

The financial world in developed countries is now in a state of flux. How did it reach this state? Well –Blame it on the age old game of “Passing the Buck”. The game usually goes like this: The Buck is passed till the music is on –Once the music stops anyone who holds the buck, carries the onus of doing pre determined acts.

And who are the participants in this game? Well-The same old, same old Globally - Households, Corporate, Banks and Governments. Where is the game played- mainly in the western or the developed part of the world. What is the buck here which is being passed on- the Bucks are: The Demand (onus of generating it) and the Risk, which is passed on from one player to another in the global economy.

In the pre subprime crisis era in US, the world was different. The Households, Corporate’s and Banks (indirectly) carried the baton of demand. Cheaper money and easier availability of it from banks leverage, rising house prices and stock markets, wage rises, buoyant corporate profits, investments –all fuelled the demand and carried the baton of economic growth. Either of the Households, Banks or Corporate’s took all the risks on their own balance sheets. The Governments had more of a passive role in the game. As the ex CEO of Citibank, Chuck Prince had once remarked “We all have to dance till the music is on” -the buck was passed on till the music was on.

Table I: Passing the Buck- Where will it stop?				
	Households	Banks	Corporates	Governments
<b>Pre Crisis</b>	Cheap Money, Rising Wealth ( Jobs, Housing, Stocks), Leverage, Consumption Increased B/S Size, Low savings	Cheap Money, Leverage, Reckless Lending and poor quality asset creation increased B/S size	Cheap Money, Rising :Profits, Investments & Hiring : Increased B/S size	Less intervention, Steady B/S Size
<b>Demand or Growth</b>	↑	↑	↑	↔
<b>During Crisis</b>	Dear Money, negative Wealth,De leveraging, Job losses, Less consumption Reducing B/S Size, More Savings	Dear Money, Deleveraging,restrictive lending, Falling B/S Size	Dear Money, Falling Profits, Investments and Hiring; More savings, reduction in B/s Size	Ballooning Balance Sheet size & QE
<b>Demand or Growth</b>	↓	↓	↓	↑
<b>Some of the Risks Transferred to</b>	Banks	Government	Shareholders including Households	<b>Tax payers and now back to Household/Corporates????</b>
<b>Post Crisis-Now back at pre crisis or Double Dip?</b>	↑	↑	↑	↓

Source: Delta Global Partners Research. B/S= Balance Sheet

The problem was no one thought about the buck- who will hold it ultimately when the music stops? The music had to stop one day. And it DID in 2007-08. Everything

reversed: Cheap money and easy credit availability, leverage fell, stocks, housing prices tanked, jobs were lost etc. And the world went into recession.

But someone had rise to the occasion and hold the Buck -the Central Bank and Government (there was no one else) did take over from the private sector & expanded its balance sheet by buying assets and creating more and more debt. In turn it leveraged its own balance sheet thus taking on the baton of demand and risk as the private sector was deleveraging. The result: Unsustainable Public Debt/Budget deficits to GDP ratio for countries such as US, which is a burden on tax payers. But that did pull out and stabilized some of the economies from going into much bigger and severe recession. Thus the buck of demand and risks passed from the private sector to the Government one.

But now it's the payback time: The Government and Central Banks by deleveraging have to pass the buck of demand and risk back to either or all of the private sector-Household, Corporate's and the Banks viz mainly to the tax payers.

But the problem now is whether the private sector willing to take the buck back to fuel private demand and support the economy? And the private sector would need music (animal spirits and business confidence) to hold the buck again. If the music doesn't start for any reason-there will be a "Double Dip" -the most feared outcome in recent times. *In that case the larger issue is that the bigger canons of fiscal and monetary stimulus had been already fired. And now there is no ammunition left to douse the fire of a Double Dip.* The interest rates are closer to zero and the deficits/public debt ratios are already at high levels. The final option left will be outright money printing to salvage the situation. But that too has its own adverse consequences including financial instability and runaway inflation.

The challenge is-how the private sector would carry the demand and growth baton in times of the larger fiscal adjustments that are required to bring down the deficits/public debt levels to reasonable levels. And as John Mauldin had recently put it in a simple way -That not every component of GDP such as private sector (Households, Corporates ) or Government Sector can deleverage at the same time unless there is a large trade surplus ( savings on external account).

So now the Double Dip or not is likely to be function of the response of private sector in times of fiscal austerity and slowing growth. Or the baton has to be carried by a dramatic improvement in the global trade. So will the private sector take the BUCK back?

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