

More Pictures and Talk: The Hierarchy of Risks

The crisis takes a much longer time coming than you think, and then it happens much faster than you would have thought.

—Rudi Dornbusch

RECALL MY ARGUMENT that economic imbalances always come before Black Swan excuses. Imbalances are another way of saying that prevailing trends are unsustainable. For the economy to get back on a sustainable path, a correction of some type needs to occur. Corrections can be as mild as a period of falling inventories, as severe as a sovereign default, or as ordinary as a deleveraging. By watching for imbalances, we can avoid being blindsided by these events. We're unlikely to know exactly when they'll occur, but we can determine the type and severity of the problems that may be developing and adjust our actions accordingly. . . .