

ARMCHAIR ECONOMIC PERSPECTIVE

Shock and Awe

June 2009

As described in Wikipedia...

“Shock and awe, technically known as rapid dominance, is a military doctrine based on the use of overwhelming power, dominant battlefield awareness, dominant maneuvers, and spectacular displays of force to paralyze an adversary’s perception of the battlefield and destroy its will to fight. The doctrine was written by Harlan K. Ullman and James P. Wade and is a product of the National Defense University of the United States in 1996.”

It has been a few years but we all remember the use of “shock and awe”, the strategy employed in our 2003 invasion of Iraq. Not long after that strategy was employed we were celebrating “mission accomplished”. And we all know what came after that.

As defined above, in order for “shock and awe” to work we must possess and execute “overwhelming power, dominant battlefield awareness, dominant maneuvers and spectacular displays of force”.

It seems obvious that in Iraq we possessed “overwhelming power”, “dominant maneuvers” and “spectacular displays of force”. But our downfall may have been a lack of “dominant battlefield awareness”.

We quickly “won” the war in Iraq but since have been burdened by a significant sustained military presence. It probably was our lack of “battlefield awareness” or maybe in this instance, “cultural awareness” that has led to years of a guerrilla war and the very fragile society that country now seems to possess. Will there ever be a free and prosperous Iraq? Certainly that will take many more years to find out.

So, “shock and awe” did not work in Iraq because we failed to possess one of the four necessary ingredients, “dominant battlefield awareness”.

It recently struck me that Washington is now using “shock and awe” in its “war” against the evil forces of economic contraction and deflation. Just as we filled the Iraqi airspace with our planes we are now filling the economic airspace with our “Helicopter Ben”.

Do we possess the four necessary ingredients to be successful with economic “shock and awe”?

We are definitely making “dominant maneuvers” and showing “spectacular displays of force”. The trillions being spent to save our economy and the level of government intervention are nothing less than dominating and spectacular.

“Overwhelming power” we would seem to possess. The United States is the world’s largest economy. Our dollar is the world’s reserve currency. We still possess a significant global advantage in intellectual property.

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But how “overwhelming” is this “power” if foreign investors quit buying our sovereign debt? How challenging will it be to borrow massive amounts of capital from a shrinking investor market? How can we “earn” our way out of deflation without inspiring inflation, a weaker dollar and/or higher interest rates? And how strong is our “intellectual property” competitive advantage when numerous nations, China in particular, have yet to fully join the system of paying compensation for ideas and innovation.

So, there seems risk to our “overwhelming power”. And more important, like in Iraq, what we probably do not possess is “dominant battlefield awareness”. Our current economic “battlefield” appears to be uncharted territory.

We seem to be applying the economic history of our lifetimes to this current situation. This is a natural human response, for what we know we really only know from personal experience. Sure we have an operations manual based upon the entire history of economic challenge extending beyond our lifetime, but in the end we have little, if any, personal experience in this field of battle. Bernanke may be the greatest student of the Great Depression, but he is not an experienced combatant in this style of engagement.

Consequently, to expect a sustainable V shaped economic and investment market recovery seems a bit naïve. A U shaped recovery also seems to be asking a lot. Many like to suggest we will see the W, with some kind of expansion followed by another recession before we find the next sustainable expansion. At this stage though, PIMCO’s latest perspective seems to resonate best. We’re searching for “The New Normal”, suggesting the future looks more like an L than a V, U or W.

Neither progress nor regress develops in a straight line. Both are endeavors in a specific direction. That direction comes from the folks at the front of the line...our leadership. Today instead of “liberty” inspiring we have “security” inspiring leadership. Instead of empowerment we are embracing entitlement. You can’t ensure people don’t make mistakes and you can’t insure them from their mistakes. Doing so only inspires more mistakes.

So right now we have the biggest economic arsenal of weapons being deployed on a battlefield we may barely understand. The likely result? Probably not much different than in Iraq, a “sustained government occupation” that leads to ever-increasing economic fragility.

I hope during this challenging environment you find some favorable opportunity. If so, stay cautious, for previous victories from “shock and awe” have proved unsustainable.



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