

January 2012 *MoneyMinute* – The Good Old Days?

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“The hardest arithmetic for human beings to master,” wrote the great American working man's philosopher Eric Hoffer, “is that which enables us to count our blessings.”

It's a piece of wisdom worth recalling after another year that tested the nerve of many investors and prompted questions about what current generations have done to deserve to live in such a tempestuous stage of history.

As the year wound down (if that's the word for it!), financial markets were gripped by uncertainty over developments in the Eurozone crisis. Each day still brings fresh headlines that send investors scrambling from virtual despair to tentative optimism.

While not seeking to downplay the very real anxiety generated by these events, particularly in relation to their effects on investment portfolios, it's worth reflecting critically on our often second-hand memories of the “good old days.”

A Brief History of the 20th Century

Nearly 100 years ago, Europe was engulfed by a war that destroyed two centuries-old empires, redrew the map of the continent, and left more than 15 million people dead and another 20 million wounded. The economic effects were significant, with widespread rationing in many countries, labor shortages, and massive government borrowing.

Just as the Great War was ending, the world was struck by a deadly pandemic – the Spanish flu, which, by conservative estimates, killed some 50 million people. About a third of the world's population was infected over a two-year period.

A little over a decade after the Great War and the pandemic, the Great Depression cut a swath through the global economy. Industrial production collapsed, international trade broke down, unemployment tripled or quadrupled in some cases, and deflation made already groaning debt burdens even larger.

In the meantime, resentment was growing in Germany over its Great War reparations to the Allied powers. Berlin resorted to printing money to pay its debts, which in turn led to hyperinflation. At one point, one US dollar converted to 4 trillion marks.

In a new militaristic and nationalist climate, fascist regimes arose in Germany, Italy, and Spain. Under Hitler, Germany defied international treaties and began annexing surrounding regions in Austria and Czechoslovakia before finally attacking Poland in 1939.

This led to the Second World War, a conflict that engulfed almost the entire globe while Japan pushed its imperial ambitions in Asia, and Germany sought to conquer Europe. More than 50 million died in the ensuing conflict, including a holocaust of six million Jews. The

war ended with the invasion of Berlin by Russian and western forces, while Japan surrendered only after the US dropped nuclear bombs on two cities, killing a quarter of a million civilians.

In economic terms, the war's impact was profound. Most of Europe's infrastructure was destroyed, millions of people were left homeless, much of the UK's urban areas were devastated, labor shortages were rife, and rationing was prevalent.

While the 35 years after World War II were seen as a golden age in comparison, the geopolitical situation remained fraught as the nuclear armed superpowers, the Soviet Union and the US, eyed each other. The breakdown of the old European empires and growing east-west tensions led the US and its allies into wars in Korea and Vietnam.

The cost of the Vietnam and cold wars created enormous pressures concerning balance of payments and inflation for the US and led in 1971 to the end of the post-WWII Bretton Woods system of international monetary management. The US dollar came off the gold standard, and the world gradually moved to a system of floating exchange rates.

In the mid-1970s, the depreciation of the value of the US dollar and the breakdown of the monetary system combined with war in the Middle East to encourage major oil producers to quadruple oil prices. Stock markets collapsed and stagflation – a combination of rising inflation alongside rising unemployment – gripped many countries.

While the 1980s and 1990s were a relative oasis of calm – aided by the end of the cold war – there still was no shortage of bad news, including the Balkan wars, the Rwandan genocide, and recessions in the early part of both decades.

In the past decade, there have been the tragedies of 9/11; the 2004 Asian tsunami; the 2011 Japanese earthquake, tsunami, and nuclear crisis; and now, the financial crisis sparked by irresponsible lending, complex derivatives, and excessive leverage.

Another Perspective

So from this history, it seems fairly clear that tragedy and uncertainty will always be with us. But the important point to take away from it is that previous generations have stared down and overcome far greater obstacles than we face today. And while it is easy to focus on the bad news, we mustn't overlook the good either.

Alongside the wars, depressions, and natural disasters of the past century, there were some notable achievements for humanity – like women's suffrage, the development of antibiotics, civil rights, economic liberalization, the spread of prosperity and democracy, space travel, advances in our understanding of the natural world, and enormous advances in telecommunication. (Oh, and the Beatles.)

Today, while the US and Europe are gripped by tough economic times, much of the developing world is thriving. Populous nations such as China and India are emerging as

prosperous nations with large middle classes. And smaller, poorer economies are making advances, too.

The United Nations in the year 2000 adopted a Millennium Declaration that set specific targets for ending extreme poverty, reducing child mortality, and raising education and environmental standards by 2015. In East Asia, the majority of 21 targets have already been met or are expected to be met by the deadline. In Africa, about half the targets are on track, including those for poverty and hunger.

Alongside these gains, new communications technology is improving our understanding of different cultures and increasing tolerance across borders while providing new avenues for the spread of ideas in education, health care, technology, and business.

Through forums such as the G20 and APEC, international cooperation is increasing in the field of trade, addressing climate change, and lifting the ability of the developing world to more fully participate in the global economy.

Rising levels of education and health, and workforce participation also mean the foundations are being built for a healthier and peaceful global economy, dependent not on debt, fancy derivatives, and fast profits but on sustainable, long-term wealth building.

Anxiety over recent market developments is completely understandable, and it is quite human to feel concerned about events in Europe. But amid all the bad news, it is also clear that the world is changing in positive ways that provide plenty of cause for hope and, at the very least, gratitude for what we already have. These are ideas to keep in mind when we scan the news and long for the “good old days.”

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