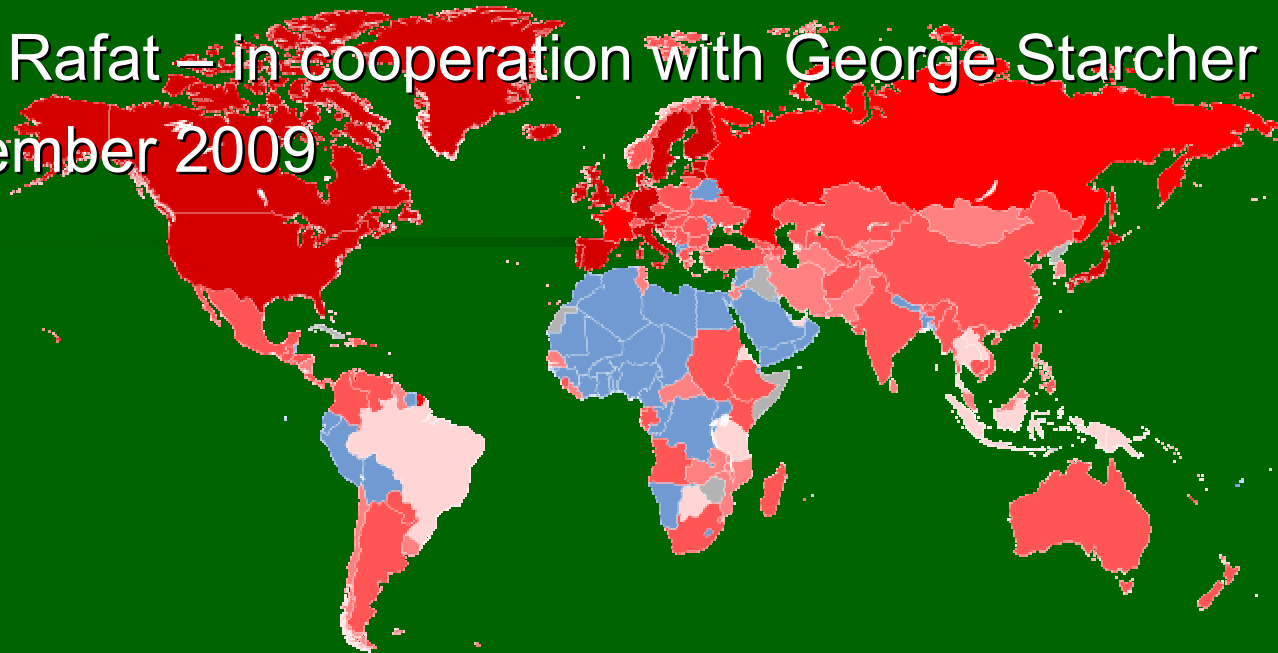


# **The global economic crisis: *Possible causes and solutions* – *from a Baha’i perspective***

Riaz Rafat – in cooperation with George Starcher  
December 2009

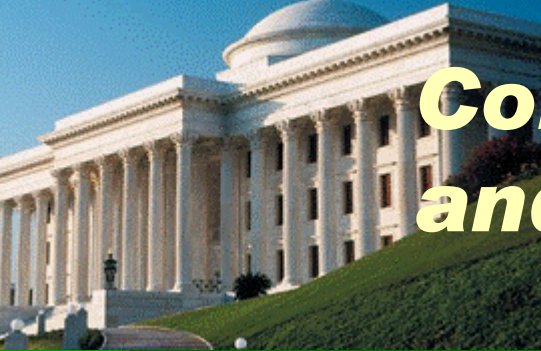




# Back-ground to this presentation



- The first version of this presentation was prepared for dialogue with AIESEC Serbia – as well as for their Sustainability Advisory Board, where Serbian corporations, government & students were represented, and also EBBF
- The second version of the presentation was held at the Norwegian Baha’i summer school in Gol in July 2009
- The third version was prepared for the Baha’is winter forum in Austria, held December 2010.
- Elham Afnan & Riaz Rafat also developed a word-document of this presentation in English, an EBBF version for AIESEC International, as well as an article for the Persian journal ‘Andalib’.
- Particular thanks to Mr. George Starcher from EBBF, who has assisted us in developing this presentation.



# ***Confidence has been shaken and a sense of security lost***

..., financial structures once thought to be impregnable have tottered and world leaders have shown their inability to devise more than temporary solutions, a failing to which they increasingly confess.

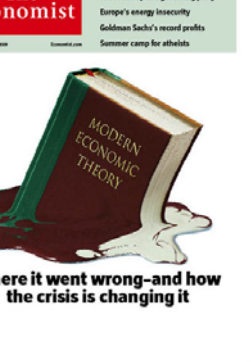
Whatever expedient measures are adopted, confidence has been shaken and a sense of security lost.

Surely such developments have caused the believers in every land to reflect on the lamentable condition of the present order and have reinforced in them the conviction that material and spiritual civilization must be advanced together.

***Financial structures once thought to be impregnable have tottered***

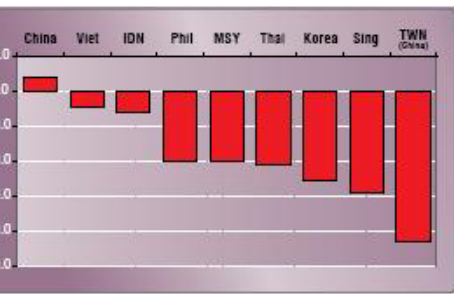
**Illustration:  
On Sunday 14 September 2008, it was announced that Lehman Brothers would file for bankruptcy**





# Background to the global economic crisis

- In 2008–2009 much of the industrialized world entered into a deep recession
  - sparked by a financial crisis that had its origins in reckless lending practices
- The exorbitant rise in asset prices and associated boom in economic demand is considered a result of
  - the extended period of easily available credit
  - inadequate regulation and oversight
  - increasing inequality
- As share and housing prices declined many large and well established investment and commercial banks in the United States and Europe suffered huge losses and even faced bankruptcy, resulting in massive public financial assistance



Datastream and World Bank staff calculations.

# Effects of the global recession

- A global recession has resulted in
  - drop in production & international trade
  - rising unemployment
  - slumping commodity prices
  - drop in share prices
  - social unrest and political changes
  
- The recession is considered the worst since the Great Depression of the 1930s

Drop in production from April 2008 – June 2009: 13% (the same drop as experienced 80 years ago).  
 However, around 25% drop in industrial production in France, Germany, Italy, Japan and Sweden (while the industrial production has dropped by “only” 10-12% in the UK, US, and Canada).  
 Drop in stock prices: ~50% (more dramatic than during the first years of the Great Depression, when the stock fell by ~10%)  
 Drop in international trade from April 2008 – June 2009: 15% (during the first years of the Great Depression, international trade fell by ~5%)  
 During the Great Depression, drop in production, trade and stock prices continued for 4 years. At the end of this period, industrial production had dropped by 40% and stock prices by 70%.  
 However, more active financial policy by central bank and governments against the depression this time than during the Great Depression, with lower interest rates & higher governmental spending.

# Economic outlook for 2009

Area	GDP growth	Unemployment	3-month interest
USA	-2.8	9.3	1
Japan	-6.8	5.2	0.6
Europe	-4.8	10	1.2
OECD area	-4.1	8.5	

# Surplus or deficit in state budgets as % of GDP

Source: OECD outlook, 24 June 2009

Area	2008	2009	2010
USA	-5.9	-10.2	-11.2
30 riches Euro countries	-1.9	-5.6	-7
UK	-5.5	-12.8	-14
Sweden	2.5	-3.3	-4.5
Norway	18.8	8.6	7.0
OECD area	-3.2	-7.7	-8.8

Comment: Never before in history, except during wars, have Western governments incurred so high debt levels, partly to combat the effects of the global recession. The debt levels are predicted to be rising during the next years:

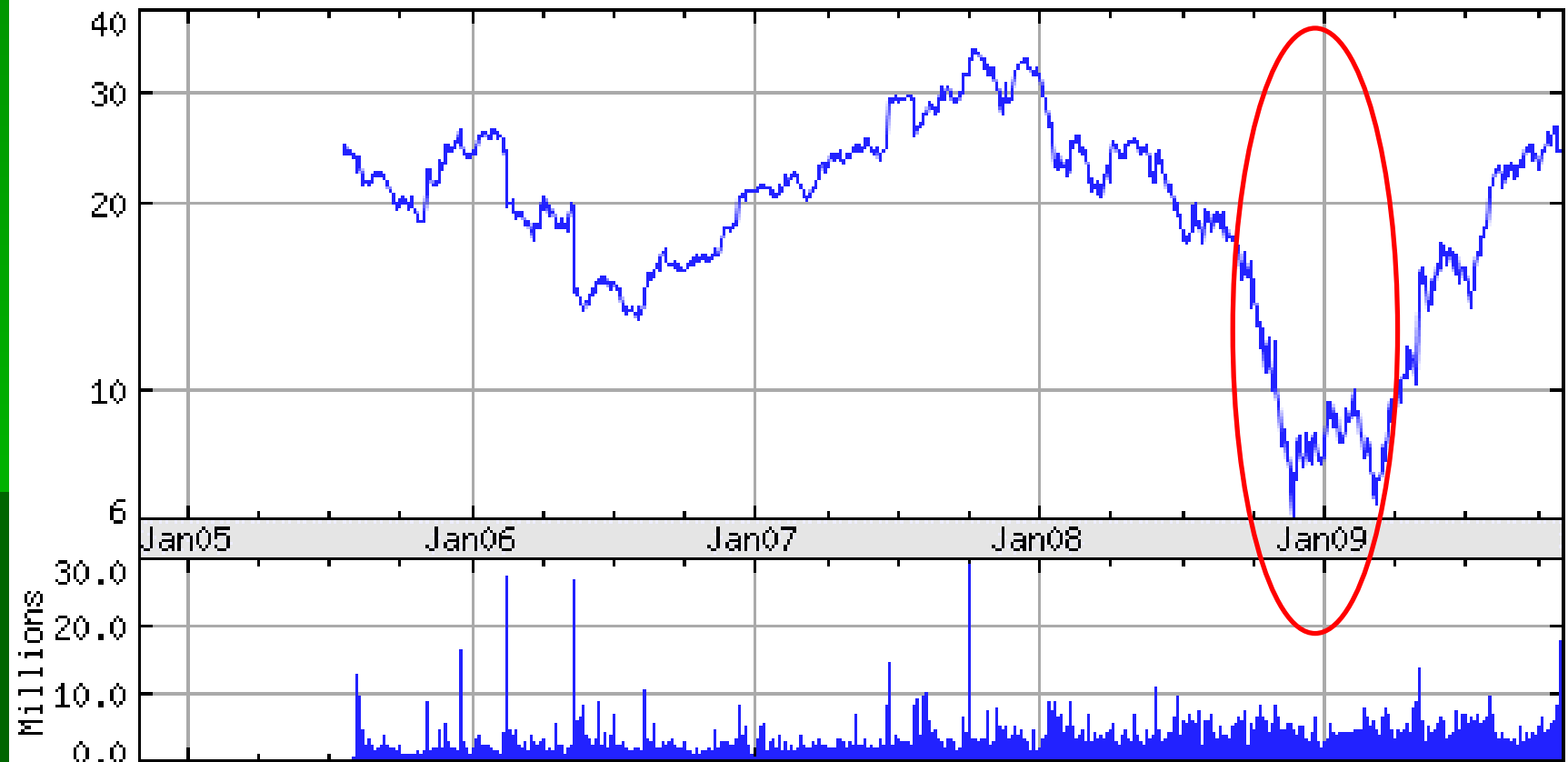
Some examples of forecasted government debt in 2014 (as percentage of GDP): Japan: 234,2. Italy: 129,4. USA: 106,7. Germany:



# Effect of recession illustrated by fall in stock value

EXPEDIA INC

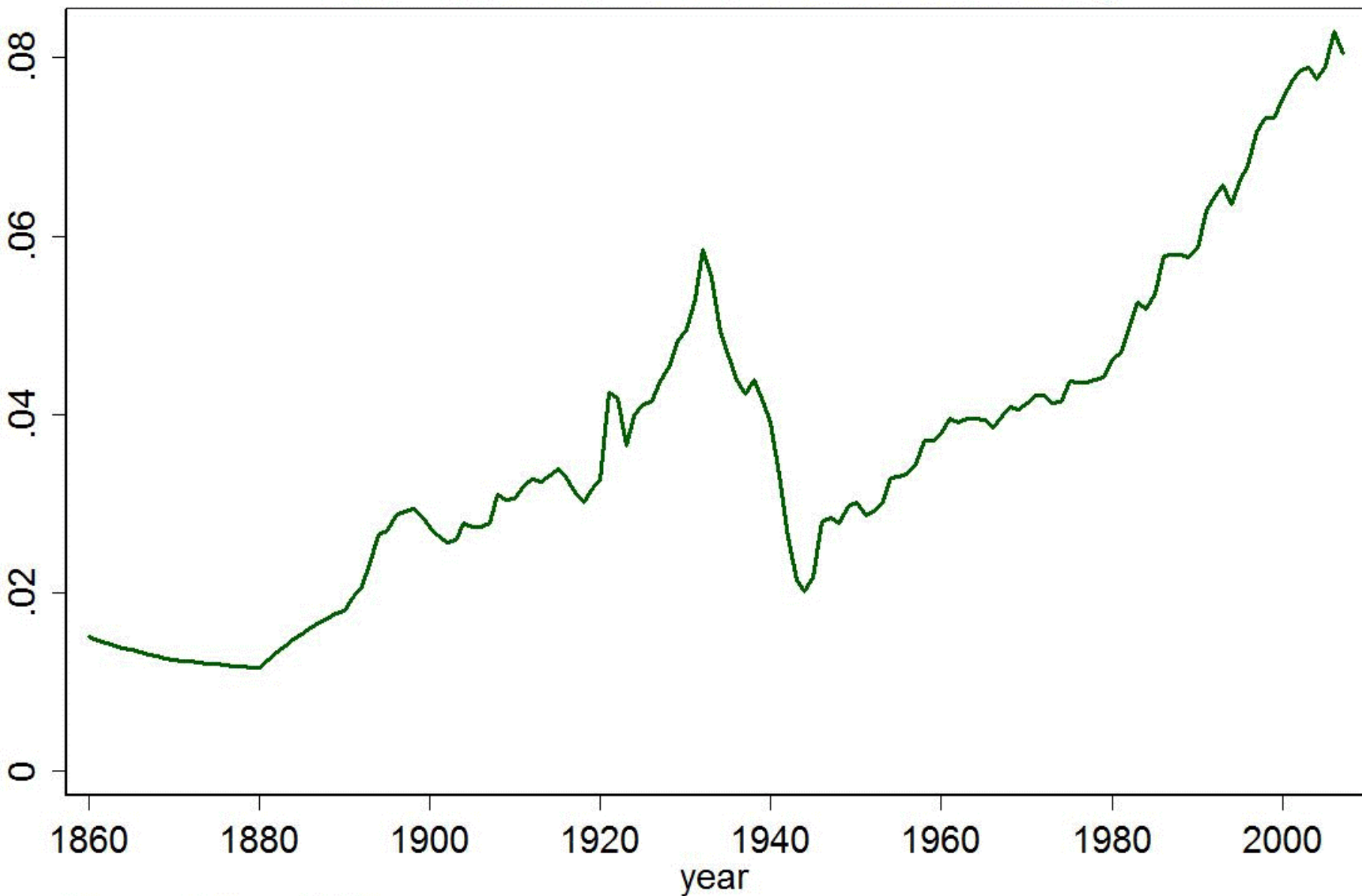
as of 29-Oct-2009



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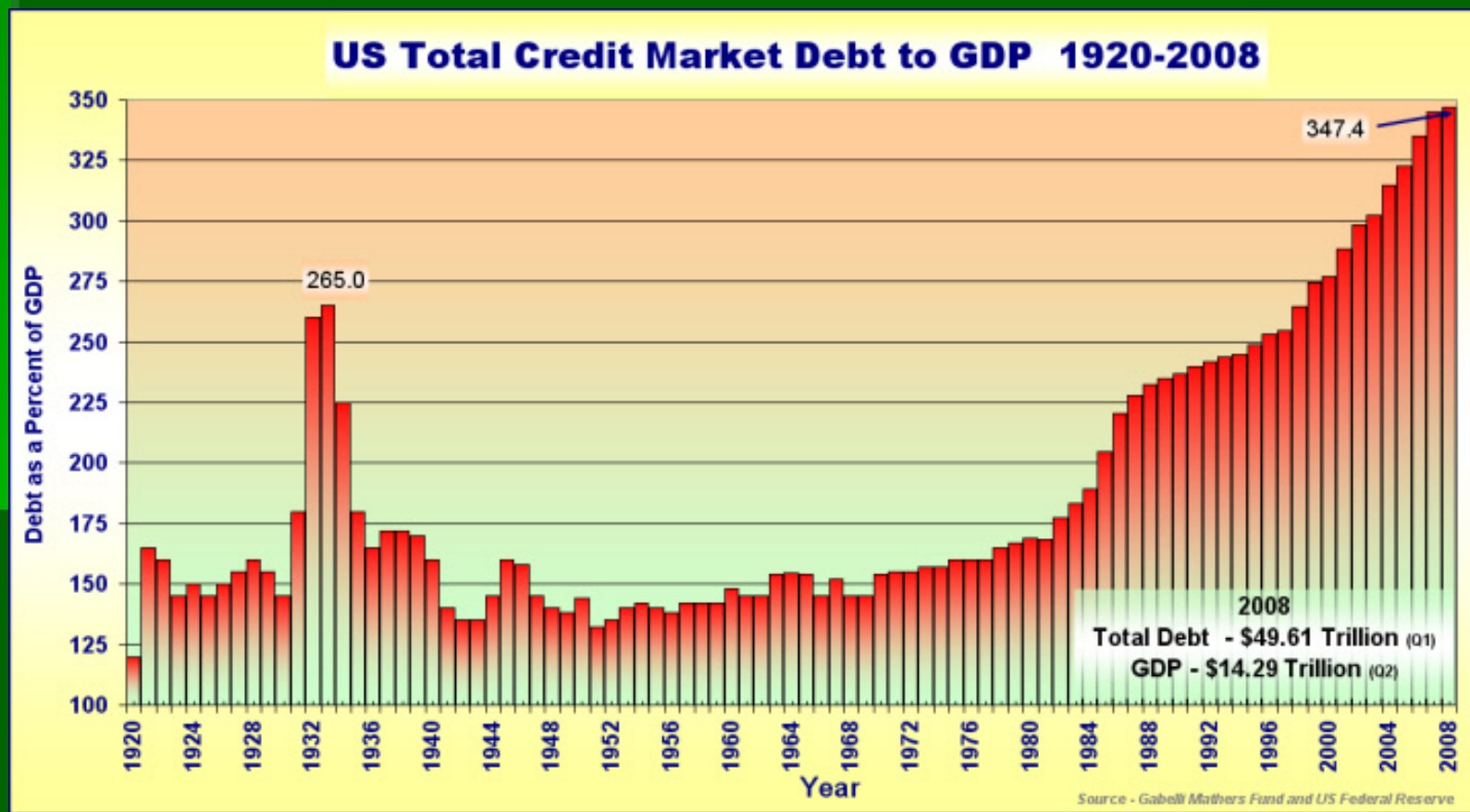
<http://finance.yahoo.com/>

# GDP share of US Financial Industry



Source: Philippon, 2008

# Debt as percentage of GDP: Indicator of imminent depression



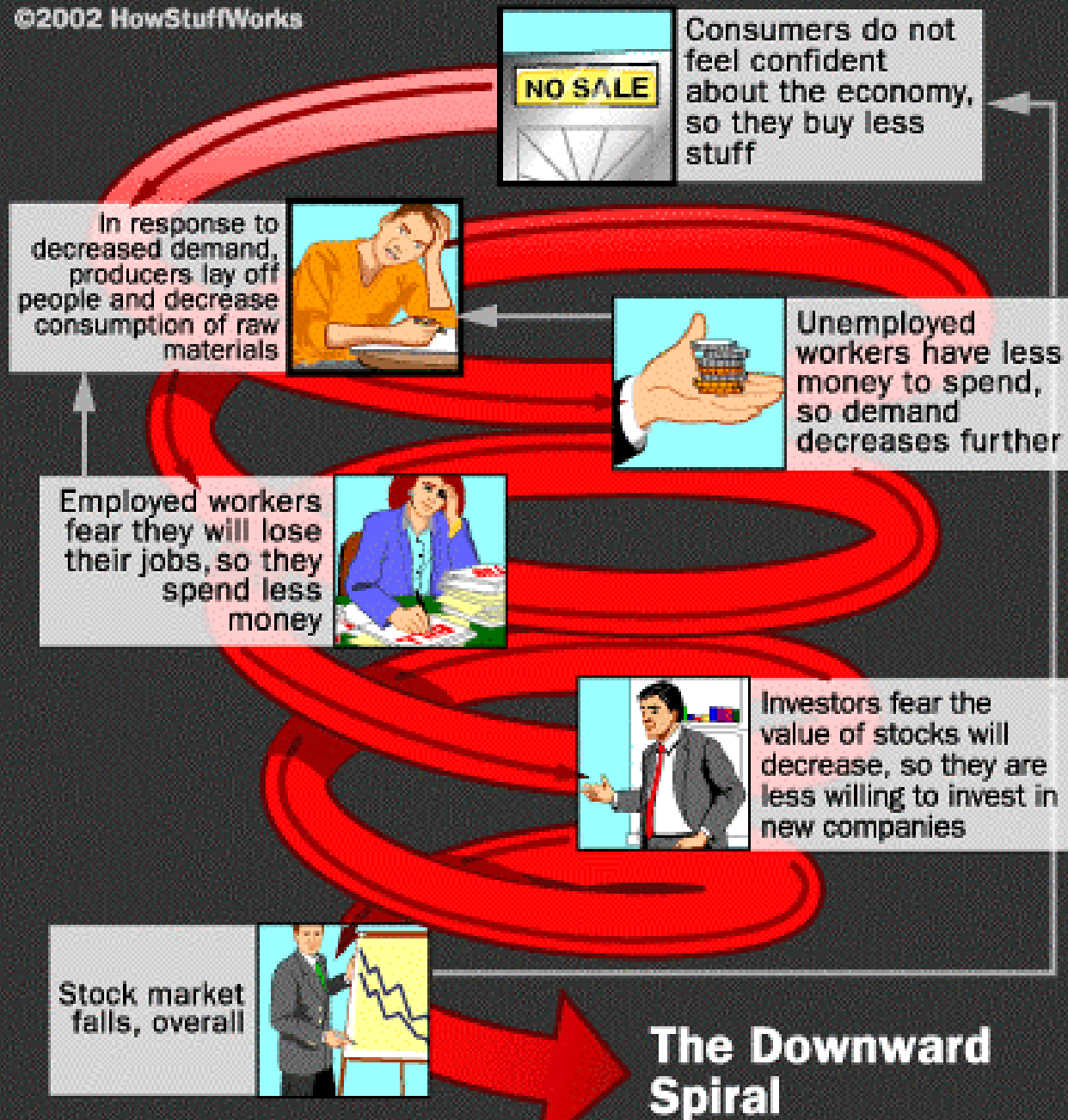


# What is recession?

- In economics, the term recession describes the reduction of a country's gross domestic product (GDP) for at least two quarters.
- Some economists prefer a more robust definition of a 1.5% rise in unemployment within 12 months

# What is a Recession?

©2002 HowStuffWorks



# The Upward Spiral

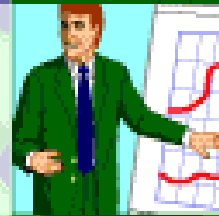
Stock market rises, overall



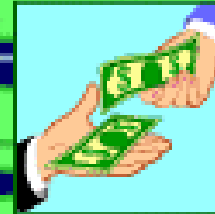
With more money, investors buy more stocks and consume more goods and services



Investors believe trend will continue, so value of stock increases



Increased employment means even more consumers can buy stuff



In response to increased demand, producers hire more people and consume more raw materials



Consumers feel confident in the future of the economy, so they buy more stuff



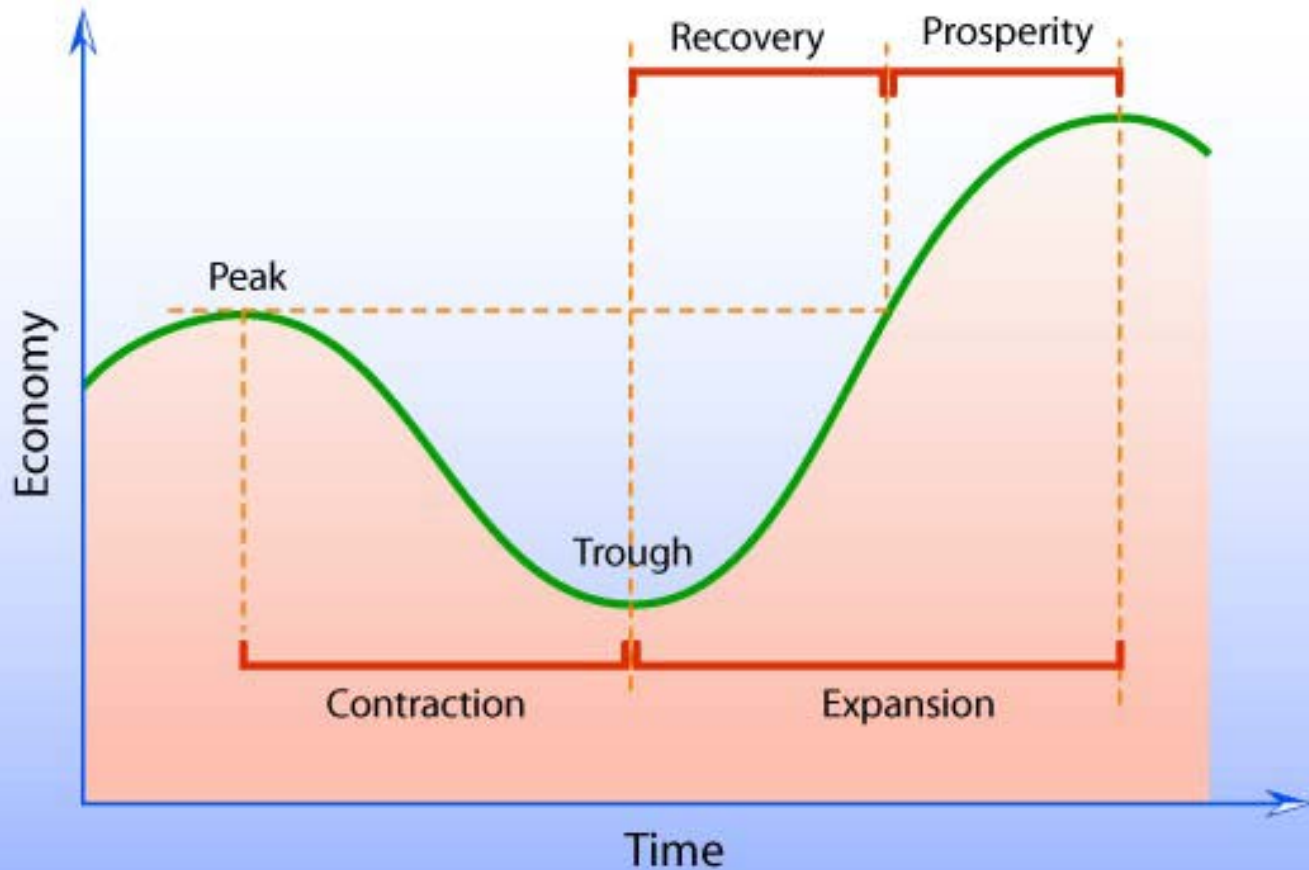
# What is depression?

- A severe (GDP down by 10%) or prolonged (three or four years) recession is referred to as an economic depression.



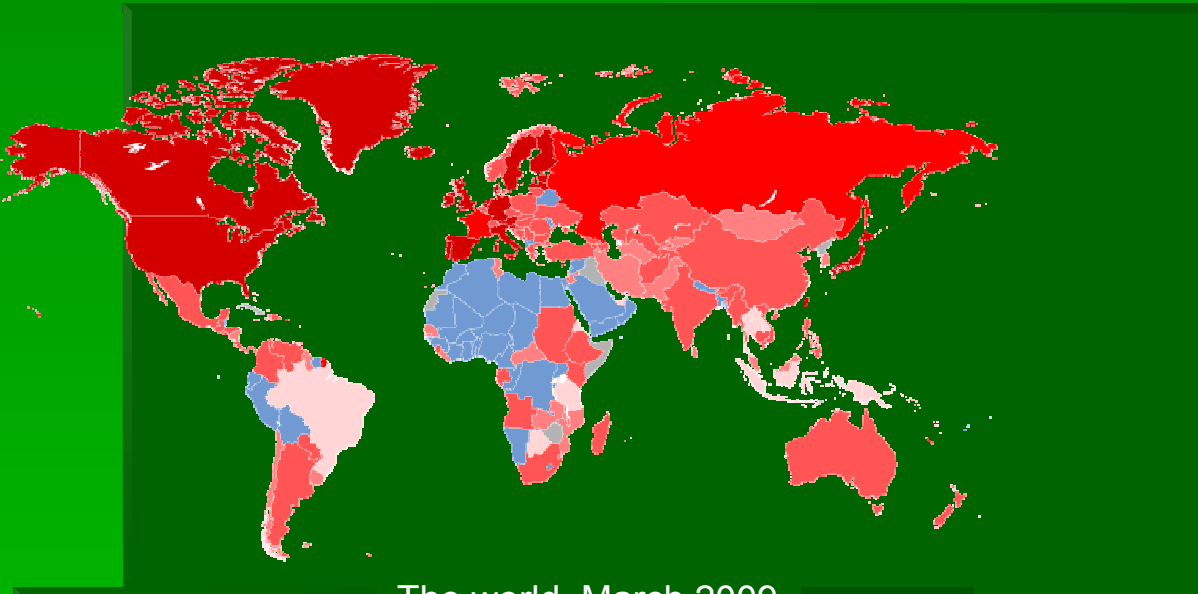
A photo taken during the Great American Depression

# Illustration: Recession





# What countries are in recession?



The world, March 2009

## (2007-2009) WORLD FINANCIAL CRISIS

- Dark red: Countries in official recession (two consecutive quarters)
- Light red: Countries in unofficial recession (one quarter)
- Pink: Countries with economic slowdown of more than 1.0%
- Light pink: Countries with economic slowdown of more than 0.5%
- Very light pink: Countries with economic slowdown of more than 0.1%
- Blue: Countries with economic acceleration

(Between 2007 and 2008, as estimates of December 2008 by the International Monetary Fund)

N/A

Asia, November 2009



Dark red: In Recession    Orange: At Risk    Green: Expanding



Europe, November 2009

Countries at risk, but not formally in recession: Norway, Austria, Slovenia, Slovakia. All other European countries are officially in recession



# Previous warnings of an ill-balanced economy

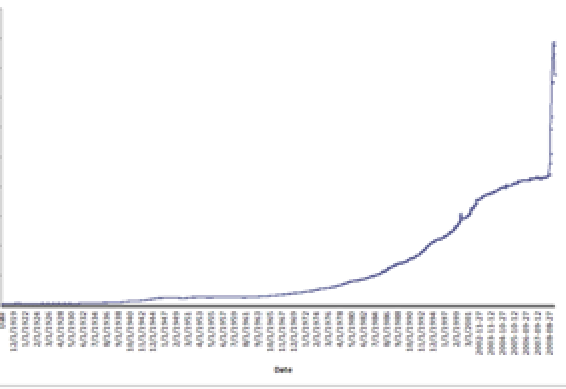
- On the North American continent economic distress, industrial disorganization, widespread discontent at the abortive experiments designed to readjust an ill-balanced economy, ...

(Shoghi Effendi, The World Order of Baha'u'llah, p. 188)

- Every system, short of the unification of the human race, has been tried, repeatedly tried, and been found wanting.

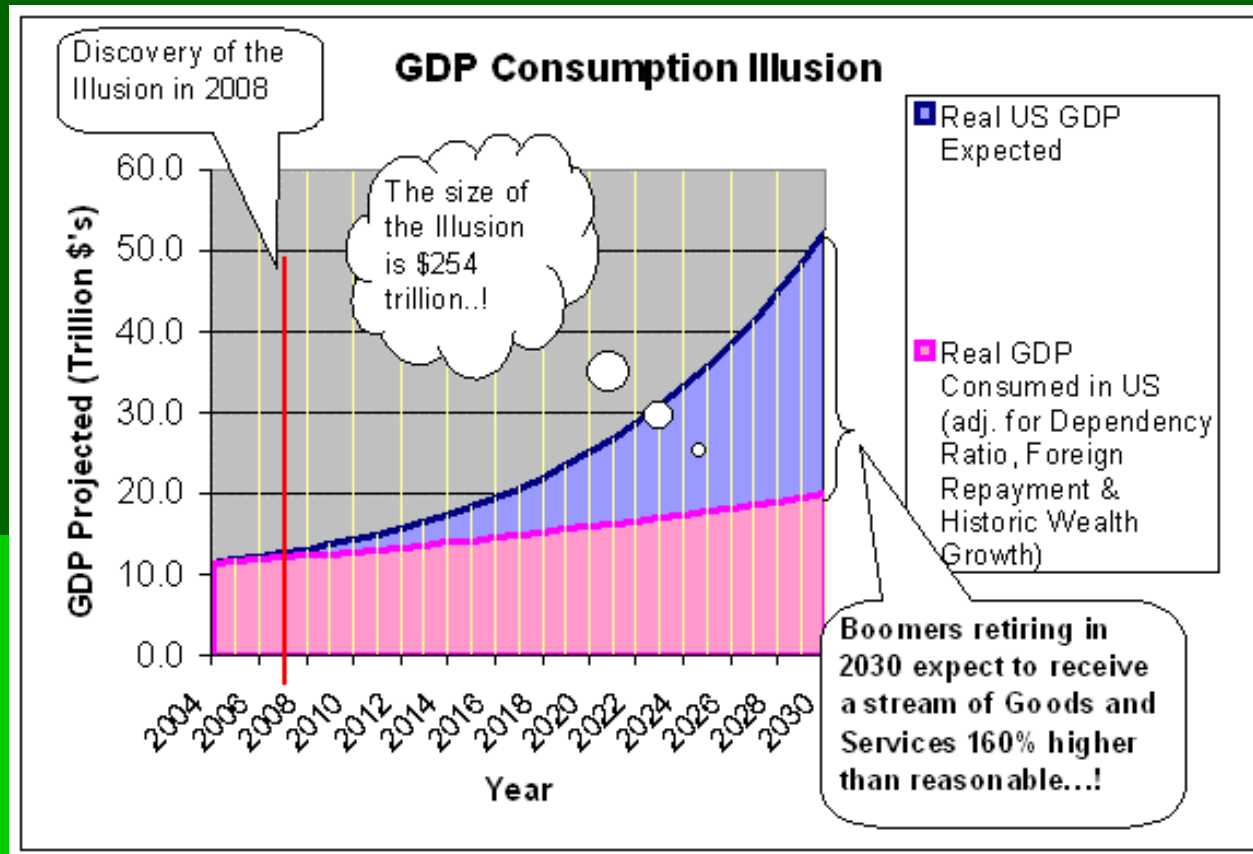
(Shoghi Effendi, The World Order of Baha'u'llah, p. 190)

# Prediction in 2004 of a global recession in 2008



- *Significant booms and busts are caused initially by excessive monetary expansion.*
- *There are two key issues: One is asset overvaluation, and second is the overly optimistic expectation of annual asset value growth. The conditions combine to create a “double whammy” expectation of future wealth.*

# Graphical illustration by Russel Randal in 2004



# Full uncertainty: How far will this crisis go?





# View by economist, Augusto López Claros

- The main danger we face is not, ..., that “in the next few months, the flow of macroeconomic and earnings news will be much worse than expected” (!) but rather that by late 2009 the global economy will be perking up again ... and governments will go back to business as usual, missing a once-in-a-life-time opportunity to address the serious vulnerabilities in the world’s financial system which the current crisis has revealed.
- In that scenario, the next crisis would find us with little ammunition left. That is the real danger.

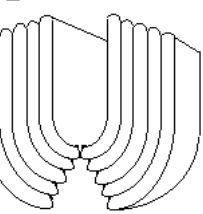
Source: Augusto Lopez Claros, published in  
Financial Times, 14 December 2008



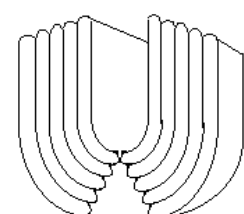
# Professor Nouriel Roubini on the current “recovery” and the next anticipated depression

- This recovery in risky assets is in part driven by better economic fundamentals. We avoided a near depression and financial sector meltdown with a massive monetary, fiscal stimulus and bank bail-outs.
- This unraveling may not occur for a while, as easy money and excessive global liquidity can push asset prices higher for a while. But the longer and bigger ... the asset bubble, the bigger will be the ensuing asset bubble crash.
- The Fed and other policymakers seem unaware of the monster bubble they are creating. The longer they remain blind, the harder the markets will fall.

*Source: Professor Nouriel Roubini,  
published 1 November 2009 in Financial Times*



# Positive effects of depression?



- During the first half of the century, as a consequence of the havoc wrought by the great depression, many governments adopted legislation that created social welfare programs and systems of financial control, reserve funds, and trade regulations that sought to protect their societies from a recurrence of such devastation.
- The period following World War II brought the establishment of institutions whose field of operation is global: the International Monetary Fund, the World Bank, the General Agreement on Tariffs and Trade, and a network of development agencies devoted to rationalizing and advancing the material prosperity of the planet.





# Changing attitudes as a result of the crisis?

Some results from a survey conducted among institutional investors in October 2009:

- 86% of institutional investors say they share blame for the financial crisis
- More than 90% of institutional investors believe financial markets are now threatened by increased 'moral hazard, the belief that banks and other investors will take excessive risks based on implicit government guarantees
- 80.5% said the response of regulators has so far fallen short of what is needed to fix the system
- 73.4% of respondents said guaranteed bonuses should be banned
- Bonuses paid over multi-year / -timeframes / deferral were keenly supported by 90.8%