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# Root Causes of Recession Unaddressed

Our last crash into recession generated a huge volume of news coverage, speculation, and analysis. You may wonder why the news of its apparent end isn't now being shouted from the rooftops.

This is particularly curious given that the optimists include many of the world's most respected commentators – some of whose opinions were reported on an almost hourly basis when the crisis began.

It is, they say, a measurable fact that the unprecedented monetary and other stimuli thrown at the crisis by governments worldwide are now reaping rewards. Deflation hasn't been a problem, economic stagnation has been largely controlled, and, thanks to radical government intervention, real growth is just around the corner.

And yet, the response, particularly in the developing world, remains muted.

Iraj Abedian, chief executive officer for Pan African Investment and Research Services, believes he knows why. The explanation is one that the developed world may not want to hear though.

He suggests that the problems that created the global crisis are not – contrary to what accepted wisdom would have us believe – cyclical. Consequently, all the remedies created to deal with it are at best inadequate and may even prove highly damaging in the long term.

In his opinion, the recent injections of monetary and fiscal action addressed a problem that simply wasn't there – at least not in isolation. He believes a far greater understanding of the problem is required. "While the tipping-point action was caused by the U.S. mortgage excesses, the root causes are mostly structural and not financial," he says.

Abedian believes three key failures must be accepted, understood, and addressed before any long-term solution can work. First, he points to the moral failure of the Anglo-Saxon governance system, and he cites these examples: "When the private sector knowingly bundles together bad assets and sells them on; when credit rating agencies knowingly rate these assets too high; and when regulators knowingly fail to put a stop to it."



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Second, Abedian says that "the market knows best" paradigm has failed and has done so spectacularly on the world stage. What's more, governments share in the failure. The U.S. government's understandable need to recover from the 9/11 attacks and the resulting consumer confidence crisis may have inadvertently sowed the seeds of the subprime disaster.

Last, but not least, is the unbalanced global trade regime. The developed world annually spends more than $1 trillion in agricultural subsidies to manage its own market prices – suffocating the developing world's best efforts to produce and sell goods at a fair price. For Abedian, this self-interest is neither economically sensible nor morally acceptable.

Addressing such deep-rooted structural and economic imbalances may demand a major mind-shift and include longer-term structural, regulatory, and behavioral changes. But, if Abedian is even remotely correct, the price is one we have to pay for a more prosperous, sustainable, and inclusive global economy – one that we can all celebrate.

The above material was prepared by PEAK.



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