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How Governments Around the World are Bankrupting Future Generations for Present Consumption

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Abstract
The world is in crisis and one of the reasons for that is the excessive debt held by people, companies, and countries. The west is especially hit hard because of the profligacy of the last three decades starting from the 1970s, which have resulted in a consumerist lifestyle, and an accumulation of debt at all levels of society. The acceleration of this trend during the 1990s and the 2000s with the inevitable implosion happening in 2008 meant that the world and particularly the west are sitting on a time bomb that can explode anytime. As people, companies, and countries in the west pay down the debt, they are faced with a choice of either curbing the present consumption and paying down the debt accumulated so far or taking on more debt to pay off the existing debt and bankrupting future generations. In other words, as all levels of society take on more debt to continue the present consumption, the situation is such that this debt has to be paid off sometime in the future and most likely, the future generations would be saddled with this debt. Like a head of the family who accumulates, debts and leaves to the future to pay it back, all levels of society in the west are continuing the present unsustainable way of living.

Keywords: *Government Bond, Bankrupting Future Generations*

1.0 INTRODUCTION

When companies and countries need to borrow money from the market, there needs to be an agency that determines their creditworthiness or their ability to repay and be a source of good investment. Even for individuals when they apply for a loan, the banks and financial institutions assess their ability to repay and their soundness. For instance, when you apply for a home or an automobile loan or for a credit card, the bank has internal processes that determine whether you should be given the loan. Similarly, when companies and countries borrow, there are credit rating agencies that assign ratings to them to signal to the market about their creditworthiness. The difference between individuals, companies, and countries as far as rating agencies are concerned is the scale of borrowing and the depth of analysis. Whereas countries are rated on a whole host of parameters, companies are rated according to the assets they hold, the cash flow both future and current, and individuals according to their credit history. The point to note is that more often than not, lenders need independent agencies that assess the creditworthiness of the parties and this is where credit rating agencies come into the picture.

Of course, credit rating agencies have been the target of investors in recent times as they have been blamed for not assessing the risk and return of certain securities and loans as was the case during the subprime crisis when the agencies gave good ratings to the mortgages and the financial instruments built on top of them. Indeed, many credit rating agencies like Moody's, S&P, or Standard and Poor's were the matter of investigation by the regulators because they were perceived as being hand in glove with the banks. This is the reason why credit ratings agencies need to be independent and autonomous. Moreover, credit rating agencies have a lot of power as their negative ratings can mar the chances of companies and countries being unable to borrow at cheaper rates. In other words, when the rating of a company or a country is lowered, it loses access to market borrowings at cheaper rates and has to pay a premium to secure funds. This premium is the result of the increased risk that lenders take for lower rated companies and countries.

There are various parameters on which credit ratings agencies assess the creditworthiness. For countries, the bonds are rated according to the prevailing economic, political, and social situation as well as on previous financial history and future projections of growth. Each of these variables is assigned a weighting and the cumulative average is arrived at according to their importance. To arrive at the consolidated credit rating, the agencies have both objective and subjective means of analysis. The parameters described above are the objective ones and the group or the assessors' taking the decision has a subjective parameter wherein they can use their judgment and decide accordingly. Further, companies are rated according to the growth projections and the cash flow situation as well as assets and outstanding liabilities. The point to note here is that the credit ratings agencies have proprietary algorithms and software that they have developed which they use to rate the financial instruments. Apart from this, there is something called the counterparty risk which each financial instrument bears and this is an important factor in determining the rating.

1.1 Ghana Situation

The yield on Ghana's five-year cedi bonds increased to the highest level in more than three years at a sale on Thursday on concern that the West African country is taking on too much debt. Ghana sold 516.5 million cedis ($136.2 million) of the notes at 24 percent, the local unit of Barclays Plc, Stanbic Bank Ghana Ltd. and Strategic African Securities Ltd., which were appointed to manage the sale, said in a joint e-mailed statement. The government of the world's second-largest cocoa producer in March issued five-year debt at a yield of 21 percent, according to data compiled by Bloomberg.

"A lot of investors are concerned about the level of public debt and its outlook," Sampson Akligoh, managing director of Accra-based InvestCorp Ltd., an investment bank and money manager, said by phone. "Fiscal pressure still remains high and it is feeding into interest rates." President John Dramani Mahama's administration is having to boost borrowing to fund a budget deficit with the economy headed for its slowest expansion in more than 20 years because of a slump in commodity prices and a power shortage that leads to rolling blackouts. The government's debt rose to 69 percent of gross domestic product in September from 60 percent in January. The central bank unexpectedly raised its benchmark interest rate by 1 percentage point to 26 percent on Nov. 16 to help rein in inflation sparked by a 15 percent slump in the currency this year. The cedi gained 0.8 percent to 3.7946 per dollar as of 4:41 p.m. in Accra. Investors sought 644 million cedis of the debt during the sale, which for the first time was done through a book-building process rather than being arranged by the central bank.

Reuters (Feb 05, 2020, 14:37BY: uk.reuters.com) reports that the country sold $1.25 billion in seven-year bonds at a coupon of 6.375% in Tuesday's sale, as well as $1 billion in 15-year bonds with a coupon of 7.875% and $750 million in 41-year paper with a coupon of 8.875%. The 41-year paper is the longest-dated bond for an African country, the government said in a statement. Ample liquidity in financial markets and historically low-interest rates among major central banks around the globe have seen borrowing costs come down in many emerging markets. Ghana's outstanding dollar-bond maturing in 2051 currently yields just over 8.6%. The government statement cited Finance Minister Ken Ofori Atta as saying the lower debt yields reflected a reduced risk premium because of improving economic conditions in Ghana, which produces oil, cocoa and gold. The West African nation has enjoyed some economic stability since the conclusion of a three-year International Monetary Fund loan programme last year, though the government expects economic growth to slow and the budget deficit to rise in 2020.

This was done by a delegation led by the Finance Minister Ken Ofori-Atta on Tuesday, February 4, 2020. The three-tranche bond was sold with 7-year, 14-year, and 41-year maturities. A member of the delegation in an interview with journalists explained that the government accepted $1.25 billion for the 7-year-bond at a coupon rate of 6.375 percent. This compares favourably to an exact tenor bond government issued in 2019 with a coupon rate of 7.875 percent. Also, the government was successful in securing $1 billion with a maturity period of 14 years at a rate of 7.75 percent. This rate also trumps the 8.125 percent the government accepted for a 12-year bond issued as part of the 2019 Eurobond. The last of the three bonds issued was a 41-year bond, which happens to be the longest dated bond issued by an African country. The government accepted to borrow $750 million at a rate of 8.75 percent for the longest dated bond which matures in 2061. The yield for the longest-maturity instrument dropped from the initial guidance of 9.125% and is the highest-yielding sovereign Eurobond of the year so far. Prior to the 41-year bond, the longest tenor bond issued by an African country was a 31-year bond with a coupon rate of 8.95 percent also issued by Ghana in 2019. Although the government set out to borrow $3 billion in its eighth Eurobond appearance, it received offers to

the tune $15 billion – reflecting investors' appetite for Ghana's bond. The proceeds from the bond issuance are expected to be used for refinancing of some maturing debts with the rest committed to provided infrastructure.

1.2 Nigeria Situation

The debt management office justified the borrowings in its 2017 report on Nigeria's national debt. "While Nigeria's total public debt stock is relatively low vis-à-vis the country's GDP, the increased funding requirements needed to sustain the economic recovery, address the huge infrastructural deficit, as well as meet budget financing requirements, would entail enormous funding resources, including borrowing," it said. Prof Olufemi Saibu (2019) of the economics department at the University of Lagos focuses on development macroeconomics and public finance. He told Africa Check the debt might be worrying, but would be justified if it were used for development projects and not just for regular spending on, for example, salaries and overheads. "The debt profile is high but it's not in the red lines yet," Saibu (2019) said. "The problem is that the debt cannot continue to increase; there must be a check on it. And the question is, what are they using the debt for? The quality of projects, productivity and impact of the projects are what matters." While Obi's claim is largely true, the real picture of Nigeria's debt is larger than what's reported by the debt office, according to Atiku Samuel (2019). He is the head of research at Budgets, a civil society organisation that works to make public spending transparent and accountable. "What you see at the Debt Management Office is just a fraction of Nigeria's debt," he said. "There are special accounts that are dedicated by law, but unfortunately the federal government has been taking funds from [them] to meet its budgetary obligations."

Samuel (2019) said the government had been drawing from "funds like the ecological fund, even borrowing from the excess crude account. Another big component is debt to contractors and the overdrafts it takes from the Central Bank which is now about N4 trillion – and there are also judgment debts." These would add to the debt "if you look at debt from the globally accepted definition, as these are still obligations to the government".

Nigeria's debt rose from N12.1 trillion ($63.8 billion) in 2015 to N22.4 trillion ($73.2 billion) in 2018. In campaigning for Nigeria's 2019 elections, politician Peter Obi said President Muhammadu Buhari's government had increased the country's debt to $80 billion. Debt Management Office records show Nigeria owed N12.1 trillion in June 2015, a month after Buhari took office. This was US$63.8 billion at the exchange rate of the time. By June 2018 total public debt had risen to N22.4 trillion, or $73.2 billion. An expert said the debt could be even higher as the government took money from funds set aside for other purposes. The IMF Senior Resident Representative and Mission Chief for Nigeria, Mr Amine Mati, said at the public presentation of the 'Fall 2019 issue of the regional economic outlook for sub-Saharan Africa,' that the Federal Government needed to increase its drive to create more jobs and revamp its fiscal consolidation.

2.3 The Situation in the United States

For instance, the United States is embarking on increasing its present debt and taking on more debt to pay off in the future. Further, as there are many social welfare oriented schemes like Medicaid, Medicare, and Social Security that are entitled to be for the cause of social justice, the country has to budget for these entitlements as well so that the fabric of society is not ruptured. However, there are many experts in the United States who believe that the government must not honor its commitments to the elderly and the sick and instead, must give tax breaks for the rich and subsidies for the giant corporations. Coupled with the line of thinking that advocates more spending and more consumption, this line of action is a surefire recipe for disaster. The point here is that the accumulated debt would be passed on to future generations who would find that they have to do without subsidized education, less spending on social schemes, and have to pay more taxes to repay the debt that has been accumulated so far.

2.4 The Situation in Europe

The situation in Europe is slightly different, as the policymakers there have embarked on a debt reduction program by focusing on austerity. Of course, the existing debt is also being carried forward which means that in addition to cutbacks on social schemes and a general sense of lack of basic spending, they would also have to repay the debt. The point here is that the situation in Europe is more severe than in the United States, which for the moment is postponing the problem. However, there are many experts who believe that the US would face this "Tsunami of Debt" and the "Debt Bomb" pretty soon and that the day of reckoning cannot be postponed forever. The clear implication of this is that eventually the world would have to wake up and face the reality of low growth, more austerity, and more taxes along with sacrificing comforts to just get along. This means that there are tough choices

ahead for the present generation and the generations to come and therefore, it is better for those who are graduating now or are taking up jobs to be aware of these facts.

2.0 FEDERAL RESERVE ANNOUNCEMENT TO TAPER QUANTITATIVE EASING

The stock markets around the world have dipped and currencies lost ground along with the bond market (the market for sovereign debt) showing signs of stress. This has happened over the last two weeks and particularly so in the last week as the Federal Reserve has announced that its bond buying program or Quantitative Easing would begin to taper off from the end of this year. If just an announcement by the Fed can cause so much of damage in the markets, imagine what would happen when the actual process ends with the Fed removing the liquidity. This nightmare scenario is keeping all financial professionals awake at night as they begin to assess the impact of the Fed's announcement on the markets around the world. The key aspect here is that the Federal Reserve from the time the financial crisis started has been pumping money into the bond markets and the market for mortgages thereby creating asset bubbles and flows of hot money to the emerging markets. In other words, by printing money, the Fed has been able to pump the markets, which have gotten used to easy money and boundless liquidity.

The other aspect here is that the balance sheets of almost all banks in the western world are full of toxic debt and hence, they need capital infusion to make up for the losses suffered by them because of the bursting of the real estate bubble. Further, the excess liquidity floating in the western world has made its way to the emerging markets like India where the hot money has created high equity prices and asset bubbles. Coupled with the fact that the Chinese economy is also contracting, these events have the potential to cause the next big crisis in the world. The ensuing liquidity crunch would leave the banks in the western world gasping for breath and the emerging markets witnessing a flight of dollars out of their markets. This is the reason for the steep fall in the value of many currencies of the emerging economies. Apart from this, the borrowing costs of governments seem to be going up because there is no confidence in the system with the central banks on the verge of losing control. All these conditions are creating a perfect storm in the financial world and therefore, it is in the interest of investors, professionals, and anyone who follows the business world to be prepared for any eventuality.

While not getting completely into the solution mode, it needs to be mentioned that the way to salvaging the financial system would be to let the "Too Big to Fail" banks go under thereby creating conditions for a revival in the markets. The point here is that unless the banks that have toxic debt and have huge derivative positions are allowed to collapse, the present method of pumping money into them to prop them up would result in more debt being created to solve the problem of existing debt. The clear implication of all these events is that there are hard times ahead for all stakeholders and especially for those who have taken mortgages or student debt to finance their homes or pay for their education. In this grim scenario, sacrifices are required and hardship to be borne as the world starts to pay down the existing debt and return to the debt levels of the pre-crisis world.

2.1 How Do Funds Transfer Systems Work

Domestic Funds Transfer: It is common for individuals and entities to transfer funds to their friends, family, business partners, and associates. The way funds transfer works is opaque to the individual as he or she simply instructs the banks (or enables funds transfer when using online banking) and waits for confirmation from the other end about whether the funds have reached the beneficiary or not. Between the sender and the recipient lies an intricate network of financial intermediaries and relationships that underpin the funds transfer system. For most domestic funds transfers, the process is straightforward as the sender and the beneficiary are located in the same country and hence, all it takes for the bank is to notify the other bank about the transfer and acknowledge receipt of the funds. In this respect, domestic funds transfers work almost in the same way that check clearances work. The sender and the beneficiary "talk to each other" (as the jargon terms it) through the clearing house which means that the sending bank has to send the funds to the clearing house and the clearing bank (usually the central bank in each country) then deposits the money into the recipient bank which then credits the same to the customer's account.

International Funds Transfer: However, the funds transfer involving countries and continents is vastly more complex than the domestic funds transfer is. First, the sender has to issue instructions to his or her bank to transfer the money. Next, after the sender's bank ascertains that the customer has enough money in his account (after converting it into the foreign currency using the prevalent exchange rate) stars the process by sending the money to the correspondent bank that is authorized to transact internationally. After this, the intermediary debits the sender's bank account held with it and credits the corresponding bank in the foreign country, which has a banking relationship with

it. In other words, both the intermediaries need to have accounts of each other in their banks, which would enable them to transfer the funds. Once the intermediaries transact and transfer funds this way, the final leg of the funds transfer happens which is through the intermediary in the foreign country crediting the account of the receiver bank with which the recipient has a banking relationship. After this, the receiver bank checks the credentials of the recipient and if everything is ok, credits the account of the recipient. This completes the funds transfer process.

2.1.1 The Criticality of Funds Transfer System to the Global Economy

The above descriptions of domestic and international funds transfers are just basic descriptions without too much jargon like nostro account, vostro account, and the SWIFT system of validating payments. These would be discussed in detail in subsequent articles and it would suffice to state here that the financial web of relationships that enables international and domestic funds transfers has evolved over the years with the result that the present system handles complex, and humungous volumes of money every day. Indeed, it can be said that without the backbone of the international funds transfer network, the global economy would come to an immediate standstill. Especially when one considers the fact that with globalization, international money transfers have become enterprises involving Trillions of Dollars, the funds transfer systems in most multinational banks in financial hubs like New York, London, Singapore, and Sydney work around the clock and in a coordinated manner to make funds transfer possible. Therefore, the next time you transfer funds to your family members or business associates located in another country, you would have an idea of what it takes to complete your request.

3.0 THE IMPORTANCE OF KYC (KNOW YOUR CUSTOMER) NORMS AND PROCEDURES IN BANKING

3.1 Follow the Money Trail

In recent months, there has been a spate of disclosures around the world about how banks are compromising on customer identification procedures and are indulging in money laundering and other unsavory activities. From the US to India and the shadow banking system around the world including China, regulators have realized that unless they rein in the shady practices of banking, the result would be chaos and disorder. This is the reason why the regulators around the world have started clamping down on banks and asking them to foolproof their procedures. An important step in this direction is the directive to the banks to follow the KYC or the Know Your Customer norms and procedures through which the customers and their details can be recorded and stored so that in case of any wrongdoing, the law enforcers and the regulators would have the money trail leading to the individuals or entities. The key aspect about banking is that one must follow the money or in other words, investigate the money trail to see where it starts and where it ends. Once the money trail is established, it is easy to track down the culprits and this is the reason that banks must have accurate, reliable, and updated KYC norms in place for all customers.

3.2 The Uses and Misuses of KYC Norms

Having said that, it must be remembered that most banks use the KYC norms as an excuse to harass genuine customers and at the same time, indulge in unofficial activities. Therefore, the approach to following KYC norms is to insist on the same for all customers and especially those who have large sums on deposit as the scope for money laundering increases with these customers. On the other hand, they must not harass small depositors who anyway maintain less balance and whose activities can be monitored for suspicious transactions. The point here is that KYC norms should be used in conjunction with the monitoring of all accounts and the key principle that must be applied is that the norms are sacrosanct and at the same time, flexible enough to separate the genuine investors from the dubious ones. Further, banks must ensure that high value transactions are monitored and insist on proper identification when customers deposit or withdraw huge sums of money. This is where proper KYC norms become useful as the contact information provided in the KYC database can be used by law enforcers and the regulators to track down the source and the destination of the money trail. Apart from this, the money transfers or the funds transfer between banks that involve high denominations must similarly be monitored through KYC norms and procedures.

3.3 How KYC Norms Help all Stakeholders

The reason why proper KYC norms can help is that if a particular customer or entity is in the red list or the black list being monitored, they can help spot and track transactions made by these entities. This means that proper identification of customers leads to better compliance and better monitoring. Further, KYC norms help banks and

customers alike as the transactions carried out between the bank and the customers provide details of both so that any legal dispute arising out of such transactions can be resolved through documentation and data which would pinpoint the source of the dispute and help the arbitrators decide on who is guilty.

3.4 The Difference between Retail, Corporate, and Investment Banking

Most of us when dealing with banks usually walk into the branch and get our work done we usually do not bother whether it is retail banking branch or a corporate banking branch. The difference between retail and corporate banking is that retail banking serves individuals and entities that are not corporates whereas corporate banking deals with large corporates who want to bank with that institution. The other end of the spectrum is the investment banking, which deals with high priced and low volumes deals like arranging for mergers and acquisitions, takeovers, and other deals aimed at the top notch of the management in the corporates. Further, it must be mentioned that whereas retail banking is volumes driven, corporate banking is a combination of volumes and size of the transactions, investment banking is purely driven by the size of the deals where volumes are usually low as the lack of it is made up by the fees earned by the investment bankers in individual deals. This means that the commissions on retail and corporate banking range from low to medium whereas for investment banking they range from high to very high.

3.5 The Components of the Retail, Corporate, and Investment Banking

Now that we have discussed the basic differences between the three arms of banks, we can now turn to the components of the three arms. Retail banking involves accepting deposits and giving loans to individuals and entities who are not corporates though in many countries, it is the practice to include organizations that resemble corporates in retail banking. The growth of corporate banking has been mainly driven by the need of the banks and the corporate sector to deal in foreign exchange transactions, to hedge their portfolios and in general, cater to the banking needs of the corporates that extend into other realms like deposits and loans of sizes that are very large. On the other hand, investment banking caters to the equity markets, the bond markets, the deals involving mergers, acquisitions, and the portfolio management as well. The point to be noted about the three arms of banking is that they comprise each customer segment that banks are supposed to cater to. As retail deals with individuals and organizations in some cases, corporate banking deals exclusively with the big corporate and investment banking deals with the mega deals that organizations do.

3.6 The Rise of Private Banking in Recent Years

In recent years, there has been a new area that banks are targeting and this is private banking or banking for the HNIs or the High Networth Individuals. This category of banking is purely directed towards individuals, entities, and trusts that have lot of money (indeed a fortune compared to retail consumers) which are then managed by the private bankers by assuring certain rates of return and rates of return above that that are determined by the performance of the portfolio. It needs to be mentioned that private banking sometimes encompasses all the other three arms as the presence of high Net worth individuals and entities can include rich retail banking customers, corporates and trusts that need their wealth to be managed, and finally clients who are mega rich in the same way investment bankers transact mega deals.

3.7 How each arm of the Banks makes money?

Apart from these differences, it must be mentioned that the other aspect about banking is that it follows the simple formula of determining the difference between the rate of interest it charges on its loans and the rate of interest that it pays to depositors. This is known as spread and the difference between the three arms of banking is that the spreads are different for each arm as well as the size of the transaction, which means that the multiplication of the spread and the size of the deal is the profit that the banks earn. This explains the difference in the various arms of the deals where low volumes are made up by the huge size of the deals in investment banking and the lesser sizes of the transactions are made up by the volumes in retail banking.

4.0 IMPACT OF GEOGRAPHY ON BANKING AND ITS FUNCTIONS

With the world economy being integrated and interconnected due to the process of globalization, the geography of banking has assumed a different dimension altogether. Gone are the days when customers had to visit the branch physically to deposit and withdraw money. Instead nowadays, customers can transact their business in a

variety of ways which diminishes the role of geography or the "power of the place". However, the recent global economic crisis has served to highlight the perils of financial integration as the crisis which started due to the bottoming of the housing market in the United States affected the whole world due to the geography independent nature of the financial products like CDO's and Derivatives.

The basic functions of banks are to borrow and lend money. This is done at various locations and there is no constraint that both have to be done at the same location though traditionally, this was the way in which banking was conceived. It can be said that banks in the United States were dispersed though there were "clusters" of "financial centers" like New York and Chicago that were the hubs of financial activity like investment banking and the trade in derivatives. Money flows in and out of banks due to the various functions that the banks undertake. These can be in the nature of deposits, loans, exotic financial products, corporate and investment banking etc. All these functions ultimately rest on the bottom line functions of borrowing and lending. The way in which money flows in and out of banks is by nature of investment (money flowing into the bank), and by nature of loans (money flowing out of the bank). If a bank is located in a specific region, it is more likely to contribute to the economy of that region as the transactions made by the bank and the financial flows therein impact the regional economy. However, there is a national dimension to the financial flows as well as is evident from the fact that banks do business beyond the local region and hence they benefit both the regional and national economies.

Finance is the "lifeline" of any economy and hence the practice of banking, by enabling financial flows contributes to the growth of regions and countries by way of lending and borrowing that makes the economies grow. The practice of "fiat banking" is the source of growth in the current economic paradigm and this enables the money to "grow" thereby contributing to the growth of the region as well as the country in which the bank operates. As mentioned earlier, the location does influence the way in which banking operates and hence it can be said to differ from place to place though in recent times, banking has become largely independent of geography.

5.0 CONCLUSION

The first component affects mainly old people adversely while the second and third have their largest impact on the young. The rise in the national debt consequence on expansionary policy has the effect of imposing a burden on future generations. Finally, a reduction in public spending in the aftermath of reduced tax revenues is likely to affect mainly old people for the simple reason that they are disproportionate recipients of public spending; if this spending has, in large part, the characteristics of pay as you go transfers, then the reduction in public spending reduces the burden on future generations. It is hard to argue for policy changes to offset the two factors which reduce the burden on future generations. One would need to believe that the rise in land prices in the period before the recession was inherently desirable in its inter-generational effects to argue that the subsequent fall should be offset. And the only mechanisms which might offset it, higher pay as you go transfers or debt finance of expenditure would require increased taxation at some point with the implication that tax rates would need to rise as a consequence of the recession.

Similarly, a reduction in the transfers associated with public spending could be avoided only if the reduction in spending itself were avoided which would imply sharp increases in tax rates. If the resources available to old people are reduced, that a natural response is for them to increase their labour supply and policy should facilitate this. Barrell, Hurst and Kirby (2009) analyse the impact of a one-year increase in effective working life, or one and a half years extra on actual working lives as those near retirements on average work around 66 percent of normal hours. This would involve a 2 ½ percent increase in labour supply and hence, once the capital stock had adjusted, a similar increase in real output. They assume that the availability of increased labour and longer periods for earning are fully anticipated and hence the market adjusts and there is virtually no impact on the unemployment rate, which is determined by the wage bargain.

Employers raise investment in advance of the anticipated increase in labour supply so that the capital stock can grow approximately in line with employment. They show that output rises in line with labour input in the long run, as we would expect from the production function. An increase in working lives of one effective year (or about 2 ½ percent) would have three impacts on government finances, with an increase in direct and indirect tax receipts and a fall in transfer payments to those who are retired. These changes could improve the fiscal position by up to one percent of GDP, depending upon the impact of the increase in labour supply and output on government spending.

Barrell, Hurst and Kirby (2009) show that such an increase in labour supply would prevent the debt stock rising as rapidly as it might, and after 20 years of so it might be 20 percent of GDP lower. Thus an increase in labour

supplied by old people would also have the effect of reducing the fiscal problems associated with the recession. Nevertheless, as Khoman and Weale (2008) show, rising longevity means that, in the long term an increase in working lives of this magnitude is not adequate to remove a substantial savings short-fall.

The temporary income loss associated with the recession should clearly be spread into the future and for the government to support current consumption by means of a large budget deficit is an effective means of doing this. But at the same time policy-makers need to remember that there is a risk of further recessions and therefore, once the temporary shortfall to output has been closed the government needs to ensure that national saving is adequate bearing in mind this risk of future recessions. The risk cannot, of course, be estimated with any degree of precision, but it is clear that saving ought to be higher than it would be were there no risk of further similar events. If private sector saving does not take account of this

Credit ratings agencies are known to make errors of judgments as discussed earlier. However, they are also known for getting it right as evidenced during the debt ceiling debate in the United States in 2011 when the sovereign rating was lowered because the lawmakers in Congress and the Senate failed to arrive at a deal till the eleventh hour. Hence, the key take away from this article is that credit rating is an art as well as a science and hence, one must understand the entire process rather than touching upon it superficially. In brief, the road ahead for the financial system around the world is perilous and therefore, it is better for professionals and students to reassess their careers and their education and evaluate the returns that they are getting on their investments. Unless there is some magical method by which debt can be written off and everyone starts afresh on a blank slate, the world is going to witness more financial volatility and economic chaos in the months to come.

As mentioned earlier, this article is the basic introduction to an important aspect of banking and further research can be done by visiting the SWIFT website and other manuals that contain details about how funds transfers work in the global economy. Banks in recent times have embraced IT and systems to an extent that were not the case before and therefore, proper KYC norms complement and supplement the IT systems that the banks have and ensure compliance with the rules. In conclusion, it is clear more than ever that banks have to clean up their act and the regulators cannot overlook the transgressions anymore. This is the reason why well-maintained KYC norms help all stakeholders. It is inconceivable to think of economic growth without banking and though in recent times, banking has become largely independent of geography, in times of "bank runs", geography still matters. The point to note is that banking and geography are still inextricably linked when one considers the need for physical proximity in conducting financial transactions particularly from the point of view of regulation and oversight. Hence, it is by no means conclusive that banking is independent of geography though occasionally we tend to think otherwise.

Finally, the present generation can limit the damage done so far by living sustainably and trying to innovate and ensure that growth returns through inventive and creative solutions. The other alternative is to live through an economic depression that would impact their lives drastically.

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