School of Global Recovery

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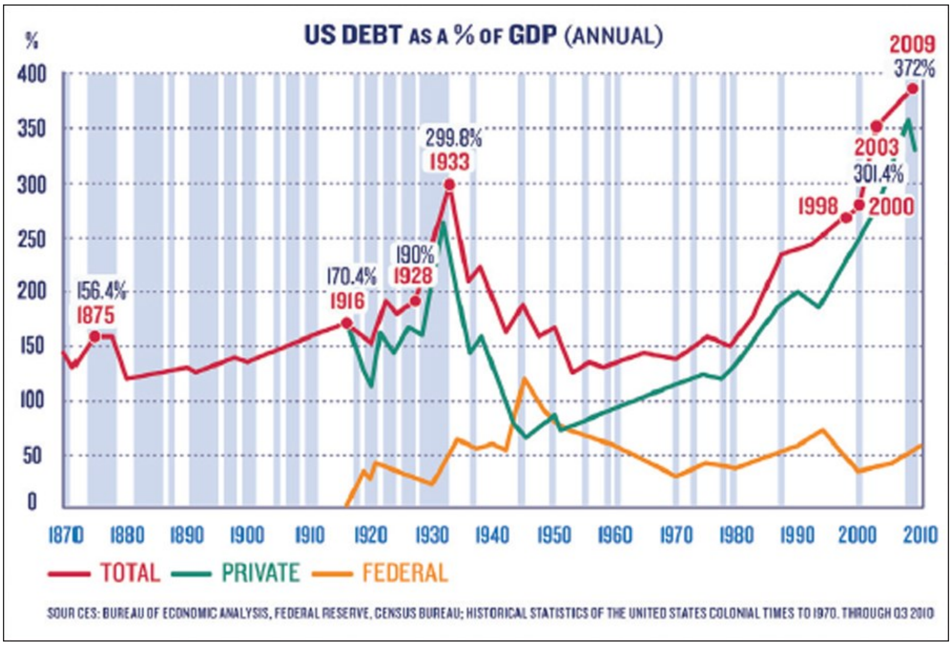
SAMPLE

On 13 November 2015 an Islamic-inspired outrage occurred in Paris killing 130 people which caused the French President to declare war on the so-called Islamic State – others are likely to follow. This would demand an increase in defence expenditure that ill-advised politicians had run down in the quest for saving money; in times of acute debt-deflation it will add to the burden of indebtedness and only delay recovery. I well remember the motto of my naval alma mater *si vis pacem para bellum* (if you want peace, prepare for war).

As principal of the School of Global Recovery (SOGR) it is my task to explain why the efforts of politicians to balance their books are unlikely to succeed while keeping the present superstructure of the state which has grown at the expense of rising debt. During the Victorian Era until the beginning of the last century, economies grew with the state taking around ten percent of GDP; much of poor relief and health care had grown organically from private initiatives. However this was not enough for politicians who believed they knew better than the people and took on responsibilities that could perfectly well have been encouraged privately.

This grew after the Second World War with the state taking on more duties at great expense so that now, in a condition of acute debt deflation, a durable recovery can only take place by unwinding and privatising the welfare state; politicians should now revert to their traditional role of encouraging and protecting the individual, maintaining external security and foreign affairs, keeping the currency stable and lowering taxes by managing a tight administration. Once this has been achieved, and the state spending only around one third of the GDP, they can start repaying debt and safely leave it to individuals, singly or in groups, to prudently take the economy out of recession. My work on recovery is based on the history of debt in relation to GDP for the USA as shown in the following diagram.



[PIC – diagram1.jpg]
Diagram 1 total debt/GDP ratio of US 1870-2010
Courtesy Hoisington Investment

You will immediately recognise a pattern here of debt accumulation then collapse from 1875 to the present in a series first recognised by a little-known economist working in the Academy of Agriculture in Moscow during the 1920s. Working with series of interest rates and prices going back to 1790 he derived a pattern of boom and bust with a duration of 45 to 70 years; there are three completed rhythms, only the latter two are shown in the diagram together with the present uncompleted cycle. The pattern was discovered by Nicolai Kondratieff and his name was given to the cycle by Joseph Schumpeter; the poor fellow was shot in Siberia in 1938 for predicting first the US depression which pleased his communist bosses, then its recovery, which did not!