

Dynamite Economy

Proliferation, Wrong Solutions, Resolutions

Sunday, November 12, 2007

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<http://cognose.blogspot.com>

Cognize before Happening 知觉于发生之前

Solve beyond Causes 解决于根基之处

State of the Economy

Stated on Aug 13, 2007¹ and shared with Steve Forbes at Singapore Press Club Meeting on Sept 9:

1. Sub-prime crisis is not a bubble
2. It is supported by real wealth, Over Abundance Wealth (OAW)

3. Volatilities of Prices will be spreading

from non-factor of production - Financial Instruments, residential properties

to factor of production - energy, metals.....

i urged him to lead Corporate America to create new industries to absorb OAW, under-employed labors, intelligentsias. Two of my suite of 8 solutions, that is deemed relevant to Corporate America was presented.

By Nov beginning,

Oil escalated from around \$75 to \$96

Gold escalated from \$660 to over \$830

Food prices as well !!!

OAW, with dearth of growth engine to invest, resulting

Prices detached from values, Purchases without actual Demand!!

i shared my analysis and issued open warning on channels provided by Forbes, New York Time, Wall Street Journals. i advised Central Bankers to hold wealth in good governance and not into private free hands. Else greater power will be wielded in profit seeking private without responsibility to global repercussion. Impact will be disastrous.

Financial Institutions, without such supports, courageously faced the realities!

Major banks declared big losses. Their Leaders were replaced!

But, No New Directions were set!!!! Not even sound analysis, projections !!

It is shocking, that after such massive disaster, global scale, impacting every one, affecting social and political serenity, no expert publish any sound analysis, or solutions. Linking the violent swings to OAW.

If leaders of Corporate America do not act, do not know how to act

Chinese, Indian are not yet ready to act.

Japanese, Koreans had tried their best.

We need new wisdom, new perspective, and new solutions

Here Impact, Wrong Solutions are listed

Good Solutions, Effective Resolutions are presented

¹ **Dynamite Economy**

<http://www.cts-ideas.com/CtSDynamiteEconomy.pdf>

this analysed, reasoned, and solving the sub-prime crisis

1. Background

Stated in 2001, warning was issued to leaders of Singapore on²

1. Electronics industries driven economy made many billionaires. It is stagnating.
2. OAW found no worthy investment opportunities
3. Negative interest rate is imminent^{3 4}.

It was proposed to swift investment from technology centric to Retails, Banking-Finance, Telecommunication, Media to gain access to markets. Most important of all, this will provide a reliable means to feel the first pulse of emergence of new industries.

Temasek Holdings portfolio released on March 31, 2007 has only 3% in Technology, while Finance, Telecoms, Transport and Logistic took 73% of its portfolio. Temasek Total Shareholder Return (TSR) by market value and including dividends was up by more than 27%.

In detailed analysis of state of world economy as the day stands, the total revenue of world top 100 corporations⁵, 54% comes from Finance and Energy Sector. And they also hold the second highest profitability (9%), rank only after Tobacco (17%) industries. Finance is a market efficiency enablers, Energy is the lowest elements in all industries. At warped proportion, in scale, in return, this is not sustainable.

This is analogous to a patient with arteries (banks) bigger than muscles (wealth generators). Huge amount of energy (wealth) is sending through. Yet they find only some weak muscles to consume this energy to labor, to generate new food (wealth). The arteries will be clogged with excessive wealth (inefficiency), yet driven by zealous heart (hyper-active investors), and soon the patient will have blood vessel exploded, brain hemorrhaged, stroked, paralyzed and perished in a totally warped manner.

OAW, with dearth of growth engine to invest will channel these liquidities to all tradable, real and virtual, base and derivatives, truthful and faked.

Prices detached from values, Purchases without actual Demand!!

² **Real Economy, Reality of Economy, Economic Realities**

<http://cognose.blogspot.com/2007/08/real-economy-reality-of-economy.html>

Collated in "Cognose-Recover the Lost Key to Infinite Wisdom" ISBN 981 0513757

³ Negative interest rate occurred a few times in the past. Once occurred in Switzerland to foreigners due to speculative interest in owning Swiss francs; another occasion was in January 2002 in Japan in overtime window; the third time was during August to mid-November of 2003, occurred on certain U.S. Treasury security repo agreements due to sharp increase in intermediate-term note yields. All this occasions are basically short-term arbitrage or micro-adjustment which neither last long nor have profound impact to economy because the force behind are trival.

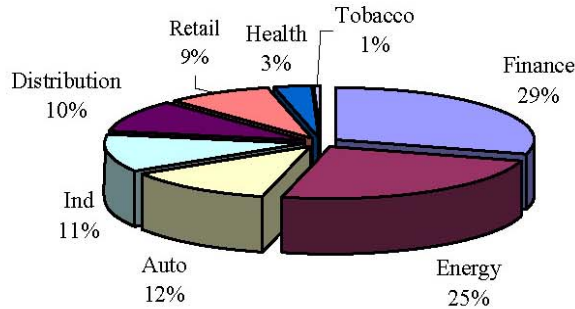
⁴ Orphanides and Wieland (1998, Federal Reserve Board) discuss on zero-bounded interest rate and its effectiveness to monetary policy. However, this did not analyse the cause, the possibility of going negative, the effect to economy, the solutions.

⁵ http://money.cnn.com/magazines/fortune/global500/2007/full_list/index.html

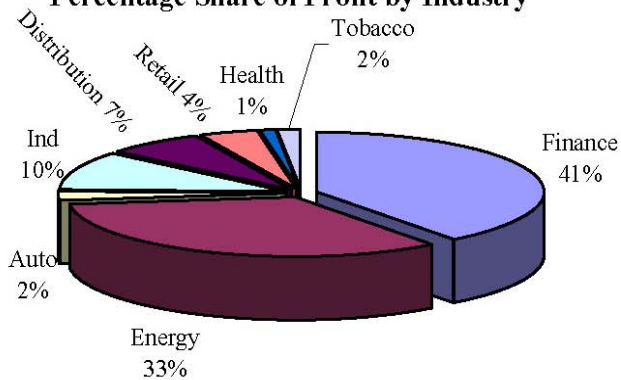
100 World Largest Corporation, 2007

http://money.cnn.com/magazines/fortune/global500/2007/full_list/index.html

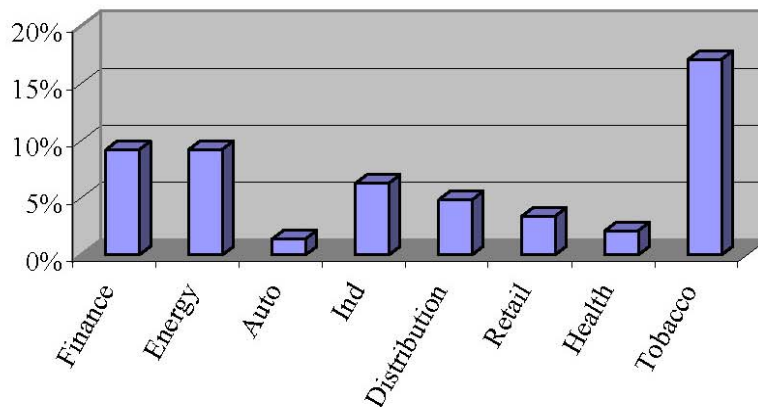
Percentage Share of Revenue by Industry



Percentage Share of Profit by Industry



Profit Ratio



	Finance	Energy Oil&Gas	Auto	Ind	Distribution	Retail	Health	Tobacco
Entry	32	18	10	14	13	8	4	1
Revenue	3,014,680	2,510,885	1,248,418	1,168,843	1,025,266	881,853	308,214	70,324
Profits	277,095	231,656	17,377	73,021	49,326	29,766	6,540	12,022
Ratio	9%	9%	1%	6%	5%	3%	2%	17%

2. Impact

Law that governs nature, is that there is always enough counteracting forces, strong reactions to moderate actions, even the most vigorous.

But under OAW,

Prices detached from values, Purchases without actual Demand!!

There is no factor enough to moderate display, exertion of forces, wealth.

The wealthy found no place to invest, no goods and services to spend, will move into every real, and virtual goods, fabricate derivatives initiated by junk bonds, succeeded by junk financial products. And most profitable to them, would be daily essentials.

It will be a sad day that wealth is captured by opportunistic investment on energy, food, transport, utilities.

No good brain will focus their gifts in creating industries, employment, wealth.

They will be focusing their effort on exploit of every chance.

Huge middle class created by electronics industries tailed spin into poverty. The many employable in Japan, lost their homes, spend their nights in internet cafe to find the next job when the sun rises. This is a cruel reward to those who contribute to stellar world economy in the 70s and 80s. Silicon Valleys, Route 128, etc, are they any better?

Common people would be affected by escalating prices of daily necessities. Because these necessities, such as food, transport, utilities are spiral out of control. Poorly governed regime like Taiwan, is one stark examples, even Taiwan is a rich food producers.

The worse backlash to those who are blessed with might and wisdom to create wealth, and fail to do so, will be a society full of turmoil, and any moment of their life will be threaten. And their investment will turn into junk, in a flash; their enjoyment would be destroyed by crooks.

Oil will hit US\$120 within months and spin down like sub-prime.

Gold will hit US\$1000 as well.

Daily essentials, food, energy, transport, tolls, will be charged at illogical rates.

Many new evils, succeeding junk bonds, land banks, sub-prime will be created.

Those who are trained in the doctrine of economics, without comprehension of reality, will be buying up companies, and looking for what product sellers have fabricated, without discern of the trash they are buying into, even bought into one, two, many recently.

The wisdom and character of leaders will depend on which of the two categories followings they choose.

3. Bad Solutions

Most of the economic theories are focused on individual domains, restricted within such domain, such as monetary policies, fiscal policies, tax and tariff, subsidies and incentives.

With such focus, intense mathematics is used to model the economic system without taking into consideration the most critical part of social system, wisdom & effort. Wealth creation is the most important element in economy. But hitherto it is hardly measured, even more so difficult to be included in modeling real economy.

With such myopic understanding, solutions proposed by central bankers, industries are not only feeble. They do not address the root causes. **Worse, they fan the fire.**

The current situation, Dynamite Economy, is due to OAW that found no place to park. So these over abundance are with real substance, substantial wealth, longevity in holding out. They can afford to invest in poor quality, virtual assets with good, real money.

This is the worse of economy,

Price detached from Values !!
Purchase without actual Demand !!!

In increasing order, bad solutions are:

1. Wish it away. One nation's leader think it will be over in weeks.
2. Leave it alone, let caveat emptor rules, and ruin.
3. Postpone losses.
4. Conceal losses.
5. Delisting, to escape public scrutiny.
6. Reduce interest rate,
7. Pump in well-governed funds into free-willing private hands.
8. Innovate new derivatives, financial products.

Civilization progresses by improving efficiency, by eliminating intermediaries, by doing things more directly.

Financial engineering created instruments, derivatives by adding intermediaries, multiply complications. This not only lost efficiency, but also severely limited accountabilities, accuracy of valuations, transparency. **The creation of these instruments is therefore against the evolution of civilization. Its critical weakness is displayed naked in front of us.**

The emergence of such complex, indirect, opaque concepts is resulting from over abundance of intellectual power.

Any central banker, who does not learn from this lesson, and permits, allows, encourages further innovations of financial instruments without considering whether it improves efficiency or hinders accountabilities, will cause grave harm to the system and wasting the trust vested in them.

All of these are on one hand conceal the faults, on the other throwing good money after bad.

And worse pouring dynamite onto fire.

4. Solvere's Solutions

Stated as early as 2001, for the original half population, electronics industry and its derivatives were more or less adequate to keep everyone busy, generating real wealth.

China and India adding up is new half of world labor. We need to create new industries to fully employ this newly doubled world work force market. We need to create industries of size at least greater than electronics industries.

The common people do not come to this awareness. Because some blinded by tremendous growth in China, extravagance in Gulf, and looking forward to India. So on the surface, it looks like the health of economy is pink, if not sparkling.

Anyone who has travel beyond the metropolis, would feel the under-employed, unemployed, poverty is severe. Anyone who thinks deeper, would agree that China, India did not create new industries, they are merely sweat shops, contract manufacturers of mature industries.

Their incremental demands will soon be overrun by overwhelming supply.

Chinese government, being a nation takes this upon their shoulder, and my writings typically received very quick realizations.

Solutions, in increasing order of effectiveness are:

1. Terminate the fabrication of wealth, derivatives, innovative financial products.
2. Mopping up of private liquidity by governments
3. Mopping up of private liquidity by private.
4. Realization of losses by private enterprises.
5. Building of capital intensive infrastructure.
6. Building of labor intensive infrastructure.
7. Create new Secondary and tertiary, industries.
8. Build New Primary industries. New Rural Policies.

Special mention is the development of Rural Economy, Agriculture Economy.

Developing nations are affected by low primary produce price, as supply exceeding demand.

Developed nations have to subsidize farmers, because they are covering bigger population, more electoral districts.

Current approach, even bio-ethanol not only will not significantly increase the value add of rural populations, but would deprive food supply. Bio-ethanol therefore is not an effective solution, it is in fact a harmful solution, Chinese government curtail this few months ago.

The best solutions, need philosophical revelation. This is

1. Use the best grade of produce for human food
2. Then for animal, industries' feedstock.
3. Then for packaging.
4. The useless, used, discharged be used for energy.

This will not only solve energy supply constraints, this will let the immense, powerful mother nature regulate the level of carbon dioxide. This will also make energy the lowest, cheapest material in all factor of production. For the same land, farmers will extract wealth from every gram of their produce, every inch of their land.

Resolutions

Special mention is the development of Rural Economy, Agriculture Economy.

This is the move from dangerous mining industry to agriculture industries.

This is the move from urban economy to rural economy.

This is the creation of billions middle class farmers than millions middle class technocrats.

This dwarfs electronics industries.

This is harmonious with mother nature, on top of harmonious society.

The best solutions, need philosophical revelation⁶. This is

- 1. Use the best grade of produce for human food**
- 2. Then for animal, industries' feedstock.**
- 3. Then for packaging.**
- 4. The useless, used, discharged be used for energy.**

⁶ ***Energy Solvere***

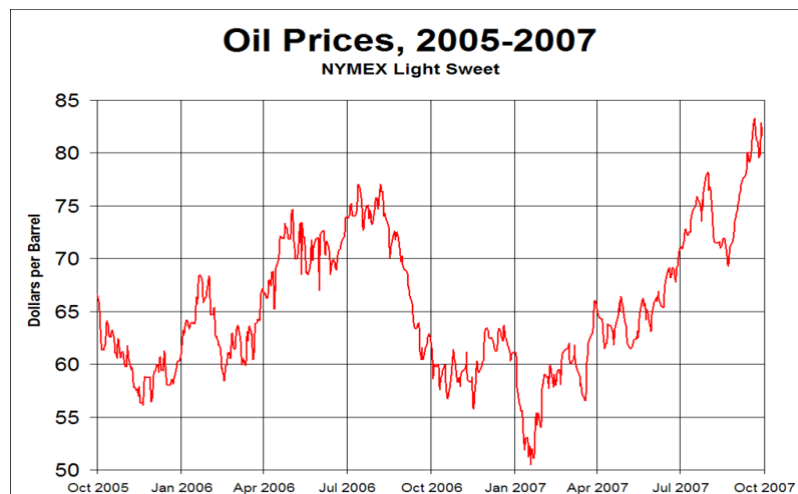
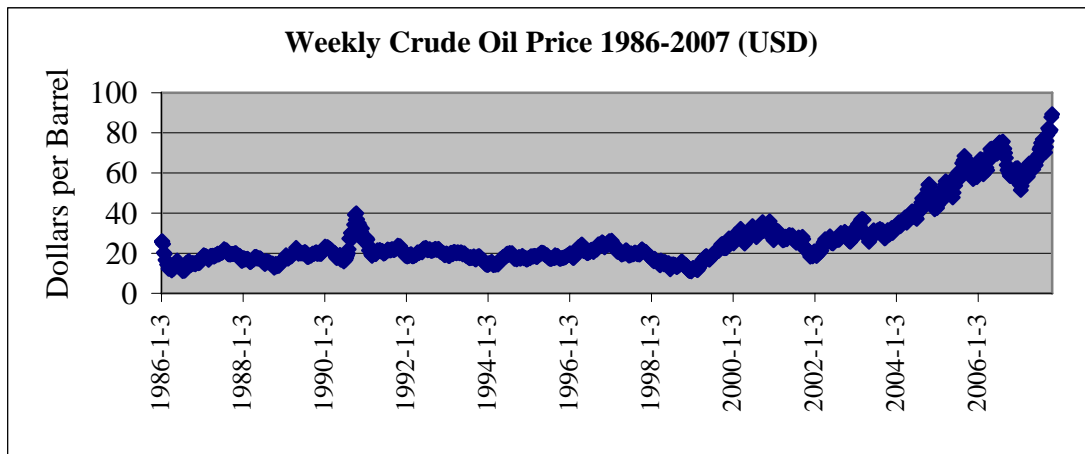
Create New Industry to Solve Key Contemporary Challenges

(Overabundance Liquidity, Dynamite Economy, Rural Poverty, Energy, Environment)

www.cts-ideas.com

Appendix

Price detached from Values Purchase without actual Demand



- Even the First Gulf War did create a spike from US\$20 to \$40.
- Today the price swing between US\$50 to \$100 without a ceiling in sight, yet analysts attribute it to significantly smaller events like pipeline disruption, Turk-Kurd conflicts. This is out of scale.
- The big swing of almost 100% within a few months starting around US\$50, which is higher than in both Gulf War.
- The actual demand cannot increase so fast in such a short time frame, based on such a high price.
- This is supported by OAW.
- This is Dynamite Economy spreading from non-factor of production to factor of production, critical factor of production.