



THE SPECIALIST IN TRADING AND INVESTMENT

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Little learnt from Lehman collapse

It's been seven years since the collapse of Lehman Brothers and instead of using the event as a way to deal with excess, lax structures and a lack of focus on productivity, it became a catalyst for policymakers to 'pretend and extend'. But not all is lost and while the next seven years will be lean, they will be positively lean.

By Steen Jakobsen

On the seven-year anniversary of the collapse of Lehman Brothers, it is worth thinking about what has changed and what hasn't.

Lehman was clearly an opportunity to deal with excess, lax structures and a lack of focus on productivity but instead it became a catalyst for pretend and extend from policymakers. Extending – by at all times buying more time – and pretending – by claiming to be credible in their non-solutions.

They reacted to the growth and sentiment deficit with higher fiscal spending and when that money ran out they forced their central banks to print money – a lot of money.

The response was not a change to the existing world economy order but more of the same – ignoring the dire need for reform, accountability and investment in people and productivity.

Consultants McKinsey & Co put out a report on debt and leverage earlier this year called: [Debt and \(not much\) deleveraging](#). It shows how since the fall of Lehman, the global debt has risen by a stunning \$57 trillion or 17% of GDP.

We didn't "recover", we merely "pawned" future growth by borrowing from the future – a result of which is today's slow grind higher in global GDP, which each year slows relatively and so much that even a Nobel economist seems to think we are in "permanent stagnation".

It's important to realise that the seven years that have past since Lehman failed were the "fat years" not the lean years for investors and for non-solutions. Policymakers and politicians continue to sell an illusion that things will improve in the next six months, but the reality remains of there being no reforms, no accountability and no growth, which means no hope and a desperate need for a new beginning.

The result of the above is there for all to see: low employment, weak growth, and the lowest productivity in

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history, and nation after nation just trying to survive month by month in crisis mode, which make things worse by constantly focusing on the short term.

We have learned nothing from history. Debt replaced productivity and the banks today have tougher regulations but also unprecedented "free money" from the central banks.

Banks, politicians and central banks have created an unholy trinity where each institution is co-dependent on each other to maintain the power. But no one can afford to face reality and stop the merry-go-round of mal-investment and excessive focusing on monetary policy despite neither history nor practice having any evidence that the trifecta can deal with growth, jobs or productivity. If anything, the proof shows the opposite.

Lehman could have been a "real crisis", a real turnaround, a proper paradigm shift. But instead we bought time – the one thing we should not buy but use effectively. The past seven years became time wasted as the economy and society went into a standstill.

The elections across Europe are showing us how the social fabric is under attack, and the lack of jobs, innovation and growth are the end score for this experiment in futility.

The next seven years will be lean, but positively lean. The cost of capital will rise, removing non-productive investment and probably hurt stock markets, which became safe havens under the fat years or pretend-and-extend squared, but that's good news.

The salary component of GDP, the wages, are the lowest in history; productivity is also the lowest on record. The solution?

May I humbly point to my [Bermuda Triangle of Economics](#), where it's clear that by stopping the monetary experiment of helping the 20% of the economy – banks and quasi-owned government business – the remaining 80% will get more credit, cheaper and they will in turn create more jobs through increases in investment, people and technology.

Yes, the good news is that it's that simple; the bad news is that the unholy trinity wants to maintain the power and the limelight until it's too late.

The future lies with reality. The reality of the challenge to reform, to become productive again, to accept failing is part of succeeding. Lehman, and by extension the last seven years, will hopefully in history stand out as how not to do things. It will also be the least productive time; a time where updating one's Facebook

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profile became more important than family, school and meeting your friends. A parallel universe where reality is on the other side of your life online.

Reality is close by as seen by the recent increase in volatility. The increase in volatility is a sign of a system running out of time. The game of musical chairs has started; the big risk being that when the music stops not one chair but four or five are missing.

However, this move towards the other side, reality, will bring decades of prosperity as we again become focused, begin to deal with the real issue: too much debt and too little investment in people – and is it not the case that everyone would rather be lean than fat?

Of course it is, so do not fear the seven-year cycle ending – the fat years were just full of sugar – now comes the protein.

Safe travels.

Chief Economist Steen Jakobsen

Steen Jakobsen was appointed to the position of Saxo Bank's Chief Economist in March 2011. Mr. Jakobsen returned to the Bank after two years' absence. During that time he has been Chief Investment Officer for Limus Capital Partners. Prior to his departure in early 2009, Mr. Jakobsen was with Saxo Bank for almost nine years as Chief Investment Officer. Mr. Jakobsen has more than 20+ years of experience within the fields of proprietary trading and alternative investment. In 1989, after finishing his studies in Economics at Copenhagen University, he started his career at Citibank N.A. Copenhagen from where he moved to Hafnia Merchant Bank as Director, Head of Sales and Options. In 1992, he joined Chase Manhattan in London as VP, Head of Scandinavian Sales, and then the Chase Manhattan Proprietary Trading Group. 1995-1997 he worked as a Proprietary Trader and Head of Flow Desk at Swiss Bank Corp., London. In 1997, he became Global Head of Trading, FX and Options at Christiania (now Nordea) in New York until he joined UBS in New York in 1999 as the Executive Director in the Global Proprietary Trading Group.

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