

Troubled waters as we exit the crisis

After a storm lasting more than two years, a rainbow has appeared on the horizon. We know that nothing is certain, but at least people are starting to say that neither is the worst case scenario. Every single letter in the alphabet has been used to describe what shape the exit from the crisis might take but it all remains unfathomable. The economy and global finance look like waterlogged ships adrift on the high seas. We do not know if and when they might reach port safely. What compass will they use to chart their course, now that all our bearings have been lost? A year ago, a total collapse was unlikely because governments and central banks could not allow a re-run of the 1930s depression to occur. Lehman was the exception confirming the rule. But one year on, our reference points have completely changed.

- Banks that were already too large, particularly those in the US, have become larger still after swallowing up their ailing counterparts. Previously, they were too big to fail; now they are becoming too big to be controlled by their senior management and regulators, and perhaps too big to be rescued by governments whose firepower is now exhausted.
- This is because governments, the guarantors of last resort, now find themselves under surveillance by the financial rating agencies. Very few of them face a real threat of default. But all the governments in the developed world are at risk from the Japanese syndrome of a mad consumer rush to save in case debt-laden governments resort to austerity measures and higher taxation. And without consumer confidence, growth in wealthy nations will be anaemic.

- Meanwhile, central banks, which along with governments acted as an emergency banking system, are not in great shape. Balance sheets are swollen with toxic assets and sovereign debt and that too is starting to look suspect. A deluge of liquidity - considered by economic players as Monopoly money – was unleashed to douse the fire. What's more, gold is soaring, not because of inflationary expectations but due to concern about major currencies. And in the event of an emergency, central banks have nowhere to go, since interest rates cannot fall below zero.

In short, in order to head off the risk of global depression, we have legitimately pumped up the very excesses that generated the crisis. The big banks have become gigantic. In the name of a good cause, lax Western governments have spent like mad. After flooding the global economy following the dotcom crisis, central banks are now being forced to inject liquidity in ever more massive amounts. As we move into 2010, the global economy is certainly recovering, but it remains on life support. In the event of a relapse, there is nothing to fall back on: the performer has no safety net. We can only count on the beginning of a virtuous economic and financial circle restoring the health of the market economy.

To do so, international cooperation is attempting to steer its way between regulatory progress and the rehabilitation of market mechanisms. But those orchestrating the exit from the crisis know very well that they are conducting an unfinished symphony. In this unprecedented crisis, we are constantly being forced to improvise. Everyone understands that the way forward is all a game of chance and that we will have to play it by ear. Industrialists, bankers, insurers, retailers, investors and political leaders must all learn one thing from the drifting boat and go with the flow. We need

to avoid dogmatism and accept uncertainty, embracing flexibility, responsiveness and watchfulness. The Goliaths of the world's superpower -Citicorp, AIG, General Motors -have all bitten the dust! The big corporate which has become bigger must try to act like a small company. But like big companies, smaller firms also need to spread their risks. Because risk is now lurking everywhere. Beware false havens in this unsettling period when so many safe spots are anything but secure. When the world goes through radical change, it sows minefields alongside fields of flowers; we need to know how to cross them safely but also without regrets. We must be able to switch from hare to tortoise, be tactical and then strategic. We must be fleet of foot to survive the present, and scrutinise the horizon so as to build the future.

After the turmoil of this mystifying exit from the crisis, the new seeds of wealth creation will grow into a promising future. For the global economy, chaos will give way to a new golden age. True, an ocean of liquidity will manufacture bubble after bubble each of which we will have to identify, take part in and then jettison before the bubble bursts. But bubbles can be used to make champagne provided we know how to bring the right talents together. Some bubbles are really premature tributes to future realities, good bubbles that herald the future. But the fact that today's bubbles have exploded, - the tech sector, the credit bonanza initiated by Sino-American complicity or the so-called ecological emergency of Copenhagen- changes nothing about the fundamental undercurrent: the growth of emerging Asia, digital technologies and, subsequently, ecology will be the powerful drivers of what will certainly be impressive global growth in the decades to come. Of course, for those wishing to embark on this route, there can be no opportunity without risk. But in the calm after the storm, where so much could still go wrong, we should all be convinced of one thing: the greatest risk is taking no risk at all.