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Cheerleading and the Soundness of US the Banking System

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Part of the job description of the 'Commander-in-Chief' of the United States is the 'Chief Cheerleader of the United States.' Everyone expects this. And when things are going swimmingly no one even notices that the President by nature is plugging the United States. However after an especially disastrous on-field play even the cheer leaders know to take a time out. Otherwise it is an open invitation to sharp criticism.

President Bush Jr. took a tremendous amount of flak for his "Mission Accomplished" talk on the carrier deck of the 'Abraham Lincoln' back on May 1st of 2003. The whole incident became unfortunately emblematic of the very costly errors of misjudgment that plagued the entire post invasion endeavor.

Back on 22nd July 2009 the threat arose of an Obama 'mission accomplished' moment when Chief of Staff Rahm Emmanuel was quoted as saying " we've rescued the economy from the worst recession." Our technical indicators still suggest that he will come to regret ever having uttered those words.

This past week there was another indication of just how far Washington is from having saved the economy - this from a publication of the "World Economic Forum." While widely derided as a gigantic boondoggle for the rich and famous the grunts behind the lines within the WEF do some great research comparing countries across a wide range of parameters. This research is an opportunity for countries to compare themselves with other countries - and with their own self image. And this gets into the reason for this article.

From page 4 I have reprinted a few pages from the 'World Economic Forum' publication "The Global Competitiveness Report 2009 - 2010." Check out page 436 of this report, which is the first page reprinted following the cover page. Note that of the 133 countries in the ranking, with regard to the "Soundness of Banks" the United States rates #108 just behind Tanzania and Azerbaijan and just ahead of Venezuela. This is a remarkably horrible accomplishment. Without any help from anyone else the United States has virtually destroyed its own banking system. And we suspect a prime reason is the "Capacity for Innovation" where the United States has a #6 ranking. If only we had kept innovation out of the banking system and restricted it to science and industry. The ideological based phobia against regulation gave the financial industry all the rope it needed to innovate itself to a hanging. And now we must all lower the corpse to the ground and try to revive it. Zombie banks are not the revival this country needs. More on that in another report.

The listing of the United States only one step ahead of Venezuela in the ranking of “Soundness of Banking” must be especially galling - and not simply because of the legacy of Chavez. In almost every economic indicator used to compare countries in the full 492 page publication of the WEF “Global Competitiveness Report 2009 - 2010” the country of Venezuela either ranked either dead last or very near the bottom. So it is especially ignominious to be ranked on any indicator so close to Venezuela.

From this perspective let us now return to Raul Emmanuel’s claim that “we’ve rescued the economy from the worst recession.” Really now? And at what cost? At the cost of the credibility of the banking system? That is like rescuing a drowning swimmer by throwing them a cement block. And this also casts the credibility of the stock market rally from the March lows in a rather unfavorable light.

One final note here. We mentioned earlier that one value of the WEF ratings is that it allows countries to compare themselves to other countries. We first need to keep in mind that the WEF is not some radical, wide-eyed fringe group. We should then note that the citizens of just about every country in the world likely think more highly of their country than those in other countries. It is only natural to be patriotic and think of ones own country as indispensable and irreplaceable. This is cheer leading. It is natural, but it can also be quite dangerous. If the cheerleaders in the United States can be believed the US banking system has been repaired. This rating from the WEF suggests that we should be very skeptical of the claims of these cheerleaders, and manage our investments accordingly.

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The Global Competitiveness Report 2009–2010

Klaus Schwab, World Economic Forum

Box 2: Is the United States losing its competitive edge?

After several years at the top of the rankings, the United States has fallen to 2nd place in the Global Competitiveness Index (GCI), outflanked by Switzerland this year. The efficiency of its goods and labor markets; the sophistication of its business culture; and the impressive capacity for technological innovation of its companies, supported by high levels of collaboration with universities in research, continue to constitute competitive strengths. These factors remain a driving force behind US productivity, and will support recovery from the current recession. However, a number of weaknesses particularly related to public and private institutions, as well as continuing burgeoning macroeconomic imbalances, have somewhat eroded the country's overall competitiveness potential over the past years. These weaknesses, which some observers consider to be the root cause of the financial crisis, have been further emphasized by the present fall in the US ranking, as the loss of confidence in financial markets has now been added to the list of challenges to be addressed.

The United States has highly efficient goods and labor markets, ensuring an optimal allocation of these resources. Its goods markets in particular, characterized by low levels of distortion in an environment of open competition across virtually all markets, are assessed as the most efficient in the world, ensuring a large selection of quality goods at low prices, supplied in a timely manner. Its labor markets are very flexible and efficient, with high rates of job creation and low rates of unemployment, against a background of wage flexibility and considerable ease for hiring and firing at the firm level. Indeed, while the flexibility of US labor markets has allowed for rapidly rising unemployment since the onslaught of the economic crisis, these same flexible labor markets are expected to encourage firms to hire more rapidly once the crisis subsides.

The level of innovation in the United States is second to none (1st in the innovation pillar). The country is endowed with top-notch scientific institutions (ranked 2nd) and companies that spend heavily on R&D (ranked 5th). Businesses and universities collaborate heavily in research, spawning centers of innovation, as confirmed by its 1st place in the variable assessing this dimension. It is therefore not surprising that the United States ranks 1st worldwide in patent registrations. This culture of innovation is buttressed by a number of other critical factors, such as strong intellectual property protection, very high attainment rates of tertiary education, and excellent on-the-job training that fosters the ability of workers and businesses to adapt rapidly to a changing environment. Further, the overall high levels of sophistication of the business community (ranked 8th) ensure that much of this innovation is translated into productive business activity.

While strengths in the technological and market efficiency areas explain the country's overall high rank, the US economy has increasingly suffered from weaknesses in other areas, and this has pushed its GCI score downward this year. Most notably, over the past few years—and particularly this year—there is a much weaker assessment of the country's financial markets, including the soundness of banks, much in line with the evolving situation in the country and recent bank failures and bailouts. Access to finance through various channels has become measurably more difficult, and the assessment of bank solvency has dropped from a rank of 40 last year all the way down to 106th this year (on a par with countries such as Albania and Mali).

Related to this issue, there is also a strong sense that there has not been enough accountability among the country's private institutions, and that accounting and auditing standards have not been up to scratch.

Macroeconomic imbalances also continue to afflict the United States. Indeed, recent stimulus spending, while meant to head off an even more protracted recession, is increasing the debt burden that will be borne by future generations. According to the latest estimates published by the International Monetary Fund (IMF), the fiscal deficit in 2009 is projected to exceed 13 percent of GDP, the ninth year in a row that the federal budget will have shown a deficit. The IMF also projects deficits at least through 2010, despite the government's pledges to rein in spending after the crisis. In the meantime, the impact of this deficit spending on public debt is alarming, with debt rising sharply from 63 percent of GDP in 2000 to a projected 87 percent of GDP in 2009 and expected to continue to rise in coming years. With the many long-term claims on the budget—such as defense, pensions, and other social payments (including healthcare)—the prospects for sustained fiscal adjustment do not seem bright. It is clear that in order to ensure rising prosperity for future generations, the United States must get its macro house in order rapidly once the crisis subsides.

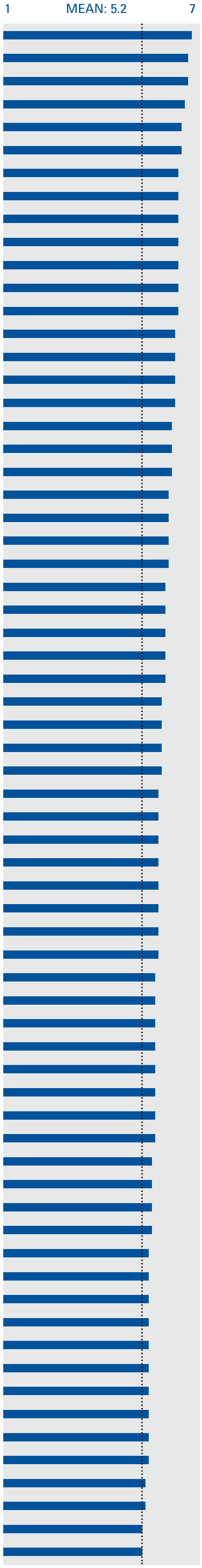
education, providing highly skilled individuals for the workforce. In order to strengthen its competitiveness further, Singapore could encourage even stronger adoption of the latest technologies—especially broadband Internet—as well as the innovative capacity of its companies.

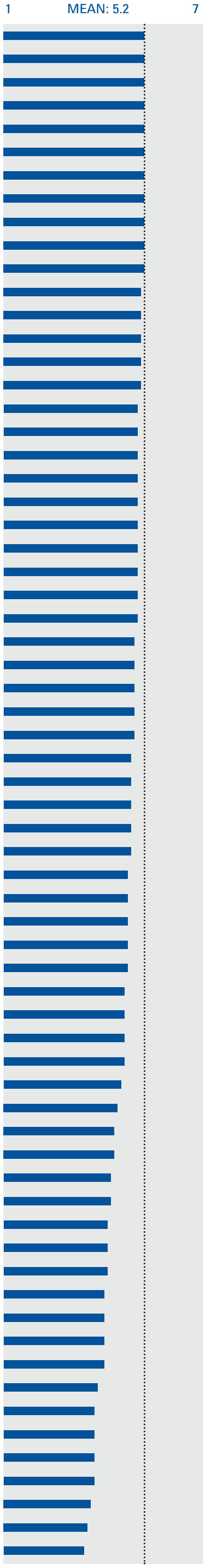
The Nordic members of the European Union continue to hold privileged positions in the rankings. **Sweden, Finland,** and **Denmark** hold the 4th through the 6th places. They continue to lead the rankings in a number of individual areas. For example, they are all ranked among the top 15 countries with regard to macroeconomic stability, all running healthy budget surpluses through 2008, with low levels of public indebtedness, high national savings, and narrow interest rate spreads. The three countries have among the best-functioning and most transparent institutions in the world, ranked behind only Singapore on this pillar, as in past years. Finland, Denmark, and Sweden also continue to occupy the top three positions in the higher educa-

8.07 Soundness of banks

How would you assess the soundness of banks in your country? (1 = insolvent and may require a government bailout; 7 = generally healthy with sound balance sheets) | 2008–2009 weighted average

RANK	COUNTRY/ECONOMY	SCORE
1	Canada	6.7
2	New Zealand	6.6
3	Australia	6.6
4	Chile	6.5
5	Hong Kong SAR	6.4
6	South Africa	6.4
7	Namibia	6.3
8	Singapore	6.3
9	Panama	6.3
10	Brazil	6.3
11	Finland	6.3
12	Barbados	6.3
13	Malta	6.3
14	Luxembourg	6.2
15	Slovak Republic	6.2
16	Mauritius	6.2
17	Qatar	6.2
18	Bahrain	6.1
19	Israel	6.1
20	Norway	6.1
21	Sweden	6.0
22	Cyprus	6.0
23	Trinidad and Tobago	6.0
24	Spain	6.0
25	India	5.9
26	Peru	5.9
27	Austria	5.9
28	Senegal	5.9
29	Czech Republic	5.9
30	Costa Rica	5.8
31	Malawi	5.8
32	El Salvador	5.8
33	Saudi Arabia	5.8
34	Estonia	5.7
35	Oman	5.7
36	United Arab Emirates	5.7
37	Jordan	5.7
38	Malaysia	5.7
39	Brunei Darussalam	5.7
40	France	5.7
41	Mexico	5.7
42	Gambia, The	5.6
43	Thailand	5.6
44	Switzerland	5.6
45	Greece	5.6
46	Guyana	5.6
47	Botswana	5.6
48	Kuwait	5.6
49	Denmark	5.6
50	Jamaica	5.5
51	Honduras	5.5
52	Benin	5.5
53	Zambia	5.5
54	Colombia	5.4
55	Guatemala	5.4
56	Croatia	5.4
57	Ghana	5.4
58	Philippines	5.4
59	Dominican Republic	5.4
60	Sri Lanka	5.4
61	Kenya	5.4
62	Portugal	5.4
63	Lithuania	5.4
64	Suriname	5.3
65	Puerto Rico	5.3
66	China	5.2
67	Burkina Faso	5.2
68	Syria	5.2
69	Italy	5.2
70	Netherlands	5.2
71	Uruguay	5.2
72	Montenegro	5.2
73	Paraguay	5.2
74	Romania	5.2
75	Bolivia	5.2
76	Tunisia	5.2
77	Slovenia	5.2
78	Morocco	5.2
79	Macedonia, FYR	5.1
80	Mozambique	5.1
81	Armenia	5.1
82	Bosnia and Herzegovina	5.1
83	Madagascar	5.1
84	Japan	5.0
85	Pakistan	5.0
86	Egypt	5.0
87	Cameroon	5.0
88	Uganda	5.0
89	Turkey	5.0
90	Korea, Rep.	5.0
91	Georgia	5.0
92	Nigeria	5.0
93	Poland	5.0
94	Taiwan, China	4.9
95	Belgium	4.9
96	Indonesia	4.9
97	Côte d'Ivoire	4.9
98	Ecuador	4.9
99	Nepal	4.8
100	Hungary	4.8
101	Bangladesh	4.8
102	Bulgaria	4.8
103	Germany	4.8
104	Albania	4.7
105	Mali	4.7
106	Azerbaijan	4.7
107	Tanzania	4.7
108	United States	4.7
109	Venezuela	4.6
110	Serbia	4.6
111	Vietnam	4.6
112	Nicaragua	4.6
113	Mauritania	4.5
114	Cambodia	4.4
115	Latvia	4.3
116	Libya	4.3
117	Ethiopia	4.2
118	Argentina	4.2
119	Lesotho	4.1
120	Tajikistan	4.1
121	Ireland	4.1
122	Timor-Leste	4.0
123	Russian Federation	4.0
124	Chad	4.0
125	Burundi	4.0
126	United Kingdom	3.8
127	Algeria	3.7
128	Kazakhstan	3.7
129	Kyrgyz Republic	3.7
130	Iceland	3.7
131	Zimbabwe	3.6
132	Mongolia	3.5
133	Ukraine	3.4



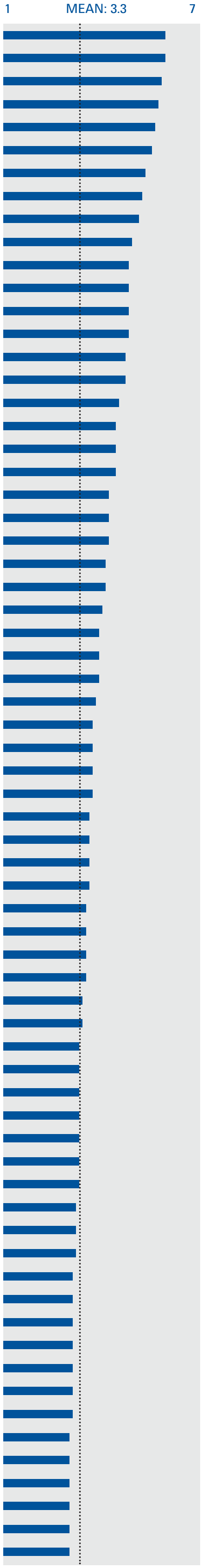


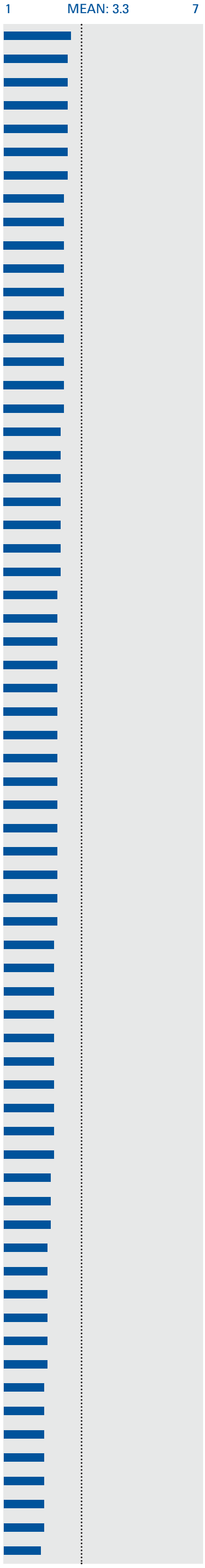
SOURCE: World Economic Forum, Executive Opinion Survey 2008, 2009

12.01 Capacity for innovation

In your country, how do companies obtain technology? (1 = exclusively from licensing or imitating foreign companies; 7 = by conducting formal research and pioneering their own new products and processes) | 2008–2009 weighted average

RANK	COUNTRY/ECONOMY	SCORE
1	Japan	5.9
2	Germany	5.9
3	Switzerland	5.8
4	Sweden	5.7
5	Finland	5.6
6	United States	5.5
7	Denmark	5.3
8	Israel	5.2
9	France	5.1
10	Netherlands	4.9
11	Austria	4.8
12	Belgium	4.8
13	Taiwan, China	4.8
14	Norway	4.8
15	Korea, Rep.	4.7
16	United Kingdom	4.7
17	Slovenia	4.5
18	Singapore	4.4
19	Luxembourg	4.4
20	Canada	4.4
21	Czech Republic	4.2
22	China	4.2
23	Iceland	4.2
24	New Zealand	4.1
25	Malaysia	4.1
26	Australia	4.0
27	Italy	3.9
28	Brazil	3.9
29	Azerbaijan	3.9
30	Ireland	3.8
31	Saudi Arabia	3.7
32	Ukraine	3.7
33	Vietnam	3.7
34	Spain	3.7
35	India	3.6
36	South Africa	3.6
37	Estonia	3.6
38	Portugal	3.6
39	United Arab Emirates	3.5
40	Cyprus	3.5
41	Costa Rica	3.5
42	Russian Federation	3.5
43	Hong Kong SAR	3.4
44	Indonesia	3.4
45	Kenya	3.3
46	Turkey	3.3
47	Nigeria	3.3
48	Hungary	3.3
49	Sri Lanka	3.3
50	Kazakhstan	3.3
51	Tunisia	3.3
52	Croatia	3.2
53	Lithuania	3.2
54	Puerto Rico	3.2
55	Slovak Republic	3.1
56	Pakistan	3.1
57	Poland	3.1
58	Bahrain	3.1
59	Thailand	3.1
60	Chile	3.1
61	Malta	3.1
62	Colombia	3.0
63	Guatemala	3.0
64	Romania	3.0
65	Uruguay	3.0
66	Armenia	3.0
67	Senegal	3.0
68	Latvia	3.0
69	Argentina	2.9
70	Philippines	2.9
71	Montenegro	2.9
72	Tajikistan	2.9
73	Bulgaria	2.9
74	Jordan	2.9
75	Lesotho	2.8
76	Gambia, The	2.8
77	Barbados	2.8
78	Cameroon	2.8
79	Mongolia	2.8
80	Mexico	2.8
81	Madagascar	2.8
82	Serbia	2.8
83	Burkina Faso	2.8
84	Peru	2.8
85	Kuwait	2.7
86	Macedonia, FYR	2.7
87	Oman	2.7
88	Morocco	2.7
89	Timor-Leste	2.7
90	Dominican Republic	2.7
91	Brunei Darussalam	2.7
92	Cambodia	2.6
93	Honduras	2.6
94	Mauritius	2.6
95	Botswana	2.6
96	Egypt	2.6
97	Kyrgyz Republic	2.6
98	Suriname	2.6
99	Guyana	2.6
100	Panama	2.6
101	Greece	2.6
102	Benin	2.6
103	Jamaica	2.6
104	Uganda	2.6
105	Mauritania	2.6
106	Ethiopia	2.6
107	Nicaragua	2.5
108	Tanzania	2.5
109	Qatar	2.5
110	El Salvador	2.5
111	Chad	2.5
112	Malawi	2.5
113	Namibia	2.5
114	Ecuador	2.5
115	Zambia	2.5
116	Burundi	2.5
117	Bolivia	2.4
118	Mozambique	2.4
119	Georgia	2.4
120	Albania	2.3
121	Bosnia and Herzegovina	2.3
122	Mali	2.3
123	Bangladesh	2.3
124	Côte d'Ivoire	2.3
125	Venezuela	2.3
126	Nepal	2.2
127	Ghana	2.2
128	Syria	2.2
129	Algeria	2.2
130	Paraguay	2.2
131	Trinidad and Tobago	2.2
132	Zimbabwe	2.2
133	Libya	2.1



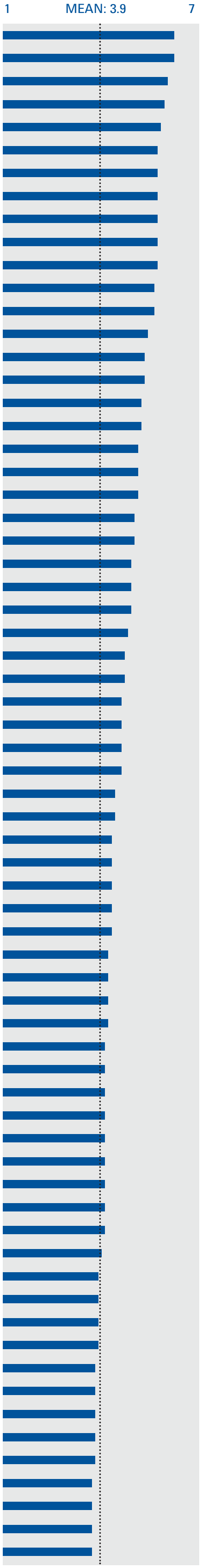


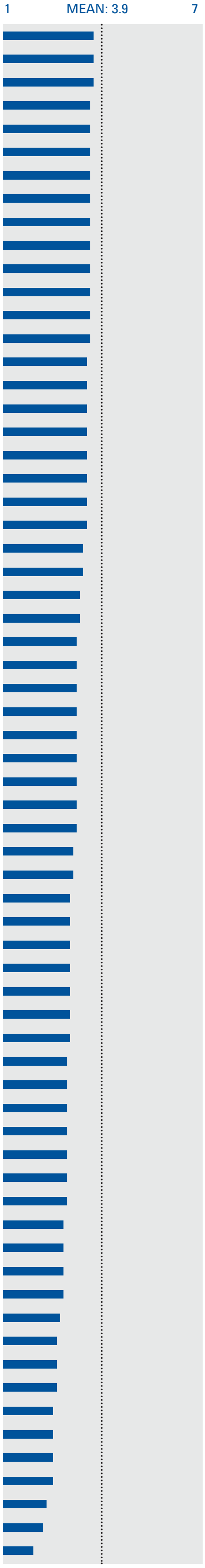
SOURCE: World Economic Forum, Executive Opinion Survey 2008, 2009

12.02 Quality of scientific research institutions

How would you assess the quality of scientific research institutions in your country? (1 = very poor; 7 = the best in their field internationally) | 2008–2009 weighted average

RANK	COUNTRY/ECONOMY	SCORE
1	Switzerland	6.2
2	United States	6.2
3	Israel	6.0
4	United Kingdom	5.9
5	Germany	5.8
6	Sweden	5.7
7	Netherlands	5.7
8	Belgium	5.7
9	Denmark	5.7
10	Australia	5.7
11	Canada	5.7
12	Singapore	5.6
13	Finland	5.6
14	New Zealand	5.4
15	Japan	5.3
16	Ireland	5.3
17	France	5.2
18	Taiwan, China	5.2
19	Czech Republic	5.1
20	Norway	5.1
21	Austria	5.1
22	Korea, Rep.	5.0
23	Hungary	5.0
24	Iceland	4.9
25	India	4.9
26	Slovenia	4.9
27	Estonia	4.8
28	Malaysia	4.7
29	South Africa	4.7
30	Costa Rica	4.6
31	Portugal	4.6
32	Qatar	4.6
33	Puerto Rico	4.6
34	Hong Kong SAR	4.4
35	China	4.4
36	Luxembourg	4.3
37	Saudi Arabia	4.3
38	Barbados	4.3
39	Azerbaijan	4.3
40	Kenya	4.3
41	Brazil	4.2
42	Russian Federation	4.2
43	Indonesia	4.2
44	Spain	4.2
45	Sri Lanka	4.1
46	Lithuania	4.1
47	Montenegro	4.1
48	Poland	4.1
49	Tunisia	4.1
50	Croatia	4.1
51	Jamaica	4.1
52	Cyprus	4.1
53	United Arab Emirates	4.1
54	Serbia	4.0
55	Senegal	3.9
56	Ukraine	3.9
57	Chile	3.9
58	Burkina Faso	3.9
59	Argentina	3.8
60	Thailand	3.8
61	Trinidad and Tobago	3.8
62	Panama	3.8
63	Oman	3.8
64	Vietnam	3.7
65	Mexico	3.7
66	Latvia	3.7
67	Uganda	3.7
68	Ghana	3.7
69	Malta	3.7
70	Jordan	3.7
71	Turkey	3.6
72	Mali	3.6
73	Botswana	3.6
74	Tanzania	3.6
75	Bulgaria	3.6
76	Uruguay	3.6
77	Greece	3.6
78	Gambia, The	3.6
79	Italy	3.6
80	Kazakhstan	3.6
81	Pakistan	3.6
82	Romania	3.5
83	Kuwait	3.5
84	Zambia	3.5
85	Mauritius	3.5
86	Slovak Republic	3.5
87	Colombia	3.5
88	Tajikistan	3.5
89	Malawi	3.5
90	Macedonia, FYR	3.4
91	Libya	3.4
92	Côte d'Ivoire	3.3
93	Namibia	3.3
94	Burundi	3.2
95	Benin	3.2
96	Guatemala	3.2
97	Brunei Darussalam	3.2
98	Armenia	3.2
99	Mozambique	3.2
100	Morocco	3.2
101	Egypt	3.2
102	Philippines	3.2
103	Venezuela	3.1
104	Cameroon	3.1
105	Zimbabwe	3.0
106	Mongolia	3.0
107	Cambodia	3.0
108	Bangladesh	3.0
109	Madagascar	3.0
110	Syria	3.0
111	Algeria	3.0
112	Bahrain	2.9
113	Lesotho	2.9
114	Ethiopia	2.9
115	Nigeria	2.9
116	Suriname	2.9
117	Nicaragua	2.9
118	Peru	2.9
119	Honduras	2.8
120	Guyana	2.8
121	Dominican Republic	2.8
122	Chad	2.8
123	Georgia	2.7
124	Kyrgyz Republic	2.6
125	El Salvador	2.6
126	Bosnia and Herzegovina	2.6
127	Nepal	2.5
128	Albania	2.5
129	Ecuador	2.5
130	Bolivia	2.5
131	Mauritania	2.3
132	Timor-Leste	2.2
133	Paraguay	1.9





SOURCE: World Economic Forum, Executive Opinion Survey 2008, 2009