

America *did* save the world!

The wrangles persist over the desirability of President Obama's recent massive package. The uncomfortable fact is that America, and the West as a whole, is having a pretty grim experience. Eventually, the passage of time will restore confidence.

But the problem is that there are really three separate recessions going on, all at the same time. During 2008, commodity prices, including oil, were very high. We have been here before, when the oil price quadrupled in 1973/74. Temporarily, this transferred income from the West to the producers, which created the recession of the mid-1970s. This, like the commodity price-induced recession of 2008, was short and shallow. But it was still a recession.

In the fall of 2008, the credit crunch bit home. We have already seen the dramatic consequences on the viability of commercial companies in the real economy. On top of this, we have a potential shift in consumer attitudes. Personal consumption is around two-thirds of US GDP. If consumers decide to become more frugal, if saving rather than spending becomes fashionable, huge amounts of spending will be taken out of the economy.

People are generally right to be sceptical of policymakers. But despite this, and all the current problems, the response of the authorities in September last year was brilliant. Fannie Mae and Freddie Mac nationalised; AIG effectively taken into public ownership; money market funds guaranteed by the Fed; huge, failing retail banks forced into mergers; investment banks eliminated. OK, letting Lehmans go was a Darwin experiment too far.

But without these measures, we would already be looking at a recession of 1930s proportions, with unemployment rising inexorable over the 20 per cent mark. The hotly disputed TARP programme was second-order compared to the measures actually carried out.

The abiding lesson of the 1930s is that in a financial crisis, however unfair it may be, banks are more important than people. The banking system has to be defended at all costs. America did this. And, not for the first and probably not the last time, really did save the world.

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