

Credit Crunch

September 8, 2007

A global financial problem may soon be changing the lives of all of us. Let me offer a few answers

(A) to a few elementary questions (Q):

Q. What is the problem? I have not yet felt anything. A: The problem is a credit crunch, or, a worldwide lack of money. Money circulating in an economy is something like oil circulating in an engine. Just as an engine will seize up if there is not enough oil, so an economy will seize up if there is not enough "liquidity," or money circulating.

Q: I might understand one or a few nations being short of money, but how can they all be short at once? How can such a problem be global? A: Because the unprecedented ease of communications and trade between modern nations by, for instance, airplanes and electronics, is making the world into a "global village" where all the national economies interlock, so that if one nation, especially the USA, sneezes, they all catch cold. That is what is now happening.

Q: Still, how can not enough money be circulating amongst all the nations at once? A: Because the 300-year rise of "fractional reserve banking" means that the vast amount of money circulating worldwide comes into existence in the form of a loan. For instance you are most likely unaware that there is every probability that even the cash in your pocket was borrowed by your country's government from the country's (non-government) central bank, to which the government is paying interest on that cash! Now for a loan to take place, both lender and borrower need confidence, the lender that he will be paid back, the borrower (if he is honest) that he will be able to pay back. This confidence has been dwindling in a big way, worldwide, since about July.

Q: Why? A: Mainly because of a new form of debt paper being introduced a few years ago called "derivatives," named from debt deriving from other debt. Even many experts are not exactly clear how derivatives work, which must be part of the problem. However, one very successful American investor, Warren Buffett, who must have studied them, has called them "weapons of mass financial destruction." Indeed. There is now a shaking 30 trillion US dollar mountain of derivatives threatening the world's financial system.

Q: What do we do? A: One, be ready for hardship. Two, do not be surprised if a 9/11 Part II happens to distract us. Three, turn to the Gospel:— "Seek ye first the Kingdom of God, and all these things will be added unto you." "Fear not him who can harm only the body. Fear him who can throw body and soul together into Hell." Economics are only of things bodily.

Kyrie eleison.