CHAPTER NINE

When Will the Global Crisis End?

If the great trade and capital imbalances of the previous decade caused the global crisis, the crisis cannot be said to have ended until these imbalances are reversed. Although we are seeing some adjustment, in general the global economy has barely adjusted in the aggregate. One of the consequences of this failure to adjust will be worsening trade tensions.

In this book I have tried to put together as logically as possible a number of points, often counterintuitive, that follow from the standard balance of payments and macroeconomic accounting identities. Accounting identities are true by definition, of course, and cannot plausibly be disputed, so to the extent these points follow logically, they must be valid. To summarize,

1. A country's savings level is not only or even primarily a function of domestic cultural and personal preferences. Savings rates, especially in countries with abnormally high or low levels of savings, are almost always determined by policies and institutional constraints that affect the relationship between consumption levels and GDP.
2. For relatively open economies, national savings rates are a function not just of domestic policies and institutional constraints but also, and very importantly, of foreign policies and institutional constraints. A low savings rate at home for an open economy is as likely to be caused by conditions that force up consumption at home as by conditions that force up savings abroad. This is less true for closed economies.

3. Policies or conditions that cause household income or household wealth to grow faster than GDP will tend to reduce the savings rate by forcing up consumption relative to GDP. When household income growth is constrained relative to GDP growth, however, the savings rate usually rises.
4. Anything that affects the gap between domestic investment and domestic savings will automatically have a trade impact. It does not matter at all whether the policy is intended to affect trade.
5. Through the trade impact it must also automatically affect in an equal but opposite way the gap between foreign investment and foreign savings.
6. For these reasons, attempts to adjust large savings, consumption, or investment imbalances levels in only one country, without equivalent and opposite adjustments abroad, can force undue stress on the global economy and can lead to very poor outcomes, especially at first for deficit countries but ultimately more so for surplus countries.
7. Exporting capital is the same as importing demand.
8. Large-scale net capital imports can be positive for recipient countries under certain very specific conditions, but otherwise they are usually harmful. Countries receiving growing net capital imports have no choice but to respond to the growing net inflows with higher investment, higher unemployment, or higher consumption (which must occur either as declining savings or as an unsustainable increase in debt). There is no other possibility.
9. For rich, credible countries with diversified economies, foreign capital inflows do not lower government borrowing costs. The U.S. government, in other words, does not benefit from lower interest rates by foreign reserve accumulation, although the nature of the reserve accumulation may affect the shape of the domestic yield curve.
10. Although there are huge advantages to the world having a liquid and easily traded common currency, there are also huge risks if there are no mechanisms in place that prevent reserve accumulation

or other forms of capital exports from becoming excessive, and so destabilizing.

11. The role of the U.S. dollar as the global reserve currency does not create for the United States an exorbitant privilege. It is more likely to suffer from an exorbitant burden

These points have very important policy and economic implications. For one, if it is true that the global crisis is largely a function of the domestic financial distortions and imbalances caused or reinforced by the great global trade and capital imbalances, it would be meaningless to proclaim the end of the crisis until the underlying imbalances have either been worked out or are reduced to sustainable levels. Is this happening?

In 2008 I argued that given the structure and depth of the imbalances and the steps needed for a rebalancing to take place, the crisis would spread from the United States to the rest of the world. I also argued that the United States would probably be the first country to get through the necessary deleveraging process—albeit very painfully—and so the first county to emerge from the crisis.

China, on the other hand, I thought would be the last major economy to emerge from the crisis. It seemed to me that the domestic distortions that were part of the global imbalances were entrenched more deeply within the Chinese growth model, and I worried that China's less robust and flexible political mechanisms—which have been much discussed recently in China in the debate over "vested interests" and after the spectacular fall in early 2012 of Chongqing's former mayor, Bo Xilai—would cause necessary reforms to be postponed.

Transferring the Center of the Crisis

At first the prediction that China would be the last major economy to emerge from the crisis seemed to many analysts, at best, eccentric. The United States was clearly in the throes of a deep recession and rising unemployment, and Europe was struggling with its own debt and currency problems, whereas Beijing responded to the crisis with a massive bank-financed increase in investment of over 30 percent of GDP that allowed China to barge through the global crisis with GDP growth rates of 9 percent and more.

So successful did Chinese anticrisis policies seem that the rest of the world marveled, sometimes in an uncomprehending way, at Beijing's forceful response. The massive investment boom of 2009 and 2010 was hailed as a corrective to the global meltdown, and many commentators even argued that China would remain unscathed by the crisis.

As late as January 2012, for example, a Dutch academic wrote an article in *Foreign Policy* in which she both blamed Beijing as the main culprit behind the global and the European crisis (German behavior was exempted on the erroneous grounds that German foreign loans were qualitatively different from China's accumulation of central bank reserves) and claimed that China would remain unaffected by the resolution of the U.S. and European imbalances. More confusingly, the author predicted that many years of strong growth in China over the rest of the decade would help pull the world out of the crisis:

> Economic growth in the emerging economies will likely go a long way toward buoying the global economy this decade. Apple recently experienced firsthand how ferocious Asian consumers' appetite can be when near riots broke out at its flagship store in Beijing after it postponed the launch of the iPhone 4S due to crowd size.
>
> . . . . As China's economy continues to mature, it may just be the economic engine that the United States and Europe need to dig themselves out from under their mountain of debt.[1]

This argument doesn't make sense for at least two reasons. First, and this is an extraordinarily widespread misunderstanding, for China to be meaningfully an engine for global growth, it is not enough merely to be the highest arithmetical component of global growth. The world needs more demand, and countries with large trade surpluses are net absorbers of global demand, not engines of growth. It is not high Chinese growth rates that will help the world, in other words. It is Chinese rebalancing of the gap between domestic savings and domestic investment that will create growth for the world, with or without high Chinese growth rates. Only when China is importing capital and exporting demand will it be a net contributor to growth abroad.

Second, and more bizarrely, the author asserts a causal link between domestic Chinese distortions and the rest of the world that works powerfully in one direction but seems to disappear in the other direction. If Chinese policy distortions played a role in creating the global imbalances, however—and clearly they have, although not perhaps to the extent that the author suggests—as the rest of the world adjusts it must force an equivalent and opposite adjustment within China itself. As the United States and Europe "dig themselves out from under their mountain of debt," in other words, their deleveraging cannot take place without affecting the gap between Chinese savings and investment.

The global balance of payments, after all, must balance. An increase in savings relative to investment in the rest of the world must either force up Chinese investment or force down Chinese savings. If Beijing is serious about bringing down investment levels over the next few years, as it claims to be, then deleveraging abroad will force China to reduce domestic savings dramatically, something it has been unable to do for many years and in which it can succeed only with great difficulty and serious reform.

One very unwelcome way to lower the Chinese savings rate, of course, is in the form of rising unemployment, but even if China is able to keep unemployment low, deleveraging abroad will force China to grow in a very different way. To claim that China can remain unaffected by the crisis-linked rebalancing of the global imbalances, of which it was a major component, simply does not make sense.

In fact more generally any claim that certain major developing countries, like Brazil, have managed to avoid being derailed by the global crisis is likely to be based on a misunderstanding of the transmission mechanism. Every major economy that participated in the imbalances will be affected by the crisis, but some countries can postpone the impact of a contraction in global consumption by an expansion in investment, even if that investment turns out subsequently to have been unsustainable. After all, this has happened before, for example to Latin America in the late 1970s. The crisis hit later, but harder.

Reversing the Rebalancing

So was China's reaction to the global crisis appropriate, and more important, did it allow China to avoid a growth slowdown? In his February 17, 2009, testimony at the hearing before the U.S.-China Economic and Security Review Commission, Nicholas R. Lardy, a member of the Peterson Institute for International Economics and one of the most knowledgeable experts on the Chinese economy, famously called China's response to the crisis the "gold standard":

> I would like to focus my remarks on the actions that China is taking in response to the global downturn and to give an assessment of their likely effects. The key point I would emphasize is that China is the gold standard in terms of its response to the global economic crisis. If you look at the magnitude of what they are doing in several domains, it is very substantial, and among the economies that matter, at least according to the International Monetary Fund (IMF), China's stimulus program relative to the size of its economy is larger than that of any other country including the United States, and I think they may have underestimated what China is doing.[2]

I argued in my own testimony that China had indeed boosted credit-fueled demand with its fiscal response to the crisis, but because most of the resulting credit expansion had gone into investment, and not into consumption, China's contribution to global demand over the medium term was minimal and perhaps even negative. Any decline in the Chinese trade surplus would have more to do with painful foreign adjustments than with domestic rebalancing.[3]

In fact in 2012 Lardy made a very similar point about China's current account adjustment in the four years following the crisis, pointing out that rebalancing within China did not cause the adjustment:

> The argument that China's economy is rebalancing internally seems quite weak. Moreover, the current declines in China's external surpluses are

> in large part the result of a weak global economy and a modest appreciation of the renminbi, not fundamental rebalancing. The underlying drivers of the surpluses that emerged during the boom years—negative real interest rates on deposits, cheap credit for business, and subsidised land and input prices—are all still in place. China remains unbalanced internally and its large external surpluses may return once the global economy recovers.[4]

Lardy's positive and my negative reactions to China's 2009 fiscal stimulus diverge partly on the issue of short-term versus long-term impacts within China. Lardy suggests that in spite of worsening the imbalances, Beijing's response was appropriate because without it growth would have collapsed in the short term, and this could have derailed long-term prospects. I argued that it was the wrong policy because it seriously exacerbated domestic debt and consumption imbalances, and that it could have been done very differently with a much lower long-term cost.

How? Although it makes sense to worry about the longer-term social impact of an immediate collapse in growth had Beijing not responded with a large fiscal stimulus, I would have argued that the short-term impact of much slower growth could have been mitigated if in 2009 and 2010 Beijing had responded with a much smaller boost in investment and, at least in part, with a real program of wealth transfer from the state to households in the face of the crisis. In that case GDP growth might have dropped, even to 3 or 4 percent, but with household income and consumption growth declining by much less, perhaps to 5 percent thanks to wealth transfers from the state. This would not have been a social disaster at all (although transferring wealth from the state sector is sure to inflame vested interests and so is likely to be politically difficult).

While there is still active disagreement among economists on the advisability of the 2009–10 stimulus, most economic policymakers and advisors in China now agree that the imbalances have gotten significantly worse since the crisis, and there is a cautious acknowledgment, even in the Chinese press, that the stimulus cannot be replicated. In late May 2012, for example, *Xinhua*, the official Chinese news agency, said the stimulus was "unsustainable" and warned the market against expecting another.[5]

More important, and in contrast to some of their more optimistic peers, a rising number of policymakers in Beijing recognize that China has not remained unscathed by the crisis and has at best postponed the impact. For example, in January 2012, Liu Mingkang, former chairman of the China Banking Regulation Commission and a very perceptive observer of the Chinese economy, said to a leading Chinese magazine,

> I've said in the past that this economic crisis will spread from the United States to Europe and finally land in Asia. Now we can see that it's already begun influencing Asia.[6]

Liu, and many others in China, increasingly recognize that growth in China during the past decade required vigorous overconsumption abroad in order to maintain the necessary balance between global savings and investment. But as the rest of the world forcibly raises its savings rate and reduces its investment rate, there is simply no way China can maintain its own high savings rate, especially if it hopes to reduce its investment rate. As the world rebalances, China must rebalance just as dramatically and perhaps even more so.

Some Predictions

So how will the global crisis end, and what kinds of rebalancing will have to take place before each of the world's major economies can be said to have put the global crisis behind it? I propose the following:

1. *The United States is slowly and painfully rebalancing*. The United States entered the crisis suffering from high debt and excessively low savings driven by a number of factors. Of these I stress three. First, as the world's most open economy with an extremely flexible financial system, the U.S. economy was the automatic counterbalance to

underconsumptionist policies abroad. These policies led to excessive savings that had to be exported largely to the United States, as foreign demand was correspondingly imported, with this export coming mainly in the form of central bank purchases of U.S. government bonds. Second, and possibly related to the liquidity generated by the recycling of these large trade imbalances as well as to excessively low interest rates in the United States, surging stock and real estate markets made American households feel wealthier—mistakenly as it turns out—and so they increased consumption more than was justified economically. Third, military adventures abroad have been ruinously expensive and, perhaps like most previous unpopular American wars, were funded by borrowing and money creation rather than by taxes.

All three of these factors seem to be reversing, if painfully, which is why I believe the United States will be the first major economy to emerge from the crisis. As of this writing President Obama is slowly extricating the country from its military adventures, the stock and real estate markets have corrected, and overall debt levels are declining, in part through bankruptcy and foreclosures and in part through a massive improvement in corporate balance sheets. What's more, as trade anger rises in the United States and more steps are taken to intervene in trade, the closing of the U.S. trade deficit will automatically cause a boost in domestic growth and in the domestic savings rate.

In fact should the United States take drastic steps to reduce disposable income relative to GDP, like imposing a consumption tax or much higher income taxes on the wealthy, the positive impact on U.S. unemployment and the U.S. savings rate will be dramatic, although it will also be extremely painful for countries, like China and Japan, that rely on American overconsumption to balance their own underconsumption. This would be mitigated if the proceeds of such taxes were used to fund much-needed infrastructure investment, in which case both American savings and American investment would rise, the United States would adjust more slowly but in a healthier way, and there would be much less pain abroad, especially in China, whose own very difficult adjustment requires a benign external environment.

2. *German growth rates will slow sharply for many years, and German banks will take significant losses*. Most of German growth in the past decade has been a direct result of growing European imbalances. As a necessary consequence of its trade surplus, the German banking system has accumulated substantial claims against the trade deficit countries of Europe. The Dutch economist in the *Foreign Policy* article I cited above claimed that China was responsible for the European crisis, and not Germany, because Germany had not run up central bank reserves the way China did, but this argument of course confuses the balance of payments mechanism.

As we showed in chapter 7 German recycling of the German current account surplus through the banking system is not radically different from Chinese recycling of the Chinese current account surplus through the central bank. Policies that restrain consumption growth must push up the savings rate, and if as a result savings exceed investment, the balance must be recycled. Whether it is recycled through the central bank or though some other financial institution simply reflects domestic institutional arrangements. What matters is that the recycling must occur as a consequence of repressed consumption, and with it the corresponding trade imbalances must emerge both at home and abroad.

By definition peripheral European countries, which have heretofore been running large trade deficits, cannot repay their obligations without running trade surpluses, and if they do so, these will force a sharp corresponding deterioration in Germany's trade balance. This leaves Germany with only two meaningful alternatives. Either Berlin must reverse Germany's surplus by cutting taxes and boosting spending, in which case it will suffer from much slower growth, rising unemployment, and rising debt, or it must write off its claims on peripheral European economies, in which case government debt levels will surge anyway as Berlin backstops the banks.

Historically trade surplus countries are the ones that have suffered the most in the medium and long term from global contractions in demand. I expect that this time around will be no different and that Germany will have a very difficult decade ahead of it as it tries to rebalance its own growth toward domestic consumption. The likelihood that its banks will take huge losses on their European claims, of course, will not make the process easier given that, as I will argue in point 7 below, it is the household sector that is usually on the hook for cleaning up banking crises.

3. *Without a strong form of fiscal union or a reversal of German trade surpluses, much of peripheral Europe will be forced to abandon the euro and to restructure its debt*. The problem facing Spain, Portugal, Italy, Greece, Ireland, and the rest of peripheral Europe is not lack of liquidity but rather a lack of competitivity caused by the huge divergence in costs over the past decade. One way of regaining competitivity is to force wages and prices down over many years of very high unemployment. Because, fortunately, this strategy is not compatible with democratic rule, these countries will eventually choose the only practical other way—to intervene in trade, which probably means to abandon the euro and devalue. Of course this will also mean debt restructuring and debt forgiveness given that their already-excessive debt is denominated in what will be a rising currency.

Not everything that is happening is bad, however. Countries like Spain are putting into place real tax, labor, and business reform that will help them grow once the crisis is put behind, but these measures, unfortunately, cannot regain competitivity by themselves. Ultimately these countries will still have to leave the euro. There is no question that abandoning the euro will be painful, but postponing devaluation and debt restructuring will be more painful because the financial distress process will itself ensure that over the next few years businesses will disinvest, workers will become radicalized, savers will flee, and the political structure will become less stable. The sooner the crisis is resolved the less damage there will be to local economies and the more quickly growth will return.

4. *China has already taken too long to address its domestic imbalances, and it is running out of time*. Economists like to debate whether China will suffer a hard landing or a soft landing, but I expect that it will suffer from, to use Nicholas Lardy's phrase, a long landing, and a very bumpy one at that. Growth rates will jump up and down dramatically during the long landing, but the trend will be sharply down. Beijing so far has been very reluctant to force through an adjustment and rebalancing of its extreme underconsumptionist policies, but rapidly rising debt means that within four or five years it will have no choice. As the economy adjusts, I expect Chinese GDP growth to average 3 percent or less over the decade of adjustment.

But contrary to conventional opinion this is not necessarily a disaster for China. If much slower growth is accompanied by a real shift toward labor-intensive industries and a substantial transfer of assets from the state sector to the household sector, unemployment can remain low and household income can continue growing rapidly—perhaps at 4–5 percent a year. This will help prevent social instability and will ultimately leave the country with a much healthier economy and long-term sustainable growth.

For thirty years Chinese households have done well even while receiving a sharply declining share of a rapidly growing economic pie. The state sector, with its growing share, has done even better because its share of the growing economic pie was itself growing. For the next twenty years, as growth slows substantially, the household share must increase. The implication is not just a rapid reduction in the growth of state wealth, but perhaps even an absolute decline. The problem, as many Chinese intellectuals have pointed out, is likely to be the form in which this transfer of ownership from state to households takes place. Strong vested interests are rigidly opposed to many of the most efficient forms of this transfer, and over the next few years China will have to work out the process.

5. *Japan is still struggling with the legacy of its overinvestment surge in the 1980s.* Unfortunately Japan indicates one of the ways China can mismanage the rebalancing of its economy. Rather than write down bad loans and transfer corporate and state wealth directly to households, perhaps by privatization, which might have resulted in a deeper economic contraction in the early 1990s but would have re-energized the capital allocation process and permitted Japan to grow again, Japan instead chose to do otherwise. It hid losses, kept the cost of capital low in order to prevent bankruptcies, and rebalanced the economy effectively by having the government absorb all the noncollectible debt in the economy. Japanese government debt rose from around 20 percent of GDP in 1990 to over 200 percent today.

This is certainly one way of increasing household and private-sector wealth at the expense of the state, but it is extremely inefficient. As a result, any further Japanese adjustment is hampered by its huge and unrepayable government debt burden, made all the worse given the expected halving of Japan's working population over the next forty years.

In recent years, as Japan's debt burden has become increasingly unmanageable, Tokyo seems to have become more serious about paying it down. The most widely proposed solutions, however—increasing taxes, and especially consumption taxes, and repressing household income growth—will have the unfortunate side effect of forcing up Japan's savings rates (by reducing real disposable household income) and possibly reducing investment. Tokyo, in other words, is implicitly attempting to manage Japan's debt burden by forcing up exports relative to imports in a world that is barely able to absorb existing production as it is.

Will it succeed? Probably not, and if it does, it will do so only at the expense of the rest of the world. Rather than try to return to the old days of wealth transfers from households to the state and corporate sector, which it abandoned after 1990, it must continue building household wealth to power domestic growth, perhaps by privatizing assets to pay down debt.

The Global Impact

6. *If it is managed well, China's eventual rebalancing and much slower growth will be positive for China and the world, although the benefits to the world will not be evenly distributed*. If the transition is not mismanaged it will be positive for China because the end of value-destroying investment and environmental degradation will actually increase Chinese wealth—as opposed to Chinese economic activity—and a much larger share will be passed on to Chinese households.

It will be positive for the world because, contrary to popular perception, China is not currently the engine of world growth. With its huge trade surplus it actually extracts from the world more than its share of what is now the most valuable economic resource in the world—demand. A rebalancing will mean a declining current account surplus and a reduction of its excess claim on world demand. This will be positive for the world.

But not positive for everybody. By shifting from investment to consumption, the demand for nonfood commodities will drop sharply, as will the price of metals and other nonfood commodities. This will be very painful for countries that rely heavily on nonfood commodity exports, like Brazil, Australia, and Peru, but positive for commodity importers. On the other hand food exporters should continue to see rising Chinese demand for food as households increase their wealth and, with it, their consumption of food.

7. *Growth in global demand will remain weak for many years*. Traditionally the cost of a banking crisis is borne directly or indirectly by households. Whether it is in the form of forgone deposits, government

bailouts funded by household taxes, or financial repression, households always foot the bill for banking crises. The massive banking crisis unfolding in Europe as the euro crisis works itself out, the expected surge in Chinese nonperforming loans, the 2007–9 bailout of the U.S. banking system, and the costs associated with the still unresolved Japanese banking crisis of the 1980s all imply that households in the world's leading economies will spend the next several years effectively paying for the cleaning up of their national banking systems, in which case it is unreasonable to expect any significant increase in consumer demand over the next few years. The growth in their disposable income will be insufficient to spur a consumption boom.

But it gets worse. Since 2009, the impact on global demand of the sharp drop in global consumption growth was partially mitigated by a surge in investment in China and other developing countries. But the purpose of investment today is to serve consumption tomorrow, and without a revival of consumption, the current surge in investment must itself be reversed. This suggests that overall growth in private-sector demand over the next few years is likely to be minimal.

8. *Trade tensions will rise*. In a world of deficient demand and excess savings, every country will try to acquire a greater share of global demand by exporting savings. This will be called trade protection, currency war, local content requirements, tariffs, and many other things, but these all amount to the same thing. It will be an attempt by each country to gain a greater share of global demand.

The problem may be that the balance of power in trade war rests clearly with one side while the popular perception has it resting on the other side, and this can cause each side to exert more pressure on the other than can be justified. Trade surplus countries often feel that their surpluses rest on unassailable virtues—thrift and hard work—and that because they provide the capital flows that "permit" deficit countries to finance their deficits, they are in a strong position to resist rising protectionism by threatening to revoke credit.

But they are not. Revoking credit is exactly what deficit countries want them to do, whether or not they realize it. In fact it is deficit countries that hold most of the cards. Economists are not supposed to say this because trade intervention is always suboptimal for global growth, but trade war can actually increase employment in diversified economies with large current account deficits. It reduces employment, however, in trade surplus countries. In a world of weak demand growth, demand is the most valuable economic asset. Deficit countries have excess demand and surplus countries are deficient. This is why in most trade conflicts—think of the United States in the 1930s or Japan in the 1990s—the leading surplus countries have eventually suffered the most.

The evidence for the contrary is also pretty clear. For much of the nineteenth century the United States ran trade deficits and consistently used high tariffs (in the second half of the century, judging by tariffs, the United States was the most trade interventionist major economy in the world) to promote employment and manufacturing growth. Tariffs were also used successfully by the United States even late in the twentieth century, for example in 1973, when "the Nixon administration again devalued the dollar by 10 percent. Trade moved back into surplus, the economy picked up speed, and unemployment declined."[7]

The British experience was similar. Tim Booth's study of British protection in the 1930s strongly suggests that until the United Kingdom gave up on its free trade principles in the late 1920s and early 1930s, it was unable to grow and suffered from high unemployment. After devaluing sterling and raising tariffs, however, Britain's economy turned around and reversed its earlier abysmal performance.[8]

This is not to argue in favor of trade protection—there is little disagreement among economists that a world of free trade increases wealth at a faster pace than otherwise. It is only to point out that historically, during periods of global crisis and demand contraction, international trade always suffers and protectionist tensions always rise, and for the reasons that are rational among the participants in trade.

Because deficit countries do not understand how difficult the adjustment will be for surplus countries, and surplus countries do not understand how vulnerable they are to unilateral action by deficit countries and how limited is their ability to retaliate, it is hard to see how conflict can be avoided. It is especially incumbent on the surplus countries to defuse these tensions, even at the cost of some growth. Unfortunately the historical precedents are not very comforting, and the experience of the United States in the 1930s indicates just how dangerous the arrogance of virtue can be for surplus countries.

9. *The world* will *rebalance*. One way or the other the world must rebalance, and it will. Major imbalances are unsustainable and always eventually reverse, but there are worse ways and better ways they can do so. Large trade surpluses can decline, for example, because exports fall, or they can decline because imports rise. Large trade deficits can contract under conditions of high unemployment, but they can also contract under conditions of low unemployment. Low savings rates can rise with declining household income or with rising household income. Repressed consumption rates can reverse through collapsing growth or through surging consumption. Excessive debt can be resolved by default or by growth.

Any policy that does not clearly result in a reversal of the deep debt, trade, and capital imbalances of the past decade is a policy that cannot be sustained. The goal of policymakers must be to work out what rebalancing requires and then to design and implement the least painful way of getting there. International cooperation, of course, will reduce the pain.

Unfortunately it is not clear that this is what is happening in any of the major economies of the world, in which case the rebalances will reverse, but in possibly disorderly and even more painful ways than necessary. Or, as Lewis Carroll put it, "Would you tell me, please, which way I ought to go from here?"

"That depends a good deal on where you want to get to," said the Cat.

"I don't much care where—" said Alice.

"Then it doesn't matter which way you go," said the Cat.

"—so long as I get somewhere," Alice added as an explanation.

"Oh, you're sure to do that," said the Cat, "if you only walk long enough."