

Take the Wreaking Balls to the Economies



To those of us who follow these things, the past few years have been a study in the improbable becoming main-stream. In economic governance globally, after the 2008 financial and economic crisis, the governments performance had to do the unusual to stave off the global financial systems collapse, triggered by the imprudent financial practices in the United States. It was very understandable for the first couple of years, considering the gravity of the crisis. But, then something strange happened. The governments loved the results of the quick fix approach so much they adopted it as the preferred way to guide and govern economic growth going forward. Ultra low interest rates and year upon year of sustained 'Quantitative Easing' (QE) became economic policy for most countries and economic zones, to the degree that 8 years later it is still the accepted modus operandi.

We are talking about economic growth supported and run almost exclusively by government mandated Central Banks of the World of course. The 'economic recovery' so fostered to-date by zero to negative interest rates and constant 'asset purchase' plans (*bonds buying programs by Central Banks*), created lopsided economic benefits that immeasurably benefitted the wealthy of the World while penalizing the middle class and the poor, and kept global economic growth weak and tepid for the most part.

This global economic recovery so far is false and fragile and basically unsustainable, but, the governments and their Central Banks have managed to keep it all from collapsing by friendly collusion, compromise and consensus for the last few years. This is now changing...

Unexpectedly, and out-of-left-field came the wrecking balls, 'Brexit', 'TRUMP' and 'Nationalism', and they are not about friendly collusion, compromise and consensus, but all about separation, isolation, anti-globalization, protectionism, anger, mistrust, and about the desire for drastic change. And drastic change is what is going to be unleashed on this shaky, carefully held together global economic structure, which is surely going to feel the impact.

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There is a lot that is wrong in the conduct of those that are powerful in the affairs of this World. Self interest to the detriment of others and corruption is endemic to most all systems and economies. And since time immemorial it has been this way. But, in the last 6 to 7 decades, post World War II, overall conditions for humanity improved steadily in spite of regional wars, atrocious governance in some cases, horrific genocides in some parts, and dangerous rise in white collar crime, drugs and lethal diseases.

Still, in the last three decades, global conditions improved even more dramatically. With liquidity unleashed by Ronald Reagan and the Federal Reserve under Alan Greenspan, the World became awash in money and debt. Through globalization and the collapse of the old style communism, and opening up of international trade, hundreds of millions of people rose out of abject poverty to better conditions in China, India, the rest of developing Asia, and Africa. Most of the Trillions printed and injected into the financial systems went to enrich the already wealthy, but just enough of it went to the ordinary people to make them better off than in past decades (*prior to the 2008 crisis*). This general prosperity of course came at a price; a growing debt burden that escalated alarmingly as growth and stability were bought outright with debt, more so than structural economic reforms.

As global prosperity increased even at the cost of future generations, the current generation went shopping. And that consumptive spree, by and large, made people feel richer and happier, even as governments and people piled on debt.

Of course schemes that seemingly give the appearance of working, and are making people happy, are quickly embraced and pushed by governments without much thought of long term consequences, and in this circumstance constant QE got pushed to dangerous extremes, through the explosion of debt which is now at record levels throughout the World. Growth through ultra low interest rates, perpetual QEs, and inflated asset markets, has brought us to the current fragile economic structure 'in perpetual recovery mode'. This structure is now at risk by the wrecking balls that are swinging its way.

The swing to the populist movement, the World over, is the result of years of growing prosperity for many suddenly being snatched away post 2008. And the corrective remedy undertaken, low interest rates and endless QEs, while very effective in staving off a complete collapse, was not effective in restoring the lost prosperity of the vast majority post-2008, but resulted in the excessive enrichment of the very few, and in a large measure the reversal of fortunes for the majority, excluded by the 'trickle down' economic policies adopted since then.

And so we have a political revolution underway now that brought us Brexit in the U.K., Donald Trump as President in the United States, and perhaps other right-wingers into some of the governments in Europe, in the coming elections.

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This political revolution that threatens the existing economic World Order is perhaps necessary as creative destruction, but as such things are prone to be it could be very painful indeed in the interim. After all, the drastic change that people are voting for is at the cost of socio-political societies, systems, and more than less open global trade, that have been running, even if imperfectly, for some decades now. Promises of disruption to the socio-political status-quo and global trade that Brexit, Donald Trump and other Nationalists represent - are by their very nature disruptive and hence bound to be costly.

Overall, the geo-political, economic fundamentals already aren't very sound.

In the West, the United States was in decent shape, and was improving, till the election. Now, the Trump and Republican agenda coming-on is going to change that outlook based on societal and trade disruption and the long lingering debt problem, which is bound to get worse under Trump's stated policy objectives of cutting taxes, disrupting trade, and huge spending(s) on military build-up and extensive rebuilding of infrastructure.

Britain was doing alright but Brexit changed that. Now the British Prime Minister is busy trying to extricate Britain from the EU while losing fee access to the biggest market, and is initiating new individual trade Agreements with other countries, on a country by country basis, a process long and arduous at best and fraught with risk.

Europe was struggling mightily before Brexit, but now its cohesion itself, as a Union, is being threatened, and some of its major economies, like Italy and France face additional possible political and economic upheavals. Europe's anemic economic growth rates, as a collective, its high unemployment rates, its many geo-political risks, make for an uncertain near term future that poses additional risk to the fragile global economy.

China has slowed considerably, and the rate of deceleration may become drastic if the Trump Administration carries out its various threats to call China out on trade, currency manipulation, and its claims of sovereignty over South China Seas. All these issues are a threat to orderly trade and to peace in the region. Apart from trade conflicts, an escalating risk of armed confrontation between the United States just heightens overall global risk.

All this would be over and above the general disruption to global trade that Trump's team is already starting to initiate with Canada and Mexico, who are America's biggest trading partners, with the call to renegotiate NAFTA (*North American Free Trade Agreement*), and to Asia with the scrapping of TPP (*Trans Pacific Partnership*), and to the Muslim countries of the Middle East now slapped with the very disruptive travelling and visiting bans.

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India, a generally self sufficient country in terms of economic sustainability because of its large internal market, just committed a national economic version of 'sepku', the Japanese act of self-gutting, by the unilateral overnight demonetization of its cash, in a 98% cash-transaction economy, thus slamming on the brakes on an economy that was posting some of the best growth rates of all major economies till then. It will take India some time to sort out that mess, and in the meantime its economy will reflect the self-inflicted injury.

Economically speaking, satellite countries of the U.S like Canada and Mexico, and of China and Asia, like Australia and New Zealand, are dependent on larger economies to do well. All of Latin and South America are also going to feel the slowdown in global growth, while their largest economies, Brazil and Argentina, are already floundering with their present day recessions which have been ongoing for a while. Brazil and other resource rich counties have been negatively and deeply impacted by the dramatic slowdown of China.

As the socio-political, economic effects of Brexit and the Trump Presidency take effect, further weakening Europe, North America, China, Japan, the rest of Asia, Latin and South America, in the near to mid-term at the least, the Global economy will feel the impact, triggering a destructive sequence of negative outcomes via trade disruptions, currency battles, and reciprocating protectionist measures.

The economic, social problems being berated by Trump as shortcomings of previous incompetent Administrations that have lessened America's greatness somehow, are not going to be solved by slogans, 'bring jobs back' and 'make in America and buy American'. The problems of America and the developed World are for the most part, structural, exacerbated by a changing World where manufacturing and services are best suited to emerging countries, and not developed countries. Emerging countries and emerging technologies, aging demographics and decades of living beyond their means on borrowed money, are the other natural disruptors at work in economies. Prolonged stimulus and easy monetary policies and the resultant debt and speculation have created dangerous bubbles in financial markets and real estate markets. These problems are not going to be fixed by physical or high tariff protectionist walls; or by Imperial decrees, but rather will be exacerbated, further weakening America and the World economies.

A divinely orchestrated creative destruction phenomenon these wreaking balls of Brexit, Trump and rising Nationalism may have been, but as in the Biblical past, the average human is going to feel the coming pain.

