

POINT OF VIEW

It all started in Wall Street

It all started in Wall Street. And like a tsunami it went round the planet starting with the Northern Hemisphere. The greed of US traders and the blessing of the major banks pushed by their leaders looking to maximize profits and stock options, followed by their colleagues in the City, created a world crisis of the same magnitude as the one which happened in 1929. Every economy in the world has been touched except maybe in Africa, but it is still progressing and we don't see the end of it.

Guy Goldstein

The US was the first to feel the pinch with thousands of jobs lost, many manufacturing facilities and businesses closing. A reshuffling of assets took place. Four years were needed to see some signs of improvement but far from a full recovery. Large corporations went belly up or had to sell chunks of their equity and activities to outside investors. Concentration and shrinking is now an accepted idea - no longer is Big and Beautiful the key slogan; diversification became a favored option.

McDonald's is still pushing their burgers but are now also into salads and healthy food. Coca-Cola is going from light to zero at a high price! Housing prices are falling due to the lack of buyers who cannot get financing. Banks are not lending money for fear of re-creating a new sub-prime crisis - they don't want history to repeat itself - but they are also strengthening back their equity rather than lending money for investments that would lead to the creation of new jobs. Selfishness, lack of responsibility: the worm was in every banking organization worldwide.

The collapse of Lehman Brothers and of some very large Mutual Credit funds started the ball rolling, and no one expected an institution like Lehman Brothers to disappear from the scene so abruptly in the mist of a scandal. Millions of Americans were out in the streets while their homes were being repossessed by the banks. These people had no jobs but their debts were still there while their homes were put up for auction... with no buyers around! The only benefactors were the real estate agents who cashed in double commissions - one from the actual sale and one from the finance company. In a rotten environment only the rats thrive!

AFTER FOUR YEARS, ALTHOUGH SHOWING SIGNS OF IMPROVEMENT, THE SITUATION IS FAR FROM NORMAL. The US dollar has suffered too: while it is still the reference currency, a lot of people have turned back to gold as a safer haven. Public debt in the US is far from being under control, a structural deficit is not being dealt with adequately and could turn into a time bomb ready to explode.

After originating in the US, the crisis went round the world faster than the speed of light - thank you Mr. Internet! Canada, India, Japan, China and of course the EU. It was no surprise except for China where housing demand went down and growth stood at 9.1%. What China did not quite realize is that if its customers have no money they won't buy and export slowed down drastically. Many of these countries have been living on credit from suppliers but if these credits dry up they are in trouble.

NOW LET'S LOOK AT WHAT HAPPENED IN THE EU. For decades, all the European countries have increased their debts up to unsustainable levels. The banking system in Europe began investing in junk bonds and risky deals and they got caught up in the crisis when it happened. Lack of confidence by customers who rushed to protect their investments had banks running out of funds, some banks limiting how much of your savings you could take out. Some countries had been plagued by strong government employee unions, too many people reasonably paid but not doing a lot of work, working very short hours... and not paying any taxes.

LET'S TAKE THE EXAMPLE OF GREECE, ONLY A SMALL PERCENT OF THE POPULATION PAYS TAXES - IF ANY. The Government introduced some rules over the years which favored job creators. If you employ people you just don't pay any tax because you are creating employment, or you pay a fixed percentage. The wealthiest community in Greece the shipowners: some own 200 plus vessels and pay a fixed rate of just 3% and say they can't pay more. They threaten to move abroad in order to avoid further taxation. This has been in exercise for so long that everyone takes it for

granted. The same applies to many other categories; only those who are less fortunate take the burden. Austerity has been put into place, salaries curtailed, government employees sacked, pensions reduced, strikes began and elections were needed to create a coalition. Pro-Nazi, ultra-nationalist parties emerged saying it was the foreigners who created that ugly situation while in fact it was the laxity of all the previous governments from the right or the left. Banks had to be bailed out but not without strict conditions by the EU.

SIMILAR SITUATIONS EXIST IN PORTUGAL, ITALY, SPAIN, CYPRUS, THE UK, IRELAND AND FRANCE. Some twenty top-level European meetings were needed to try and find a more or less acceptable solution with the countries being in solidarity and accepting a certain level of potential debt. We have not yet seen the end of it as markets are really running the economy and can upset any country. No pity; just hunger for profits.

The impact on the tissue industry has been minimal except in the AFH sector where travel has been limited and costs put under control. In the consumer scenario, there has been a slight shift towards lower grades when available. The lack of demand from China has softened prices and limited raw material costs.

After a rather sharp rise, petrol-energy based commodities are now declining to more reasonable levels.

I AM A BIT DISILLUSIONED BY ALL THIS. The crisis was not only created by Wall Street but it put into the lime-light the deficiencies that existed and which would have come to the surface anyway. The bubble would have burst sooner or later. We need to have a complete reform of the financial system. We need to cut the huge salaries and bonuses granted to bankers or CEOs even when their organizations do not meet their objectives in full. Some people have been rewarded although their company entered into Chapter 11! I am not a politician or a financier, just a retiree trying to keep his feet on the ground... and trying to understand. •