Reflections on the Great Depression of 2010

15 Mar 2050

We've come a long way...

A little over 40 years ago, western financiers and their advisors were torn. On the one hand they were quietly thrilled by the audacity of recent imperial outreach work in the middle east. On the other hand, they now felt a little nervous about the scale of the transfer of wealth closer to home.

The superpower of the day had stopped reporting on the creation of money (M3). Foreign investors rightly took this to mean that too much money was being pumped into the world's financial system. Their response was to stop building dollar reserves and to stock up on euros.

Institutional investors moved money into tangible assets. Speculation raged. Land, commodity and energy prices spiked. The value of the dollar fell.

Then as the unprecedented housing boom predictably turned into an unprecedented housing bust, something shook the banks. As house prices collapsed, borrowers started to turn round and hand back the keys.

Investment vehicles froze like a startled fox in the headlights. With the banking system over-lent and barely solvent, cheap loans evaporated. Buyers vanished. Shares were hammered. And, despite the injection of hundreds of billions of dollars by central banks, trust and confidence continued to wane.

It was then that some of us started to comprehend the scale of the speculative bets being made. Oil soared to $110 barrel. Gold screamed up to $1000 an ounce.

But the fat controller was spooked, not by the end of the boom with a bust – but by the possibility of violence on the streets.

Stoking anarchy in the middle east was one thing, but Anarchy in the UK was beyond the pale. Large numbers of people were going to lose jobs, homes and businesses. Protest would grow. Administrations both sides of the atlantic sought to extend detention without charge.

From a world of wasteful abandon...

The convergence of oil depletion, resource wars, climate change and financial meltdown, saw elites turn to private security firms for succor.

The financiers were certainly not preparing to queue at the fuel pump. Ideas were floated. Depopulation? WWIII? Penury? They had already decided which they preferred.

Meanwhile we had swapped social, spiritual and sexual communion for TV dinners and pornography. Climatologists warned that the planet was about to shake us off like a bad cold, but restraint on consumption was nowhere obvious. The UK government had plans for more roads, more runways, more houses, more power plants, more... prisons.

Our hunger for domestic energy remained insatiable. Whereas the Roman might keep a horse, citizens of the West thought nothing of tethering 100 horses to their chariot.

At the turn of the century we celebrated the wizardry of city finance, the low cost of goods made in Asia, and the excessive choice provided by the [super] market.

All this cheap abundance came at a high cost. Manufacturing, mining, drilling and agriculture were fast exhausting natural resources. Only it was now happening out of sight. Unpleasantness had effectively been banished. The London smog was now Beijing's problem. This was what we meant by globalisation.

Television was a daily diet of little of any real consequence. Our daily travails kept most of us excessively busy turning cogs in government or corporate wheels. In the commercial world, profit imperative remained centre stage. Politicians repeated the mantra of never ending growth. But, all the signs were that ours was not an exemplary way to live.

Worse still, we felt disconnected. Catastrophic human losses had disoriented us. It felt like reality was being fabricated. We were hypnotised. For a while, TV became a disaster movie of terror and anthrax and viruses.

To the dawning of the real world...

During the austerity of the Great Depression of 2010, something finally dawned on a great many westerners. Our fast living fast spending overstocked supermarket of a culture was only possible thanks to the continued exploitation of foreign workers.

The one way traffic of resources had always, in fact, been based on presumptions of superiority. Now, with growing demand for resources from cash rich China, we were about to experience the reverse flow of resources. Asia would now price the meat and fish off *our* plates.

We looked at our reflections in the mirror and we realised how precarious our position had become. We had been carried all these years, as if on a chaise longue, by an army of foreign labourers. Carbon trading and offsetting was just another convenient deceit born of a misplaced belief in our own superior worth.

We started to recognise that our profit driven work ethos had caused errors of judgement. It had accelerated the depletion of the very resources needed for man and planet to enjoy happy continued co-existence. Convenience, we now discovered, had a counterproductive side. We had built little to last.

In fact, we had done little to resolve the fundamental issues. The most fundamental of all was the entrenched injustice stemming from the private ownership of land. The UN's 2020 Vision Development Goals raised our hopes – a debate began to unfold.

Some of us looked for examples of sustainable development. Often we found it in places reviled or even embargoed by the west – Castro's Cuba for example.

We resolved to cycle to work, eat less meat, generate our own hot water and electricity where practicable. In small ways we relearned how to do things for ourselves – how to be more self-sufficient. We grew food. We travelled less. We shared more.

We were not luddites. We eagerly anticipated the convergence of technologies - the reduction of all communications into one chip set. We loved being able to download software to take control of another aspect of our lives. We loved the wireless freedom to roam. We revelled in the ability of new fabrics, garments and prints to harness energy and insulate against heat and cold.

We began to value clean air, clean unfluoridated water, seasonality in all things. We backed up or dug new homes into hillsides and covered them in soil and grass. We aspired to clutter free lives and relearned the art of designing products which had long lives of rich utility.

We were hopeful. We took time to meditate and developed faith in humanity, because without this faith there could only be more carrots and sticks.

And carrots and sticks, we knew, were meant for donkeys.

Oil had been a remarkable gift to mankind over an entire century. Oil was gone, but there were, of course, other gifts.

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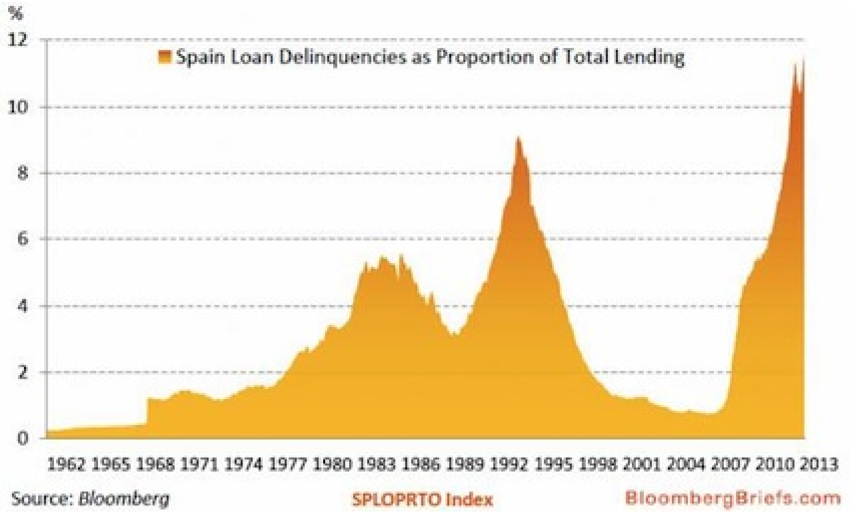
Essential Reading:

Four rules not learned from the Great Depression My Budget 360
The case for Deflation Interview with Stoneleigh of Automatic Earth
A tale of two depressions by Barry Eichengreen & Kevin O'Rourke

Bush - Before and After
UK financial crisis 2007 | 2008 - Where to next?
Preparing for Transition?
Too much money (UK 2006)
Austerity Britain (1945 - 1952) by David Kynastaon

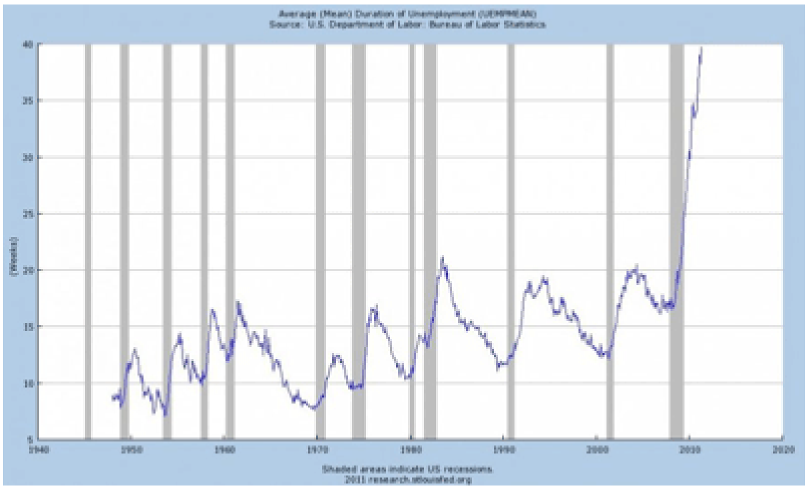
US Marketing Consultant, Victor Lebow
Journal of Retailing 1955:
'Our enormously productive economy demands that we make consumption our way of life, that we convert the buying and use of goods into rituals, that we seek our spiritual satisfactions, our ego satisfactions, in consumption. The measure of social status, of social acceptance, of prestige, is now to be found in our consumptive patterns. The very meaning and significance of our lives today expressed in consumptive terms.'

Related Graphs:

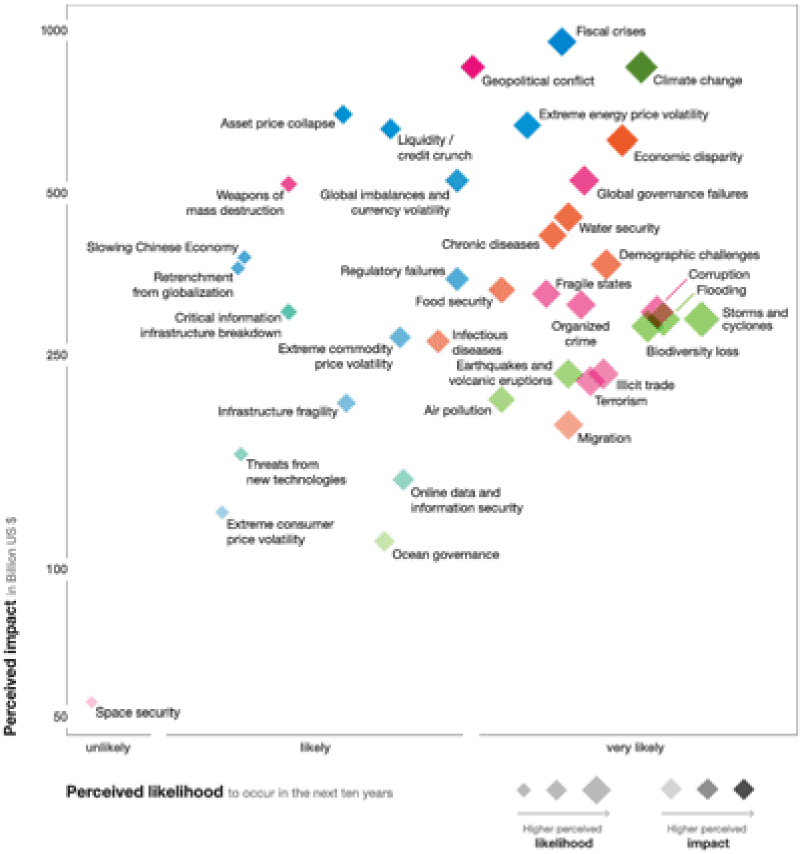


Graph: Bad loans peak again in Spain going in 2013.

Graph: 5 year % change in US household net worth to 2011 at annual rate



Graph: The average duration of US unemployment grows relentlessly into 2011.



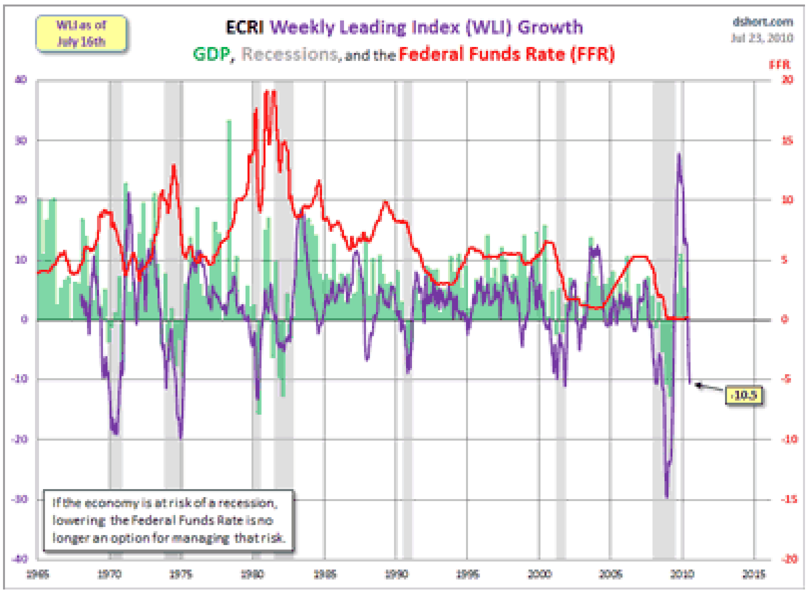
Graph: 580 world 'leaders' project more of the same for the next 10 years - Fiscal crises, Geopolitical Conflict, Extreme energy price volatility, Economic Disparity. Part of their preparation for Davos 2011 meeting. Click graph to enlarge. From WEF Global Risks Report 2011.

SINGLE MOST IMPORTANT PROBLEM

August 2010

Problem	Current	One Year Ago	Survey High	Survey Low
Taxes	21	18	32	8
Inflation	3	5	41	0
Poor Sales	31	32	34	2
Fin. & Interest Rates	4	4	37	1
Cost of Labor	4	5	9	2
Govt. Reqs. & Red Tape	15	11	27	4
Comp. From Large Bus.	5	8	14	4
Quality of Labor	5	4	24	3
Cost/Avail. of Insurance	8	9	29	4
Other	4	4	31	1

Table: (Sep 2010) Index suggests poor sales remain a problem for small US businesses (From NFIB's quarterly survey, based on responses from a sample or some 4000 small businesses).



Graph (to July 2010): The Economic Cycle Research Institute (ECRI) Index from 1965 to date has tended to fall steeply in advance of recession. Lowering the base interest rate has historically been the preferred tool for reviving demand (with the carrot of cheaper credit and stick of lower returns on savings). Click graph for larger version. Note this has since shown signs of recovery.

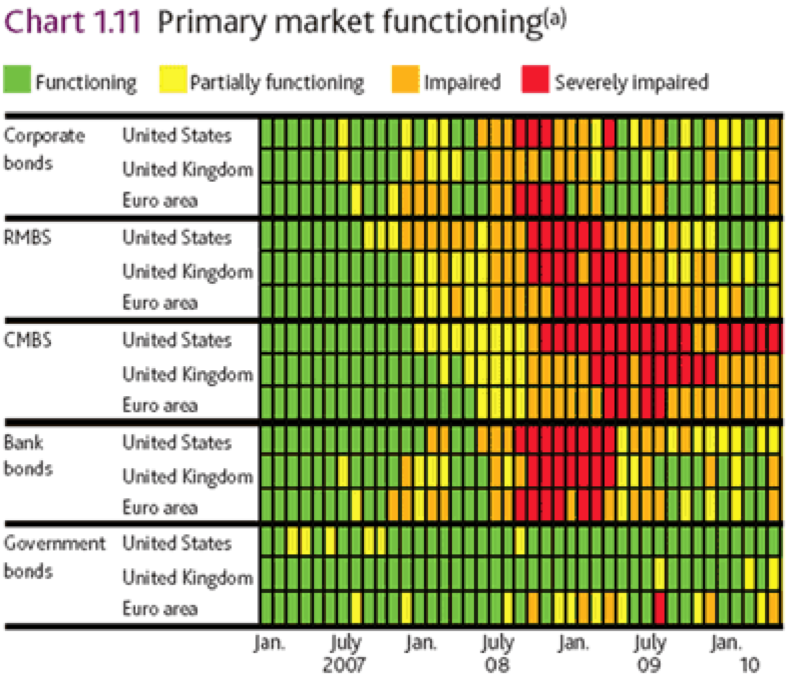


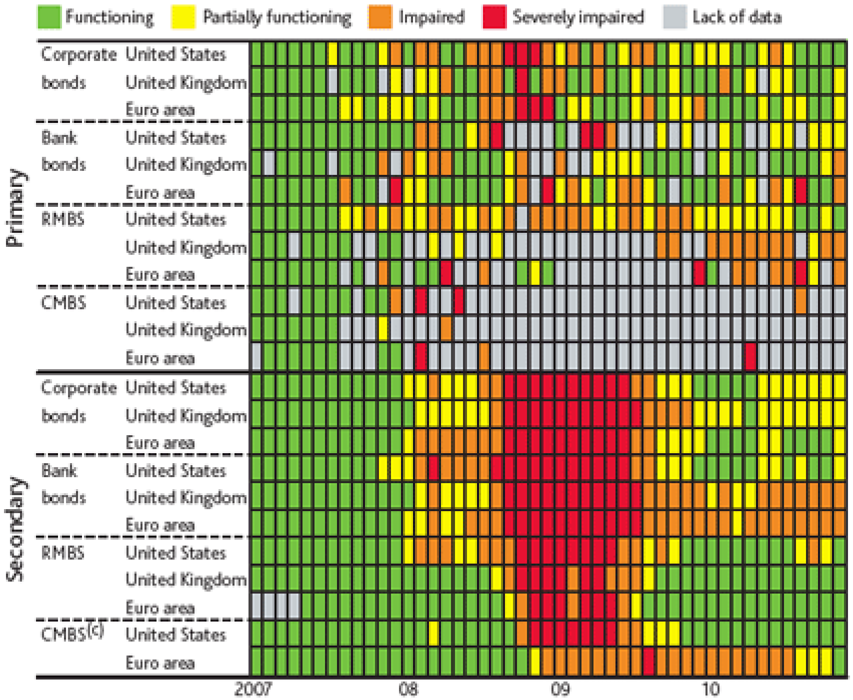
Chart: The Bank of England's June 2010 Financial Stability Report (p18) suggests that business as usual (ie. all green) for the banks is still some way from returning.

Faith in Commercial Mortgage Backed Securities (CMBS) hasn't recovered. Residential Mortgage Backed Securities (RMBS) remain vulnerable.

Data that would tell readers anything new about the demand for either of these two forms of struggling securities has been stripped from the same chart as it appears in the Bank of Englands's later December 2010 Financial Stability Report (p14) below. The sea of grey for CMBS data hardly inspires confidence.

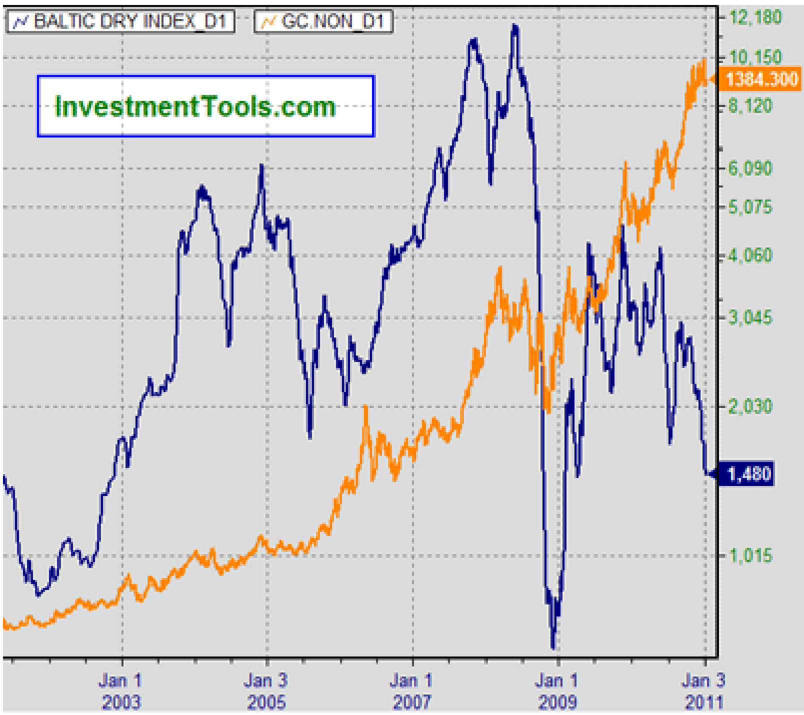
May 2010 was the month where fears of sovereign defaults in the Eurozone caused investors to fly from risk. Note the red block for CMBS Euro area below.

Chart 1.9 Market functioning(a)(b)

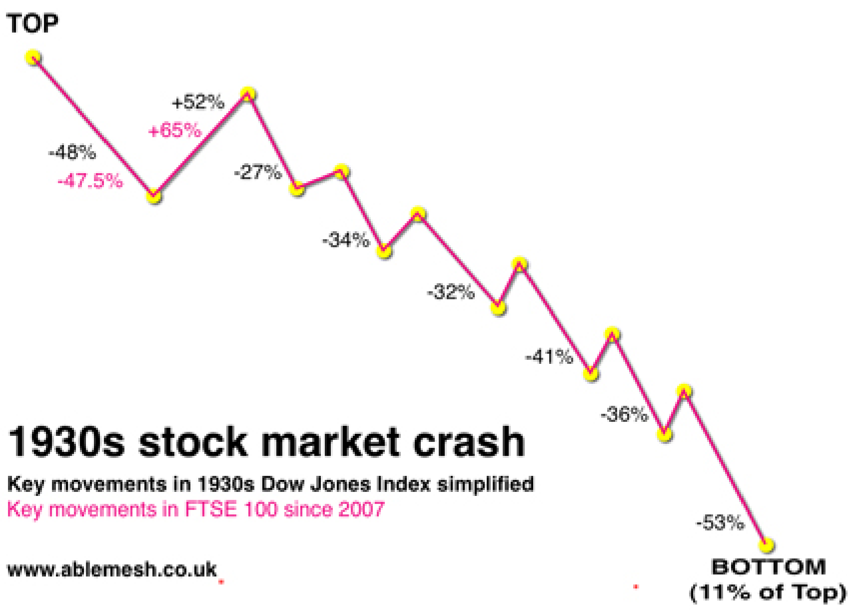


Sources: Bank of America Merrill Lynch, Bloomberg, Dealogic, JPMorgan Chase & Co. and Bank calculations.

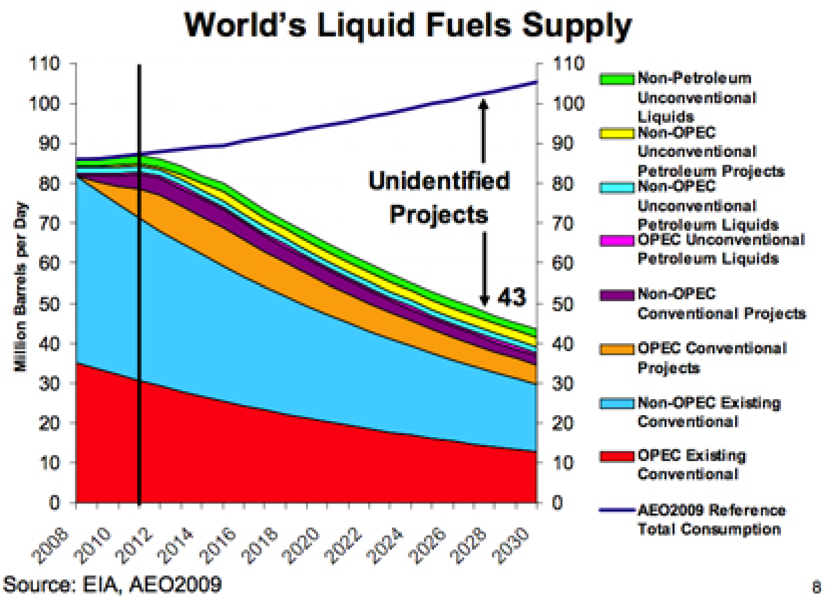
(a) Shading is based on a score that reflects, for unguaranteed debt, issuance (relative to GDP) and spreads in primary and secondary markets, expressed as a number of deviations from average.
(b) Data to close of business on 30 November 2010.
(c) Secondary market data for UK CMBS are insufficient to calculate scores.



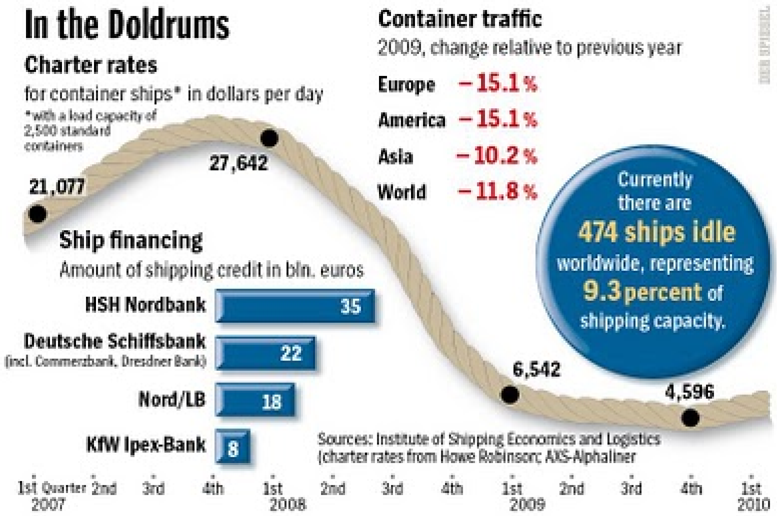
Graph: The Baltic Dry index is held to be a useful guide to future demand for international shipping/trade. Plotted here against the Gold price - a form of exchange valued in times of uncertainty.



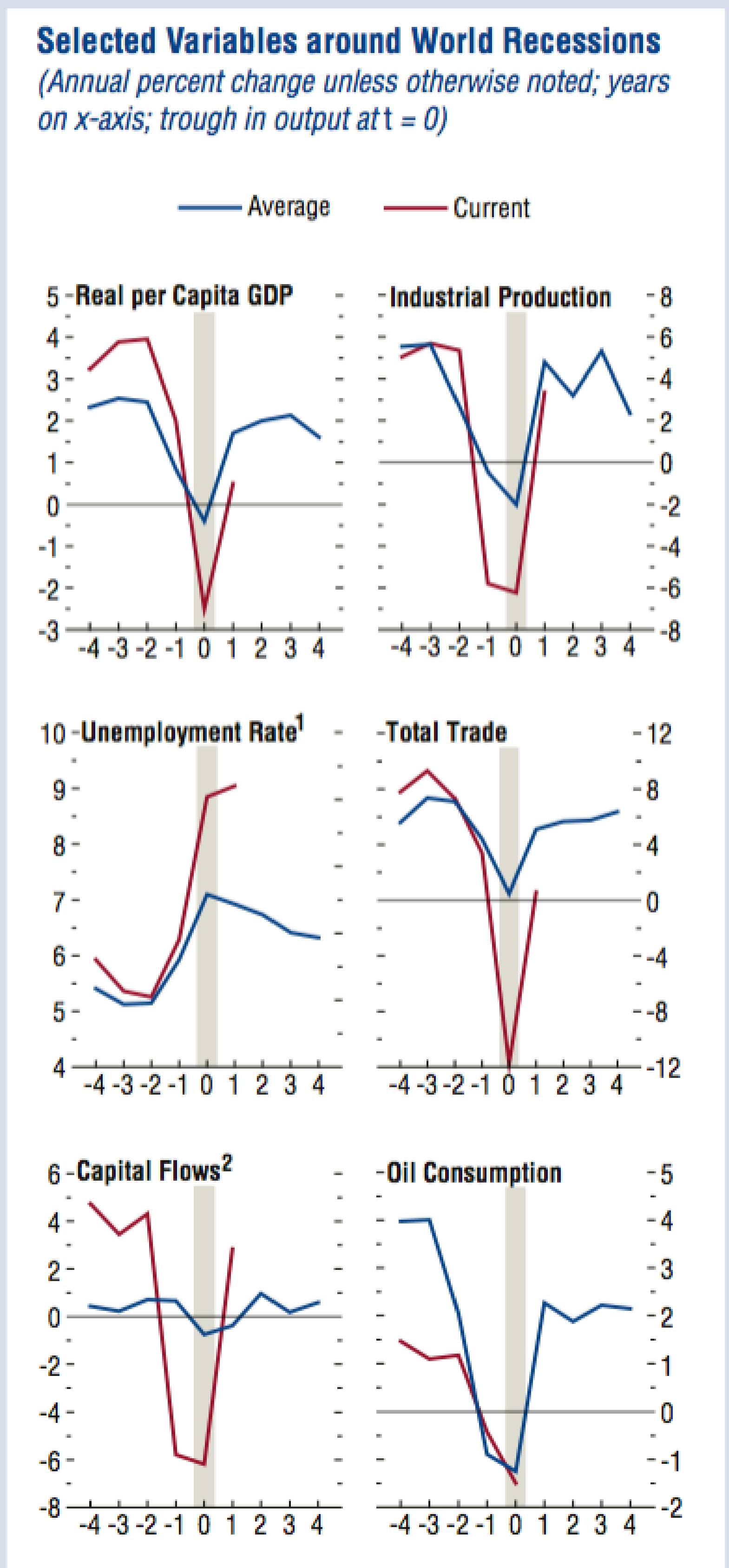
Graph: **This joke isn't funny anymore**. An identikit 1930s stock market bottom would require these kind of movements in major share indexes over time.



Graph: The outlook for demand and supply of oil and its derivatives from a US Department of Energy presentation of April 2009 called 'Meeting the World's Demand for Liquid Fuels'.

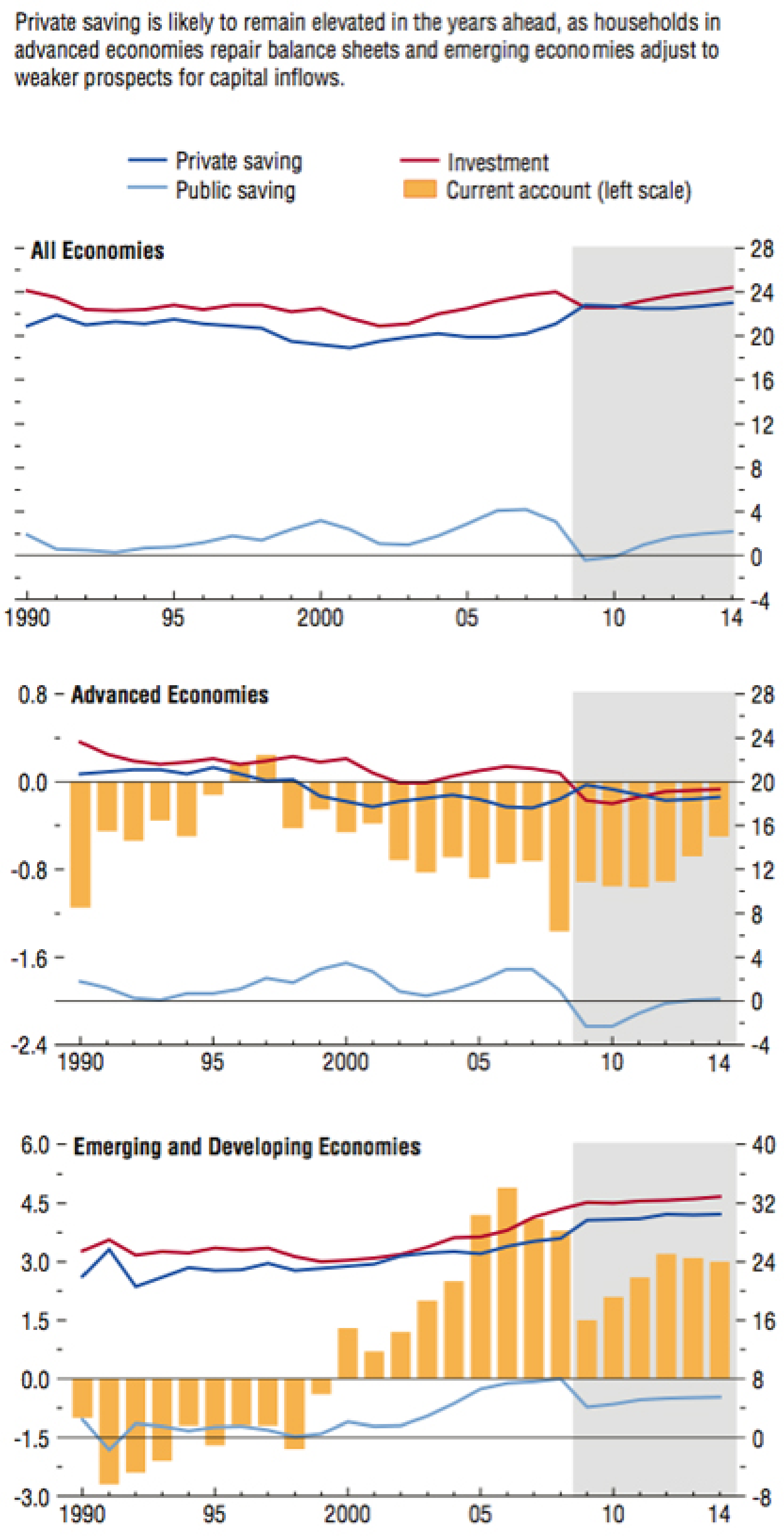


Graph: Demand for bulk container ships isn't what it was.



Source: IMF staff calculations.
[1]Unemployment rate in percent. Comprises data in the advanced economies only.
[2]Capital flows refer to the two year rolling window average of the ratio of inflows plus outflows to GDP.

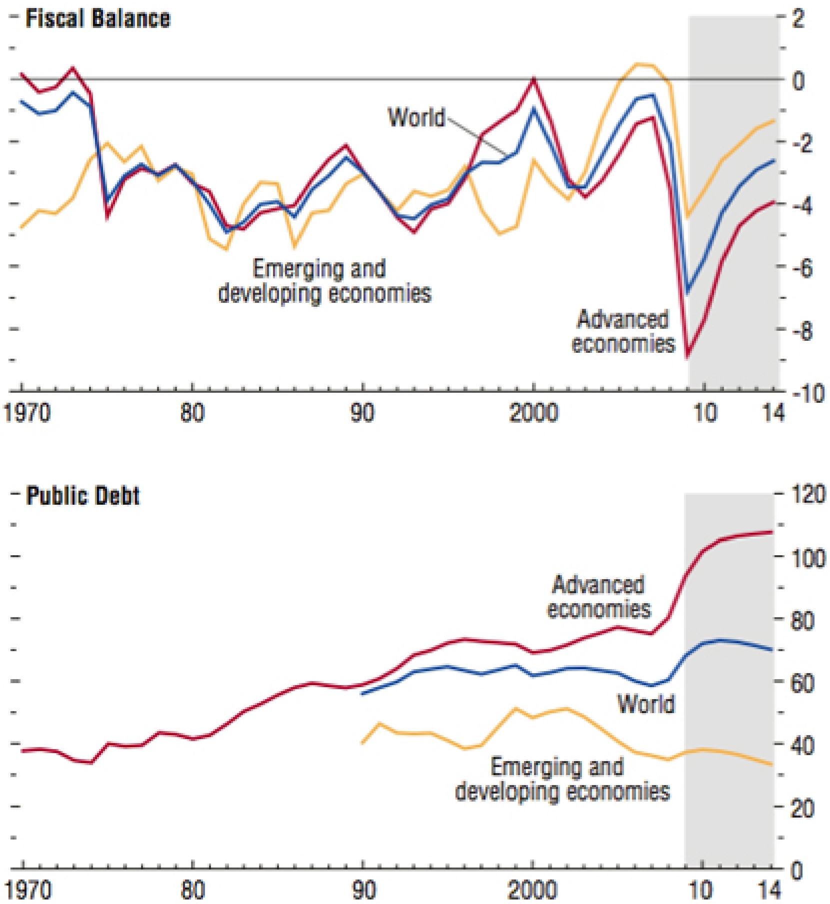
Graph: Six measures of the severity of the first phase of the crisis compared to previous recessions. From page 13, Chapter 1 of the IMF's World Economic Outlook (WEO) Crisis and Recovery Report of April 2009.



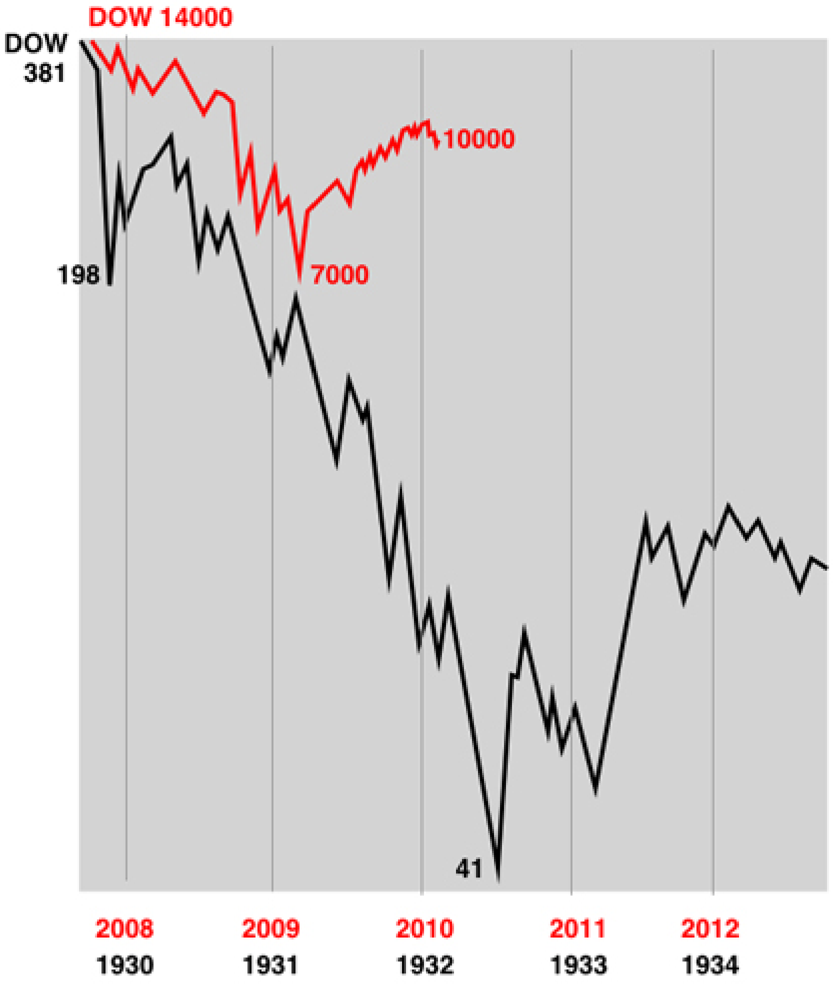
Graph: They'll save/invest so that we can spend/consume. Or will they? China might have other plans. In 2009 it proved necessary to employ 'quantitative easing' to shore up wavering demand for government bonds in the US/UK. China reduced holdings in Dec 09.

Figure 1.14. General Government Fiscal Balances and Public Debt
(Percent of GDP)

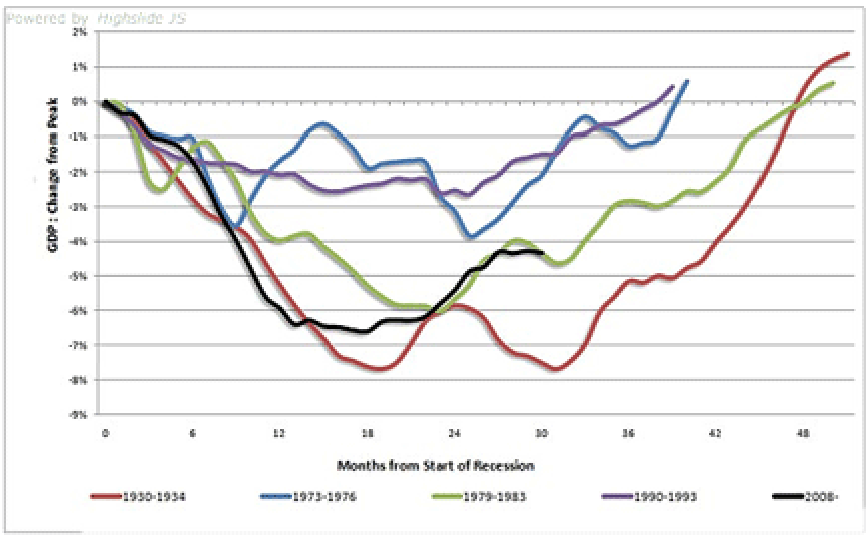
Fiscal consolidation will be a major challenge as the global economy starts to recover from the present crisis. Public debt is expected to continue mounting even as deficits are reduced.



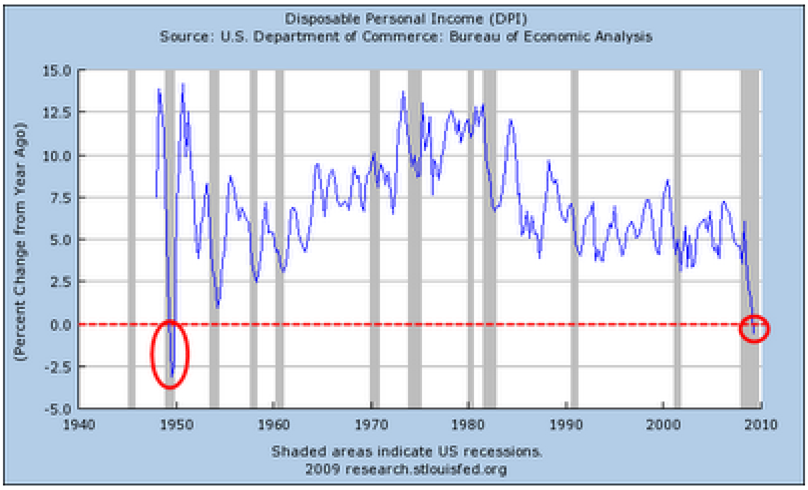
Graph: IMF's 2009 WEO forecast. Developing economies to rebalance whilst rich economy governments borrow more to defer the pain.



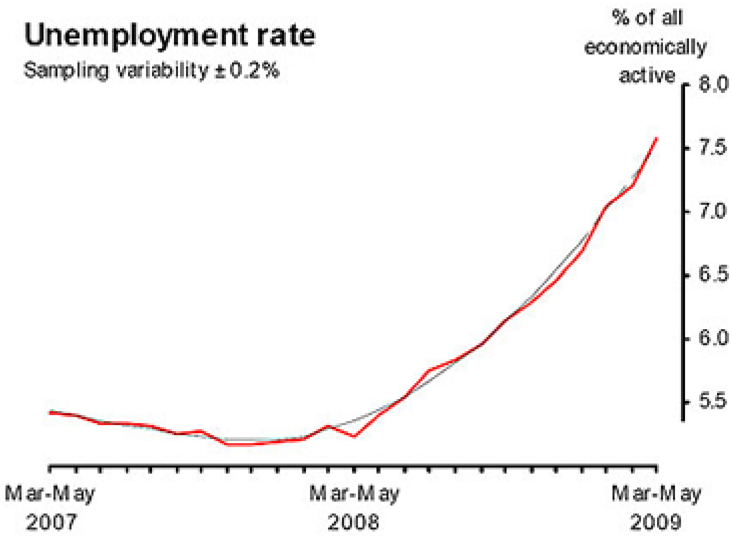
Graph: Dow Jones from its 1929 peak, compared to recent movement in this US share index. Compare the % fall of the first leg down and % rise of the first leg back up in each case. It's uncanny. So, is today a similar calamity in slow motion... or a similar calamity on fast forward with the worst bits cut out? TBC



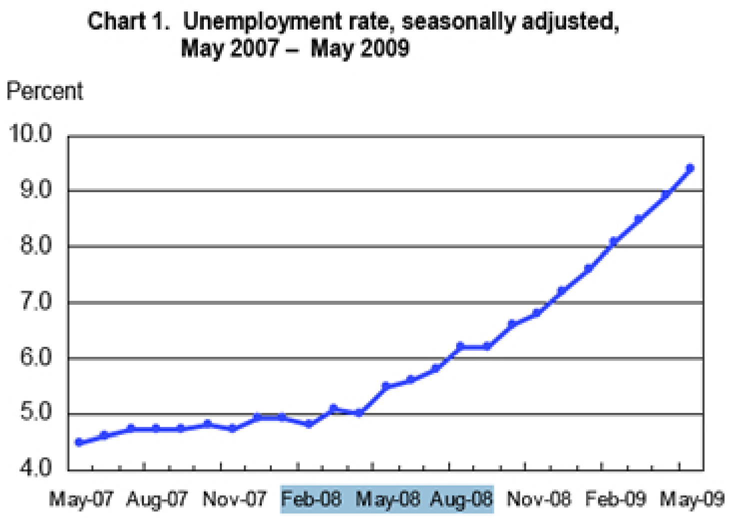
Graph: UK's NIESR's graph for UK GDP versus previous recessions at October 2010 suggest that the possibility of a double dip can not be rule out.



Graph: US disposable income. Consumer spending is estimated to be responsible for between 40% to 70% of US economic activity.



Graph: UK cumulative unemployment climbing



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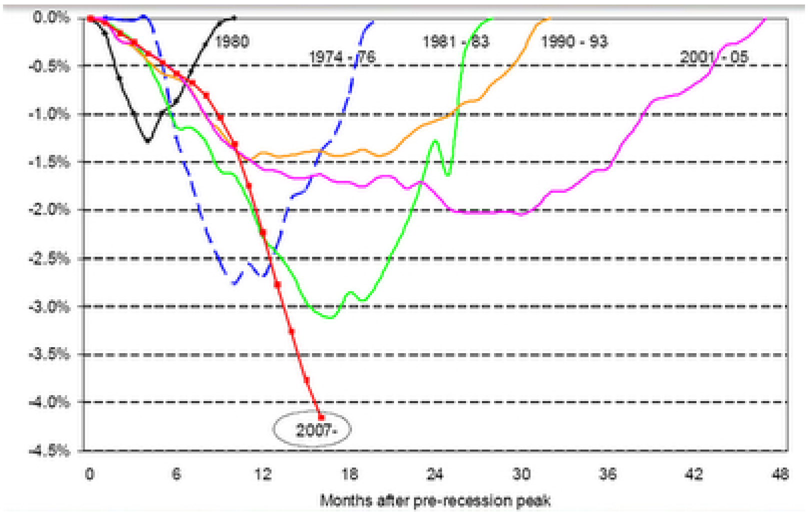
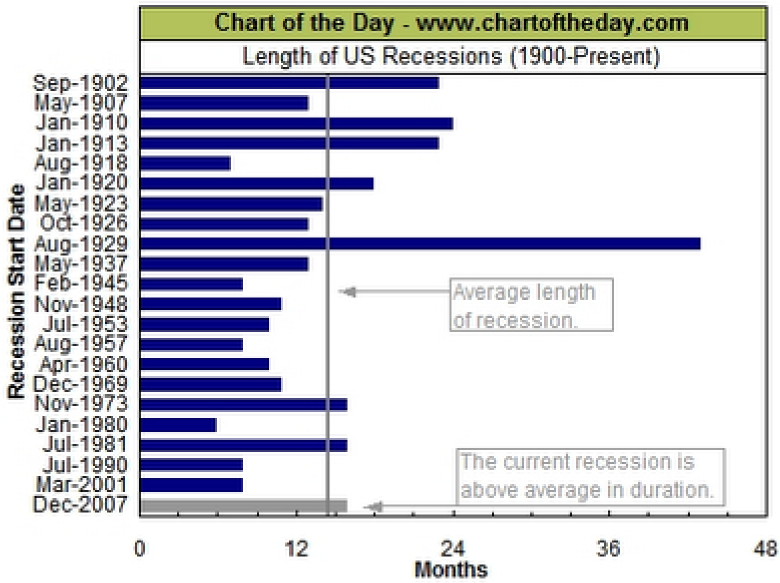
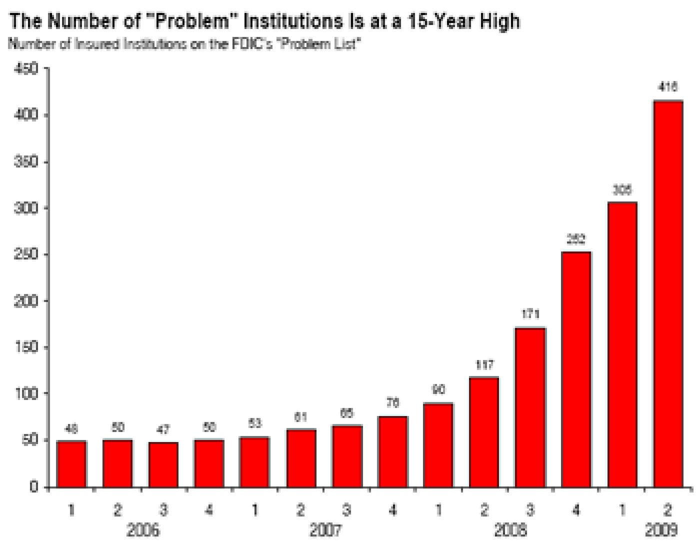


Graph: US 'growth' in employment during months following pre-recession peak compared to previous recessions.

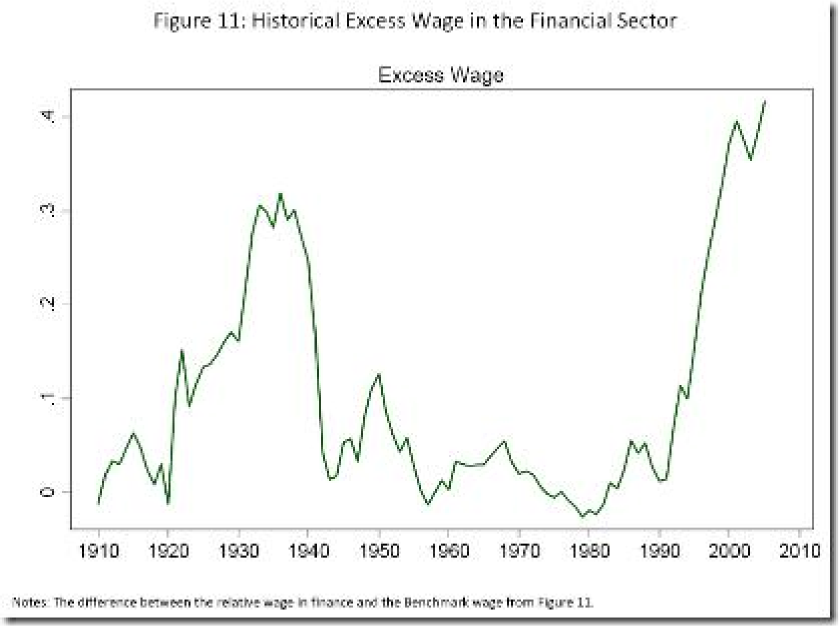


Graph: The current US downturn, plotted from Dec 2007, will be longer than average

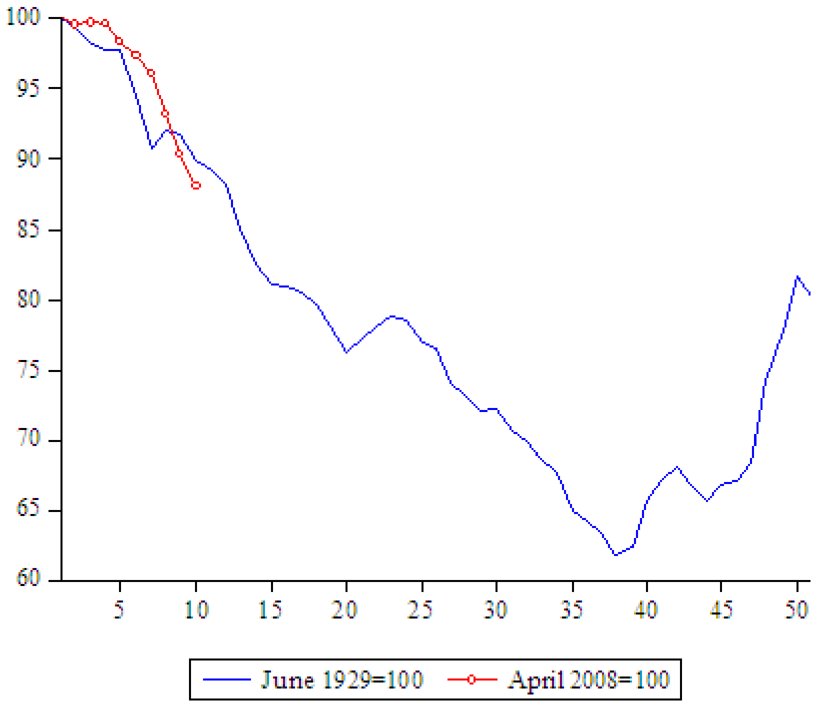


Graph: The number of US lending institutions in potential distress.

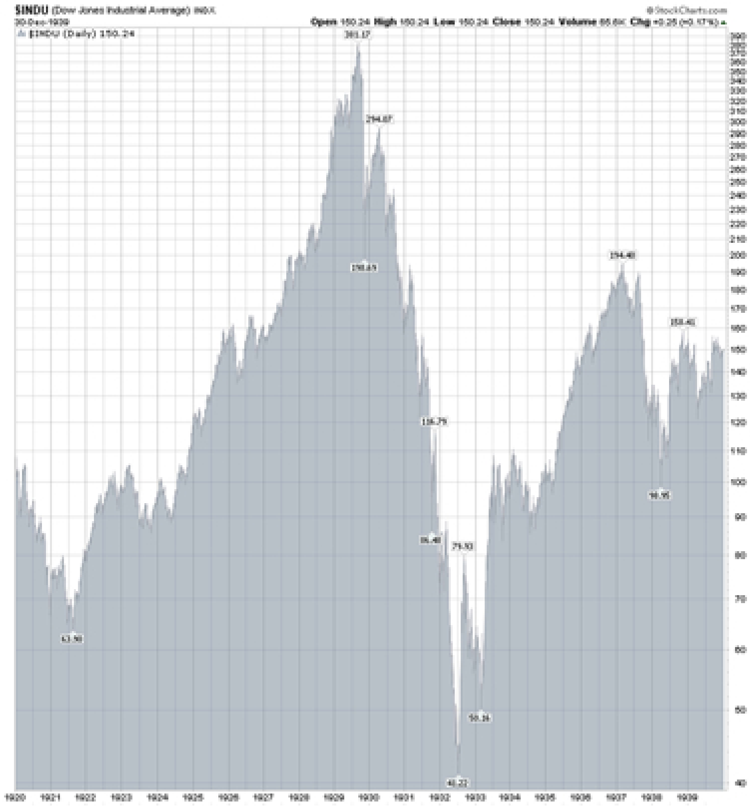
Based on the Federal Deposit Insurance Corporation's watch list. The FDIC is tasked with insuring US citizen's deposits and savings.



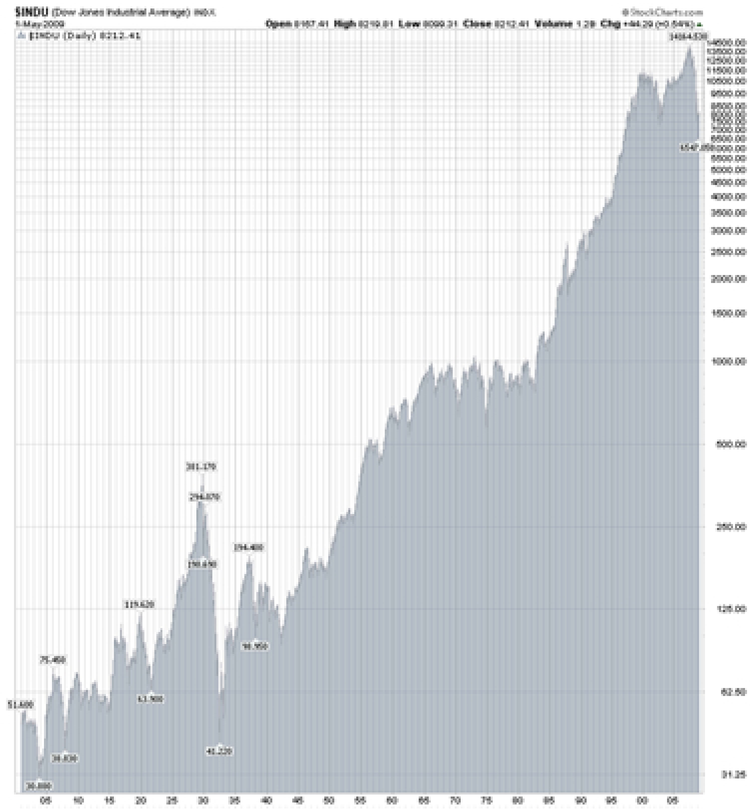
Graph: Excessive banker salaries as a predictor of depression?



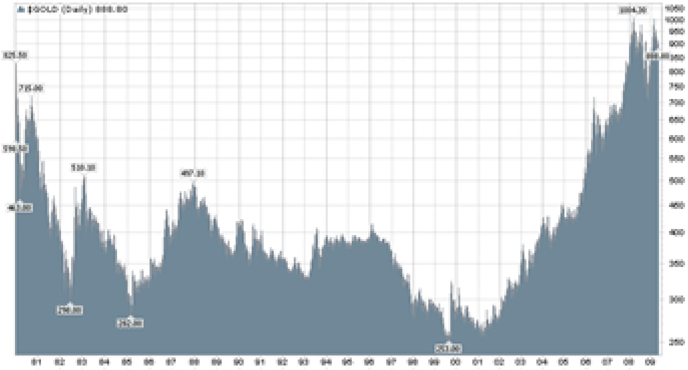
Graph: World industrial production from 1929, compared to 2008 as set out with other many telling graphs in A tale of two depressions



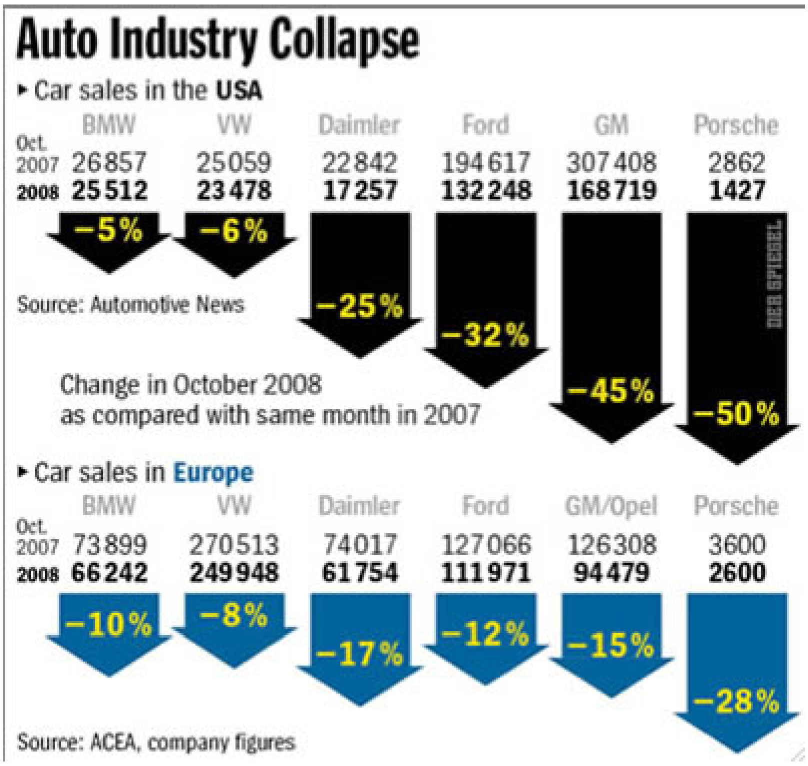
Graph: Dow Jones Share Index 1920-1940, click for detail. Following the 1929 crash, the market enjoyed numerous rallies before finding bottom at the value it had been at around 18 years earlier.

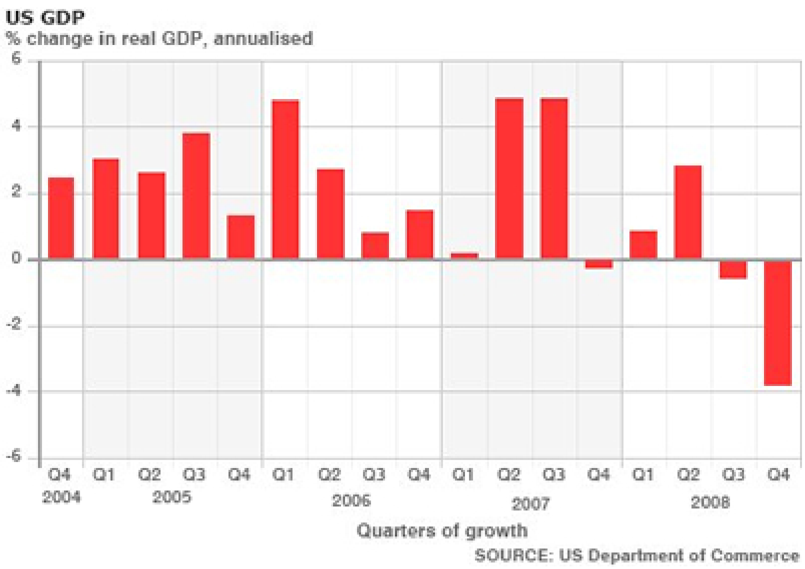


Graph: Dow Jones Share Index 1900-date, click for detail. The 1929 crash made a serious dent.



Graph: Historical price of gold. It previously peaked with the high oil prices brought about by the 1979 oil crisis (the Shah was ousted from Iran. Iraq, supported by the US/UK, then invaded Iran, hitting oil production and causing wide spread panic over supply).





Graph: FTSE 100 - going tits up?

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