

The World New Economic Reality

By

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*The **financial crisis (2007-2010)** and the recession that followed have changed the everyday life of almost every nation in the world one way or the other forcing them to reassess and reorient their economic policies, focus and strategies if they want to survive the aftermath of an economic tsunami that the world had never experienced before and which for a while prompted fears of a global economic collapse. No one, no commercial venture, no financial entities or nation, however big or small, have been immune to its devastating effects which unfortunately continue to keep some of their very existence in jeopardy. What happened in the United States with the subprime lending scandal, the collapse of large financial institutions, the bailout of banks and mortgage companies, and what is happening in the Eurozone with Iceland bankrupt, Greece, Ireland, Portugal and Spain on the verge of economic meltdown because they cannot manage the fallout of the disaster are classical examples of the even handedness of the crisis: it spared no one, not even the world only superpower and leading economy.*

*Many leading economists considered the **financial crisis** as being the worst economic disaster since the Great Depression of the 1930s. Others feel that its overwhelming and destructive consequences are much more profound as they affect far more countries and people imposing upon them and their governments as well as most commercial entities a new economic reality that they cannot afford to overlook or bypass since their very survival may be at stake. Simply stated, the message is clear and unmistakable: as of now all life stakeholders will have to adjust their lifestyle or way of doing business as per the parameters of the new global economic reality. The way of life that we have known and lived by no longer exists and/or cannot be sustained anymore. If we want to survive and prosper we have to adjust to the reality of a new world still struggling under the dramatic and negative influence of a severe post recessionary **financial crisis** that still carries significant risks for both the World Financial System and the world economy, especially both short and medium terms.*

The scale and ripple effects of the Crisis and the Recession that it has generated have been so severe and unexpected that trillions of dollars of taxpayers' money have been spent to bailout or rescue banks and other financial institutions, primarily in the United States and Europe, some of which were responsible for the Crisis in the first place. The following statistics should confirm how the scale of the bailouts skyrocketed: from a world credit loss of \$2.8 trillion in October 2009, the US taxpayers alone will spend some \$9.7 billion in bailout packages and plans. \$14.5 trillion, or 33%, of the value of the world's companies has been wiped out by this crisis. The Bush administration was so concerned with the severity of the Crisis after the failure of the initial rescue package that it offered a staggering, mind-blowing \$700 billion bailout plan for the US Financial System. The UK and other European countries have also spent some \$2 trillion on rescues and bailout packages. More may be expected as the Crisis is officially not over

yet and most countries are still in recession with their respective GDP expected to be under performing at least for the next two years.

Responses to the Financial Crisis

With the exception of China, Russia and some other Latin American and Asian countries like Venezuela, Indonesia and Malaysia, most other countries, including the US and Europe, are undergoing a post-Crisis recession that is causing a global credit crunch and an economic downturn that are affecting all sectors of the economy and all layers of society. Although the Crisis was initially caused in the financial markets and became more widespread, more pronounced and lasted longer than anyone expected, it did not affect everyone, every institution and every nation to the same degree nor did it affect them through the same economic sectors. For instance, emerging and developing economies were hit very hard with severe consequences for the human costs of the Crisis in terms of lost jobs, lost income, increased poverty and lost of education opportunities while European countries like Iceland, Ireland and the United Kingdom are either bankrupt through the incredible incapacity to pay back external debts, to manage a flourishing economy that has gone sour or to deal with a financial meltdown that won her the dubious Oscar for racking up the biggest losses in the world in terms of GDP.

Accordingly, in order to deal effectively and efficiently with the Crisis fallout, governments and institutions came out with a prescription to focus specifically on the problems affecting their operations, vision, goals and objectives. This included, but was not limited to, revamping completely their banking and financial systems, brokerage and investment firms as well as introducing stricter rules and regulations to ensure that insurance companies, pension funds managers, greedy bankers and brokers do not take any more unnecessary risks with their clients' money. They also made sure that the Central Bank introduced new monetary policy to ensure that the money supply would be enough so that banks would open up the credit tap and inject into the country's economy a badly needed rush to deal with elevated unemployment rates by creating new job opportunities, especially through the encouragement and development of small and medium enterprises.

Government and private sector companies are also working together to counteract the nefarious effects of the Financial Crisis which is responsible for lowering production, curbing export and forcing nations into protectionism. Governments all over the world are realizing that they need to expand and diversify their country's economy so that it can benefit from a more robust economic activity and eventually lower its national debt. To that effect most of them are coming up with all kinds of incentives to stimulate entrepreneurs to go into business and give a boost to stagnating economies.

Recipe for Survival and Potential Success

What will determine whether people, institutions and nations are going to weather the economic storms caused by the financial crisis and the recession that became its corollary is how far they are willing to go to take whatever necessary unpopular and unpleasant measures to counteract the negative and

destructive upheavals left in their paths. How they will fare eventually will depend ultimately on how well they will manage the unavoidable domino effect of the crises and the kind of sacrifices, be they of an economic, social, political or cultural nature, that they would be prepared to make to combat that scourge that has taken its toll on so many in such a short time while continuing its destructive path across every aspect of life known to man.

*Only those who demonstrate creativity, inventiveness, innovation, flexibility and a readiness to change their vision, their management style, their leadership mantra, to diversify, to seek ways and means to attract, retain and satisfy both new and old employees and customers would survive and thrive. They would need to be frugal, to control expenditures, to prevent waste, to be transparent, to be environmentally friendly and to be fearless in dealing with corruption and the reduction of their national debts. They would need to commit all available resources to fighting fiercely the debilitating effects of the **Financial Crisis** and the ensuing recession even if it means passing tough but legitimate legislation that may be unpopular, especially to specific economic sectors or certain segments of the population. If they have to cut spending drastically, to increase taxes or the VAT in order to deal with potential economic contraction, unemployment, bad debts and further government borrowing, they will have to bite the bullet and do it but judiciously without overdoing it, without making a situation worse and without endangering the country's recovery by putting jobs and long-term economic prospects in jeopardy while potentially tipping it into a negative spiral of debt and stagflation.*

Governments should take the bull by the horn and deal with the crises' fallout honestly, deliberately and competently while boldly managing the country's economic affairs fairly and equitably without political partisanship, communal or religious bias. Their focus should be on job creation, on helping the private sector getting the economy back on track in a new world order where competitiveness, performance and productivity would be the new marching orders and where protectionism is already rearing its ugly head again to make life more miserable for everyone, but especially for emerging and developing nations. Governments should be both mean and lean by committing to conduct operational audits of every aspect of operation of their administration designed to ascertain whether it is operating and performing at optimum capacity, efficiency, effectiveness and productivity while maximizing the full use of all its resources. Their primary function is to ensure that their vision for the future is all geared towards the national interest.

The world new economic reality is here to stay. And governments better get used to it and be prepared to deal wisely with its tenets. Otherwise, the outcome could have dire consequences for everyone concerned, especially for the country's future. Burying one's head in the sand is definitely not an option.

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