



WILL 2007 be the year when the world economy finally faces its Day of Reckoning? Ever since the start of the late 20th Century's great global expansion, many politicians, economists and media commentators have been issuing dire warnings about the economic retribution which surely lies ahead after so many years of overindulgence in consumption, speculation and borrowing. Today, two specific portents excite the prophets of doom. First, there is the prospect of a US recession, triggered by a slump in the housing market, which could drag down the US and world economies and thus bring down the house of cards which is the over-leveraged global financial system. Secondly, there is the vast imbalance of trade between America, Asia and Europe; this finally seems to be causing the long-awaited collapse of the dollar and that, in turn, could trigger the long-awaited global slump.

There are many reasons for doubting such prophecies of doom – not least the strong probability that the US will actually avoid a recession and the dollar will soon rebound. But more interesting than such short-term forecasts are two observations about long-term economic trends.

The first is that the Prophets of Doom have predicted their day of reckoning,

like Jehovah's Witnesses, at the beginning of almost every year since the mid-1980s. And every time their predictions have turned out to be wrong, they have merely redoubled their warnings about the terrifying instability of the world economy. Instead of accepting that this argument had been refuted, they have insisted that financial or political manipulations have simply held off the collapse, thereby guaranteeing an even more wrathful Dies Irae when the reckoning finally arrives. In arguing that postponing economic problems automatically magnifies these dangers, the Jehovah's Witness economists have misunderstood the most important virtue of a liberal, competitive economy – the fact it automatically encourages billions of intelligent, motivated and creative individuals to seek out solutions to whatever economic challenges the world may present. In a competitive global economy, therefore, time is on the side of stability, not against it. If governments refrain from tackling potential problems, in the way in which America, for example, has refrained from tackling the "unsustainable" trade deficits or Britain has refrained from tackling the "dangerous" level of mortgage borrowing, this does not automatically increase the potential danger. In a liberal, competitive world, a problem postponed is not necessarily magnified. On the contrary, a problem postponed is a problem well on the way to being solved.

Another, less philosophical, reason to ignore the Prophets of Doom has been their failure to understand the underlying forces which have powered the expansion of the global economy since the early 1990s. Specifically, there have been five: firstly, the collapse of communism, which has given 3 billion new consumers and producers the opportunity to enjoy the economic benefits of capitalism. Secondly, the spread of free

trade, which has allowed these new capitalists to participate in the global economy for the first time. Thirdly, advances in electronic technology, which have cut communication costs almost to zero. Fourthly, a revolution in finance which has given consumers a freedom to manage both their assets and their borrowings, in a way that was once only possible for large multinational companies. Finally, the rediscovery of active demand management, which has allowed central banks to keep economies growing as close as possible to their long-run productive trends.

While some of these structural changes may seem to increase the risks in financial markets, their interaction has actually made the global economy more stable than ever before. For example, the shift of manufacturing employment from America to China has created huge trade imbalances. But the same globalisation process has made global trade imbalances easier to finance, and the shift from manufacturing to services in the US and in other advanced economies has made them more stable than ever before. This greater stability, in turn, has reduced the risks of household borrowing; and the freedom of households to borrow has made consumption more stable in the face of economic shocks, such as the collapse of technology shares or the terrorist attacks of 9/11.

Economists are still far from understanding the full implications of all these changes – or of weighing them up against new long-term dangers such as climate change, demographic decline and widening disparities of income. We can, however, say one thing for certain: this year, the Jehovah's Witness economists will yet again be proved wrong. The End is Not Nigh.

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The Years of Reckoning

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