

Tug of War

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Some years ago, before the PC, Internet, cell phones and flat panel TVs, we had rather simple games to play. There was checkers, marbles and spinning tops...Monopoly, Scrabble and Risk...Hop Scotch, Four Square and Jacks...Hide and Seek, Capture the Flag and Tug of War.

Tug of War was a simple, social game. It required the participation of numerous kids, the more the merrier. All we needed was a little rope, two teams, on two sides. The goal was simple, pull down the other side. Back and forth...back and forth...we played the game Tug of War. Is there a better metaphor for today's economy?

Lehman's fall drags us toward economic abyss. Massive global stimulus inspires green shoots. The threat of Greek default takes us to the edge again. An EU rescue tugs us back. Green shoots fade, threatening a double dip. Just the mention of QE2 collapses interest rates, providing breathing room once again. Then comes Ireland and more contagion risk. A new EU solution keeps us standing. So what is next? Back and forth...back and forth...

For two years now we have played this game. Each challenge inspires a new solution, but only for a brief period before the gravity of contraction returns. What is happening here? Probably of most importance is our interconnected and interdependent global economy. Never in human history have we been this way. We're all in this together...has likely never had such significance.

Any debt default by Greece, Ireland or Portugal - economies with seemingly a fraction of global influence - could trigger a rise in risk premiums for sovereign credit. Rising risk premiums inspires rising interest rates, increasing the burden of debt service for highly leveraged countries like Spain, England, Japan and the United States. Should any of these larger countries fall it would seem the entire global economic system could be at risk, one interconnected domino collapsing after another.

And then we have the rush to devalue currencies. To boost their economies, the United States, Japan, England and the EU all need to export more. Each would benefit from a lower currency. And each would also gain by paying back their debt in a cheaper currency. But the rush to devalue may inspire a race to devalue. Money as we know it could be worth less than the paper it's printed on, posing yet another risk to our global economic system. How would we trade if there is little confidence in the value of currencies used for trade?

China's economy is dependent on exports, a significant amount of which goes to the United States and the EU. Without those exports China's unemployment could rise, threatening social unrest. And if China slows, all its feeder country economies slow. Many would like China to strengthen its currency's value, which would make our exports more, and their exports less, competitive. Yet today their economy is significantly export driven. Can China become more consumer driven while we become more production driven? Maybe, but this certainly can't happen over night.

Interconnected means interdependent. The dance between national and global interests has never been more delicate. All of this is an unintended consequence of the primary force driving today's global economy...technology. Technology has inspired the prosperity...as well as the calamity.

One of the Armchair's basic economic tenets seems to fit here...**There is no production without waste.** Likewise, there is no "progress" without unintended consequence.

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Modern technology has blessed us with many things. The easiest to see are all the gadgets that seem to increase the richness of our lives. News and information about anything and everything is at our fingertips. Nearly any question can be answered in minutes on an Internet search engine. We can instantaneously share ideas, designs, music, videos, photographs, desires, opinions and emotions with billions of people all over the world.

The pace of innovation seems to be increasing. Start-ups, like Groupon, can be worth billions just two years after inception. Futurists and scientists are projecting major resolutions to many of humanity's current medical challenges. And productivity has improved significantly, inspiring greater affordability of many products.

The cost of many items has dropped considerably as technology drives resource allocation productivity at what seems like an ever-increasing speed. Fifteen years ago it cost \$2,500 to have the newest personal computer technology. Today it costs \$500. Food from all over the world, which has to be transported thousands of miles, is now available at reasonable prices to the average person in today's mature economies. And Skype and other VOIP users can call anyone in the world today for pennies.

The Armchair wouldn't be viable without today's technology. How else would a non-formally educated person be able to learn and write about economics and reach an audience...you...with just the click of a button? If the Armchair makes an incorrect assumption or calculation, you can immediately bring attention to that mistake, increasing the pace of learning. The teaching and learning experience seems to have sped past formal educational institutions, becoming real time, all the time

Technology has made the fabric of our lives luxurious. What a glorious world we have created in the last thirty or so years. But then we have those unintended consequences.

Interconnected means interdependent. The Butterfly Effect can now trigger a global economic meltdown. Product deflation has led to lower structural employment in mature economies. Massive connectedness and information availability has led to information overload and societal and political confusion. Unconnected societies have revolted against modernity, threatening human apocalypse.

So we continue our back and forth...back and forth...our legacy systems and infrastructures attempting to slow the pace and gravity of change. Too rapid change rips apart those infrastructures, destroying countries, companies and people that not long ago seemed to be enjoying perpetual prosperity.

There is no production without waste...and no action without reaction. In this game of Tug of War we struggle, attempting to keep what we have accumulated, earned and supposedly learned from this wonderfully lush world we live in. But economic evolution is just that...evolution. With progress we have the inevitable consequences. Are we capable of controlling our destiny, or is the current technological disruption so great it will change the world as we know it? The game continues.



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