

ARMCHAIR ECONOMIC PERSPECTIVE Are Those “Green Shoots”? May 2009

I have been telling folks the last few months about my new job - Father Doug, Pastor Doug, Rabbi Doug. Expect this new job is going to keep me busy for the bulk of this year, and maybe longer. My voice mail and e-mail are full of inquires from people trying to figure out what to do right now. Some are unemployed; some are worried about becoming unemployed. My basic view is that we will see unemployment grow and stay high for a good while to come.

America is going through an economic transformation, a cathartic period that will result in dramatic change. It is no wonder the word “change” became the winning political slogan. Virtually everyone was going through it. “Change” has become the dominant “brand” in America. The Democrats picked it up and won with it.

After the dot.com blow up I predicted that America was going to transform itself from a consumption to a savings oriented economy. I was wrong in the short term but right in the longer term. Unfortunately during that period of time the depths of our balance sheet imbalance grew much larger.

Everything we are watching today parallels two other recent transformative periods. One is the Great Depression. The other is Japan’s Great Deflation, which started around 1990 and is still going strong today. Both of these periods are relevant to our current circumstances but I’m only going to consider the similarities to the Great Depression for this discussion.

The Great Depression started with the stock market crash in October 1929. It was inspired by the Roaring 20’s, a period of significant personal consumption, rapid economic growth, globalization growth, financial services “innovation” and the massive expansion of consumer debt. Does that sound familiar? The deleveraging from this period took a long time.

It is generally viewed that the Great Depression ended after America entered World War II, inspired by the Japanese attack on Pearl Harbor December 7, 1941. That event served as the catalyst for a tremendous industrial boom. We had to replace significant military assets destroyed at Pearl Harbor. We had to build a war machine to face two enemies in different parts of the world.

It was probably 1943, a little over a year after Pearl Harbor, before a sustainable economic expansion set in. 1930 to 1943, that’s 13 years from collapse until a worthwhile revival. During those 13 years Washington did everything they could to inspire the economy, but none of their actions provided sustainable growth. Should we expect our current contraction to also last 13 years? It would be foolish to make any specific projection. It could be shorter. It could be longer. But one thing is probably for sure. It probably won’t just last a year or two.

The crash of 2008 actually began in 2007. The DOW peaked in October 2007 at 14,000. It gradually lost momentum until crashing hard in October 2008 and then again in February 2009. What is it with October? They should adjust the school year so we are all on vacation in October.

A small leak from our economic balloon emerged after buyers of mortgage securitizations started heading for the exits in 2007, but the biggest catalyst to our crash was Lehman’s bankruptcy. There is

Armchair Economic Perspective
Are Those “Green Shoots”?
May 2009

no reason to blame Washington for Lehman’s fall. Given the massive Ponzi scheme Wall Street had deluded itself into there had to be a blow up some place. It was inevitable. Wall Street had been skiing way too far over its tips for way too long. When doing so it is only a matter of time before you hit a tree or experience a crash that lands you in the hospital. Let’s just hope the American economy is in the hospital, not the morgue.

The times have now provided us with a new economic buzz term, “green shoots”, referring to the first little signs of economic turnaround. It fits perfect with my recent Armchair Economic ranting about the economic forest fire, fire fighting, and the “seeds and seedlings” of opportunity.

From what I can tell “green shoots” originated in January of this year by the BBC’s Alastair Stewart in his interview of Baroness Vadera, the UK’s Business Minister. Bravo Alastair! Too bad you can’t get a royalty on that term because soon every economic forecaster and politician will be using it.

Just as in every stock market, bull or bear, there are always stocks worth buying, so too at every stage of the economic cycle can we find “green shoots”. But it seems way too early to be finding the “green shoots” of a sustainable economic recovery.

We have a long way to go before the consumption based economic infrastructure built up over 30 years is downsized to fit market needs. This means deflation. We have way too much production and service capacity in almost every part of our economy except maybe workout and turnaround service providers. It likely won’t be long before we have too many of those as well.

Herein lies our biggest challenge. We need to “find” a true organic economic catalyst to support sustainable expansion. It cannot be government. If government is the foundation to a worthwhile economy then why aren’t Stalin’s Soviet Union and Mao’s Communist China still around? And why is the EU in worse economic shape than the United States? It seems obvious that the more government you have the worse it is for your economy. Are you listening Washington? How about you, voters?

“Stimulus” inspired by printing and borrowing money might create a few “green shoots” but it can’t create sustainable growth. These are just stopgap measures, band-aids for the head wound we suffered in that skiing accident. Without a true organic catalyst, we will continue our stay in the ICU. There will be false recoveries during rehabilitation, trading opportunities in the stock market, jobs where we may feel underemployed, but all will remain fragile until that true organic catalyst arrives.

We can try all we want to create that catalyst, but at the end of the day it likely just has to find us. Managing the economy may be about as easy as managing the weather. Mother Nature works on her own time, not ours.

I hope during this challenging environment you find some favorable opportunity. If so be appreciative, for the path we are on is more like Mt. Everest than a walk in the park.



Douglas A. Leyendecker