

# [Post industrial society](https://assignbuster.com/post-industrial-society/)

“ If you haven’t been personally affected by this recession, you probably know someone who has – a friend; a neighbour; a member of your family. You don’t need to hear another list of statistics to know that our economy is in crisis, because you live it every day. It’s the worry you wake up with and the source of sleepless nights. It’s the job you thought you’d retire from but now have lost; the business you built your dreams upon that are now hanging by a thread; the college acceptance letter your child had to put back in the envelope. The impact of this recession is real, and it is everywhere.” (B. Obama, 2009)

America being economic leader, the liquidity crunch in the banking sector began in the United States and triggered a global financial crisis which affected the whole world with a devastating effect. George Soros explained that “ the salient feature of the current financial crisis is that it was not caused by some external shock … the crisis was generated by the system itself”. Australian Prime Minister, Kevin Rudd feels that the current crisis is a climax of a reign of 30 years of economic policies by the ideology of free market, which has diversely called economic liberalism, fundamentalism, economic neo-liberalism or the Washington consensus. The thrust of this ideology is that government activity should be limited and eventually replaced by market forces. But as Stiglitz has sarcastically noted: “ the reason that the invisible hand often seems invisible is that it is not there.”

In order to better understand global financial crisis, this essay would first discuss the main causes of the global financial crisis and further go on to discuss the steps U. K. government could take to reduce the danger of another crisis.

### MAIN CAUSES

The shift from industrial to post industrial society has been a disaggregation of employment in which the employment relation has changed. As defined by sociologist Daniel Bell “ the majority of the labour force is no longer engaged in agriculture or manufacturing but in services,” (Bell, 1973, p. 15) the largest employers are in retail sector where wages, benefits, job security and tenure of employment are substantially lower. Average tenure in manufacturing companies were 8-10 years while in retail it is 3 years. These changes in employment facilitated portable pensions and new investment opportunities in mutual fund. Household became more dependent on financial markets than ever before for prosperity and security, which was exploited by institutional investors. Alan Greenspan and James Kennedy wrote that homeowners earned around $800 billion every year in equity during the booming years of household bubble (Greenspan & Kennedy, 2008). Most companies that provided pension to their employees earlier in industrial society were according to their tenure with the company which created job loyalty but due to the portable pension plans employees had the freedom to choose their investments for which they no more relied upon the employer.

Furthermore households started investing in mutual funds as they got better returns than banks and other or other saving vehicles. These investments were further invested by mutual fund companies in stock market to get better returns and ‘ gambled’ as rightly said by John Maynard Keynes during the great depression of 1930’s “ When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done.” In 1933 President Roosevelt had implemented Glass-Steagall Act, under which commercial banks were restricted to invest in Wall Street. After a lot of effort and lobbying by the financial-service industry, Glass-Steagall was repealed in 1999. This opened the doors for commercial banks to own investment banks and in turn creation of huge conglomerates by the financial-service industry. These combined entities had become too important to fail, yet investment banking was allowed to engage in such a huge scale that endangered the finances of any government that would try to get them out of the mess.

Banks adapted Originate and distribute models in form of ‘ securitisation’ i. e. turning assets such as loans into securities which were traded on market. As Joseph Stiglitz argued, “ many of American banks moved out of the ‘ lending’ business and into the ‘ moving’ business”. This was done without even assessing risk and credit worthiness. Anything with an income flow or source was made into a bond, right from credit card receivables to auto loans to corporate loans to home mortgages. The bond market majorly exceeded the stock market in value. New banking originate and distribute model was fostered by the anti-regulated financial markets. Loans that included hedge funds and other form of investment vehicles were originated by mortgage brokers, which were then sold to others, thereby breaking the link between the solvency of the auditor and the last holder of the loan.

At the same time Federal Reserve dropped interest rates from 6. 5% to 1% which generated new class of borrowers to buy their own home which created the real estate boom. The immediate impact of this was an enormous amount of investment rushed into the sub-prime mortgage market. These subprime lending were in the riskiest category of consumer loans that were sold in the market separately from prime loans. As a result, between 1997 & 2006 there was an inflation of almost 124% in the prices of a typical house. After 2006, when interest rates started to rise and home prices began to fall, refinancing of the subprime lending became difficult and banks started foreclosure on subprime activity, quickly flooding it. The accommodative monetary policy in the United States and other developed economies, laxity in the regulation of the banking sector, weak regulations in the financial sector and the delirium of the rating agencies further tightened the credit crisis. All these issues stretched and pulled the bubble with such intensity that the bubble exploded and the market collapsed causing a global financial crisis.

### FUTURE PREVENTION OF RECESSION

In a stable economic environment government must play an important key role, in which people can plan for the future growth and prosperity. Openness and accountability are essential elements of this. As the world’s economy starts to emerge from the recession in 2009 and the fiscal stimulus winds down, prominent measures to circumvent future recession should be taken. The reality is that no country alone can ensure financial stability but can surely play a vital role.

The challenge today is to restore the role of the state and its branches into the long non regulating financial sector as it was written in the long standing Keynesian tradition in Keynes’s General Theory published 70 years back, which should be reviewed again. Keynes argued that, “ in a severe downturn, monetary policy was likely to be ineffective. Fiscal policy was required.” He speculated that due to downturn in economic growth, monetary authorities would get caught in a liquidity trap, difficult to “ induce an increase in the supply of credit in order to raise the level of economic activity”.

Retail banking should be separated from the investment banking and the banks should return to the private sector with a highly competitive and profitable market with few barriers to entry. Legislation against teaser rates should be enforced which would allow people to better judge their affordability of mortgage.

As U. K. economy has been marked by a mixture of low savings rates and high debt levels since a decade the government should encourage and form an environment to rebuild the saving culture. In order to restore the social and economic benefits, reforms in pension and benefit systems should be addressed immediately.

The role of entrepreneurs is crucial and so is of small businesses during economic downturn as they introduce new ideas and activities that create new employment opportunities and an overall macroeconomic growth. The U. K. government should recognise their needs when deciding fiscal, regulatory, legal and economic environments to provide resources and a support network for their growth.

There should be fair, stable and transparent system of taxation. The tax laws are often improperly scrutinised which should be given more technical support and means must be developed to eliminate short-term volatility. The IMF has the authority to conduct financial analysis which should be expanded and its early warning system should be enhanced for institutional weaknesses. Its governance must also be reformed.

Furthermore, the U. K. government should actively participate in forums like G20, G8 and collaborate with other important institutions like the World Bank and United Nations to address the problem and assist to reform the global financial institutions.

With the economic downturn green economy plans have been delayed and government is reluctant to commit resources to climate change policies. Instead, this difficult economic time provides a splendid scope to encourage investment in energy efficient technologies to create green jobs and reduce dependency of the economy from energy sources.

### CONCLUSION

This financial downturn was like termite which weekend the financial pillars upon which the global economy was striving. No one, at the start could anticipate what started in U. S. financial market at the household level would in near future pan out to be a catastrophe which would swallow the global financial structure. Today, we face a challenge of governing the power of the market along with an effective regulatory framework that can correct market failures, increase investment and productivity, provide funds and public goods, boost investment and pursue social equity.