



Max Bublitz

Green shoots? *Green Acres* more like

Anyone who believes the economy has turned a corner must be living in a sitcom

Just can't seem to shake the feeling that the recent "green shoots" mania has morphed into something more akin to a modern day episode of *Green Acres*. You may remember the popular American television series depicting a New York City couple, Oliver and Lisa, who moved to a farm in the country. The comedy became notable for its absurdist bent as Oliver struggled to make sense of the largely insane world around him, populated by a cast of zany characters. In many ways, today's obsession with green shoots would fit right in.

Take a recent use of the phrase, for instance. It was uttered by Federal Reserve chairman Ben Bernanke on *60 Minutes*. Leave aside for the moment the question of whether it was appropriate for a sitting chairman of the Fed to do such an up-close-and-personal on network television. The point is that he never referred to green shoots in the *economy*; rather he was referring to green shoots in different *markets*. That everyone is so eager to expand his meaning beyond what he meant tells us a great deal about where we really are in the healing process. Hope is a thin economic reed.

Green shoot or thin reed, you have to hand it to Bernanke: the phrase is artful; it's calming. Green shoots suggest this is all simply part of the kind of normal seasonal transition. Hey, what could be more natural than a winter thaw nourishing green shoots in the spring? I believe the phrase is dangerously misleading in that we aren't dealing with anything remotely resembling a normal, seasonal cycle. Readers of this column will recall that I believe something more secular in nature is unfolding and that the process is going to take longer than the phrase green shoots implies.

The cycle of life

We are in the process of correcting three highly interconnected cycles of different timeframes. The first is the approximately 60-year cycle of demographically charged debt accumulation. The second is the 25-year regulatory cycle best illustrated by the explosive growth and subsequent collapse of the shadow banking system.

The third covers the last 10 years, where myriad monetary and fiscal policy errors needlessly pushed the global economy into the first coordinated financial crisis since the Great Depression. The second cycle fed upon and energised the first, while the third cycle fed upon and further supercharged the previous two.

The clearly unsustainable nature of these three cycles laid the groundwork for the financial crisis, which in turn led to a mind-blowing amount of government stimulus to counteract it. How far and how fast these cycles correct remains to be seen. While most are finally beginning to get their arms around the cyclic issues that led us into the crisis, many remain in the dark about the financial and economic impact of the financial crisis. The widely distributed paper by Reinhart and Rogoff, studying past financial crises, provides a sobering benchmark of how the crisis will continue to unfold. In a nutshell, it foresees more time and a more muted recovery than implied by green shoots.

Add the sheer cost of the countercyclical stimulus efforts and the picture becomes positively surreal. But then, one of the attractions of the *Green Acres* television show was how it evolved into a surreal world of its own. Markets and economies evolve as well, and can best be thought of as complex, adaptive systems. We're going to have to live with the consequences – intended or otherwise – of correcting numerous cyclical excesses at the same time that we have to deal with the effects a serious financial crisis and its attendant unprecedented counter-measures. Some say we're headed toward the New Normal. Could be, but at the very least, it should be abundantly clear that we are not simply emerging from the normal type of winter implied by the phrase "green shoots". Oscar Wilde once said: "Life imitates art far more than art imitates life." Wherever we end up, let's hope it's more like *Green Acres* and not some kind of Salvador Dali-like surrealist nuclear winter, where the green shoots turn into all sorts of grotesque mutations.

Max Bublitz is chief strategist at SCM Advisors in San Francisco