

INTERNATIONAL  
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Heed the warning;

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A nearly unanimous chorus blames sub-prime housing loans for the turmoil on international financial markets. It would, however, be a grave mistake to mix up cause and effect.

The genuine cause for the calamity is that the global economy has three fundamental weaknesses: the growing imbalances in the American economy, the central banks' illusion that inflation targeting is a workable policy, and the asymmetry between global economic forces and the institutional framework laying down rules and regulations.

The main problem is American overspending, which has gone on for many years. Deficits have been financed by the rest of the world. This simply cannot last.

The question now is not if the American economy will be balanced. It will.

The question is if policy makers will do it in an orderly way, which allows the costs to be spread over a number of years, or if market forces will do the balancing in a brusque way without any consideration for political consequences.

Unless financial institutions, central bankers and politicians address these problems in a comprehensive way, the sub-prime housing crash will be the omen of a series of financial crises to come that in the long run may threaten the present version of economic globalization.

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