

Update on the Crisis by International Policy Network

Last month, the International Policy Network circulated Eamonn Butler's opinion editorial explaining how the current financial crisis was in large part caused by the US government. These errors were then magnified enormously by subsequent interventions. The bailout of Bear Sterns created an assumption that the US government would step in to bail out all very large US financial institutions – and signaled to the leadership at Lehman Brothers, for example, that it need not worry too much about finding outside capital. To make matters worse, Keynesian stimulus packages are also catching on like wildfire, with governments around the world attempting to boost their economies with injections of cash.

Governments are terrible at allocating resources and their attempts to boost our economies will almost certainly backfire. Economic growth is the result of entrepreneurs identifying and filling niches by developing better products and production processes, thereby boosting production and productivity. In contrast, when governments throw money at the economy, they divert resources away from their most efficient and effective uses, undermining innovation and growth.

The best way to stimulate the economies of the world would be to reduce the number of overbearing taxes and regulations that currently inhibit the development and delivery of all manner of products and services.

On November 15, representatives from governments from the G20 group of countries will meet to discuss the future of world financial regulation. There is a grave danger that in this time of crisis, they agree to all manner of interventions that would harm people around the world. Already we have heard President Sarkozy espouse ridiculous anti-capitalist sentiments. Britain's Foxy Brown (recently transformed from his role as Flash Gordon, saviour of the Universe) seems to be resisting these overtures – presumably because he fears, rightly, that they would harm the City of London, a major engine of Britain's growth.

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