

# Marketplace



Tim Congdon

**‘George Soros is much too pessimistic. The slowdown in late 2008 and 2009 will be only a blip on the path to further prosperity’**

**M**ultibillionaires have an important advantage over the rest of humanity: they can be careless with their use of words and still be taken seriously. George Soros, perhaps the most articulate of this remarkable group of people, has recently offered some prognoses on the world economy. But his predictions have been much too pessimistic, partly because he has been slapdash with his vocabulary.

According to separate newspaper reports repeated over several weeks, Soros regards the present “financial crisis” as “the worst since the Great Depression” of the 1930s. In his view, stock markets must expect another period of weakness, while banks and other financial institutions face a prolonged retrenchment. Bankers have taken too many risks and must now accept tighter regulation. In his words, “the current crisis is the culmination of a super-boom” in dollar credit expansion “that has lasted more than 60 years” and cannot go on forever.

But in what way is the current “financial crisis” the worst since the Great Depression? If share prices are taken to be key, the current bear market is a mild affair compared with the ghastly mid-1970s. From peak to trough, US share prices fell more than 40 per cent in those years. So far, none of the mainstream indices for the American stock market is down more than 15 per cent.

Soros is particularly unenthusiastic about British assets. With the sharp housing and property downturn now underway, this is not surprising. But share prices in London, like those in New York, are only off by about 10 to 15 per cent from their peaks. By contrast, between May 1972 and December 1974, the *Financial Times* index of industrial ordinary shares dropped from over 530 to under 150, or by more than 70 per cent. If Soros’s jeremiads about the worst financial crisis since the Great Depression were to prove correct in the British case, the London stock market would have to fall by another 60 per cent. Does he really believe that will happen?

Perhaps by the phrase “financial crisis” Soros understands a broader crisis in the economy, with severe setbacks in inflation and output. On inflation, Soros’s claims just do not stack up. At the most grisly point in the 1974 downturn, inflation in the Group of Seven industrial countries approached 15 per cent, and in 1980 it went well above 10 per cent. By contrast, over the last five years, the average inflation rate has been between two and 2.5 per cent with negligible variation. It is true that the US has recorded much worse inflation numbers than the average, while the

recent surges in the oil price may take the G7 through four per cent later in 2008. But even if the four per cent figure were to be breached in several countries, that would still be an excellent result by the standards of the 1970s and 1980s.

What about output? On this topic, Soros appears to be in good company, since the April World Economic Outlook from the International Monetary Fund contains some phrases similar to his. The IMF forecast is that world output will expand in 2008 by 3.7 per cent. According to its economic counsellor, Simon Johnson, the 3.7 per cent growth rate “represents a pronounced slowdown” relative to 4.9 per cent in 2007.

No doubt Soros and the IMF’s economic counsellor are great authorities, but might one sheepishly suggest they are not using the right terms? A change from 4.9 per cent to 3.7 per cent can be viewed in different ways. As a change in the growth rate of output, it amounts to a drop of almost a quarter. A drop of a quarter in a world growth forecast sounds pretty horrible and, as a way of encouraging reader interest, it is just right for a newspaper headline. If the level of world output were indeed at risk of falling a quarter in 2008, comparisons with the Great Depression would be justified.

But that is not what is being said. If we think straight about what the words in its forecast actually mean, the IMF is making no claim about a looming depression. Instead, it is saying that output in 2007 was 104.9 per cent of its 2006 level, and in 2008 it will be 103.7 per cent of its 2007 level (and 108.8 per cent of its 2006 level). What the IMF is proposing, more or less, is that for every 13 items of goods and services that the average person on the planet had in 2006, he or she will have 14 items in 2008.

Is such a state of affairs helpfully characterised by the phrase “pronounced slowdown”? And is the interpretation improved by making comparisons with the Great Depression — a period when American industrial production more than halved in less than four years (that is, it fell from an index value of 100 in July 1929 to one of 44.1 in March 1933)?

The truth is that we live in extraordinarily stable and prosperous times, and that the slowdown in late 2008 and 2009 will be only a blip on the path to further prosperity. Soros’s multibillions may be regarded by the envious as disproportionate and unnecessary. In the present debate on the international economic scene, his words are to be characterised in the same way.