



Resource Ruminations

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Superhighway to Serfdom



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“The danger of modern liberty is that, absorbed in the enjoyment of our private independence, and in the pursuit of our particular interests, we should surrender our right to share in political power too easily. The holders of authority are only too anxious to encourage us to do so. They are so ready to spare us all sort of troubles, except those of obeying and paying! They will say to us: what, in the end, is the aim of your efforts, the motive of your labours, the object of all your hopes? Is it not happiness? Well, leave this happiness to us and we shall give it to you. No, Sirs, we must not leave it to them. No matter how touching such a tender commitment may be, let us ask the authorities to keep within their limits. Let them confine themselves to being just. We shall assume the responsibility of being happy for ourselves”

Benjamin Constant, *‘The Liberty of Ancients Compared with that of Moderns’*, 1816

Back in November of last year, while spectre of the deflationary slump of the 1930s was beginning to haunt the mainstream, we were drawing entirely other lessons from it, concluding a long economic analysis by pointing out that:-

‘...once he had re-opened the banks, confiscated the people’s gold, devalued the dollar and opened up the fiscal sluice gates, that... Apostle of Interventionism, FDR, may never have managed to restore overall – much less private sector – employment to its vibrant, pre-Crash levels, but from day one... commodity prices rose...’

We also added the warning that, while we did not fancy them over the long haul (for reasons which should become apparent in the course of this disquisition): *‘...equities will, however, rebound sharply once re-inflation takes hold – as they did in 1922, 1933, 1971, 1974 and 1983...’*

Since then and despite the predictably dire state of the world’s productive apparatus in the interim, commodity indexes have put in a six-month burst only topped twice in the last half-century – most recently in the run-up to 2008’s vertiginous peak and, prior to that, during the severe dislocation of the first oil shock in the 1970s - while the Dow Jones Industrials - lagging this by a couple of months – have just registered their best half-year since the *annus mirabilis* of 1933 itself. The prices of bonds in the lower grades of creditworthiness, meanwhile, have enjoyed one of their best spells ever, despite loan delinquencies reaching levels not previously seen in a quarter-century of data.

If the reader will spare us the task of rehearsing the details of our investment thesis in favour of a short synopsis, what we have all along said would drive a rapid rebound in asset prices would be continued central bank laxity, supercharged by the monetization of soaring government deficits and magnified by the market’s utter misunderstanding of the nature of the ‘recovery’ this would engender, as the Lehman-inspired liquidity crisis of ‘Snowball Earth’ partially thawed to a still glacial Little Ice Age of misallocated capital and sorely impaired balance sheets.

Having been so far justified in our projections, we are in the fortunate condition of having no need just yet to diverge from the estimation of the possible pathways confronting us which we also laid out last winter.

Imagine, if you will, that we stand today at a crossroads and that we see to our right a minor road which branches away to climb rapidly upward in an ultra- (even a hyper-) inflationary surge to ruin. On our left, we find a trackway which twists downward, descending rapidly into a Slough of Despond after threading its way past the rusting ironwork, boarded windows, and unfinished building work of a renewed financial crisis and after jolting its users horribly about in the ruts and potholes of further, poor political decision-making as they motor to their doom.

In all likelihood, however, our state-employed bus driver will avoid these two offshoots and will rather stick steadfastly to the busy highway along which we are currently speeding, a broad Road of Good

Intentions along whose dreary verges we see an army of labourers sweating over the construction of an ever more ramshackle confusion of governmental props, buttresses, and scaffolding as they try manfully to shore up the crumbling Babel of bad debt and faltering businesses to be found there, at least beyond the next election date.

To take the first of these roads would be to see the cost of living soar – right up to the point that the whole economy imploded. The second would be poor for all bar financial speculators in government-backed debt as the frugal few - who might otherwise have reaped the long overdue reward for their prudence as prices fell - will have fallen prey to heavy exactions from a threadbare exchequer, while enduring an invidious social opprobrium for their cardinal sin of 'hoarding'.

The third exit – the one along which we accord the greatest likelihood of travelling – has the potential, just beyond the next rise, to transform itself into a stagflationary rollercoaster as workers are alternately priced *out* of and (for the politically favoured few and their cosseted union bosses) temporarily inflated back *into* jobs. Be under no illusions, however, that such a milieu of alternating 'Stop-Go', as it used to be known to our fathers, is one that is necessarily subject to a damaging hysteresis of cumulative losses.

This is an environment which is perhaps more equivocal in its implications for prices at large, but, since the problem will not be a shortage of *money*, but of *capital* (a lack which will be exacerbated by the spreading denial of the entrepreneurial freedom needed to deploy it, where it can be found), we think that they will tend to reflect the oversupply of the former and not the deficiency of demand consequent upon the latter.

Caesar renders unto Caesar

Ironically, while the resounding asset boom has been pointing very much to the opposite inference, the single, isolated feature of the dearth of new bank lending to the private sector actors in many parts of the West has been taken by some as a sign that the

clattering printing presses are not, in fact, pushing us along this particular route to ruin, as these latter-day monetary Gutenbergs wish them to do.

Not only does this obsession with the incidentals of the *money* market ignore the records currently being set for new debt being brought to the *bond* market – as well as the voracious hunger for already-issued paper there being displayed their by our slobbering, state-suckled Chrematarchy - it further begs the question of whether the lack of lending is supply-led or demand-driven (surely, a consideration of at least equal weight in a world where corporate cost-cutting - and hence of lower requirements for both working and fixed capital - is such a feature). More importantly still, it is guilty of effecting a gross confusion between the concepts of *money* and *credit*.

Indeed, when we look at the trends pertaining to the former, far more determinative quantity, we can see that central bank 'unorthodoxy' and budgetary prodigality on the part of the world's elective dictatorships have already combined to push *money* growth to new highs, especially if we attempt to measure this in 'real' – or price-adjusted - terms.

Thus, for example, real money supply in the developed nations who are members of the OECD and which account for two-third's of the world's economic activity ended a 10-month stint in June which was not only the quickest in a 38-year record, but was also accelerating the most rapidly in that same period. Since then, aggregates for the US, Japan, the Eurozone, and the UK have all continued to quicken, while matters have gone well-nigh ballistic in China and India, to boot.

Operating with a lag of anything up to a year, such increases in spendable means never fail to give a boost to real-side activity – however ill-advised and inappropriate the form it may take - hence the present, ongoing improvement in a whole range of business confidence surveys, all around the globe. But we should not let our focus on this short-run influence on production blind us to the fact that variations in the rate of change of the official cost-of-living indices usually run closely behind, a matter which naturally presages – with a further lag –

adverse changes in the behaviour of the headline rate itself.

But, while general prices of goods and services may once more begin to rise under the swell of this monetary tsunami, one should not fail to realise that it may, nonetheless, completely fail to reinvigorate whole swathes of the industrial and commercial landscape, just as the Titanic could not have been rescued by a sudden, miraculous rise in sea-level, much less by torpedoing the iceberg in front of an entirely different ship.

This is because the money being created today is being placed in the hands of a completely different cast of actors (principally, the state and its swelling armies of welfare dependents, whether individual, corporate, or financial-oligopolist) to those formerly accustomed to it first-use. It is therefore being spent in a thoroughly dissimilar manner from before, transforming that entire matrix of relative prices upon which livelihoods depend in crucially altered ways – ways which are not necessarily conducive to either an increase in remunerative output or to a sustainable gain in employment.

Already, since the bust began, the state's share of spending in relation to that of the private sector has risen everywhere – a malign development which a rote focus on the size of the deficit, *per se*, tends to overlook. In that supposed paragon of the 'free market', for example, total US government expenditures are presently running at over \$5 trillion a year – bigger than the entire gross product of the second-biggest nation, Japan. At such a magnitude, they are also equal to almost half the combined turnover of all the nation's non-defence manufacturers, wholesalers, and retailers – a sorry ratio of *Corporativismo* which has jumped by a third, to a peacetime record, in just the past twelve months.

Meanwhile, in New Labour's increasingly beleaguered, Jacobin dystopia, total spending by all levels of the UK government is on pace to top a surreal £670 billion this calendar year, a sum which equates to almost £11,000 per head of a population whose average income is less than £15,000. As tax revenues will struggle to attain £500

billion this recession-wracked year, the borrowing needed to make up the associated deficit means adding around £3,000 per capita in debt – around 20% of its income - to an already over-burdened populace.

You do not have to be an obdurate ideologue to see the counter-productive nature of such a frightful interference in the mutually beneficial process of free exchange.

From Each According to his Means

Imagine, if you will, that you have acquired, honestly and voluntarily, the means to purchase a new pair of shoes (either by rendering a useful service to another or by selling to him a property to which you have previously earned the entitlement and which he is now more eager than you to possess).

Now picture yourself in a world where you yourself cannot go directly to the retailer, but where you are obliged instead to give your money to a government-appointed commissary who will enter you in a queue for a standardized piece of footwear, with little or no say over the style or quality – and possibly not even any over the size – being accorded you personally.

Worse still, this bureaucrat may decide that someone else 'deserves' the shoes more than you do, at present. That 'someone else' may be a person whose vote it is, for the moment, expedient to cultivate, or someone whose fallen circumstances or designated 'victimhood' currently complies with our masters' personal, pseudo-compassionate prejudices. It will certainly not be someone tainted, like you, with the suspicion that, by dint of your own self-reliance, you might be altogether oblivious to the social usefulness of the functionary himself and even more dangerously indifferent to the whims of his power-hungry political bosses.

It may even be that our go-between rather fancies a pair of shoes for himself and, as a loyal servant of the state – a 'key worker', no less, delivering 'frontline services' – who is to gainsay his claim?

Then again, even if our man is a model of personal probity, in a system where there are no objective criteria by which to distribute what have now become not so much economic 'goods' as collectivized 'rations', the insidious intrusion into the mechanism of discrimination of favouritism, its converse, malice – and even of naked corruption - will not be long delayed.

Finally, it may be that the order has gone out from on high that no more shoes are to be supplied, but that the money is to be spent instead on overcoats, or army blankets, or perhaps used to offset the utter lack of commercial viability of some Five-Year Plan desideratum, such as an energy-dribbling windpark or a sprawling Olympic *Sportspalast*. Either way, your wishes will be of little import in the disposition of a good fraction of your own hard-earned means.

But, let us set aside mere material gratification for an instant – though no intrinsic evil attaches to such a basic human drive – and recall that Man cannot live by bread alone, but occasionally seeks a more spiritual reward. Nonetheless, even were our conscience to forbid us from treating our nearest and dearest to a new pair of Jimmy Choos while there are children unschooled or mothers unhoused, it would still be more effective for us to give alms to these unfortunates ourselves since we can then effect this directly, cutting out the whole expensive, arbitrary, and illiberal apparatus of tax collection and dole distribution as we do.

(You will note that we have referred to the slightly quaint concept of 'alms' in favour of the more usual 'Charity', seeing the later today as a phrase pertaining primarily to the hackneyed, celebrity-ridden, stomach-churningly right on, marketing tool-cum-game show of an organized Fabian elite whose well-heeled legions of often-privileged anti-capitalists spend their time and our money either militating against our - their own donors' – lifestyles, or else in frantically covering up for the failure of the compulsory schemes of state welfare to which they have made us all subject.)

In any event, once you are not allowed to buy your own shoes – or, under the rules of the vaccine-less pandemic of government bail-outs sweeping the

globe, you are not allowed NOT to buy a pair of shoes from some newly-appointed ward of the State – all freedom of choice is denied you: your incentives to work are lessened; your standard of living is reduced - not least because you are doomed to compete with your own tax monies in the allocation of scarce resources – and the entrepreneurs who would make their own living by supplying you with what you most desire are denied both the means and the opportunity to do so.

Killing the Golden Goose

Under such conditions it is impossible to imagine that the nation's stock of capital – a precious endowment upon which our continued material well-being depends - will be built up. Indeed, it may even be progressively consumed, a cancer which will lead to both immiseration and demoralization (in both senses of the word) becoming widespread and a plight which will, ironically, bring forth an even louder clamour for even more, not fewer, governmental footwear-allocators.

In total opposition to the mainstream economic view, it should by now be apparent that - 'automatic stabilizers' and other such Keynesian cant notwithstanding - there is nothing whatsoever benign about increasing the size of what is effectively a Soviet - or a Mafia - enclave within the sovereign territory of an ostensibly 'free' polity.

If you will recall, the root cause of our present troubles lay in the vicious interplay between the *après moi le déluge* political ethos which is a defining feature of our populist Provider State and a financial system sponsored, supported, and back-stopped by that same State to the point that it has become irretrievably flawed and wholly counter-productive – a noxious admixture which, it cannot be emphasised too strongly, has very few points of consonance with anything which might reasonably be termed 'capitalism' but all too many with the politics of 1920s and '30s Italy.

In its latest pathology, this conspired to inveigle the world's richer householders into spending up to

110% of their income, year after year – while subjecting those either supplying or financing them to the grand illusion that the claims which related to the excess 10% somehow represented an *asset* on their books, bringing many of them to a coincident ruin when the awful truth was at length revealed.

Sadly, now that both have suffered this rude awakening, the quack remedy being universally prescribed is to ask the world's governments to repeat the error in place of the countless exhausted individuals and businesses no longer able to keep up in their own right with the Rake's Progress such behaviour represents. As we turn to Leviathan to rescue us from a disaster in whose origins it was at the very least complicit, we are far too ready to forget that even our Overlords - however willing they may be today to expand their patronage and to strut and fret their hour upon a larger stage - must eventually meet the bills they will thereby incur. This they will attempt by means of future depredations which they will visit upon everyone whom they are not still actively subventing – which is to say, upon the successful and meritorious, that scarce remnant of tall poppies still proudly waving amid a blighted crop of dekulakized corn when the Reaper sharpens his scythe.

Inveterate Blue-skiers, stock-jobbers, and Chatham House-charlatans may point to the patchily strong second-quarter rebound as counter-testimony to our scepticism, citing, for example, the 7.3% annualized rate of increase in worldwide industrial production (as calculated by the reputed CPB institute in the Netherlands) which took place therein. Impressive as it was, however, this actually did little more than to unwind the effects of the disastrous first three months of '09. Even then, the advance still left global output shrunken to levels it had first reached way back at the end of 2005 when it had fewer mouths to feed and vastly smaller debts charged to its account.

Moreover, despite this seeming resurrection, world trade *volumes* were effectively unchanged over this

same period. Since these were perhaps *the* driving force of the late expansion, their continued anaemia must be a matter for deep concern.

Worse yet, fully 110% of the reported gain in production seems to have been accounted for by Emerging Asia and Japan (with an offsetting drop in the US taking the total back to the 100% mark). Given that what we were witnessing here was the result of China's very own exercise in monetary overkill - belated fears over the implications of which have meanwhile triggered a nasty slump in the stock market there – we should be sure to temper any wishfulness with a strong dose of caution.

Indeed, the experience of China should provide a key lesson for us all: *viz.*, that output for output's sake can easily be bought, but that to secure that same output's profitable sale or use is to tackle a problem of a decidedly different stripe. Furthermore, as the last few weeks have demonstrated, even a partial withdrawal of the impetus to such 'growth' - i.e., any diminution in the flow of lavish, unfunded spending emanating from the state and its captive central bank – can swiftly prick the whole, new-blown bubble it had earlier inflated.

This may well be something which we shall all have to endure, in what is already a perilously stimulus-dependent economy, on that still-remote day when the authorities finally make a start – however tentative – on translating their current, tough-sounding rhetoric about 'exit strategies' into concrete action.

Meanwhile, all we can do is to strap ourselves in and enjoy the ride as best we can, for we will be a long while yet on our present, breakneck rush along the Superhighway to Serfdom.

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