



Monthly Report: What We Have Learned

February 2013

The Global Engines of Growth Are Beginning To Move Again, But Questions Remain

- After a year of sub-par growth, China's economy is beginning to trend back toward 9% GDP growth.
- The U.S. economy, after five years of recession and lackluster growth, is headed for 2.5% - 3% growth in 2013.
 - U.S. banks - best profit year since 2006 and fewest failures since 2008.
- Europe is coming out of the doldrums and the Euro crisis may be almost over.
 - Portugal sold \$3.3 billion in bonds, first sale in two years.
 - German economy back in positive territory.
 - Top 14 EU banks report \$105 billion in profit.

Was The Global Recession Cyclical, Secular or Structural?

- Answering that question is the key to how the world proceeds over at least the rest of the decade. Or longer.
- **The cyclical argument:**
 - The recession was deep, but monetary policy has brought the world back from the brink, with a return of growth.
- **The secular argument:**
 - The recession was deep, but fiscal policy -- putting the brakes on runaway government social spending -- will return the world to economic health.
- **The structural argument:**
 - There are 197 million formerly employed people whose jobs may never be replaced because of changes in technology and comparative advantage shifts.

Monetary Policy Is A Good Temporary Fix, But Dangers Lurk

- Cheap money and low interest rates allow debtors to refinance and lower their monthly carrying costs, while banks profit from new lending.
- The good part: New spending on infrastructure is trending toward \$1 trillion a year, according to the World Bank.
- The bad news: Too many nations are continuing to use borrowing to prop up their social safety nets.
 - We have seen riots and demonstrations around the world whenever cuts are proposed. Governments mostly cave to demands.
 - Uncontrolled cheap money can build inflationary pressure.

Fiscal Policy Can Cut Waste, But One Man's Waste Is Another's Muscle

- Britain's government has tightened the screws on spending, from social welfare to defense.
 - The result: Three of the past four quarters have seen declines in GDP. England heading for a possible triple dip recession.
- American Tea Party Republicans have largely stymied President Obama's agenda.
 - Proposed cuts fall hardest on the poor, the elderly and the unemployed, exacerbating growing class divisions in U.S.
- Proposals to raise taxes, cut spending in Greece, Spain, even prosperous Israel, have met with strong opposition.

Structural Changes Will Have A Profound Impact On The World As It Recovers

- Labor force participation (LFP) around the world, after growth through the 1990s, has been in steady decline.
 - LFP in U.S. drops from 66.4% in Feb. 2003 to 63.6% at end of 2012.
 - LFP in EU drops from near 75% in 2007 to 67% in 2012.
 - LFP in Japan drops from 62.2% to 57.6% over 15 years
- Entire categories of work may disappear, and there is uncertainty over what new jobs will appear.
- A recent study predicts that labor force participation over the next two decades may drop to 50% because of increased inputs of technology.
- The losses will be most felt by the middle skilled and middle-educated.

The Current Problems Are Like The Story of The Blind Men And The Elephant

- In the tale, a group of blind men touch an elephant to learn what it is like. Each one feels a different part, but only one part, such as the side or the tusk. They then compare notes and learn that they are in complete disagreement.
- To make progress they have to stop talking, start listening to each other and collaborate to "see" the full elephant. When a sighted man walks by and sees the entire elephant all at once, they also learn they are blind. While one's subjective experience is true, it may not be the totality of truth. If the sighted man was deaf, he would not hear the elephant bellow. Denying something you cannot perceive ends up limiting your ability to act, and diminishes your legitimacy.

The “Elephant” Exists In Many Different Forms

- Problems exist at every level
 - Personal
 - Local
 - Local Regional
 - National
 - Regional/Continental
 - International
 - Global
- Solutions have to allow for smooth integration from level to level
- Right now, societies are best at setting a narrow range of international standards to facilitate the movement of goods, some services. At lower levels, cultural imperatives slow progress.

The Challenge Is To Create New Institutions Capable Of Moving Humanity Forward

- Many of our most powerful institutions took shape in the late 19th and early 20th Century-- or earlier.
- Many are now sclerotic and more interested in preserving their power than in providing useful pathways to transform societies.
- The answers will likely emerge not from global elites, but from the bottom up, e.g.:
 - Crowd-sourced innovation -- Kickstarter.com & Indiegogo.com
 - Crowd-sourced technology and invention -- Quirky.com
 - Crowd-sourced design -- 99designs.com
 - Crowd-sourced charitable fundraising -- Crowdrise.com & OpenIDEO.com