

Unprecedented Crisis! Therefore, Few Or Any Past Textbook Solutions Would Make Sense Or Can Be Applied.

By Matthias Chang – Future Fast Forward

Please read the title of this article again – *unprecedented crisis*.

Every global economy is in **uncharted territory**. There are no maps which can show the way, moving forward. For sure past experiences would be useful in as far as warning signs, not to make the same mistakes during the boom and bust cycles in the last 100 years. To name a few:

The Great Depression
The Dot-com Bubble
The Great Recession
The Balance Sheet Recession

None of the above crises were preceded by a **Global Lockdown** that **shut down the global economies**. Yet, renowned economists, leading academicians, central bankers etc. are using tools and implementing policies for crises that were one way or another triggered by financial excesses or bubbles in the economy that led to the inevitable and foreseeable busts. In essence, the previous crises were **financial** stock market and banking crises.

The present global crisis, triggered by Covid19 is a double whammy of (1) **a Humanity Crisis** and (2) **Collapse of All Markets**.

There were three choices as to how we should respond, and Joshua Kennon offered the following:

“Hobson’s Choice: A free choice in which only one option is offered; i.e., ‘take it or leave it’.”

“Morton’s Fork: A choice between two equally unpleasant alternatives (in other words, a dilemma) or two lines of reasoning that lead to the same unpleasant conclusion. It is analogous to the expression, ‘between the devil and the deep blue sea,’ and ‘between a rock and a hard place’.”

“Buridan’s Ass: An illustration of a paradox in philosophy in the conception of free will. It refers to a hypothetical situation wherein an ass is placed precisely midway between a stack of hay and a pail of water. Since the paradox assumes the ass will always go to whichever is closer, it will die of both hunger and thirst since it cannot make any rational decision to choose one over the other. The paradox is named after the 14th century French philosopher Jean Buridan, whose philosophy of moral determinism it satirizes.”

From day one of the present crisis, while examining the three choices, I never hesitated in making the choice of:

“Put People First, Life, Not Money!”

In our local political lingo, I called out, ***“Save the rakyat (people), the rakyat is the priority.”*** The rationale was simple. If we die, there is no money or economy to talk about. But, we can always rebuild our wealth, our economy post the pandemic, if and when we are still alive, even from the depths of bankruptcy.”

I cannot emphasise enough the importance of this mind-set. If we failed to place humanity, people’s welfare at the core and as *the* priority we would invariably rush to rescue all things associated with finance and succumb to the powerful influences of the political / money lobby - to borrow the American cliché, save Wall Street, crumbs for Main Street!

And it comes as no surprise that ***central bankers, who are unelected officials***, are always at the centre dictating policy options, regurgitating the Washington consensus and the Chicago School economics. The misplaced hype of “central banker’s independence” has been used repeatedly to maintain its monopoly on monetary and fiscal policies. Without exceptions, developing countries’ central bankers just follow the Pied Piper from the FED (Federal Reserve), BOE (Bank of England), ECB (European Central Bank), BOJ (Bank of Japan) and BIS (Bank of International Settlements).

That said, I am defining the present crisis as:

“The Survival Decade of Depression”

“What?” You might scream. “It’s only a recession at the most! How can you call the present crisis a depression?” Bonkers!

Let me explain. Yes, in time we will have recovery and growth. But, any growth will be ***weak*** growth – ***weak real*** economic growth, subnormal economic activities as a stock market rally is not growth per se and the global economy will be in a depression for a minimum 5 years, if not a decade. There have been a lot of controversies and misunderstanding as to whether we had recovered from the 2008 “Great Recession” (a misnomer). Since, the majority of Malaysian economists are Keynesians, allow me to quote from Keynes as to when an economy is in a depression:

A depression is “a chronic condition of subnormal activity for a considerable period without any marked tendency either towards recovery or towards collapse.”

Please fact check - the duration of the Great Depression? Following from the above trajectory, Martin Bishop of the New York Times, when reviewing Paul Krugman’s book, “End This Depression Now!” wrote and I quote:

“Nearly four years on from the financial meltdown that plunged it into recession, the global economy remains fragile. The latest green shoots of recovery in the United States already show signs of turning brown. It is touch and go whether Barack Obama will enter the polls with unemployment above or below the 8 per cent rate that usually means defeat for an incumbent president. Across the Atlantic, the euro zone stumbles from crisis to crisis; the continuing problems of the heavily indebted PIIGS (Portugal, Ireland, Italy, Greece and Spain) remain the basis for many a nightmare, some of the worst involving the banks around the world that own much of the debt.”

“If ever there was a moment for fresh thinking, this is surely it. Indeed, Paul Krugman argues in ‘End This Depression Now!’ without a radical change in economic policy in both the United States and Europe, the likeliest outcome is a prolonged depression, perhaps not as “great” as in the 1930s but with clear similarities, above all in the immense human cost of needlessly high unemployment.”

Read the last paragraph of the quotation again. Krugman argues that the period from 2008 to 2012 following the global banking collapse was a ***depression and a “long depression... if there were no radical change in economic policy ending in the immense cost of needlessly high unemployment”***.

This argument was put forward by Krugman notwithstanding the FED had in two years pumped into the global economy an estimated US\$16 Trillion and inter-alia rescued the TBTF (too big to fail) banks and supplied dollar liquidity to world’s central banks via swap arrangements. And that is why Trump was elected as president in 2017. The people were pissed off with Obama’s policies of weak growth and massive unemployment.

But, the global fake news chose the misnomer, “The Great Recession”. And the majority of the economists echoed that mantra obediently. I rest my case!

Therefore, it is abundantly clear that the correct identification of the substance of a crisis will determine what economic medicine should be prescribed. In a recent article posted to my website, I posited that the global economy, post the Covid19 pandemic, must be a ***“Human Economy”*** taking it further from what management guru, Peter Drucker had propounded. Keynesians should not object because their mentor had previously observed, some 75 years ago:

“The day is not far off when the economic problem will take the back seat where it belongs, and the arena of the heart and the head will be occupied or reoccupied, by our real problems — the problems of life and of human relations, of creation and behaviour and religion.

Keynes, First Annual Report of the Arts Council (1945-1946)

In my article of 11.7.2020, posted to my website, I wrote,

“As far back as 2014, Dov Seidman of Harvard University observed, **“Over the course of the 20th century, the mature economies of the world evolved from being industrial economies to knowledge economies. Now we are at another watershed moment, transitioning to *Human Economies* – and the shift has profound implications for management.”**

In the human economy, the most valuable workers will be **“hired hearts.”**

“The know-how and analytical skills that made them indispensable in the knowledge economy no longer give them an advantage over increasingly intelligent machines. But they will bring to their work essential traits that can’t be and won’t be programmed into software, like creativity, passion, character and collaborative spirit – their humanity, in other words. The ability to leverage these strengths will be the source of one organisation’s superiority over another.”

It is more pertinent now than ever before that we place “People First” when overcoming the present crisis – **“the Survival Decade of Depression”**. If the present crisis is not an issue of survival, I invite anyone to explain why did the US pumped into its economy **within three months** US\$10 Trillion and counting, with Japan and Europe following close behind.

We must also avoid the identification, as argued uncritically by some economists, that the present crisis is a **“Balance Sheet Recession”**, which in essence relates to the pairing down of debts as the term “balance sheet” entails, following the bursting of the nation-wide asset price bubble in Japan in the 90s. The private sector (companies and households) were forced to repair their balance sheet to restore financial health. This gave rise to the negative effects on investments and consumption.

Post Covid19, it is a misnomer to refer economic activities as “New Normal” when our Keynesian economists should adopt their mentor’s description as “subnormal” activities. It is not normal to have a total collapse of the Supply Chain and a corresponding anaemic drop in Aggregate Demand. The supply and demand curves are not even trending towards equilibrium. The 2 economic forces (i.e. the suppliers and the consumers) have been “shocked” into a state of disequilibrium by the Covid19 pandemic.

I had in several articles posted to my website addressed the challenges following the collapse of the Supply and Demand curves and I would not visit those issues in this article. Nether will I address the short term stimulus packages provided by governments since the commencement of the pandemic. I offer no criticisms as they are short-term solutions.

The problems start when central banks monopolise the narrative, and the politics are perceived as “central bank centric” and the inevitable conclusion is that the bias leans towards the banking and financial sectors. Pumping to stimulate the stock market is not my concern because its volatility follows the proverbial boom and bust cycles. I am reminded of the comments made by Alan Greenspan,

Clearly, sustained low inflation implies less uncertainty about the future, and lower risk premiums imply higher prices of stocks and other earning assets. We can see that in the inverse relationship exhibited by price/earnings ratios and the rate of inflation in the past. But how do we know when irrational exuberance has unduly escalated asset values, which then become subject to unexpected and prolonged contractions as they have in Japan over the past decade?

"The Challenge of Central Banking in a Democratic Society"

However, if truth be told, the expression "irrational exuberance" was sourced from Yale Professor Robert J Shiller who subsequently used it as the title for his book, *Irrational Exuberance*, first published in 2000, where he states:

"Irrational exuberance is the psychological basis of a speculative bubble. I define a speculative bubble as a situation in which news of price increases spurs investor enthusiasm, which spreads by psychological contagion from person to person, in the process amplifying stories that might justify the price increases, and bringing in a larger and larger class of investors who, despite doubts about the real value of an investment, are drawn to it partly by envy of others' successes and partly through a gamblers' excitement."

The term became fashionable again, after the collapse of the US housing market in 2008 that led to a worldwide financial panic. Such behaviour was previously described by Keynes as "animal spirits". Keynes described how people "invest" in stock markets making financial decisions, including buying and selling securities. In his book, "The General Theory of Employment, Interest, and Money," he wrote that animal spirits are the human emotions that affect consumer confidence. Behavioural economics was the offshoot.

The solutions needed in the ***Survival Decade of Depression*** must of necessity be radical solutions. ***The challenge is not just economics, the issue of confidence, priorities and faith in the political leadership looms large in the overall scheme of things.*** However, I take the firm view that Malaysia, under the firm leadership of our Prime Minister, not hemmed in by unelected officials and adopting radical economic policies, would escape a decade of weak growth and sub-normal activities.

If the PN government ends up like the Pakatan Harapan (PH) regime, Malaysia will have a prolong depression. Let's learn from the hard lessons of other countries, such as Japan who had to suffer a decade of weak growth. The Lost Decade was a period of stagnation in Japan. From 1991 to 2003, the Japanese economy, as measured by GDP, grew only 1.14% annually, well below that of other industrialized nations. There is a continuing debate as to the causes for the Lost Decade. But, the economic effects of the Lost Decade are well established, and till today policymakers continue to debate why it lasted that long.

The “Lost Decade” of Japan was also a period when the prime ministers were all short term leaders as the table below shows:

| | |
|-------------------|-----------|
| Miyazawa Kiichi | 1991-1993 |
| Hosokawa Morihiro | 1993-1994 |
| Hata Tsutomu | 1994 |
| Murayama Tomiichi | 1994-1996 |
| Hashimoto Ryūtarō | 1996-1998 |
| Obuchi Keizō | 1998-2000 |
| Mori Yoshirō | 2000-2001 |

The PH regime lasted less than two years (22 months). Actions were inconsistent with declared objectives contained in its manifesto and other pronouncements. It will take a minimum of five years before a country can see some of the results and a full ten years to appreciate the sustainability of the road map for the future.

The credibility, integrity and goodwill earned by the PN government will, as I had stated (the first to do so), result in a 2/3 majority in the next election and the massive defeat of DAP in Penang. This is the first step in circumventing the horrors of “Surviving the Decade of Depression”.

I have thrown down the gauntlet to the Prime Minister and the PN government to have a rigorous debate not only with regard to the present crisis but more importantly to chart the future course of Malaysia and come out of the shadows of Tun Mahathir. Yes, Tun Mahathir has his legacies, but Malaysians must built and sustain new legacies for our grandchildren. No one would be left behind.

Come November, 2020 we hope to have an answer.

