and while we continue to do this the solution will be obscured. Today's interest rate decision by the Bank of England's Monetary Policy Committee means we are at the lowest level of rates in the Bank's 315 year history. Yet as one major high street retailer put it this morning, it is not about the price of credit, rather its availability.

It is generally accepted now that the slide to recession started earlier than was first thought; that early warning signs were ignored; and that an ostrich-like pose was adopted by people who should have been scanning the horizon. As any plumber....that is if you can find one....will tell you, there's no point in trying to seal a wet joint; first find out why the pipe is leaking.

No doubt the "feelbad factor" has replaced the "feelgood factor". But was it really that good? Booming house prices and easy credit built an economy resting on shifting sands and there were bound to be tears in the end. Already those re-writers of history have been busy at their laptops. The fundamentals were fine, some argue, it was just the volatility in the banking system last autumn which rocked the economy to its foundations. This rather ignores several other indicators. For example, unemployment was already rising at the beginning of the year.

Belatedly the Bank of England admitted it had not realised just how bad things were getting. Fine. But neither had the FSA, government or the banks themselves. At least the Bank was trying to warn us. But how did the lack of vision happen and could it happen again? In the meantime are we confident that the powers that be have used even basic crisis management techniques to analyse this situation or will we all be paying off, via the budget deficit, the cost of that lack of awareness for many years to come?

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