

What makes an economy?

We have all heard the one line anecdotes people use to describe how the world operates. "Money makes the world go around". "Remember the golden rule, he who has the gold makes the rules". There are many more but you get the general idea. It is interesting that in the current economic situation in which the world finds itself, much is being made about how governments are going to save the economies of their respective countries or regions with stimulus packages and the like. What has been roundly ignored by almost everyone is the simple fact that although the government can contribute money to an economy to stimulate activity, they cannot actually make that activity happen. If you are living in any country with a free market economy the government option is to provide the incentive but it is business that will provide the activity. For reasons that are fairly obvious, governments right across the world are making out that they are going to be the saviours of the national and international economy when, without a single shadow of a doubt, without a more than significant contribution from the business community, be it local, regional, national or international, government incentives would be dead in the water and the economy will stagnate, contract or disintegrate.

As a firm believer in the KISS principle it is interesting to note that many governments are forgetting where the funds are coming from for them to provide as stimulation to an economy and where the funds are going to come from once the economy has been stimulated and the huge borrowings that have been incurred need to be repaid. Business ultimately provides funding to governments and business will need to recover and provide even more funding to government for them to repay the debts incurred. Kind of a circular argument if you think about it. Business provides funds to government for them to provide funds to business to stimulate the economy. Business will also provide funds to government for government to repay the debt, in many cases back to business. I know there are a large number of other factors involved in this scenario but these are still the essential facts.

Business and business confidence are the essential factors that make an economy happen and then cause it to expand, contract or stagnate. It is the production, processing and delivery of goods and services by business that generates the funds which are used to buy and pay for those self same products and services by business, their employees and the wider community. From this activity, business and the people that they employ, generate earnings from which they pay taxes to the government for them to employ their people and provide a range of community services and opportunities for business to do more business. So, without business there would be no operating government, no government services and no opportunity for governments to stimulate the economy. Straight back to that circular argument. So why are governments not acknowledging the fact that the stimulation of the economy has got to be a partnership between government and private enterprise? For an economy to work you need an efficient public sector but you also need a confident and operating private sector to create the activity. Neither can operate alone

yet the government of the day would have us believe that the resurgence of the economy will be from their efforts only.

The current economic situation is being called the Global Financial Crisis and it has been brought about by reckless and greedy financial institutions lending money and pushing up prices of assets that had little or no value (toxic assets). These reckless and greedy financial institutions made huge amounts of money from following this strategy and the governments made large amounts of money from the taxes and charges levied on these institutions while they followed this strategy. They also conveniently ignored some of the more obvious excesses from these institutions and in some cases blatantly encouraged them to continue these practices as they wielded even more money for governments. The boom was on and it was going to continue. The end of the cycle has brought about an almost comical scenario in countries all over the world. The situation called for someone to be held responsible for the situation, so the governments blamed the financial institutions and their recklessness and greed. That didn't last very long however, when it became obvious that these self same institutions that had got everyone into this situations were the self same institutions that would also have to get everyone back out. Business is still business and without it, where would the economy be?

Just as a matter of passing interest, how did the rating agencies manage to get away without irreparable damage to their forecasting techniques and reputations? These are the self same people that got it all so horribly wrong and kept telling the majority of us that the boom times were here to stay for at least the next few years. How did they miss the truck smash that was coming when in hindsight there were large numbers of economic indicators telling those who should have known that it was coming. What is worse, they are still playing a powerful role in market sentiment and still being believed!

Money makes the world go around.