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St Mary's Professors: The Bail-Out Was Needed But Won't Be Enough

By Sophie Braccini

St Mary's professors, led by Dean Allen, discuss the economy Photo Sophie Braccini

The School of Economics and Business Administration professors led by Roy Allen, Dean of the School at Saint Mary's, conducted a very informative and animated debate about the current state of the economy and how the Bail-Out Package (BOP) would affect us and our wallets.

This breakfast event was part of the Alumni Conference series that the College has now opened to the public. Experts present a topic and answer questions from the audience.

On October 1st the subject was the State of the Economy and the analysis went deep into the roots of the situation.

"Financial liberalization, deregulation, technological change and globalization have played a role in increasing the speed and risk of financial cycles," Allen told an audience of close to eighty 80 people. He pointed out that recent events, such as the housing price collapse that has affected the East Bay Area so drastically, is not, in his opinion, the only cause of the crisis.

Allen explained that the United States is the only country that contracts debt in its own currency. Without getting back to the collapse of the Bretton Woods Agreement in 1971, it is clear that having the dollar being the currency of reference has allowed us to draw deeply from our neighbors pockets. As foreign money flew into the country the American people saved less and less.

"This is a classic debt driven crisis," said adjunct professor Jack Rasmus, who predicted that this country's $21 trillion debt will trigger more collapses in the months to come. He believes that adding liquidity is not the solution, but working on the demand side of the equation is more likely to help.

Rasmus was not the only Keynesian in attendance. St Mary's Professor Andy Williams does not see the situation as a liquidity problem either: "The Fed is good at spending money, but we have plenty of liquidity, it is just not flowing." Williams believes that restoring confidence will be key, and assuring that the people see the measures adopted as fair and equitable. He warned that a higher saving rate in the country could trigger a further reduction in economic activity and lead to a recession.

Global business professor Thomas Gomez-Arias reminded the audience that the situation is also complicated by the spread of uncertainty throughout the global economy. The bank failures in Europe or the collapse of the Shanghai housing market are signs that the financial crisis is worldwide.

The public was eager to hear the solutions that the faculty proposed, both at a global level and for managing their own wealth.

Associate Dean and business and economics professor Shyam Kamath, who diagnosed the situation as a fundamental knowledge problem, said that education, information and transparency were key elements for the long-term recovery.

When asked how they themselves were investing their assets to minimize losses, the professors all answered that diversification was the only solution and hoped that the individuals in attendance had already done so.

Professor Phil Perry recommended the use of TIPS (Treasury Inflation-Protected Securities) that have been issued by the US treasury since 1997. Professor Williams recommended Sovereign Wealth Funds that are state-owned investment funds.

To end the meeting, the group was asked if they saw a silver lining to the current situation. "Yes," said Professor Williams, "We'll see more PhD studies in the years to come!"

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