

End of globalization and collapse of global financial architecture

The collapse of the global financial model - the chief drive of globalization – explains how American internal imbalance translates into global economic imbalance

For long globalisation has been virtually an un-critiqued idea especially amongst intellectuals, media and the polity both globally and in India. No wonder, when confronted to explain the idea, those who parroted the same several times a day were found to be at their incoherent, inconsistent best.

But the idea that drives the concept of globalisation is definitely not an innocent one. In fact, there have been several waves of globalisation – read homogenisation of the world - that has been attempted in the history of mankind. And at-least, there are three prominent attempts after Christ.

The first attempt to globalise was in the first millennium after Christ through religious interventions with the army and commerce playing a distant secondary role. The second attempt in the second millennium was through the army, with both religion and commerce playing a supplementary yet purposeful role.

The third wave of globalisation, coinciding with the end of the last millennium and the beginning of the third, has been through commerce, which has emerged as the chief drive of the modern day globalisation. And in this third wave both the army and the religion have played an influential complementary role.

Crucially, the thin dividing lines between the three are increasingly getting blurred in this wave of globalisation as are the benefits to those few who sell this pattern of globalisation. What else would explain the marketing of the same with missionary zeal by the proponents of this idea, all across the world?

The experience of the past two decades or so of this latest wave of globalisation indicates that it is premised on the assumption that what is “Best” for the “West” is assumed to be “Best” for the “Rest.” In effect, what we are witnessing is not a globalised West – read America - but the world that was getting increasingly Americanised.

But that is not all. Even in the case of commerce – the chief drive of modern day globalisation – global economy is being confronted by an enormous challenge by what is innocently termed as global imbalance. And this requires no great seer to either explain or understand the issue on hand.

In fact, this imbalance is a direct consequence of intense interaction between the profligate and the prudent, between savers and spenders, between interest rates and the index, between exporters and importers, between the reckless and the cautious and between countries that have a strong currency and those who have a weak currency. Yet we talk of a globalised world, a global order and a global way of doing things. How silly we could get?

Experience of the past decade or so point out to the fact that there is a distinct dichotomy in the approach to economics by the Asian countries on one hand and the Anglo-Saxon world lead by the US on the other. But what makes economics in Anglo-

Saxon world to work, behave or react in contrast to their Asian counterparts is something that is far beyond the radar of any meaningful debate even at the global level.

The fundamental distinction between these two economies is the diminishing family values of the Anglo-Saxon world. Naturally, this has turned everyone in these countries into a reckless consumer. It is this breakdown of the institution of family that has atomised the society leading to this consumption binge that is having a profound impact on both the national as well global economics.

Nevertheless, it was this mindless consumption that acted as an engine of global growth for the past several years. In the process it ushered in great amount of prosperity at the macro level, never mind the imbalance associated with it. Consequently, any one who questioned the intrinsic instability of this model was branded as Neanderthal, primordial or even insane. That explains why globalisation remained mostly un-critiqued.

This entire paradigm was succinctly put forth by Shri S Gurumurthy Ji who brilliantly explained the extant western economic model as hereunder:

- Atomised individuals;
- Which in turn meant Socialised women;
- That in turn caused the collapse of the institution of families;
- Consequently, reckless individualism leading to gargantuan consumption;
- Finally that lead to nationalisation of responsibilities of families

This in turn had the following inevitable consequence:

- A pauperised the State that was unable to carry on the responsibility of family;
- This in turn lead to privatisation of the functions of government;
- Naturally, that demanded a corporatised approach to economy and
- Finally, that necessitated a globalised market for the survival of these corporates

This is economic globalisation in brief – converting the economic imbalance of the US caused by its societal, religious and political disorder into global economic imbalance. In the process, the market mechanism as conceived by Adam Smith was suspended and the invisible hand as conceived by him, chopped. And when corporates too failed as it has happened recently one wonders what's next.

In contrast, Asian countries being rooted in the traditional family values have been parsimonious in their consumption and hence enjoy a far higher rate of savings which fuels their domestic investment.

In the ruins of globalisation, this correlation between family and national savings is fast emerging as the latest frontier of economics. Importantly, economists may now well understand that while Asian countries may not be engines of global growth caused by reckless consumption, they are surely not the cause of global instability either. At best they can be guilty of producing more, saving more and exporting more!

Naturally, all these had the calculated effect of turning Economics on its head – the net result the discipline of economics is obsolete if not dead

Let me put the entire issue in the present context. The whole of Asia exports goods to the West, notably the US. But being conservative societies, they are unable to absorb their export surplus – read savings. The net result – they park their export surplus into those very countries that import from them in the first place. In effect, they finance the West to import from these very Asian countries, which produces them in the first place!

This one-way export of both savings as well as goods remains at the core of the imbalance in the present wave of globalisation. In the process it is capital from the “poor” developing Asian countries that is flowing uphill into the developed “rich” West. In classical economists’ speak – it is flowing from the periphery to the centre. Surely, economics has been turned on its head when it is the poor who lend and the rich who borrow.

Yet, those who swear by globalisation failed to demonstrate as to how a model that is created by the West for itself (by diverting capital from the rest of the world) and becomes dysfunctional even in the West can claim it to be a functional success elsewhere. At best it can be an experiment of the West attempted on the Rest.

It may be noted that the internal imbalance within the US economy, thanks to the atomisation of individual as explained above has led to the fall in family values that lead to gargantuan internal deficits within the US.

And to fund this deficit the world has been sucked into the vortex called globalisation. Experts are slowly coming to the view that it is the internal imbalance within the US that remains at the root of this global imbalance. Remember, whenever the US is involved, it is always global, be it terrorism or economics.

Obviously the argument put forth by economists to this flow of capital was that the West notably the US ensured profitable use of capital. Remember efficiency was the operative word in this. Consequently, movement of capital was argued on plain and simple logic. That would explain the fixation of some of our economists to Capital Account convertibility.

But as events turn out, it would seem global as well as national capital in the US has been put to misuse and not to optimum use as commonly believed. The myth of efficiency of the markets, regulators and systems within the US created in this context by our intellectuals, media and of course polity can be matched by the propaganda of in favour of communism at the height of the Communist movement in seventies and early eighties.

Yet, political observers, it may be recalled, in the seventies and eighties repeatedly predicted the fall of the Soviet empire. Pointing out to the fact that communism was an artificial construct, had significant internal contradictions and of course monstrous manifestations, scholars had made detailed analysis of why Communism would never succeed. Yet when the Communist regimes collapsed world over like a pack of cards it did take even those very experts and scholars by surprise.

Likewise many observers have been pointing out to the un-sustainability of the US economic model and by extension to the global financial architecture for the past several years. Yet when the crisis hit the global financial sector as it did, even those experts were taken in by complete surprise by its sheer scale and magnitude.

Scholars have been repeatedly pointing out to the similarities between free market capitalism as it has been practiced in the US and Communism as it was practiced in the

erstwhile USSR. Barring ownership issues, perhaps there is hardly any crucial difference between the two.

Noam Chomsky captured the issue on hand rather brilliantly when he pointed out that capitalism would have a Chernobyl like disaster only for a profit, while communism could afford it at any cost. The thin line between free market capitalism and communism was never as blurred as it is now.

But there is one crucial distinction between the two falls. Unlike the Communist empire that imploded all at once in the early nineties, the West seems to be exploding. The net impact of this explosion is been felt across the globe. It is given this grim scenario that the Bush Administration that the US government has proposal a bailout package, ostensibly to save its own financial markets from complete collapse.

But will the package work at-least in America? Is it comprehensive? Will the system regenerate with this bailout package? Is this a liquidity problem (a relatively smaller issue) or is it the larger issue of solvency itself? Whatever it may be, the fact of the matter is that Economics as a discipline as it was understood by the Western world through the prism of communism or capitalism is dead.

Global Financial Architecture – exotic no doubt but remained a cross between crooks and buffoons raising serious questions on regulating the very process of globalisation

What makes the developments in the US financial markets over the past fortnight extremely painful is the fact that it has comprehensively exploded our collective belief in the ability of the US to regulate its gargantuan financial markets by itself.

In fact, as explained above the global finance and its ability to travel across borders became the centrifugal force of modern day globalisation. Naturally, it was believed that national regulation modelled on the American model was sufficient to monitor global flow of capital. Naturally, when the American model collapsed, it has raised huge question marks on globalisation itself.

Consider this:

- Experts predict that this financial crisis will result in a loss of at least USD 1 trillion and could probably end up at a far higher figure of USD 2 trillion. The resultant crisis, when it is full blown, is expected to severely hit the financial and banking sectors. The worrying part is that experts predict that this crisis will last several years leading to a severe and persistent liquidity and credit crunch.
- Contrary to the popular belief the losses are limited only to sub-prime assets, the fact of the matter is that this crisis is spreading from sub-prime to prime mortgages, home equity loans; to commercial real estate; to unsecured consumer credit (credit cards, student loans, auto loans); to leveraged loans that financed reckless debt-laden Leveraged Buy Outs; to municipal bonds; to industrial and commercial loans; to corporate bonds; to the derivative markets whose risk are indeterminate at any point in time and where counterparty risk – and the collapse of many counterparties – could well lead to a systemic collapse of all markets.

- In short, the financial crisis at this point in time is not limited to merely the sub-prime mortgages. In fact, this crisis is a result of an “entire sub-prime financial system.” And that to me is a crucial issue and central to this piece on hand.

In fact, it is not the failure of the US financial markets that has caught analysts by surprise. Rather, it is the failure of the US regulatory mechanism that was touted as infallible till the other day and that is effectively the model for regulators across the globe to this day, which has caught analysts by surprise.

It is often remarked that *rosogullas* of Kolkatha will not contain Kolkatha within it! Likewise, there is hardly anything Federal about the US Federal Reserve mechanism. It may be recalled that the Federal Reserve System was formed in 1913 by an act of the Congress to serve as the central bank of US. Interestingly, the System consists of a seven member Board of Governors and twelve Reserve Banks located in major cities throughout the United States.

In effect the US Federal Reserve system is a cartel of these twelve major banks. The ownership of these twelve banks remains a secret even to this day. And to this extent the working of the US Fed as a government agency suspect.

The seven members of the Board of Governors are appointed by the President and confirmed by the Senate to serve 14-year terms of office. Further, in making appointments, the President is directed by law to select a “fair representation of the financial, agricultural, industrial, and commercial interests and geographical divisions of the country.” These aspects of selection are intended to ensure representation of regional interests and the interests of various sectors of the public.

The primary responsibility of the seven Board members is the formulation of monetary policy. The seven Board members constitute a majority of the 12-member Federal Open Market Committee (FOMC), the group that makes the key decisions affecting the cost and availability of money and credit in the economy. And the decision of this group makes or breaks our fortune across the globe.

The other five members of the FOMC are Reserve Bank presidents of the twelve banks that form a part of the syndicate, one of whom necessarily is the president of the Federal Reserve Bank of New York. This is where things get interesting.

A bit of search on the web about the president and CEO of the now bankrupt financial giant Lehman Brothers Richard Fuld throws up something very obnoxious. Readers may be aghast to know that Fuld was (he resigned immediately after Lehman Brothers went belly-up) in the Board of Governors as the Federal Reserve Bank of New York as the elected representative of the “member banks to represent the public.”

Or was it to represent the interests of Lehman Brothers? It is akin to one of the Indian industrialist sitting on the Board of SEBI! If the distinction between the regulator and the regulated get blurred, such disasters are bound to happen.

Put pithily globalisation suffered two fold. One there was no global authority to monitor the movement of global capital. Two, national regulators were increasingly modelled on the US pattern, which as events demonstrate was more symbolic than it was purposeful.

If the Regulator becomes the Regulated, Regulation becomes a casualty. In the US style regulation the Chinese Walls were definitely missing.

Obviously, all that discussed above makes the claim of independence in the functioning of the US federal System entirely hollow. Remember, one of the five outsiders in the FOMC is the president of the Federal Reserve Bank of New York!

And being in the Board of the New York Fed, the extent of influence Fuld wielded on the US Fed through the president of the Federal Reserve of New York is anybody's guess. But the result is there for all to see. It would take a complete suspension of one's sense of disbelief to come to any other conclusion.

And it is not the US Fed alone that is at fault. Rather this – collusion between the regulator and the regulated - seems to be a pandemic amongst the regulators in the US.

Experts have been repeatedly pointing to the prevalence of collusion between the players and the market regulator by tolerating massive “creative accounting” and other forms of “window dressing of the balance sheet.” Obviously, this is to prevent firms from recognising and reporting their true losses. This obfuscation of truth by the regulators is with an avowed objective of avoiding a financial meltdown. But in the process most of these reports are not worth the paper they are written off.

Further, most financial institutions, thanks to the lax supervision even to this date by the regulators are without any let or fear manipulating the value of illiquid assets in total disregard of accounting Standards. In effect, the SEC, the Fed and other regulators are encouraging massive amounts of fudging.

Auditors, especially the bigger ones with brand names have a sordid track record of playing ball on such issues. With most of them head-quartered in some remote Tax havens, with their ownership unknown questions about their “independence” would arise in the immediate future. Naturally, when the triumvirate of the management, regulators and auditors – the key players in any financial oversee mechanism collude, there is very little that can one can do.

With the auditors, regulators and the regulated having a convergence of purpose, it does not take a seer to say that the global system is entirely in the hands of crooks. Fuld's presence in the Board of New York Fed has effectively ensured that such manipulation needs not be done second hand through others. Rather it seems it was done first hand. Crucially, it had the sanctity of the laws and regulations in US.

Further, contrary to the popular belief that the financial markets have become more transparent, in real life it has become exactly the opposite – it has become more opaque. Experts opine that the reason for the same is the development of new financial instruments notably exotic derivative instruments, which are both hard to value and price.

It may be noted that many of these instruments are illiquid and are purchased over the counter rather than in an exchange. The value of such OTC derivatives which involves banks as one of the party to the transaction exceeds USD 600 trillions – yes 600 trillions - as on date!

And many of these instruments remain incomprehensible to even the best of financial minds. It is in this connection Warren Buffet called these derivatives as Weapons of Mass Destruction (WMD).

And the response to all this skulduggery in the financial markets is to unleash newer accounting standards, issue far more complex financial instruments and issue fresh disclosure norms. Cancer cannot be cured by applying pain balms. Neither can there be a substitute for ethics and discipline, especially in matters of finance.

Consequently, there is very little information about such instruments, their ultimate beneficiaries, the exact nature of risk they hedge and its possible negative impact on the beneficiary. All these issues are waiting to explode and they will shortly.

And as these instruments mature, one is constrained to say that what happened last week would be like a trailer of a horror movie. The main picture, one has to warn, would be scarier, deadlier and of course far more painful than the trailer.

US financial system and by extension the global financial system is a creation of bad laws, regulators who are out of sync with the developments (especially in case of creation of newer financial instruments) in the markets, auditors who even before you wink are ready to sign on the dotted lines and corporates whose ethics are suspect.

In short, global financial architecture and the regulatory mechanism that goes with it are entirely dominated by crooks. Nevertheless this decline of the US comprehensively alters the geo-political paradigm. Countries, especially China, are not going to view these developments silently. In fact, some economists believe that China has been waiting for this moment and silently accumulating Forex reserves in the past several years, more so in the past few months at break-neck speed.

The US bailout package needs to be viewed in the context of the spurt in the accumulation of forex reserves of China by about USD 500 billions in the last six months to about USD two trillions in the aggregate. This gargantuan build-up of Forex reserves by China has strangely received very little attention of economists, policy analysts, currency traders and of course geo-strategists around the world.

The US financial crisis – The Chinese silence is deafening and their huge foreign exchange reserves would be a huge leverage for them. Enter the Dragon.

Why is China engaged in this exercise? What could be its implications on the on going global financial crisis? Could China trip the bailout package announced by the US last week? Crucially what are the implications for the existing global order?

What is intriguing in the Chinese Reserve build up is that both trade surplus as well as Foreign Direct Investment (FDI) account only for a part of this gargantuan build up of forex reserves. After adjusting for all known sources of reserve accretion, experts conclude that approximately an excess of USD 200 billions could have flown into China as “hot money” in this period.

The Economist in one of its issue in recent months quotes Michael Pettis, an economist working in China who explains how and why hot money flows into China. According to Pettis, hot money comes into China when companies overstate FDI and over-invoice exports.

But where is such money getting parked in China? The Chinese stockmarket, like many of its counter parts across the globe, continues to plunge. Hence, it may not be an attractive destination for hot money. Some experts suggest that it could have gone into property while the predominant view is that it could simply be the Chinese Banks that offer interest rates in excess of 4% on Yuan deposits compared with a lower rate on dollars.

How a 2% interest rate differential results in such cross-border flow of capital requires some explanation. What makes the Dollar-Yuan exchange rates central to any discussion on global finance is the fact that trade between US and China has burgeoned in the past decade or so. But this is not a two-way trade as would be commonly believed. Most of this is unilateral – i.e. exports from China into the US.

In fact, this is the fundamental reason for the burgeoning current account surplus that in turn translates into the forex reserves of China. In the process over the years the US has become extremely dependent on China not only for supplying cheap goods but also for the Chinese to fund such imports by parking their forex surplus within the US.

This twin-dependency on the Chinese for goods as well as money to finance its deficits has always engaged the attention of the US policy framers who till recently were not at all comfortable with this arrangement. And now added to this is the latest aggressive build up of forex reserves by China surely has the Americans in a bind.

Economists in the US till recently believed that a weak Yuan implicitly subsidizes the Chinese exports leading to such huge trade imbalances between the two countries. Consequently, they have been pointing out to the imperative need for a substantial appreciation of the Yuan by a minimum of 20-25% vis-à-vis the USD to remedy the situation. In the alternative they have suggested a countervailing duty of a similar scale on imports from China.

Further, economists are also of the opinion that by constant intervention in the forex market not only does the Chinese Central Bank ensure a weak Yuan it also causes competitive devaluation of various currencies in Asia. The net consequence is a domino effect with the result that the USD is artificially valued at higher-level vis-à-vis most Asian currencies. Experts believe that a significant Yuan revaluation will ensure a more realistic exchange rate mechanism in Asia as it could force other countries to follow suit.

It is in this connection C. Fred Bergsten of the Peterson Institute in a testimony before the Hearing on the Treasury Department's Report to Congress on International Economic and Exchange Rate Policy in early 2007 states "By keeping its own currency undervalued, China has also deterred a number of other Asian countries from letting their currencies rise very much against the for fear of losing competitive position against China."

Naturally, in anticipation of a significant revaluation of the Yuan, most experts believe given the uncertainty associated with the global financial markets that hot money is flowing to a relatively safe destination. After all, China not only offers higher return but also is virtually insured against any downward movement against the USD.

In effect, is this hot money – read inexplicable flows - flowing into China in anticipation of this revaluation of the Yuan? Or is it a simple case of China maintaining trade competitiveness through a weak Yuan? Or is there something more to meet the eye and are the Chinese acquiring the dollars with some sinister motives? In effect, has the

Chinese strategy of a weak currency over the years the un-stated policy of dynamiting the American economy?

Is it a case of Mutually Assured Destruction (MAD)? Have the Americans by allowing huge build of Dollar reserve by the Chinese played in to the Chinese hands? Will China dynamite globalisation or in the process will they collapse?

What is worrying the Americans is that China accounts for about one-fourth of the global forex surpluses and are the counterparts of the US current account deficit. Put simply while China accumulates forex reserves, the US accumulates the corresponding debt. And the Americans are aware that it is the Chinese who are the biggest accumulators of the US treasury bonds using such surpluses.

What is indeed intriguing is that a country – the US - that prides in being “independent” from other countries especially in security affairs is now caught in a quagmire as it has to be constantly in the good books of the Chinese government if it wants to avoid a sudden shock.

Countries that hold large USD denominated Forex reserves have a powerful tool in their arsenal - they could wreck American financial markets at a mere click of a mouse by selling their dollar holdings. Imagine China with a holding nearly two trillion dollars worth of treasury bonds seceding to sell the same overnight.

And that could instantaneously dynamite the global financial system as it could suck liquidity and cause interest rates to shoot through the roof. Remember, the USD 700 billion dollar package announced last week by the US is precisely aimed at addressing the liquidity crunch within the US.

Surely it may have no intent; especially large countries like China, as to do so would be at a cost. But the Chinese would well understand that no country can ever become a global super power without a cost. As and when the Chinese decide to take a hit on their dollar holdings, global finance could indeed take a roller coaster ride.

Obviously, the American’s borrowing from China and the Chinese supply of money to the US is indeed an intriguing geo-political game. Surely, this cannot be simple economics by any stretch of imagination.

Given this paradigm, till date experts opine both are locked in a tight bear hug with the other. According to Lawrence Summers “It is a new form of mutually assured destruction (MAD) that has quietly emerged over the last few years” implying that China requires the US (for its exports and parking its forex reserves) as much as the US requires China (for imports and borrowings).

But the recent events in the US last month have turned this MAD paradigm upside down. It is in this context that the recent bailout package needs to be viewed, which seeks to increase liquidity over a period of time by the US government taking over sub-prime assets from financial institutions. That, according to the American thinking, is expected to provide liquidity to the US economy.

But it is all these happenings within the US that makes this accumulation of forex reserves by China extremely interesting. It may be noted that the Chinese, unlike the others, have always have questioned the global order with the US at the helm of affairs.

And the Chinese accumulation of forex reserves is surely a strategy that perhaps has a ominous side to it.

And all that is not pure economics as it is made out to be. Rather, it was and remains a well-planned economic, political and military strategy of the Chinese. And in a way it is the mirror image of the star wars program that US President Reagan unleashed on the erstwhile USSR in the early eighties that eventually bankrupted the later within a few years as it engaged in competitive arms build-up with the former.

Statecraft is all about engaging other countries at one's own terms, pace, time and cost. This is what the US did to the USSR in the eighties and succeeded in dynamiting that country. And that is what China could do to a vulnerable US in the coming months. Crucially, if it doesn't, from the Chinese perspective it would well rue this moment in its history forever.

The US till date was depending on the Chinese for imports and to finance them as well for such imports. Now they will have to considerably depend on the Chinese to protect their currency as well as to ensure liquidity in their money markets. And that completely alters the extant global order as the balance of terror till date gives way to one-way dominance.

As the global financial architecture collapse it is impossible to save the Dollar or the financial sector, perhaps both.

Given these events that virtually had the global financial markets “spiralling-in” towards complete standstill, the Bush administration sought emergency powers from the Congress to intervene in the financial markets. The plan – also called as the Troubled Assets Relief Programme – (at the time of writing it can be called as Troubled Relief Assets Programme as the programme itself is in trouble) is to ensure that the government buys USD 700 billions of investments that had gone awry for the US financial sector. That is expected to provide instant liquidity to the financial markets.

Experts opine that the bailout figure of USD 700 Billions is a POTA (Pulled Out of Thin Air) figure implying one is not sure how this was arrived at the in the first instance. One is uncertain as to how these assets would be valued for the bailout purposes.

If the assets are highly priced, it could be a burden on the finances of the Federal Reserve System. If it is too low, it may be of little help to the financial institutions in the first place. Equally one is uncertain whether the eventual size of the bailout would exceed USD 700 billions. Whatever be it, the bailout package could well mean “worst come – best served!”

While all that is plain skulduggery, the plan, in the absence of the complete overhaul of the financial system in the US, is to put good money after bad.

No wonder lawmakers in America oscillate between cynicism and scepticism. Experts term all these as an unprecedented government intrusion into the markets – one that effectively turns Capitalist America into Socialist America if not downright Communist America.

Readers may recall that till date an event of this size and nature was often colourfully described as “creative destruction” – an inevitable consequence of market mechanism. But that Pontification was for others, not for the Pontificators.

The size of this bailout plan can be gauged by the fact that it is as much as the combined annual budgets of the Departments of Defence, Education and Health and Human Services of the US. Surely the national Debt of US would soar. And when the debt of US soars, one can very well guess the fate of the US dollar.

Be that as it may, in effect, the bailout package as explained by a critic is akin to shifting decayed vegetables (non-performing financial assets) into a cold storage (the US Federal Reserve) and hoping that it not only does not decay further, but also it revives over a period of time! While that is theoretically possible in the instant case as the asset values could revive over a period of time, for the moment the cold storage definitely would get contaminated with such decayed materials.

Given this background, it is natural that one is indeed concerned about the value of the US Dollar for it has the potential to affect all of us. Economists believe that should this plan go through it would result in further weakening of an already weak dollar.

The time to rethink is now – It is surely the end of Globalization – it is time for Indians to stand up and devise a global order. Else it will be yet another attempt to homogenize the world.

Commenting immediately after the fall of the Soviet empire, Yegor Gaidar, the then deputy prime minister and minister of finance put it succinctly when he explained that the Russian economy was “like travelling in a jet and you go to the cockpit and you discover there is no one at the controls.” Something similar could be said of the state of the American economy today.

As America alternates between bailouts and bankruptcies, there is something far serious that seems to have escaped those at the helm of affairs of the US economy. The US economy has reached a stage where even the combined might of all governments across continents can perhaps save the US Dollar or its financial system, perhaps neither.

What makes this plan extremely doubtful is contained in the testimony of the US Federal Reserve Chairman Ben Bernanke to the US Lawmakers. When asked to point out the “strong rationale for lawmakers to act swiftly” he is reported to have replied, “The financial markets are in quite fragile condition, and I think absent a plan they will get worse.” But the plan, in the absence of proper oversight and systemic overhaul would be the biggest loot authorised by a government in the history of mankind!

Further, he added ominously “I believe if the credit markets are not functioning, that jobs will be lost, that our credit rate will rise, more houses will be foreclosed upon, GDP will contract, that the economy will just not be able to recover in a normal, healthy way.” Well that is akin to a person who has murdered his parents claiming clemency on the grounds of being an orphan!

Despite all the emotional arguments made out by Ben Bernanke, the fact of the matter is that the net effect of this plan will result in the annual budget deficit of the US exceed USD 1 trillion for the next year. This coupled with the fact that the US is expected to run in another USD 700 billion on the trade account is surely going to put an enormous

strain on the global finance and savings as it is we in the rest of the world who have funded this gargantuan twin deficits of the US.

Given this scenario the *Economist* in one of its recent issues states “The risk of being blamed for plunging the world’s greatest economy into financial ruin is a good incentive for all sides to reach a compromise. Of more concern is that the plan, if it were approved, would neither shore up the financial system nor save the American economy. On that point there is room for argument, and hence for more uncertainty in the markets.”

And all these make the USD extremely vulnerable. Naturally, if the bailout package succeeds then the US Dollar is doomed. On the contrary, if the bailout fails, the American financial sector is damned. Whatever it is surely it is, as Paulson pointed out, embarrassing time to be an American.

Naturally, as the value of USD collapses the US financial system and by extension the global financial architecture risks “spiralling in” to a complete halt. While one does not seek to hazard a guess on the same, the fact of the matter is that “peak globalisation” is behind us.

Obviously, we need to have a quick rethink on the issues concerning globalisation. Obviously the intent of globalisation - to homogenise and standardise the world through commerce and finance - with a view to dominate others has surely fallen flat. What is interesting here is to note that globalisation, which remained un-critiqued till date and yet served as a model for the rest of the world to emulate stands cruelly exposed.

Apparently, the recent slide of the West, notably the US calls for greater introspection. Communism with all its internal contradiction and monstrous manifestation was bound to fail. Reckless capitalism too is taking the titanic route. Is there a third way? Is there an alternative the Western model of Communism and Capitalism? Or were all these an aberration with the Asian economic model rooted in family values the only way to sustainable macroeconomics?

Economists, unmindful of all these, even to this date assume that the recent sub-prime crisis is merely a credit or a regulatory issue. In fact it is a far serious issue concerning the solvency of nations. The West has failed to diagnose the cause of its downturn and continues to treat itself symptomatically rather than diagnostically. Hence, it continues to prescribe superficial financial remedy to a rather comprehensive socio-economic-cultural disorder.

In short, it is a sub-prime crisis caused by a sub-prime financial system caused by a sub-prime economic model caused by a sub-prime habit caused by a sub-prime societal order caused by a sub-prime culture.

The fact of the matter is that all these issues are interlinked, intertwined and interdependent. Unless all of these are recognised, rectified and reversed, the sub-prime crisis will continue to haunt the Anglo-Saxon world.

Surely these are extraordinary times when virtually no one is questioning even about the fate of the USD. Have the Americans given up on the USD? Or are they least bothered about the USD? Or are they planning an issue of a new currency in lieu of the USD? Surely the Americans must be having a game plan. The billion-dollar question is – what is it? One can endlessly speculate on that not realising the gravity of the situation.

Whatever be it these are smaller order of smalls. The issue for a country like India can neither rejoice nor be dismayed at these turn of events. If India has to occupy the centre stage in the comity of nations, India must play the global game at the global level. And for that to happen Indians must take responsibility in designing a suitable yet sustainable global financial architecture.

A civilisation that has survived over five millenniums surely must have much to offer to the world. But if the intellectuals in India feel orphaned with the fall of the US and are constrained to commit *Sati* for this crisis in US, India at best can remain a camp follower of the West.

Crucially, if it fails to recognise this historic opportunity, it will once again be condemned to play a second fiddle the next emerging global super power. Will the real India stand up and do the needful? At-least now Indians need to realise we may or may not require the world, but surely the world requires us for if we fail the world another attempt at homogenisation of the world shall begin shortly in the right earnest.

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