Electronic Wheelbarrows

The recent election in Canada (where the socialist party made record gains) hammers home the idea of growing Western World resentment against what many call the establishment. Voters sense an unholy alliance between big banks and big governments. The economic gap between Bay Street, Wall Street, and the City on the one hand and Main Street on the other keeps growing and it's starting to show politically.

Take Scotland the other day, where the separatist (nationalist) party recently won a majority of seats, the idea being to break away from the (not so) United Kingdom and the big machine in London. Westminster will argue that Scots get more per capita in the way of handouts than the English, but who would get the North Sea oil plunder? Would Scotland still be part of Euroland?

And will Greece still be part of Euroland? After two years of trying to deal with its problems, that country is deeper in debt and in worse shape than ever. So are many others. In Greece and elsewhere people want more, or at least they want as much as they used to have – they are not going to get it, they are pissed and they are marching.

But the above are really just symptoms of a general Western World malaise. For two generations public sector employment and public sector share of GNP have grown steadily to about fifty per cent in most Western countries. When governments talk jobs, we instinctively think of people beavering away making widgets, but in practice most of those jobs are with the governments proclaiming them. In Canada fifty per cent of all pensions are held by government employees and there are hundreds of similar examples elsewhere. Europeans, in addition to bankrolling their own heavy spending governments, have to carry a huge layer of Eurocrats.

The shift in the social order shows up in many ways, but it is worth noting that fifty years ago our universities graduated thousands of engineers and only a few MBAs whereas today there is a glut of MBAs and a shortage of engineers.

As well, over the past generation, a corporate welfare culture has evolved in which all sorts of beautiful people are now feeding at the government trough. Ten years ago did anybody really imagine the jillions in salaries and perks we see being sloshed around the financial world today?

Overall, the focus of public policy has been dramatically transferred to the service sector while wealth creation has become a remote concept in much of the Western World.

Understandably, budget deficits have increased in parallel with the many forms of public sector largesse and borrowings have increased apace. When Canada, Greece or any Western country borrows money, it is to cover deficits. We have heard some Canadian politicians say people have "invested" billions in Canada but no, they have "lent" billions to Canada. In sum, Western World governments are now borrowing (and printing) a total of perhaps two trillion a year, nearly all of which is destined to finance handouts. This is an incredible contrast with the situation 60 years ago when Western governments lived on modest taxes and local borrowings.

And who do they borrow from today? The wealth creators. At the beginning of the cycle the epicentre of wealth creation was in North America, then in the 1950s and 60s it moved to Europe (along with half of America's gold), then to the Gulf with the explosion of oil prices in the 70s and thereafter progressively farther east (along with another bunch of gold).

At first the newly rich wealth creators were happy to have a few greenbacks in their jeans, and as they gathered in ever more greenbacks they happily recycled them back to the West. When Euroland was created they happily jumped on that bandwagon as well – Greek bonds, Irish bonds, they all sounded so good and seemed as safe as a church.

But as the years passed questions arose about the quality of these ever-increasing quantities of paper. Virtuous assurances were given, Gramm-Rudman and Maastricht were cited, but still the paper avalanche flowed. It's now probably over $20 trillion. As confidence in all these IOUs faded the great powers persuaded the hapless IMF to sell a little gold (the idea being to make the paper look better) and they also resorted to a little genteel blackmail, as in "If you don't absorb more of our debt, you will threaten the economy." But now misgivings and remonstrations are commonplace, a quarter of the G20 countries are buying gold and the much-vaunted Euro may blow up. Gresham's law is kicking in.

The sixty year transition from reasonably good money to bad, from prudence to profligacy, is approaching a climax. Now a Treasury Bill is just a blip in a computer and the era of electronic wheelbarrows is fast approaching. The $20 trillion is just the beginning.

To think a few years of austerity will solve all the problems is naïve. Austerity will just further sink economic activity and tax revenues. And the worse the economy, any economy, the more governments have to print to make ends meet. This has always been a formula for hyper-inflation – the worst inflations have coincided with bad economies.

It's the wealth creation sector that needs resurrection and that means competitive devaluations. These are on their way. Over and above all the big names intervening in (rigging) their currencies, recently South Africa, Chile, Brazil and others have been doing it. And devaluation, of course, leads to higher gas and bread prices and, in some cases, more marching.

Markets sense events are moving out of control. People are rethinking how they vote, whether to vote with their feet and how to spend, save and invest. Patterns are changing.

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