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THERE IS GOOD NEWS

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The last couple of years have left people in a depressed mood. But if one looks at the world as a glass half full rather than half empty, there is reason for optimism.

The fact is the world economy is growing and in some important places, China, India, Brazil, Egypt, Turkey, Indonesia, Chile, etc, at very substantial rates. For most people on the planet, life has never been better, and it is still getting better. World economic growth had been running at a record high of more than four per cent per year before the recession, and after the slight negative year of 2009, the plus four per cent rate of growth seems to have once again become the world norm – which is extremely good news for everyone and, particularly, those connected with the financial industry.

The demand for financial services grows faster than the growth in real incomes.

It is true that the US and some of the European countries have made a mess of their own economies. Too much government spending and regulation is almost a universal disease. But, unlike past periods of economic crises, the electorate in most countries has been shifting toward the smaller-government parties and away from more state interventionism, the elections in the UK and US being prime examples.

The fiscal situation in both the UK and the US is near critical, as it is in several of the EU countries. Fortunately, increasingly, the media and political leaders in the fiscally distressed countries, as well as the people, now understand that very major reductions in the rate of growth of government spending are no longer optional but are an immediate necessity. Cayman's future prosperity is very dependent on the US also being prosperous.

Fortunately for Cayman and the rest of the world, the US has just voted out the most fiscally irresponsible Congress in the country's history, and there are real reasons for optimism. For instance, the new Budget Committee Chairman in the US House of Representatives is a very able, young economist by the name of Paul Ryan (R-WI). Congressman Ryan has put together a serious budget plan that he refers to as a "roadmap" to fiscal responsibility. His critics admit that his plan would work, even though most of them still are in the fantasyland that somehow the necessary reductions in medical and pension "entitlements" are not needed.

Equally important are the reports of several bi-partisan deficit-reduction commissions, all of which said that reducing entitlements was no longer optional but key to sustaining economic prosperity in the US.

This issue of the Cayman Financial Review focuses on a part of the world that is still growing smartly – that is Asia, and particularly China, which now is the world's second largest economy.

During economic ups and downs, people tend to believe that incomes are rising or falling for everyone in the same country. In fact, even during recessions, there are many people and companies that enjoy more income. Despite the severe recession, the US economy, in an absolute sense, is larger (after inflation) than it was four years ago when most people were pleased with the state of the economy. The previous statement is also true for virtually every other economy in the world.

Even though China's per capita income is still relatively low, there are perhaps a couple of hundred million Chinese who, by Western standards, would be considered to have a middle-class income and life style. The banking and financial services sector is still very much undeveloped in China and has lagged behind the growth in incomes. As China increasingly becomes a global player, it will by necessity need to speed up the liberalisation of its financial markets.

Thus, China, India and Brazil are likely to provide the most fertile markets for the growth of the financial services industry. Cayman and other offshore financial centers have been very beneficial to the US, UK and other countries, and they ought to be equally beneficial to the newly emerging economic giants.

There is a global debt crisis, but one that can still be managed if the political leadership in the most affected countries learns the lessons from those countries that have faced similar situations. In this issue of the CFR, Sweden is highlighted as an example of a country that faced a financial crisis 15 years ago, but made the

necessary policy changes before going over the financial cliff. As a result, the Swedes are now enjoying a 4 per cent growth rate and a relatively low level of government debt.

Cayman has been enduring a rough patch because of the global financial situation and, like many other countries, because the government allowed spending to grow too rapidly. Cayman's future lies in both putting its own fiscal house in order as well as focusing on the business opportunities provided by the new big economies.

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