Retirement Income
JOURNAL

Bill Gross Cites Barrier to a Better ‘New Normal’

By Editor Test *Tue, Jul 6, 2010*

It is the lack of global aggregate demand—resulting from too much debt in parts of the global economy and not enough in others--that is the essence of the problem, PIMCO's CIO wrote in his latest column.

In the following excerpt from his July 2010 column, posted in its entirety at his company’s website, William Gross, the managing director and chief investment officer of Pacific Investment Management Co. (PIMCO), explains why the world economy is paralyzed:

There are 6.5 billion people in the world and will soon be one billion more. Many of them are debt-free and have never used a credit card or assumed a home mortgage.

Why can’t lenders like PIMCO lend to them, allowing developing nations to bring their consumption forward, developed nations to supply the goods and services, and the world to resume its “old normal” path toward future profits, prosperity and increasing standard of living?

To a certain extent that is what should gradually happen, promoting more rapid growth in the emerging nations and a subdued semblance of it in the G-7—a “new normal.”

But they—the developing nations—are not growing fast enough, at least internally, to return global growth to its old standards. Their financial systems are immature and reminiscent of a spindly-legged baby giraffe, having lots of upward potential but still striving for balance after a series of missteps, the most recent of which was the Asian crisis over a decade ago.

And so they produce for export, not internal consumption, and in the process leave a gaping hole in what is known as global aggregate demand. Developed nation consumers are maxed out because of too much debt, and developing nations don’t trust themselves to stretch their necks for the delicious leaves of domestic consumption just above.

It is this lack of global aggregate demand—resulting from too much debt in parts of the global economy and not enough in others–that is the essence of the problem, which only economists with names beginning in R [Rogoff, Roubini, Reinhart and Rosenberg] seem to understand (there is no R in PIMCO no matter how much I want to extend the metaphor, and yes, Paul _Rugman fits the description as well!).

If policymakers could act in unison and smoothly transition maxed-out indebted consumer nations into future producers, while simultaneously convincing lightly indebted developing nations to consume more, then our predicament would be manageable.

They cannot.

G-20 Toronto meetings aside, the world is caught up as it usually is in an “every nation for itself” mentality, with China taking its measured time to consume and the U.S. refusing to acknowledge its necessity to invest in goods for export.

Even if your last name doesn't begin with R, the preceding explanation is all you need to know to explain what is happening to the markets, the global economy, and perhaps your own wobbly-legged standard of living in recent years.

© 2010 RIJ Publishing LLC. All rights reserved.