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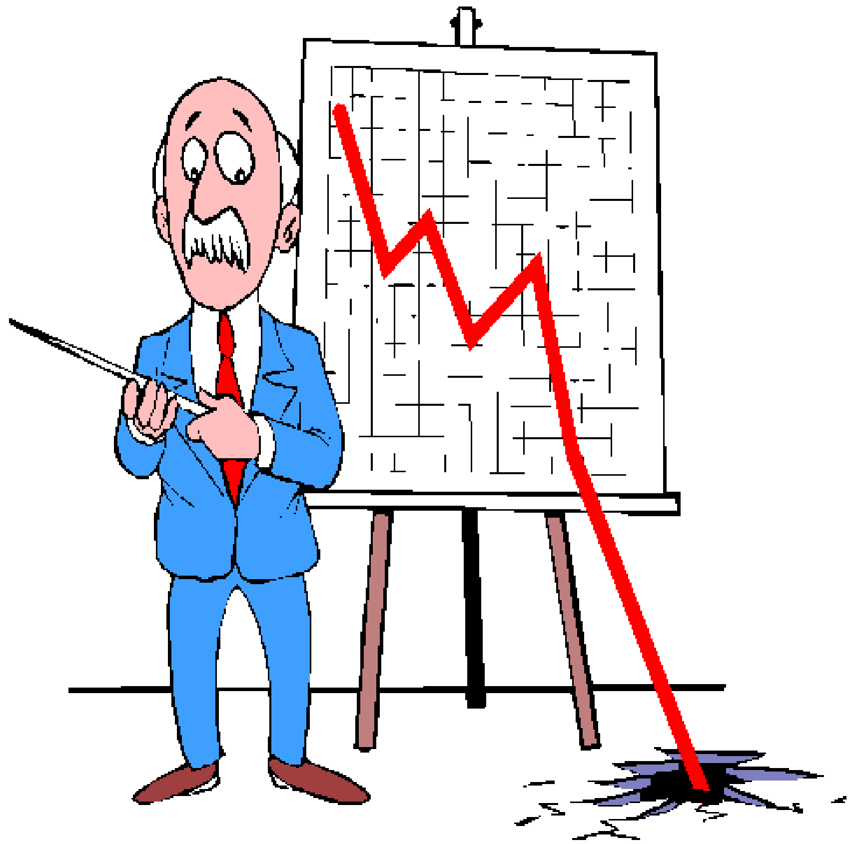
Global Economy – Stall Speed to Nose Dive?

WRITTEN BY: ASHOK DHILLON

Ashok Dhillon has 40 years of front-line business experience in Canada and International markets.

His experience includes start-ups, venture capital, seed funding, and heading companies in construction and international power development. He has worked and negotiated with highest levels of Governments in Canada and India. He has pursued and won mandates to develop power plants in Canada, and foreign jurisdictions such as Hungary, Iran, Pakistan and India with uncompromising ethical standards. His extensive experience gives him in-depth knowledge and intuitive insights into macro and micro, national and international, geo-political and economic realities and trends. He has been invited to speak on international business at various forums, including as an expert witness for the Standing Senate Committee, Government of Canada, on "The Rise of Russia, China and India".



The deterioration in Global conditions that we anticipated in our previous Reports is now manifesting itself everywhere in the Global Economy. The propaganda and pretense that the Global Economy has been healing for the past 5 years, is finally being discarded for a fairer assessment that the Global Economy is, and has been, seriously ailing. That current assessment is driven by a spate of negative economic data which continues to mount, coming out of a majority of major economies, and makes it impossible for Governments, Central Banks, Banks and other multilateral institutions such as the World Bank and the IMF, to maintain their previous dogged optimistic spin. Now, the global consensus of institutional experts is generally in-line with what we have consistently said - the Global Economy is in deep trouble.

It was, after all, these very institutions that right up to the previous quarter of this year had continued to insist that the Global Economy was solidly on the path to recovery, and that the worst was definitely behind us. Now there is a sense of edgy desperation as heads of Central Banks and multilateral financial institutions, such as the IMF, sound the alarm for the sharply regressing global economic conditions.

In their last meeting, the week of September the 15th, 2014, in Cairns, Australia, there was general consensus among the G-20 Finance Ministers that the Global Economy, while mildly recovering (*they have to put a positive*

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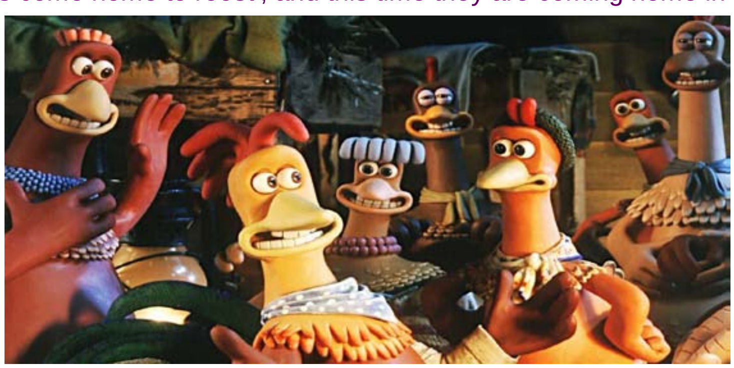
spin) was generally in trouble, and a lot more had to be done to reverse the negative global economic trend, as they were forced to cut their growth target of 2% to 1.8% by 2018, by the Report submitted by the head of IMF, Christine Legarde.

In that report, the IMF leadership sounded downright panicky as they revised their 2014 global economic growth estimates downwards yet again (*third or fourth time this year, but then who is counting*), and urged the G-20 Finance Ministers and their Governments, to do something urgent about the stalling Global Economies.

Additionally, just prior to the G-20 meeting, the highly regarded "*Geneva Reports on the World Economy*" by the "*International Centre for Monetary And Banking Studies*" came out. The title of the report was clearly a knock on the here-to-now rose-coloured consensus that the World had de-leveraged from the past excess debt loads and was now ready to grow again. The title: "*Deleveraging? What Deleveraging*", poured chilled water on that dearly held and actively promoted assumption, and the Report itself went on to dissect and expose that commonly held falsehood in sobering detail.

As it is inevitable when one persists on doing the wrong thing, eventually 'the chickens come home to roost', and this time they are coming home in droves.



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China, Japan, Germany, France, Italy, Portugal, Russia, Brazil, Argentina, Venezuela, Australia, and even Canada are showing signs of contracting, and Greece is once again on the ropes. And as we had anticipated in our previous Reports, of the major economies, only the U.S., India and the U.K. are showing economic expansion for now, but, it will be difficult if not impossible for them to maintain that trajectory against the combined global economic drag from the lagging rest.

Furthermore, overdue corrections in inflated asset markets, indefinitely delayed by regular Central Bank interventions, and the proliferating geo-political threats worldwide, will certainly combine to exert additional downward pressure on the struggling Global Economy, even if there is no disastrous black swan event in the immediate future to entirely derail it, a possibility that certainly cannot be ruled out.

Now that most 'experts' and the 'authorities' are finally on the same page we have been all along, let us examine, in lay terms, how is it possible for World Governments, these past six years, to have spent Tens of Trillions of Dollars, and targeted their policies and regulations towards full recovery of the Global Economies, and still have failed so miserably.

In our view, six years of illogical policies, and Tens of Trillions of dollars in stimulative largess to the wrong people and institutions, and the reluctance to correct politically difficult social and financial structural problems, have prevented the healing and resurgence of the global consumer, which in turn prevented a sustainable recovery. Instead, the policies and models used, in our opinion, have created the global conditions for another impending financial and economic crisis.

It was simple enough to see it coming really. The indiscriminate and unprecedented piling on of the sovereign global debt, unabated for nearly 6 years, was producing little to no economic activity; was not underwriting structural change; was not producing quality jobs or lifting the working class

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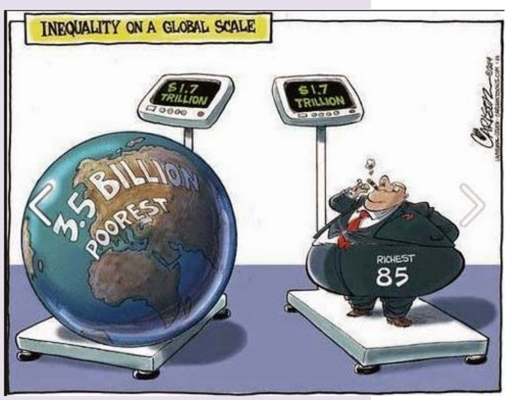
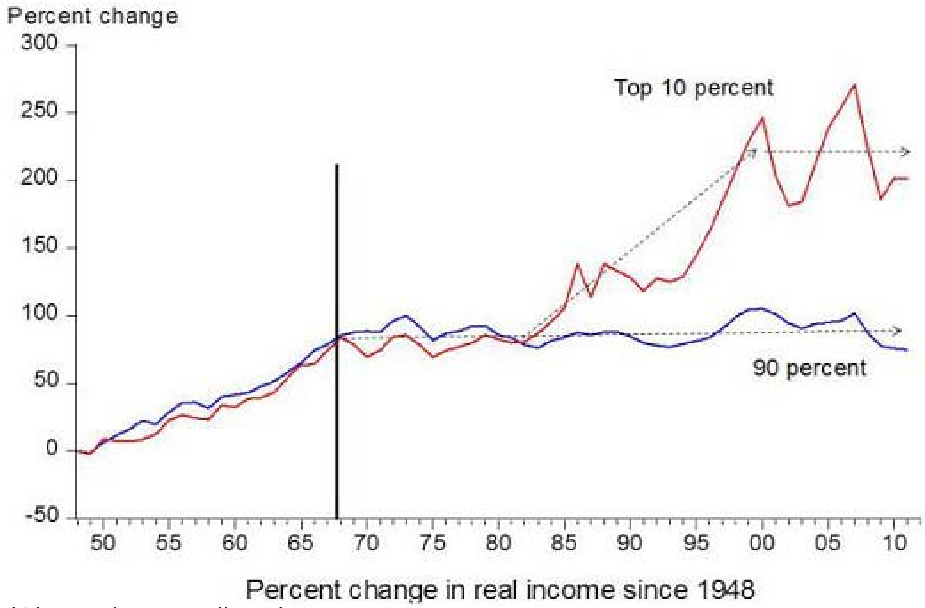


Globally, but was dramatically widening the gap between the rich and the rest of the 90% of the global masses.



(Chart: Thomas Piketty)

The unprecedented largess to the financially and politically powerful through direct cash assistance, to wipeout their past horrific misdemeanors that nearly brought down the global financial system, coupled with near zero interest rates, have once again fueled speculative binges that have produced the current economic environment. The banks and financial institutions were by far, the recipients of the torrents of practically free Central Bank money, Worldwide. This massive misdirected liquidity simply could not produce an economic recovery, but could spawn additional financial and economic disasters, which it seems to be doing now, as Global debt mounts without the commensurate productivity, wages and jobs. The overcapacity and debt encumbered economies are buckling under the dead weight.

The banks, the recipients of the near free money, allegedly poured out to 'stimulate economic activity', did not pass it on to the general public or to the small and medium enterprises ('*SMEs*'), but chose instead to speculate in the financial markets, driving them ever higher, and thereby making record profits from their trading operations. Meanwhile the working class and thus by default the economies themselves have struggled. Famously, even Ben Bernanke the recent former Federal Reserve Chairman was turned down on his remortgaging efforts, prompting him to comment that the banks may have gone too far in tightening credit. Too tight a credit environment at a time when the banks have been actively flooded with unprecedented liquidity at negligible cost for over 5 years, and their bad debts swapped for cash by the Federal Reserve and the other Central Banks, and there is still head scratching that the economies are stalled and the much sought recovery still elusive?

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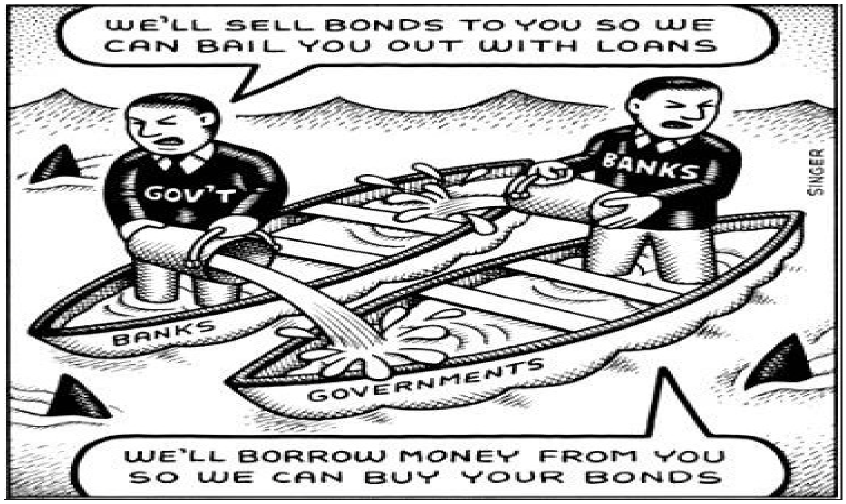

Normal people should have it as good as the Banks. But they can't, because they lack financial and political leverage needed to be at the loaded public trough. The public (*the 90%*) are therefore consistently subjected to a different set of financial and political rules. The profoundly negative implications of these universal double standards are not only moral, but in this case also economic. Simply put, without a re-leveraged consumer, there can be no sustainable Global Economic Recovery, as is now glaringly apparent. The Global Economies which ride the backs of the working class (*the consumers*) have continuously sputtered for the past years of the so called 'recovery' as the global consumer is still encumbered, or worse, underwater, and nobody thinks of bailing them out. Without the consumers actively consuming as in the past, pre-2008, and in ever greater quantity (*the standard economic growth model*) there will be Global over-capacity, and most of the major economies will languish and sink, as they have been doing in spite of all stimulus injected and applied till now.

The very expensive and much vaunted 'wealth effect' that the Central Banks have tried desperately to create, by the constant driving up of asset prices by easy money indulging in pure speculation (*depending primarily on the 'the greater fool' theory*) is probably the most obtuse and dangerous way of stimulating economic activity, as is being proven now, for it creates minimal real value, but grossly inflates 'paper value' that tends to deflate when reality sets in. The crash or severe correction when it comes, as eventually it must in such scenarios, within minutes can wipe out the paper wealth (*the "Wealth Effect"*), negate the so called gains, and reset the economies to a much lower level from which they must start again, with much pain for the 90%.

Here we are not talking of natural business or economic cycles, but the aberration, the peaks created by periods of intense speculation in assets prices, primarily through debt, that create spikes in paper wealth (*bubbles*), that in turn are nullified by the eventual and inevitable reversion to the mean. The end result of speculative asset market booms are never greater and sustainable economic activity, but the inevitable bust that has been borne out by many examples, throughout history.

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True and sustainable economic strength is created by the production of tangible goods and services, desired by the masses, fairly priced, by a gainfully employed and relatively well paid public (*the 'Consumer'*). What Warren Buffet so famously calls, "*good businesses at a fair price".* He has, in his career, created enormous and long term wealth through this relatively simple 'economic formula', while eschewing speculation, and who is to argue with the results?

Well, the 'Political, Financial and Economic Experts' that set 'Policy'. They have spent Tens of Trillions of Dollars and found that the Global Economy is still struggling to get out of the starting gate, and instead of galloping forward, is fighting to back up.

While monetary and fiscal stimulus, after a financial and economic collapse, is necessary to halt the freefall, it should be employed for precisely that, to halt the freefall. Once the freefall is arrested, the policies should immediately start changing the course of action towards the correction and prevention of that which brought on the collapse, and towards the obviously needed regulatory changes that discourage (*not encourage*) the unproductive and dangerous activities such as undue speculation in the asset markets.

Policies should focus on reinvigorating the masses through quality job creation, with a strong focus on sound structural reforms for long-term sustainability. After all, the masses *are* the 'Economy'. Without their consumption of goods and services produced globally, there can be no sustainable economic growth.

Such common sense theories seem too simplistic to the policy makers as they'd rather implement hereto untested and experimental policies, such as prolonged 'Quantitative Easing' through huge injections of printed cash to the reckless villains of the last crash, thus rewarding their past behaviour, and ultra low interest rate policies that punish the prudent, and allow the already moneyed to make silly money in all inflated asset classes, with practically free money, and the risks backstopped by the Central Banks. ***Sweet!***

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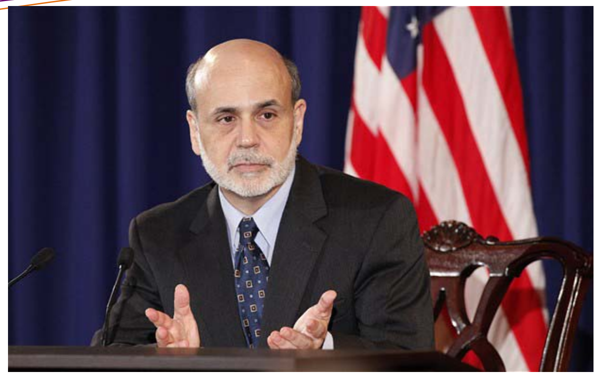
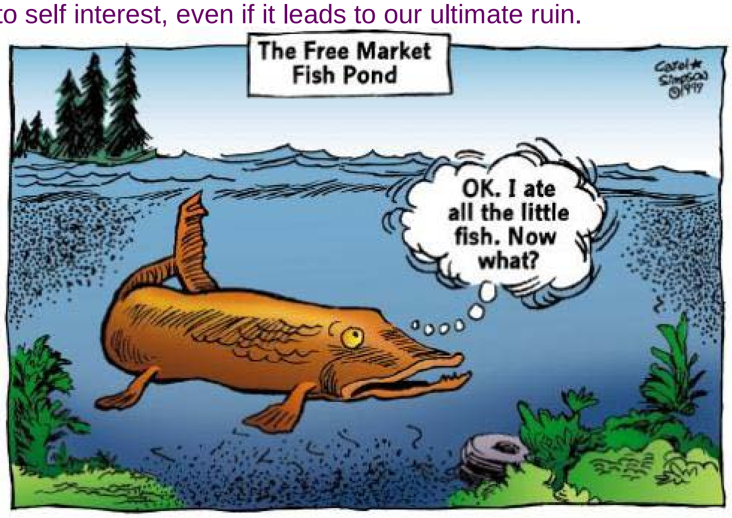


As Ben Bernanke found out, this extraordinary generosity is pretty much confined to Banks, large and powerful financial players - individuals and corporations, and excludes the ordinary public, who for the most part, are shut out from the free money give away.

As these policies stubbornly widen the gap between the have and have-nots, and consistently fail in rejuvenating and reinvigorating the economies, they point to the dogged determination of those in power to favour the 10%, at the cost of the 90%.

That is why, Janet Yellen's (*the current 'Federal Reserve Chair'*) recent and more frequent commiserations regarding the alarmingly widening gap between the rich and the majority wring so hollow. After all, it has been the policies and actions of the Federal Reserve that have in recent decades (*among other reasons*) so enriched the already rich, and steadily impoverished the middle class and the poor.

To a degree these self-serving policies and actions are a base natural phenomenon - nature favouring the strong and powerful, as they are usually at the top of the food chain. But we humans strive to, and in some instances rightfully claim to, rise above the mere basic laws of nature, except when it comes to wealth accumulation. There, our self serving actions remind us that we are still quite primitive and more-often-than-not act on base instincts when it comes to self interest, even if it leads to our ultimate ruin.



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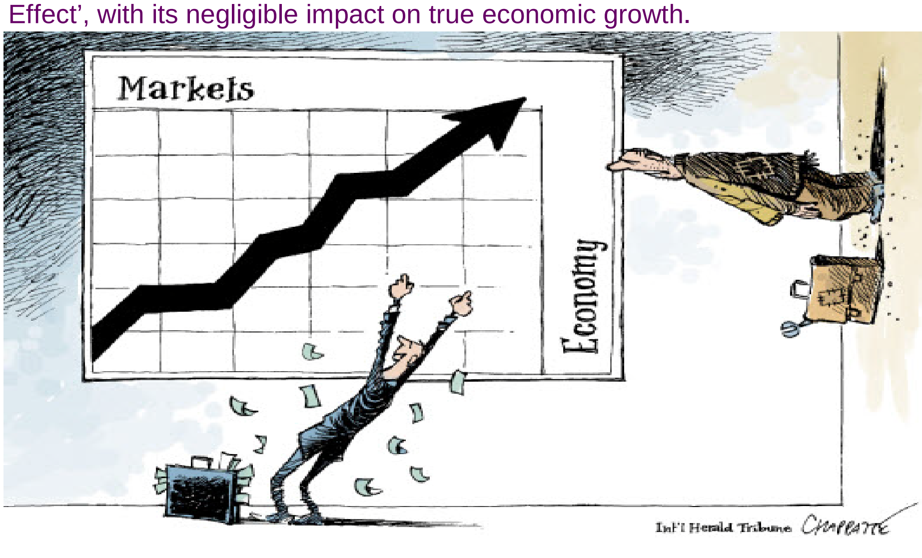
We personally have no problems with the concept of people generally acting in self-interest, as long as their actions are not so acute as to harm others. And, so long as when acting selfishly they get into trouble, they don't look to the public services or more particularly the public purses for personal and financial redemption, as happens so distressingly and regularly with powerful individuals, large corporations, banks and other financial institutions and even public sector agencies. They are so fiercely independent (*raving capitalists*) when things are going good and their way, but become loudly and shamelessly dependent (*socialist*) when things go wrong.

For example: individuals and businesses hating to pay taxes while looking for the best in civil services, or hating government but seeking regulatory protection and favours when in trouble. Intense lobbying by vested interests, for the creation of/or the prevention of regulations that are clearly harmful for everyone but themselves. Exulting in being "Too Big to Fail" and drawing all privileges from it, and then expecting, nay demanding public (*bailout*) funds to the rescue [i.e. car companies, airlines, banks, investment banks, insurance companies etc., and public sector agencies]. Governments expecting solid sustainable economic recovery while withholding the same degree of political and financial privileges from the public that they so readily bestow on Banks and other big private and state owned financial, political and business players. As in the 'purchasing of bad/toxic debt and assets', and the handout of billions by government decree, from the coffers of the so much higher taxed, and more stringently regulated general public.

The hypocrisy and double standards embedded in the narcissistically self centered privileged, are deplorably uniform globally, thus consistently creating a sharply tilted economic playing field that acts as a counter foil to their irrational search for a sustainably ever-growing global economy (*in light of their actions*). Or as is pertinent currently, anticipating a steady sustainable recovery, while denying to the masses the same **direct** largess from Governments and the Central Banks that they are currently the giddy recipients of, to speculate with, and in doing so, create the looked for 'Wealth Effect', with its negligible impact on true economic growth.



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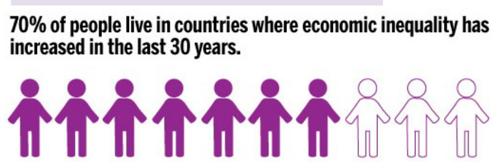
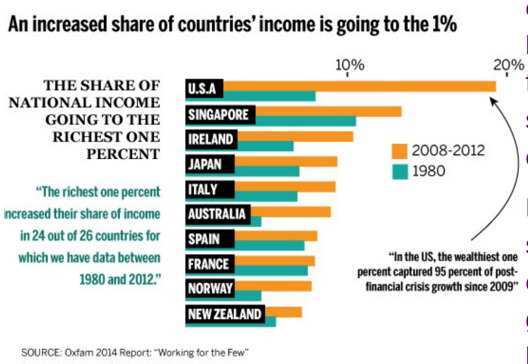
As we had anticipated all along, and unfortunately for the Global Economy and the ever poorer global masses, the conjuring up of 'Wealth Effect' is not the same as the creation of real wealth, as is becoming abundantly clear with the sagging Global Economies. The beleaguered masses continue to shoulder the burden of the powerful and the 'Too Big to Fail', along with the fallout from excessive greed, arrogance and the sheer corruption at the top, while being generally robbed, lectured too, ignored, exploited, and asked to sacrifice more for the national good.

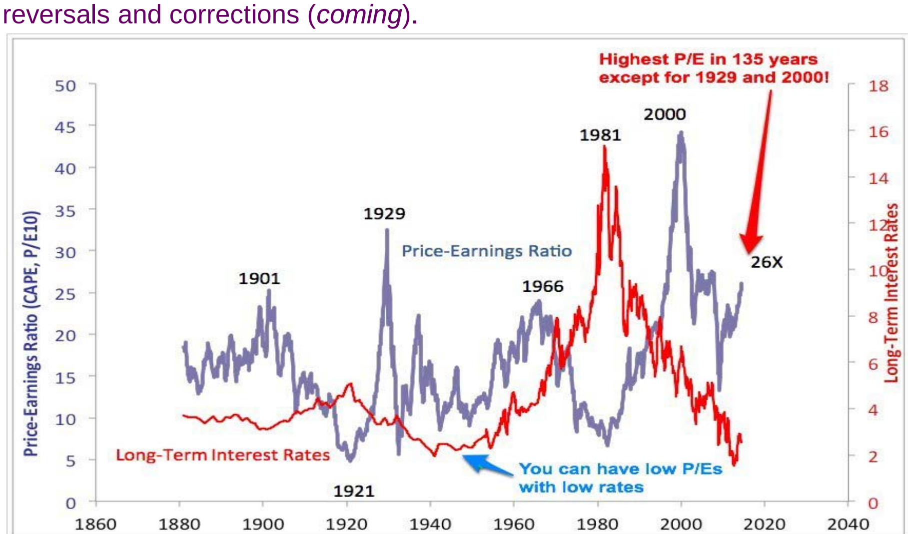
The Global Governments, post-2008 financial collapse halted the free fall, but then continued to reward those that were in a large part responsible for triggering the collapse, and persisted with stubborn, counterproductive monetary and fiscal policies that punished the savers (*zero interest policy*) and rewarded the speculators (*unlimited free money along with forward guidance*), in other words 'Full Service' for the powerful. And, instead of supporting the productive parts of the greater economy and the public at large, and initiating and persisting with the required structural reforms, the government policies specifically and grossly favoured the speculators and speculation in the asset markets to try and create the "Wealth Effect".





In that exercise, the Governments and their Central Banks did succeed admirably. After six years and Trillions of Dollars in stimulus spending, they have certainly created the "Wealth Effect", through bloated financial and real estate markets, all the way from here to China, and generally everywhere in-between, while economic activity and productivity have largely languished, flat-lined and now retracted, as the effects of almost six years of continuous stimulus spending have increasingly weakened to now having negligible effect on the real economies.

But as every adult with a modicum of financial and business acumen, and a smidgen of historical memories of recent decades of excesses and crashes can attest, inflated asset markets induced wealth creation is induced with great time and investment cost (*Six years and Tens of Trillions and counting*), but can be wiped out in minutes of "Wealth Destroying" asset market reversals and corrections (*coming*).



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One would think, as this knowledge is relatively common place even amongst the 'Joe-public', the Governments and their learned gnomes at the Central Banks would have chosen a different path to try and resurrect the Global Economies after the 2008 crash, which after all had been triggered by years of euphoric consumption and spending, excessive greed and debt supported speculative binges. Precisely the kind of economic environment the Central Banks have laboured to recreate these past, post crash years, with additional and more egregious debt. As is so cryptically said "*Go Figure*".

So in their wisdom what do the governments do to correct decades of over-consumption, speculative binges, lagging structural reforms and debt overload? Undertake policies to boost Global Debt to '*never before seen*' heights, promote rampant speculation in asset markets to create **paper** "Wealth Effect" that can literally evaporate in minutes, ignore necessary structural reforms that can correct the glaring imbalances and weaknesses in the individual economies, and instead of fostering global co-operative corrective methods to re-adjust the imbalances, they have worked hard to create a competitive toxic environment of currency and trade wars that could eventually lead to real wars.

After all, isn't that historically the only answer - when governments run out of answers?

Our current prognosis is that the Global Economies will collectively continue to deteriorate in spite of additional and targeted monetary and fiscal stimulus and easing, all the while being increasingly vulnerable to the mounting likelihood of serious economic, geo-political risks, and potential black swan events.

(Our next Geo-political Economic Report will detail the individual economies and economic zones that will affect the direction of the Global Economy, and hence the lives of every individual as part of the global public, in the not so distant future.)