

## ‘There will be blood’

### Harvard financial guru Niall Ferguson predicts prolonged financial hardship, even civil war, before the ‘Great Recession’ ends

Heather Scoffield

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Harvard author and financial crisis guru Niall Ferguson has landed with a thud in Ottawa, spreading messages that could make even the most confident policy makers squirm.

The global crisis is far from over, has only just begun, and Canada is no exception, Mr. Ferguson said in an interview before delivering a presentation to public-policy think tank, Canada 2020.

Policy makers and forecasters who see a recovery next year are probably lying to boost public confidence, he said. And the crisis will eventually provoke political conflict, albeit not on the scale of a world war, but violent all the same.

“There will be blood.”

The Buy America penchant pushed by the U.S. Congress in passing the recent stimulus bill was only the tip of the iceberg.

Abu Dhabi buying Nova Chemicals at bargain-basement prices on Monday is a sign of things to come, with financial power quickly being transferred over to the world’s creditors – namely sovereign wealth funds – and away from the world’s debtors.

And much of today’s mess is the fault of central bankers who targeted consumer-price inflation but purposefully turned a blind eye to asset inflation.

The Laurence A. Tisch professor of history at Harvard University, and author of *The Ascent of Money, A Financial History of the World*, sat down with *The Globe and Mail*’s economics reporter, Heather Scoffield.

**Heather Scoffield:** Canadian leaders frequently argue that Canada is in better

financial shape than elsewhere in the world, and therefore should fare better during this crisis. Do you agree?

**Niall Ferguson:** Canada is [considered] a winner because its banks are less leveraged, bank regulation here has been tighter, because its housing market hasn’t been in a bubble quite the same way. It’s tempting to conclude from that ... that Canada will be less hard hit in the crisis than the United States. But that is unfortunately wrong. Because this is a very unfair crisis. The epicentre is the United States, but the rest of the world, and particularly America’s trading partners, will get hit harder than the U.S.”

“It suggests virtue is its own reward. You don’t get any reward beyond the self-satisfaction of having been virtuous. This is a crisis of globalization. Therefore, the more an economy depends on the global system, the harder it hurts. Canada is not finding the worst. Asian economies are going to be really slammed this year. But it’s an unfair world. The U.S. won’t be as badly affected as most countries.”

**Heather Scoffield:** Is the U.S. able to escape with less pain because it has more resources to throw at its problems?

**Niall Ferguson:** “Partly because they can throw so much at it, and they can do it at a lower cost than anybody else, because the U.S. retains the safe-haven status, which makes the world so unfair. Here is the world’s biggest economy, which gave us subprime mortgages, rampant securitization, the collateralized debt obligation, Lehmann Brothers, Merrill Lynch. It is, in a sense, the *fons et origo* of this crisis. And yet, because it

retains safe-haven status, in a global crisis, investors want to increase their exposure to the U.S. Hence, the dollar rally. Hence 10-year Treasuries down below 3 per cent yields. It's almost paradoxical that an American crisis ... reinforces the status of the United States as a safe haven."

**Heather Scofield:** Surely that safe-haven status would be revoked if China loses faith in the U.S. ability to finance its debt?

**Niall Ferguson:** As you know, Chimerica – the fusion of China and America – is one of my big ideas. It's really the key to how the global financial system works, and has been now for about a decade. At the end of *The Ascent of Money*, I speculate about whether or not that relationship will survive. If it breaks down, then all bets are off, for the U.S. and indeed for Asia. I think that's really the key point. Both sides stand to lose from a breakdown of Chimerica, which is why both sides are affirming a commitment to it."

"It's very interesting that the Chinese in the last week were saying such soothing things around the [Secretary of State Hillary] Clinton visit. This was only days after Treasury Secretary Tim Geithner used the dreaded 'm' word – currency manipulation.

**Heather Scofield:** Why would the U.S. administration poke a stick in China's eye like that?

**Niall Ferguson:** "You obviously have to recognize that Democrats have been more hawkish on China for some time, than the Republicans ... But I think Tim Geithner is smart enough to know that this is a very dangerous game to play and I would be very surprised if you heard that word again pass his lips."

**Heather Scofield:** Did the Clinton visit improve the China-U.S. relationship?

**Niall Ferguson:** It looks like it....The line is very clear from China. They've consistently

made their position clear. They want the status quo. They do not want this thing to break down. They were kind of appalled when Geithner said the 'm' word. And they took full advantage of Hillary Clinton's visit to smooth ruffled feathers and restate their commitment. It's a very good bilateral relation. That bilateral will is important here. The Chinese believe in Chimerica maybe even more than Americans do.

"They have nowhere else to go. They have no other strategy that they can adopt in time to cushion the blow. Their exports are contracting at a terrifying speed. They want at all costs to avoid any kind of big shift in policy. They want to keep, as far as possible, the U.S. importing Chinese goods. They want to keep currencies stable. They are still buying dollars ... At least officially, Chimerica is intact. But I stress 'officially' because there's considerable public disquiet."

"This is a crisis of globalizaiton that is destroying global trade. This poses the biggest challenge that the Chinese administration has faced since they embarked on reforms 30 years ago.

**Heather Scofield:** Will globalization survive this crisis?

**Niall Ferguson:** It's a question that's well worth asking. Because when you look at the way trade has collapsed in the world in the last quarter of 2008 – countries like Taiwan saw their exports fall 45 per cent – that is a depression-style contraction, and we're in quite early stages of the game at this point. This is before the shock has really played out politically. Before protectionist slogans have really established themselves in the public debate. Buy America is the beginning of something I think we'll see a lot more of. So I think there's a real danger that globalization could unravel.

Part of the point I've been making for years is that it's a fragile system. It broke down once

before. The last time we globalized the world economy this way, pre-1914, it only took a war to cause the whole thing to come crashing down. Now we're showing that we can do it without a war. You can cause globalization to disintegrate just by inflating a housing bubble, bursting it, and watching the financial chain reaction unfold."

**Heather Scofield:** Is a violent resolution to this crisis inevitable?

**Niall Ferguson:** "There will be blood, in the sense that a crisis of this magnitude is bound to increase political as well as economic [conflict]. It is bound to destabilize some countries. It will cause civil wars to break out, that have been dormant. It will topple governments that were moderate and bring in governments that are extreme. These things are pretty predictable. The question is whether the general destabilization, the return of, if you like, political risk, ultimately leads to something really big in the realm of geopolitics. That seems a less certain outcome. We've already talked about why China and the United States are in an embrace they don't dare end. If Russia is looking for trouble the way Mr. Putin seems to be, I still have some doubt as to whether it can really make this trouble, because of the weakness of the Russian economy. It's hard to imagine Russia invading Ukraine without weakening its economic plight. They're desperately trying to prevent the ruble from falling off a cliff. They're spending all their reserves to prop it up. It's hardly going to help if they do another Georgia."

"I was more struck Putin's bluster than his potential to bite, when he spoke at Davos. But he made a really good point, which I keep coming back to. In his speech, he said crises like this will encourage governments to engage in foreign policy aggression. I don't think he was talking about himself, but he might have been. It's true, one of the things historically that we see, and also when we go

back to 30s, but also to the depressions 1870s and 19980s, weak regimes will often resort to a more aggressive foreign policy, to try to bolster their position. It's legitimacy that you can gain without economic disparity – playing the nationalist card. I wouldn't be surprised to see some of that in the year ahead.

It's just that I don't see it producing anything comparable with 1914 or 1939. It's kind of hard to envisage a world war. Even when most pessimistic, I struggle to see how that would work, because the U.S., for all its difficulties in the financial world, is so overwhelmingly dominant in the military world."

**Heather Scofield:** You speak about the crisis being in its early days, but most policy makers and the International Monetary Fund are predicting a quick end to it. Where do you differ with them?

**Niall Ferguson:** "I do think they're wrong. I think the IMF has been consistently wrong in its projections year after year. Most projections are wrong, because they're based on models that don't really correspond to the real world. If anything good comes of crisis, I hope it will be to discredit these ridiculous models that people rely on, and a return to something more like a historical understanding about the way the world works."

"I mean most of these models, including, I'm told, the one that policy makers here use, don't really have enough data to be illuminating ... You're going to end up assuming that this recession is going to end up like other recessions, and the other recessions didn't last that long, so this one won't last so long. But of course this isn't a recession. This is something really quite different in character from anything we've experienced in the postwar era. That's why these projections give positive numbers for 2010. That's the default setting. And it just seems to me ostrich-like, to bury one's head in the sand and assume this

has to end this year because, well, that's what recessions do.

"It's obvious, surely we know by now, that this is something quite different. It's a crisis of excessive debt, the deleveraging process has barely begun, the U.S. consumers are not going to suddenly bounce back and hit the shopping malls just because they get a tax cut. The savings rate is going to continue to rise. These processes have tremendous momentum that quite clearly differentiates them from anything that we've seen, including the early 80s, including 73, 74, 75. Those big crises, the ones that we have lived through, were bad. But seems certain to be deeper, and more protracted."

**Heather Scofield:** Forecasters say they can adjust their projections as things change, but households, companies and governments are basing their decisions today on what the experts tell them to expect in the future. So how should decisions be made if the forecasts are wrong?

**Niall Ferguson:** "One possibility is that they don't believe these numbers either. They feel that it's good for morale. The truth about the crisis is that it is in large measure psychological. We're not dealing here with mathematics. We're not dealing here with human beings as calculating machines. We're dealing with real people whose emotions influence their individual decisions, and the swing from greed to fear is a very spectacular thing when it happens on this scale.

"One possibility is that policy makers are lying in order to encourage people and prevent depression from become a self-fulfilling psychological conditions. That's why it's called a depression ... Maybe they don't really believe this, but they're saying it in order to cheer people up, and if they're sufficiently consistent, perhaps people will start to believe it, and then it will magically happen."

"The other way of looking at that is to say every time a politician uses a word like 'catastrophe' or 'depression' to pressurize legislators into passing a stimulus package, for example, the signal goes out to the public that this is bad. And it gets worse. That's one of the interesting things that both President Bush and President Obama have done. Bush used that wonderful phrase, "this sucker's going down." Obama talks about catastrophe at the critical moment when he wanted Congress to pass the package. It reminds me of a wonderful headline that the Onion had last year, in about October. The headline was, Bush calls for panic. I love it because it completely called the situation. There he was calling for panic ... to make people come out of denial. I've been talking a while about this being the Great Depression. It took ages, ages, for people to realize this thing had fallen apart.

"August, 2007, was when this crisis began. And if you were really watching the markets carefully, April is when it began, when the various hedge funds started to hemorrhage. The stock markets carried on until October of that year. And in many ways, consumer behaviour in the U.S. did not change until the third quarter of 2008. So there was a massive denial problem. It was like Wylie Coyote running off a cliff, and they'd run off a cliff and they didn't look down so they didn't start falling. As soon as people realized it was bad, the behaviour switched. Now, people have to try to unscare them before this thing becomes a self-perpetuating downward spiral. I think that's why you have to say 'growth will return in 2010' with your fingers crossed behind your back."

**Heather Scofield:** Will property ownership continue to be central to our economy's functioning?

**Niall Ferguson:** Property ownership is something that our societies, particularly English-speaking societies, seem to be drawn towards. The notion that the majority of

people should own their own homes dated from the 30s. It didn't really become a reality until the 50s. We've sort of pushed the home ownership rate up to what seems to be its maximum, and beyond. It will clearly come down. The lesson of the subprime crisis is that you shouldn't give mortgages to people who can't afford them. Duh ...

I don't think we're going to see a radical shift back to the rental society of the pre-Second World War era. That sort of exists in Germany. Germany has had none of this. German households are less indebted now than they were 20 years ago. The property ownership rate, if anything, has been completely stable. Why the English-speaking world has this fixation is kind of interesting and hard to explain. That Englishman home-is-his-castle mentality. We privilege this asset class. And in the U.S., the tax code privileges this asset class to take out mortgages and invest in property. I think that's a mistake. I'd like to see us at least achieve fiscal neutrality, so that different kinds of investments are treated the same. But even if we do that, Canada doesn't have mortgage interest relief, and the home ownership rate is the same as the U.S."

**Heather Scoffield:** Abu Dhabi has just bought Nova Chemical because the company couldn't get credit. Is this the way of the future?

**Niall Ferguson:** "There are some fantastic investment opportunities that pretty soon are going to start attracting buyers. The returns on the super-safe, highly-liquid U.S. Treasury portfolios are next to nothing. The potential returns from buying distressed assets or from buying companies that can't roll over their debt, are double digit. So any individual institution liquid enough and not leveraged can start playing this game, and will play this game. This is going to be the beginning of a whole new investment strategy in which companies that can't roll their debt over end

up being sold at bargain basement prices, or broken up and their assets sold at bargain-basement prices, in very, very large numbers. And it doesn't take a lot of imagination to see that the buyers will be sovereign wealth funds or other entities in surplus countries. The world divides in two, the debtors and the creditors. The debtors ... (U.S., Europe) ... are going to have to sell of their assets. Call it the global foreclosure. They're going to be selling their assets cheaply to those who have the surpluses. This is not going to be like the Chinese buying Blackstone at the top of the market.

"It's revenge of the sovereign wealth funds. They got burned. And this time, no more Mr. Nice Guy."

**Heather Scoffield:** Does the fixing of one bubble create another?

**Niall Ferguson:** "We kind of have had a bubble in the sense that we've seen such a rally in U.S. government bonds. It's tempting to say that will burst and we'll see yields go back up. Because, you know, \$2-trillion worth of debt is going to hit the market this year, maybe more. Supply is exploding just when demand is contracting. You don't need to be a Nobel laureate to see that that has to impact on the price. The difference is there is this thing called the Fed that can step in and start buying the stuff if the foreign demand fades. So it's not completely guaranteed that we'll see bonds sell off in price.

"There is still this inertia that prevents the dollar from falling off a cliff, that keeps the Treasury market from falling off a cliff. That's really important to bear in mind. I don't think we'll see a bubble distressed assets, because I think the price of these assets has started to fall. Anybody who comes into the market now is essentially paying a premium. There will be better bargains in the middle of this year, and maybe even better bargains later on. If I were in the market to buy distressed assets, I would wait, I would wait a bit longer until they're

really desperate. And it might even be better to wait until they're bankrupt."

**Heather Scoffield:** You've written that many financial crises are the result of excesses due to a belief that governments will bail out the financial sector. Do we need to get rid of this moral hazard through tighter regulations?

**Niall Ferguson:** "In the *Ascent of Money*, I argue that you can't really have a bubble if you don't have a monetary authority that has been excessively generous. From John Law in 1719 to Alan Greenspan in the late 90s, there's always a banker, there's always a central banker making credit too readily available. The second thing is, though, that regulation may not prevent that."

"Monetary policy evolved in a peculiar way in the 1990s towards de facto or de jure targeting of inflation, an increasingly narrow concept of inflation – core CPI. I thought it was a mistake at the time because it seemed to me crazy to ignore asset prices. Why differentiate? What's the difference between pricing a loaf and pricing a house? Why do we care about one and not the other? In fact, we should probably care more about the price of a house than the price of a loaf, certainly in developed societies. I think there was a flaw in the theory there, that essentially you could call the Jackson Hole consensus. When the central bankers got together at Jackson Hole, the view that emerged from the debate in the late 90s was, we shouldn't really pay attention to asset prices in the setting of monetary policy."

**Heather Scoffield:** And more regulation?

**Niall Ferguson:** "European banks are far more leveraged than American banks. I don't see Europe as offering up any particularly good model in any respect. In fact, I think Europe's prospects could get a whole lot worse this year, to the extent that it could be very, very hard indeed to keep the Euro zone together. I think it will be possible because the costs of leaving will be so high."

"There will be howling anguish, all kinds of pain, conflict between Germans and the others. It's going to get very uncomfortable indeed. No, I wouldn't look to Europe for inspiration. You could, I guess, look at Spain..."

"I definitely think some type of tighter regulation of banking capital adequacy is needed. Basil I and Basil II have not worked. In many ways, they're the great failures. I think Canada's somewhat straightforward, mechanical definition looks like one the rest of the world should be adopting."

**Heather Scoffield:** You mentioned that the Buy America tendencies of Congress are probably only the beginning of protectionism. What do you mean by that?

**Niall Ferguson:** "No administration with Larry Summers in the White House is going to be a protectionist administration. Here's a man whose commitment to free trade and free capital movements nobody doubts. And I don't see the President following through to renegotiate NAFTA or the things he said in the past. But one of the things that I find troubling about the administration is the degree to which it has ceded power to Congress. It's almost like it's a parliamentary system."

[I was in Washington last week for the passage of the stimulus package]. "I felt a strange sense of familiarity in the air. Usually Washington feels totally alien to me. It was just like being in Westminster, where power was in the legislature. And the key issue was whether the upper house and the lower house could make a deal. The president wasn't even in town. If you give Congress that kind of power – basically Congress wrote the deal – then you're half way to a British or Canadian system in which the legislature makes the decisions. And the legislature is much more likely to make protectionist decisions. After all, these are pretty much the same people who put all those anti-China bills into the works in

the last session of Congress ... So I'm a little nervous about how this will play out in the next one or two years ... After all, this is the land of permanent election campaigning. Congressmen are saying to themselves, 'how am I going to campaign? I don't want to lose my job. What's my line going to be?' It's going to be very tempting to say 'American jobs for American workers.' It's a pretty good slogan. It worked well in Britain."

"That's out there. There's a lot of populist disgruntlement, and it's going to get bigger."

**Heather Scoffield:** We've discussed many possible nasty outcomes to this crisis. Is there a way out?

**Niall Ferguson:** "We've discussed two reasons to non-suicidal. I'm trying to stay cheerful. One is that Chimerica is holding up. The Chinese don't seem to want to get divorced from their American spouse."

"The other is that this isn't leading to World War Three or Four, depending on how many world wars you think there have been. There will be instability, but I don't see that instability producing something as huge as the 20th century conflicts. But it's hard to see a simple and quick macroeconomic happy ending. That I really struggle to visualize.

But the good news is only as good as this: the United States, which is Canada's biggest trading partner, is not going to suffer as badly as many other economies around the world. And that means that from Canada's point of view, it's not standing right on top of the biggest fault lines in the global system. The biggest fault lines in the global system are in Asia. They may also be in Eastern Europe. That's where things are going to be really unpredictable."

"The two great zones of conflict in the 20th century were central and eastern Europe, and a critical part of northeast Asia – Manchuria, Korea. It makes me a little nervous that those are also places that are going to take a very heavy share of the pain. But we're looking at a Great Recession, not a Great Depression. We may be looking at a Lost Decade.

There was a time when if you said the United States was going to suffer a lost decade like Japan did in the 1990s, everybody would have said you were a mad pessimist. That begins to look like quite a good scenario. And I think it's a realistic scenario.

One of the facts is if you subtract mortgage equity withdrawal from the Bush years, the real underlying rate of growth of the U.S. economy was 1 per cent. So much of the consumption has been fuelled by mortgage equity withdrawal. So that seems like a reasonable growth rate for 10 years. ... We just don't have an improvement of standard of living of the sort we're grown used to. And indeed if you have a more equitable redistribution through the tax system, which Obama is committed to, it might actually be no discernible downside for middle America and lower-class Americans. So many of the benefits of the boom went to the elites. If you have a lost decade plus redistribution, it may not be that dramatic a change for many, many people. People just have to get over the fact that their wealth wasn't worth what they thought it was in 2006. Whether it's their stock market portfolio or their housing. If we simply go back to where we were, in 2005, that's surely not the worst thing that could happen to us."

There Will Be Blood is Shakespearean in nature and like The Bard's great tragedies, it offers no easy exits and no redemption. We are presented with a protagonist representing our species' most problematic possession, the ego. Daniel Plainview is a rotten man, only concerned with his own growth and personal gain, with one goal, to get away from people because he doesn't like them. Throughout the film we are shown how he manipulates, bullies and murders. There Will Be Blood: Directed by Paul Thomas Anderson. With Daniel Day-Lewis, Martin Stringer, Matthew Braden Stringer, Jacob Stringer. A story of family, religion, hatred, oil and madness, focusing on a turn-of-the-century prospector in the early days of the business. The intersecting life stories of Daniel Plainview and Eli Sunday in early twentieth century California is presented. Miner turn oilman Daniel Plainview is a driven man who will do whatever it takes to achieve his goals. He works hard but he also takes advantage of those around him at their expense if need be. His business partner is his son H.W., who in reality he "acquired" when H.W.'s biological single father, who worked on one of Daniel's rigs, got killed in a workplace accident. There Will Be Blood movie reviews & Metacritic score: When Daniel Plainview gets a mysterious tip-off that there's a little town out West where an ocean of o... Your score has been saved for There Will Be Blood. Would you like to write a review? Write a review. No, thank you. Review this Movie. There is a 75 character minimum for reviews. If your review contains spoilers, please check the Spoiler box. Please do not use ALL CAPS. There is no linking or other HTML allowed. Your review may be edited for content. 0/5000. "There Will Be Blood" is no "Kane" however. Plainview lacks a "Rosebud." He regrets nothing, misses nothing, pities nothing, and when he falls down a mine shaft and cruelly breaks his leg, he hauls himself back up to the top and starts again. He gets his break in life when a pudding-faced young man named Paul Sunday ( Paul Dano ) visits him and says he knows where oil is to be found, and will share this information for a price. The oil is to be found on the Sunday family ranch, where Standard Oil has already been sniffing around, and Plainview obtains the drilling rights cheaply from old man Sunday. There is another son, named Eli, who is also played by Paul Dano, and either Eli and Paul are identical twins or the story is up to something shifty, since we never see them both at once.