

# Time to move from exuberance to reason

by André Roux

Over the last couple of years, two sets of events have come to dominate (jeopardise?) the lives of every single inhabitant of this planet. While the two are seemingly separate from each another, they are bound together by a common denominator – the exuberant desire for affluence. The first set of events, the rapid increase in energy (oil) and food prices, was largely a function of ongoing economic growth and prosperity in many parts of the world, but especially in China and, to some extent, in India. Two decades of exuberant economic growth in China raised the average incomes in the most heavily populated country in the world. The changing consumer tastes of an estimated 300 million middle-income (mainly urban) Chinese, together with the industrialised

events with resonating and self-reinforcing feedbacks – that is disrupting and distorting hitherto held beliefs about relationships between variables, stakeholders, organisations, countries, ideologies and paradigms. The causes and (some of) the consequences of the crisis are by now fairly well-known. At the heart of the problem lies – sadly – one of the deadly sins: avarice (greed). Millions of households (especially in the USA) were seduced into the illusion of ever-increasing wealth (after all, credit was cheap and promiscuously available), and financial institutions saw an opportunity to expand their revenue and profit base (hence the issuing of and trading in a wide array of debt-related financial instruments in all vintages of financial risk), while the US government seemed to turn a blind eye to

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nature of the Chinese economy, resulted in a voracious appetite for a wide range of natural resources, the prices of which shot up as supply (production) failed to match demand.

In short, affluence (as reflected in the rapidly growing number of middle-income consumers in some less developed countries) has highlighted the very fragile and vulnerable state of the supply/demand balance. Thus, although energy and food prices have fallen (significantly) from their recent highs, they are likely to remain above the historical long-run average for the next decade, after which they could move to a structurally much higher level as a growing number of people reach middle-income status. The 2007/2008 increases have shown us that the days of cheap (and plentiful) energy and food are likely to be a thing of the past.

The second major event is, of course, the current global financial crisis, which is probably a true trendbreak – a series of systemically linked

the possible long-term consequences of profligate debt creation, as long as households were enjoying the benefits of vote-retaining wealth creation, albeit through the avenue of ‘buy now, pay and worry about it later.’

The financial and economic crisis will end; the secular upward trend in economic growth and prosperity will return. Hopefully, when we emerge from the crisis we will be wiser (although possibly not richer!). Already, we are gaining a sense of changes in thinking about some fundamental issues, with a few concomitant lessons:

- Better (if not more) banking regulation is required to prevent a repetition of the ‘free-for-all’, uninhibited extension of credit to all and sundry – especially to those undeserving of credit.
- Recognition of the fact that the balance between state and market needs to be re-examined.
- The future shape of global trade and finance is being shaped by emerging economies such as China, which is savings-rich, and therefore able



to inject more capital into Western economies. At the same time, the crisis has shown that emerging economies are not, as claimed by many, decoupled from the developed world economy. But, when all is said and done, the pain, suffering and anguish will all have been in vain if 6.6 billion consumers fail to realise that the resumption of the pre-crash age of unmitigated affluence is an unsustainable one – virtually guaranteed to exhaust the planet’s finite resources by the middle of this century. It has been fashionable, for a number of years, to espouse the virtues of sustainability and ‘triple bottom line’ accounting. That kind of thinking has now become an imperative. It is time for a new Age of Reason to replace the Age of Exuberance. ■



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