Strategic Direction

Emerald Article: Don't panic, it's only a crisis!: Does anyone really know how to sort out the global economy?

Don't panic, it's only a crisis!

Does anyone really know how to sort out the global economy?

We are all in this together, they say. But are we?

It is all a matter of confidence. Get that back and the world's economic woes will start to get better. Well that is what some of the ''experts'' tell us. Confidence has not returned and those economic problems seem to be getting worse rather than better, so we have other ''experts'' pointing out the obvious – that economies need to grow, that people need to be got back into work, that the widespread tax avoidance (and corruption) prevalent in some failing countries needs to be addressed, that public sector workers need to be convinced that early retirement on generous pensions needs to be replaced with later retirement on less-generous pensions.

A quick trip around the globe by internet reveals that (to coin a phrase) we are all in this together, that countries worldwide are dependent on each other for their financial wellbeing. Countries whose governments are doing their best to strengthen their economies are possibly just as ''at risk'' as countries that are basket cases – that oh-so-fitting description given to Greece which continues to threaten the stability of its European partners and the wider world.

Two months into his job as British Prime Minister David Cameron, talking not specifically about the economy but of the whole essence of governing and being governed, said: ''If we want real change for the long-term, we need people to come together and work together – because we're all in this together.'' Populist catchphrases have a habit of haunting the politicians who say them. So, with heavy sarcasm, it is often trotted out as the Cameron government struggles to put the UK economy in order.

Yet even political opponents who enjoy the ruling parties' discomfort of poor growth, rising unemployment and public-sector strikes against austerity measures must acknowledge that the UK, compared with some other European states, has a government with a credible plan. Not so in Greece where Prime Minister George. Papandreou's resignation was a necessary precursor to a bailout by its European partners and the IMF. Ditto Italy where a lack of effective grip on the economy rather than sex scandals led to the departure of Prime Minister Silvio Berlusconi.

Europe debt crisis biggest obstacle to British economic recovery

But is the replacement of elected leaders by technocrats the answer to these countries' problems? Has the voice of bond traders become stronger than that of electorates? Or was that always the case? Whatever the truth, as Robert Watts of the *Sunday Times* says, ''Europe's debt crisis has become the biggest obstacle to Britain's economic recovery and

 VOL. 28 NO. 3 2012, pp. 6-9, © Emerald Group Publishing Limited, ISSN 0258-0543 DOI 10.1108/02580541211203718

> “In order to preserve market capitalism as we know it, both companies and their leaders must change.”

the intransigence of the continent’s politicians is being felt in our offices, boardrooms and factory floors.’’

While the perils facing Greece and Italy occupy the minds of the world’s governments and economists, and while fears are voiced for Spain and France, Ireland’s banking and property crisis is not getting the attention it once did. And maybe for good reason. Maybe commentators are more comfortable spreading bad news than good. An economic collapse in Ireland forced it, along with Greece and Portugal, to go with the begging bowl to the already hard-pressed European Union and the International Monetary Fund. But there have been welcome indications that the austerity measures implemented by the Irish government have finally turned things round and, according to one report, it might even be able to return to global money markets at the end of next year.

Douglas McWilliams of the London-based Centre for Economics and Business Research says: ‘‘When we said a year ago that Ireland would turn the corner in 2011, few believed us. But there is now increasing confidence, reflected in falling bond yields, that this will happen. With a strong export economy and a successful ‘internal devaluation’ Ireland is set to be one of Europe’s best performers.’’

Accentuating and underlining economic woes

If salvation lies, to some extent, in confidence that the world’s financial institutions and governments will pull back from the brink, the doom merchants are not exactly helping. In 2009 British MP John Pugh, accusing the BBC of a readiness ‘‘to further dramatize, accentuate and underline economic woes’’, said: ‘‘We can’t honestly say the situation we have at the moment is totally explicable on economic grounds alone. I saw a disconnect between what people were saying in everyday life and what people were hearing on the news broadcasts in the evening. Many people in business said, ‘things are tough, things are harsh, but maybe not as dramatically bad as the media represents it.’ Nonetheless, if the media persists in putting the worst case out, then things will deteriorate themselves.’’ To which the media might say: ‘‘Don’t blame the messenger.’’

So who can we blame? The problem is no one seems to know. What the so-called ‘‘ordinary’’ man and woman seems to believe, however, is that the wrong people are suffering. British Business Secretary Vince Cable, hinting that he might bring in regulations to curb executive pay, says: ‘‘A small number of people have done extraordinarily well, undeservedly.’’ Maybe not as extraordinary well (and not to suggest it is undeserved) as River Island clothing chain’s former chief executive who, it was reported on the same day that Mr Cable made his comment, had been awarded £15 million for four months’ work.

Chickenfeed to the billionaire Burlusconi. But will a new leader turn Italy’s fortunes around? It cannot be a bad thing to have a respected economist, Mario Monti, replace a philanderer who left office to cries of ‘‘buffoon’’ from his countrymen. But alleged sexual misdeeds are not necessarily a bar to successfully steering through stormy financial waters, as former International Monetary Fund head, Dominique Strauss-Khan demonstrated. His downfall was not a lack of ability at the IMF but his arrest on a charge of rape – later dropped – and the ensuing reminders of alleged inappropriate seductions.

The appointment of Christine Lagarde as his successor has shifted the focus back to where it should be, sorting out the world’s shaky economy, but her personalty – the mere fact that she is another European – may in itself be a disadvantage. As Christopher Swann notes: ''The IMF's position may be less strong than it initially seems. At the core of the fund's vulnerability is the issue of trust. Many of the rising stars of the global economy – such as Brazil and India – continue to view the IMF as a hostile force, dominated by the US and Europe. Nations that are determined to escape the clutches of the fund permanently have accumulated excessive foreign currency reserves – with potentially damaging effects on the global economy.''

Shift needed in IMF voting arrangements

He says: ''To really make the IMF more acceptable to developing nations she will have to press for another increase in their voting strength. She stands as good a chance as anyone of doing so. As a diplomat she is considered every bit the equal of Strauss-Khan. Still, the worry is that Lagarde will shy away from decisions that will annoy member nations or risk unsettling markets. This would be a shame. Unless the IMF is willing to be bold from time to time, the institution will not be very useful.''

Politicians have their part to play in curing the global economic crisis, as does business. But do either really know what to do? Just when there were signs of a worldwide acceptance of the benefits of capitalism and market forces, people have begun to ask if they really work for the good of all, i.e. Are we really all in this together? People thrown out of work by a financial crisis, which has seen banks saved and their huge staff bonuses continue are among those asking that question. Harvard Business School Professor Joseph L. Bower *et al.* say: ''Market capitalism has proven to be a remarkable engine of wealth creation, but if it continues to function in the next 25 years as it has in the past 25, we are in for a violent ride or, worse, a serious breakdown in the system itself.''

They say that, in order to preserve market capitalism as we know it, both companies and their leaders must change. Instead of seeing themselves as narrowly self-interested players in a system that is tended and overseen by others, business leaders must take a more active role in protecting and improving the system. Indeed, they need to spearhead entrepreneurial activity on a massive scale.

Comment

This review is based on ''Global capitalism at risk: What are you doing about it?'' by Joseph L. Bower, Herman B. Leonard and Lynn S. Paine; ''The two sides of DSK'' by Sheelah Kolhatkar; and ''Steering between the BRICs and a hard place'' by Christopher Swann. As part of the preparation for Harvard Business School's 100th anniversary Global Business Summit Professor Joseph L. Bower et al. asked business and government leaders round the world what issues should inform the school's agenda for the coming century. The long-term sustainability of global market capitalism was a primary concern for virtually all of them. Sheelah Kolhatkar contrasts the effectiveness of Dominique Strauss-Kahn as head of the IMF with the scandals of his private life, and Christopher Swann assesses the challenges facing Strauss-Khan's successor.

Keywords:
Capitalism,
Economic downturn,
European Union,
Free markets,
Global economy,
Global marketing,
International Monetary Fund,
Leadership

''Many of the rising stars of the global economy – such as Brazil and India – continue to view the IMF as a hostile force, dominated by the US and Europe.''

References

Bower, J.L., Leonard, H.B. and Paine, L.S. (2011), ''Global capitalism at risk: what are you doing about it?'', *Harvard Business Review*, Vol. 89 9, September, pp. 105-12, ISSN 0017-8012.

Kolhatkar, S. (2011), ''The two sides of DSK (why the International Monetary Fund may have turned a blind eye to the private life of Dominique Strauss-Kahn)'', *Bloomberg Businessweek*, August, ISSN 0007-7136.

Swann, C. (2011), ''Steering between the BRICs and a hard place (the efforts of the International Monetary Fund to satisfy the demand for emergency loans of developed and developing countries)'', *Financial World*, pp. 16-19, September 1, ISSN 1360-4295.