

Opinion Sept 2011 – Government Debt – the emperor’s newest clothes

Debt can be a good tool for smart people. At present however we are very much seeing it has become a toy for often not very smart people.

The governments of the western world have chosen to bail-out all the banks and financial institutions, and throw money around generally over the last three years or so, with the aim of stimulating activity (consumption) in their economies. This has been particularly evident in the United States.

The governments involved have done so without any consideration of the longer-term impact of the debts created, and have simply maintained an attitude of "whatever happens, is not going to happen on my watch". Thus kicking the can (or the problem) further down the road without any real reform.

The following excerpt from an article in this month's edition of "The Privateer" newsletter provides an interesting commentary on this;-

Is there anything which is not ridiculous in the process of trying to prolong a bankrupt system by driving it ever further into debt? Is there anything more ridiculous than exhorting people who cannot conjure up money out of thin air to go on spending so that those who can are not "inconvenienced"? Is there anything more ridiculous than earnestly debating a cut in the size of government while raising the debt "limit" of that government's Treasury? Is there anything which is not ridiculous about anything which passes for debate over the current "sovereign debt crisis"?

We can't think of anything. Contemplate the spectacle of the entire "investment world" hanging on a speech made by the head of a central bank in a resort hotel in the "wilds" of Wyoming. Contemplate the words of the newly-appointed head of the IMF at that same conference when she pleaded with governments to stimulate now and "shrink" later. Reflect on eminent Nobel prize winning "economists" exhorting the US government to try harder by shovelling bigger loads of IOUs into a moribund economy.

We have done all these things for decades now. In our younger years, it made us (to use Peter Finch's famous line from Network) "MADDER THAN HELL!" Nowadays, it more usually evokes gales of laughter. These people and the "ideas" they champion are ridiculous. They are making themselves more transparently ridiculous with every new "crisis" their actions make inevitable. And finally, to more and more of us who are bemusedly watching their antics - they are SEEN to be ridiculous.

That new and still misty vision is the one thing above all others that all those in POWER fear. It is the "Emperor's New Clothes" syndrome. It is the impossibility of being taken seriously when your words - and actions - are finally seen as the fatuous nonsense they have in fact always been.

[With thanks to the Captain of The Privateer www.the-privateer.com/]