

The Case for Optimism

By Dan Richards

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Only a few months ago, economist's doomsday scenarios caused widespread concerns that we were about to revisit the Great Depression.

That consensus view on the economy has shifted remarkably quickly, with a much more positive outlook for the immediate period ahead.

For example, see this article in last Saturday's New York Times about a meeting of global central bankers: [World Bankers Suggest Rebound May Have Begun](#)

With a lessening of near term worries, the focus of concern for many investors is now shifting to prospects for mid- and long-term growth.

Two recent cover stories in the Economist and Business Week provide ammunition to reassure clients thrown off balance by some of the alarmist rhetoric about depressed economic growth for the foreseeable future.

The Economist: "Asia's astonishing rebound"

First came the Economist. Its August 15th cover story talked about the remarkable resiliency of emerging Asian economies such as China, South Korea, Taiwan, Indonesia and Singapore.

The [story](#) describes the region's phenomenal 20-year annual growth rate of almost 8% – and explains how stronger Government finances, a more solid banking system and lower consumer debt meant that the region is leading the way out of the current global decline.



Business Week: The case for OPTIMISM

This was followed by the August 24 and 31 issue of Business Week, with 24 pages devoted to reasons for being positive going forward.

The online version also features video interviews with upbeat assessments by the CEOs of Dow Corning, Eastman Kodak, Estee Lauder and Intuit – with only the perpetual contrarian Richard Branson as a dissenting voice.

Consider buying a couple of copies for your reception area, as light reading for arriving clients.

Among the key themes in this issue of Business Week:

1. Recessions such as this one set the stage for future growth, shaking human and investment capital loose from old, dying companies to focus on businesses with better prospects. In the story, Bill Gates makes the case that we drastically underestimate the positive impact of innovation.

Indeed, there is lots of good news on the innovation front. In the past, tough economic times have been fertile ground for innovation and invention, with companies such as Xerox and Microsoft launched during downturns. And there are signs of a renewal of entrepreneurial vigour, even in the face of alarming headlines.

A related story describes how marrying information technology and old-fashioned mechanical engineering is driving an economic revival in Europe, with especially positive developments in Germany.

2. Expanding education and improving technology around the world continue to have a positive impact fuelling economic growth, as “the expansion of a global, well-educated, technologically well-equipped middle class is a force for progress.” Since 1970, the number of students pursuing post-secondary education has more than quintupled.
3. Business Week quotes experts who compare the current recession to a forest fire, clearing out dead brush and making room for new growth – and also as the needed catalyst to get Americans to rethink unsustainable habits on spending, saving, leverage and risk-taking.

An article points to signs of stabilization in the U.S. housing market – key to the American consumer regaining confidence. One of the factors that drove last Friday’s market upswing was good news on housing sales in July, with the biggest monthly increase in a decade.



4. A column by the CEO of Thomson Reuters describes how the free-market principles of transparency, rule of law and market pricing are being adopted by the developing world, leading to the rise of a global professional class.

As an example, historically patents didn't exist in China – the country didn't adopt patent laws until 1985. China now issues 30,000 patents annually, encouraging innovation by protecting property rights and providing work for 150,000 lawyers. Today, China ranks third in patent applications, behind only the U.S. and Japan – and is expected to pull into first place by 2012.

Another instance is the rise of Islamic finance into a \$1 trillion business, growing over 10% annually. This was fuelled by a skilled community of accountants, lawyers and financial practitioners.

5. In an interview, the Swedish co-founder of Doctors Without Borders describes the convergence of the pace and level of progress across societies with rapid improvements in developing countries on key measures such as child mortality. He points to India as one example of change, with a shift in one generation from big families in a stagnant economy to small families in a fast growing economy.
6. Finally, a story tells how realistic optimism can be a key competitive advantage for business. Business Week describes the demise of once-dominant retailer Montgomery Ward after the World War II because its chairman saw another depression coming and refused to open new stores, opening the door for Sears Roebuck to gain market share.

Click [here](#) to access all the stories on The Case for Optimism.

And [here](#) to view the three minute video with CEO interviews.

** Dan Richards conducts programs to help advisors gain and retain clients and is an award winning faculty member in the MBA program at the University of Toronto. To see more of his written and video commentaries and to reach him, go to www.strategicimperatives.ca.*

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