Editor's Note

THE ongoing crisis in the US economy has sent shock-waves throughout the word, leading to speculation that we are poised on the cusp of a world-wide recession such as occurred in the early 1970s, if not a depression of the magnitude of the 1930s.

Surely the demise of five of the seven once-proud investment banking titans, and the reorganisation of the remaining two, and the insolvency of Fannie Mae and Freddie Mac, the two giant mortgage guaranteeing entities, as well as the US government bail-out of insurance behemoth AIG has exceeded even the most dire predictions for the enormity of the crisis.

For the present, the flow of blood appears to have been stanched, but the repercussions will continue to be felt for a long time to come, and we are looking at a considerable period of economic hardship for consumers the world over.

Our cover story this month sets forth in stark and simple terms what went wrong, what the impact is likely to be on both the US and the world economies, specifically Bangladesh, and what lessons are to be learned for the future.

Certainly, one of the principal lessons must be that such are the consequences of imprudent and unthinking deregulation of the financial services sector, and that if investment banks and other financial institutions wish to be rescued when they fall on hard times, then they must also be subject to greater regulation.

What we are witnessing is the fruit of a decades-long ideologically-driven push to deregulate for its own sake and to strip governments of their capacity for oversight, and what has been laid bare is the fundamental bankruptcy, if you will pardon the expression, of such a philosophy.

In many ways, from the environment to this new era of more stringent regulation, one can say that the future belongs to a world where we understand that government action and oversight is indispensable to creating and protecting prosperity, and that the mindless mantra of free markets and deregulation is, in the end, unsustainable.

Thus one could say that we are witnessing the dawn of a new era.

The question for us here in Bangladesh is how much we are going to be affected. Our principal export markets are in the West, and Bangladesh Bank has some $5 billion of assets in western capital markets and financial institutions.

Not only is it important for us to insulate ourselves, to the best of our ability, from financial shocks, any future policy decision must be in line with the new paradigm. It is clear that the 1980s school of economic thought is finished, and we need to ensure that as a nation we continue to stay ahead of the curve.

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