Over most of the past 28 years, and most particularly over the past eight years in the United States, the idea that government is the balancer to maintain a steady but achievable growth has been abandoned as policies moved steadily to remove regulation of the financial system, to reduce the role of government, to reduce the stabilising influence of the government on the economy, and to pander to the greed of the upper classes.

These policies have brought the United States, Bangladesh, and the rest of the world to the brink of disaster. You may not realise it, but we are looking into the dark abyss of a collapsing international economy. Disaster is close, and it is far from clear if, or how, this can be avoided.

We now face an extravagant growth of the financial system, misaligned exchange rates, a giant bubble in the American housing market, and a system of non-banking financial institutions -- more important than commercial banks -- that is largely unregulated.

In the United States, there is no clear thinking on these issues; the Democrats are prescribing policies that will make things worse and the Republicans seem not to realise how difficult things are. The appropriate symbol for both of the political parties is an ostrich with its head buried and its backside pointed towards the future.

Smart people in the United States and Bangladesh are moving into cash and real assets as the value of financial assets is so uncertain. Liquidity is freezing up in both countries. What is our future?

The emergence of successful capitalist societies over the past 60 years stands in stark contrast to the failure of socialism. The past few years have seen the world economy growing strongly, vast reductions in the number of poor as China and India grew rapidly, and widespread success of market oriented economies: Europe, except for Russia, has transformed itself to new levels of economic prosperity and reduction of poverty. Of course, the income distribution became more unequal in most countries -- the higher income groups benefited from the increase in wealth more than the poor -- nevertheless, the poor are better off.

The consequence of this excellent performance was a growing demand for natural resources, particularly oil and gas, but the growth extended to all sorts of minerals and metallic products. The result has been rising prices of oil and minerals, a clear sign that continued rapid growth is not possible. Higher incomes have also led to greater demands for grains -- indirectly through eating more meat and fish, driving up wheat, maize, and rice prices.

These policies have brought the United States, Bangladesh, and the rest of the world to the brink of disaster.

Central to the success of the world economy over this decade has been the transfer of funds to the United States to enable that country to run a large current account deficit and consume vast amounts of goods imported from the rest of the world. That policy enabled many nations to expand their exports to the US, earning good money as they could sell at prices that were attractive to the US market but still far better than what could be obtained in domestic markets.

Further, the export bias enabled manufactures to capture economies of scale and to maintain quality, two achievements that would not be possible in the domestic market. Against all the textbook teaching that poor countries should borrow money from the rich, it turns out that the path to rapid growth is the opposite of that! Many find that hard to swallow, but all the countries that have grown rapidly have exported capital!

The American Housing Bubble

The inflow of capital into the United States, particularly from the Asian nations, effectively increased the funds available for investment. Where to make the investments? The US banks found themselves with large sums to invest. At first, in 2002, the US government deficit increased sharply, and the savings coming from the rest of the world were used to finance the expansion of US government expenditure and to replace the reduction in taxes. However, as time passed, the government deficit fell while the inflow of savings from Asia and the Middle East grew. The only way to deal with this was to encourage American households to borrow money. This led to a great increase of credit card debts, easy access to car loans, increased student loans, and most of all, increased lending for housing.

Two things happened: First, it became much easier to get a housing loan (mortgage) and second, the sizes of these loans were much larger. What would you expect to happen? People selling their house found that the price offers were rising as so many people were able to get housing loans. The construction industry responded by building houses as rapidly as possible.

With so many persons anxious to buy a house, the price of houses rose rapidly. It takes time for the construction sector to build houses so the rising demand influenced